# Golden Gate Petroleum Ltd

ABN 34 090 074 785

Interim Financial Report for the Half-Year Ended
31 December 2013

Half-year financial report for the six months ended 31 December 2013

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## CORPORATE DIRECTORY

This half-year report covers the consolidated entity consisting of Golden Gate Petroleum Ltd ("the Company" or "Golden Gate") and the entities it controlled during the half-year ended 31 December 2013 ("Consolidated Entity" or "Group"). The Group's presentation currency is Australian Dollars.

**OFFICERS**

Chris Ritchie (Executive Director / Company Secretary)
Chris Porter (Non-Executive Director)
Rob Oliver (Non-Executive Director)

**REGISTERED OFFICE**

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**AUSTRALIAN SECURITIES EXCHANGE CODES**

GGP (Ordinary Shares)
GGPOA (Listed Options)
GGPOB (Listed Options)

## Directors' report

Your Directors submit this report for the half year ended 31 December 2013.

**Directors**

The names of the Directors of Golden Gate Petroleum Ltd in office during the half-year and until the date of this report are:

Chris Ritchie – Executive Director (appointed 16 November 2013)
Chris Porter – Non-Executive Director
Rob Oliver – Non-Executive Director
Stephen Graves – Executive Chairman / Managing Director (resigned 16 November 2013)

All Directors were in office from the beginning of the half-year until the date of this report except as stated above.

**Review and results of operations**

**Operating results**

The Company recorded a net after tax loss of $22,440,033 (2012: net loss of $3,240,203) for the half-year ended 31 December 2013, primarily due to the impairment of the Company's Permian assets down to fair value less costs to sell. The Company has decided to sell this asset due to the Company's inability to continue funding the development of the project.

Total impairment expense for the half year was $20,837,731

| Project | Impairment |
|---|---|
| Permian Project | 19,979,754 |
| Bowtie West Project | 310,068 |
| Fausse Point Project | 222,913 |
| Napoleonville Project – Dugas & Leblanc #3 | 244,392 |
| Napoleonville Project – Other | 80,604 |
| **Total** | 20,837,731 |

The Company recorded a gross margin from continuing activities of $155,337 (2012: negative gross margin of $534,796).

The Company recorded a gross margin from discontinued operations of $74,293 (2012: negative gross margin of $455,986).

The lower than expected gross margin from discontinued operations was due to higher than forecast work-over costs and salt water disposal costs on the Permian project wells. The contribution from the SRH #5H well also lower due to the cost of purchasing gas to supply the gas lift system, which was not originally budgeted.

Additionally, the SRH #5H well was off production from mid-August 2013 to mid-September 2013 and severe weather conditions in late November and early December in Texas caused production to cease for approximately three weeks on the four vertical wells.

The benefit of the overhead reduction program was evident with administration costs being $632,322 less than for the first six months of the previous year. This represents a 40% reduction in overheads.

**Summary review of operations**

## Permian Project

*SRH #1, #2, #3, #4 & #5H wells, Reagan Country, Texas, Operator, 100% WI*

Production for the six months period for the Permian project wells was:

| Well | Oil BBL | Gas MCF |
|---|---|---|
| SRH #1 | 1,219 | 6,537 |
| SRH #2 | 1,396 | 7,032 |
| SRH #3 | 1,884 | 10,119 |
| SRH #4 | 2,475 | 13,271 |
| SRH #5 | 4,098 | 28,893 |
| **Total** | 11,072 | 65,852 |

The SRH #5H well continued to produce at disappointing levels and despite continued efforts to determine the cause, there is no clear answer as to the low level of production.

The SRH #6 well was completed in June 2013, but due to the inability of the Company to achieve funding for the fracture stimulation stage of this well the Company forfeited the right to continue to develop this well when the lease expired in mid-January 2014.

## Napoleonville Project

*Dugas & Leblanc #3 well, Assumption Parish, Louisiana, Non-Operator, 15% WI*
*Hensarling #1 well, Assumption Parish, Louisiana, Non-Operator 3.99% WI*

Production for the six months period for the Napoleonville wells was:

| Well | Oil BBL | Gas MCF |
|---|---|---|
| Dugas & Leblanc #3 | 3,878 | 8,280 |
| Hensarling #1 | 2,129 | - |
| **Total** | 6,007 | 8,280 |

These figures represent the Company's share of production.

*Dugas & Leblanc #1 well*

On 24 July 2013, the Company announced that a commercial settlement had been reached between the landowners affected by the Dugas & Leblanc #1 well blowout and the JV partners. In addition, a commercial settlement between the JV partners and the work-over operator had been reached. These settlements were achieved without any additional cash outlay by the Company. The Company continues to have exposure to personal injuries cases that are pending.

Under the settlement with the landowners, the JV partners remain obligated to complete the remaining remediation of the land affected by the blowout. The Company believes that its insurance will more than cover any expected liability from either legal or remediation.

### Bowtie West Project

*Sugar Valley #1 well, Matagorda County, Texas, Non-Operator, 12% WI*

Production for the six months period for the Bowtie West well was:

| Well | Oil<br>BBL | Gas<br>MCF |
|---|---|---|
| Sugar Valley #1 | 81 | 7,309 |

These figures represent the Company's share of production.

### Padre Island Project

The Company has submitted a schedule of works to the Padre Island National Seashore (PINS) Service and expects to complete these works prior to the end of this financial year. PINS have confirmed to the Company that they will retain a reduced bond amount until the regenerated grasses cover at least 70% of the remediation area. This reduced bond amount is likely to be held for a period of up to 2 years.

### Acadia Project,

*Midland, Louisiana, Operator, 34% WI*

The Company has acquired the rights to a 34% working interest after promote in this Louisiana based project with estimated reserves by the promoter of 446,000 bbls of oil and 4.1 billion cubic feet of gas. The Company will be the Operator.

The new well will twin an abandoned well that produced for over 60 days before experiencing mechanical difficulties when oil and gas process were uneconomic in the 1980's.

A fixed price turnkey well and completion program for US$3.0 million has been put together to drill to 11,500 feet and test the Camerina and Marg 7 targets. One well should drain the structure.

As at the date of this report, the Company does not expect to participate in this project.

### Goliad Project

*Goliad County, Texas, Operator, 25% WI*

The Company announced in August 2012 that it had acquired the rights to a 25% working interest in a project covering 752.02 acres in Goliad County, Texas. The acreage is immediately up-dip and adjacent to two vertical wells drilled and completed in 2008 which tested approximately 1.5 million cubic feet of gas per day and 450 barrels per day of condensate pre-frac.

Initially two wells will be drilled with the possibility of subsequent development. The Upper Wilcox and 1st and 2nd Mackhank will be developed.

As at the date of this report, the Company does not expect to participate in this project.

### Contract Drilling & Operator

Effective from 31 December 2013, the Company is no longer the operator of the Galindo well

## Directors' report (continued)

### Corporate

On 25 July 2013, the Company held an extra-ordinary general meeting in Sydney to consider eight resolutions concerning the ratification of the prior issue of a convertible security and shares and options  All resolutions were carried by a show of hands.

On 14 November 2013, the Executive Chairman and Managing Director Mr. Steve Graves resigned. Mr. Chris Ritchie was appointed as a Director by the board to fill the casual vacancy.

On 22 November 2013, the Company held its Annual General Meeting in Sydney.  At the meeting the shareholders adopted the 2013 Financial Accounts and the Remuneration Report, re-elected Mr. Chris Porter and Mr. Rob Oliver as Directors, and ratified the prior issue of shares and options.  All resolutions were passed by a show of hands. A Spill Resolution was not put to the meeting as shareholders had earlier adopted the Remuneration Report by the required margin.

Mr. Ritchie resigned at the conclusion of the meeting and was reappointed by the board as a Director immediately following the meeting. Mr. Ritchie will hold office until the 2014 AGM when he will be required to be re-elected by shareholders. Mr. Ritchie acts as the Company's Executive Director

During the half year the Company raised $200,000 through the issue of 4,000,000 Series 4 Convertible Notes and $126,000 through the issue of shares through the Lind Equity Funding Facility. As a result of the decrease in the Company share price it was mutually agreed to suspend the facility.

### Subsequent events

As a result of the Company announcing to the ASX its intention to seek expressions of interest for the purchase of the Company's working interests in the Dugas & Leblanc #3 well and Hensarling #1 well as well as continuing to investigate the sale of the Permian assets, the Australian Special Opportunities Fund "ASOF" advised the Company that this process may breach the Equity Funding Agreement.   ASOF further advised that they would not seek to action the default clause of the agreement, although they do reserve the right to do so. Interest will be paid on the Convertible Security at the rate of 8.5% compounded monthly.

On 17 March 2014, the Company's securities were suspended from trading on the ASX due to the Company's failure to lodge the half year report in accordance with the ASX timetable.

On 31 March 2014, the Company announced that it had signed a Purchase & Sales Agreement (PSA) with Laredo Petroleum Inc, of the Unites States of America to dispose of the Permian project.  The sales price was US$5,350,000 with an effective date of 1 February 2014.

The sale is subject to the satisfaction of various conditions precedent including the approval of shareholders at a General Meeting of the Company to be held in early May 2014.

The sales price will be adjusted for the production and sale of hydrocarbons and the allocation of taxes both prior to and after the Effective Time as well as any environmental an title defects identified during due diligence.

The Agreement also includes an escrow provision to cover litigation costs over the next year in the lawsuit filed in the Reagan County 112th District Court under cause No. 1573. Laredo will fund this escrow with a US$500,000 deposit.  The balance of that fund will be distributed at the earlier of the litigation's conclusion to the Company or one year from the effective date to Laredo.

## Directors' report (continued)

The escrow is a contractual obligation and is not an estimate of the Company's liability for expenses or an adverse judgment. The Reagan County litigation is currently stayed due to Arturus Capital Limited being in liquidation.

Completion is subject to satisfaction of a number of conditions customary for an agreement of this nature, including the representations made by one party to the other being correct on the closing date, the parties complying with their obligations under the Agreement prior to closing, no action prohibiting the transaction is threatened or pending and closing deliverables being delivered. In addition, completion is subject to satisfaction of the following conditions:

- various liens on the Permian Project as set out in the Agreement removed in full;
- the adjustment to the purchase price for defects identified during due diligence is not greater than US$535,000; and
- Company shareholder approval of the disposal within 60 days of the date of the Agreement. If this condition is not satisfied, the Company is required to pay Laredo an amount of US$535,000 in liquidated damages.

The Company will pay brokerage costs of 7% of the final sales price received. No brokerage fee is being paid to any current or former key management personnel.

The Permian Project is the Company's main undertaking. If the disposal of the project completes, the Company intends to:

(a) maintain its working interest in the wells at the Napoleonville project and the Bowtie West project;
(b) review new projects both within the Gulf states of the United States and in Australia with a view to investing in minority working interests.

The Company intends to send a notice of meeting seeking shareholder approval for the disposal in April. If shareholders approve the disposal, completion of the disposal is expected to occur by the middle of May 2014.

**Auditor's independence declaration**
A copy of the auditor's independence declaration as required under S307C and the Corporations Act 2001 is set out on page 19.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Chris Ritchie
Executive Director

31 March 2014
Melbourne, Victoria, Australia

**Forward looking statements**

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

## Directors' declaration

In accordance with a resolution of the directors of Golden Gate Petroleum Limited, I state that:

In the opinion of the directors:

(a) the financial statements, and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

> (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
>
> (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable after taking into account matters raised in Note 1.

*On behalf of the Board*

Chris Ritchie
Executive Director

31 March 2014
Melbourne, Victoria, Australia

## Consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2013

| | Note | Consolidated 31 Dec 2013 $ | 31 Dec 2012 $ |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue from oil and gas sales | | 840,208 | 736,836 |
| Costs of sales | | (684,871) | (1,271,632) |
| **Gross Profit/(Loss)** | | **155,337** | **(534,796)** |
| Interest revenue | | 454 | 1,951 |
| Gain on sale of assets | | - | 91,298 |
| Impairment of oil and gas properties | | (399,427) | - |
| Impairment of exploration assets | | (458,550) | - |
| Impairment of receivables | | (250,000) | (70,000) |
| Administration costs | | (960,308) | (1,592,630) |
| Future value gain / (loss) on derivatives | | (20,212) | - |
| Interest expense | | (79,217) | (169,850) |
| Finance costs | | (522,649) | - |
| **Loss from continuing operations before income tax expense** | 3 | **(2,534,572)** | **(2,274,027)** |
| Income tax expense | | - | - |
| **Loss from continuing operations** | | **(2,534,572)** | **(2,274,027)** |
| **Loss from discontinued operations** | 3 | **(19,905,461)** | **(966,176)** |
| **Net loss for the period** | | **(22,440,033)** | **(3,240,203)** |
| **Other comprehensive income / (loss)** | | | |
| Foreign currency translation | | 251,167 | (431,081) |
| **Total comprehensive loss for the period** | | **(22,188,866)** | **(3,671,284)** |
| **Earnings per share attributable to the ordinary equity holders of the Company (cents per share)** | | | |
| Basic loss per share cents | | 0.48 | 0.13 |
| Diluted loss per share cents | | 0.48 | 0.13 |

The Consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position

As at 31 December 2013

| | | Consolidated | |
|---|---|---|---|
| | | 31 Dec 2013 | 30 June 2013 |
| | Notes | $ | $ |
| **Current assets** | | | |
| Cash & cash equivalents | | 268,184 | 671,811 |
| Trade & other receivables | | 929,834 | 1,537,746 |
| Non-current asset held for sale | 6 | 5,040,791 | - |
| Prepayments | | 247,741 | 161,656 |
| **Total current assets** | | **6,486,550** | **2,371,213** |
| **Non-current assets** | | | |
| Trade and other receivables | | 262,764 | 253,500 |
| Plant and equipment | | 26,019 | 25,749 |
| Exploration & evaluation assets | 4 | 734,124 | 22,000,001 |
| Oil & gas properties | 5 | 787,479 | 5,102,120 |
| **Total non-current assets** | | **1,810,386** | **27,381,370** |
| **Total assets** | | **8,296,936** | **29,752,583** |
| **Current liabilities** | | | |
| Trade and other payables | | 4,890,257 | 5,050,262 |
| Cash call from JV partners | | 38,981 | 37,607 |
| Interest bearing loans | 7 | 2,086,000 | 506,000 |
| Derivative liability | 8 | 456,493 | - |
| Provisions | | 266,594 | 266,895 |
| | | **7,738,325** | **5,860,764** |
| **Total current liabilities** | | | |
| Interest bearing loans | 7 | - | 1,007,351 |
| Derivative Liability | 8 | - | 444,837 |
| Provisions | | 15,298 | 15,298 |
| **Total non-current liabilities** | | **15,298** | **1,467,486** |
| **Total liabilities** | | **7,753,623** | **7,328,250** |
| **Net assets** | | **543,313** | **22,424,333** |
| **Equity** | | | |
| Contributed equity | 10 | 112,117,586 | 111,809,740 |
| Reserves | | 725,856 | 474,689 |
| Accumulated losses | | (112,300,129) | (89,860,096) |
| **Total equity** | | **543,313** | **22,424,333** |

The Consolidated statement of financial position is to be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity

| | Contributed Equity | Accumulated Losses | Option Premium Reserve | Foreign Currency Translation Reserve | Convertible Notes Reserve | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2012** | **104,616,230** | **(84,331,635)** | **4,029,740** | **(7,105,044)** | **1,369,193** | **18,578,484** |
| Loss for the period | - | (3,240,203) | - | - | - | **(3,240,203)** |
| Other comprehensive income | - | - | - | (431,081) | - | **(431,081)** |
| **Total comprehensive income for the half-year** | - | (3,240,203) | - | (431,081) | - | **(3,671,284)** |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Shares issued | 2,305,000 | - | - | - | - | **2,305,000** |
| Transaction costs on shares issued | (317,630) | - | - | - | - | **(317,630)** |
| **Balance at 31 December 2012** | **106,603,600** | **(87,571,838)** | **4,029,740** | **(7,536,125)** | **1,369,193** | **16,894,570** |

| | Contributed Equity | Accumulated Losses | Option Premium Reserves | Foreign Currency Translation Reserve | Convertible Notes Reserve | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2013** | **111,809,740** | **(89,860,096)** | **4,029,740** | **(4,924,244)** | **1,369,193** | **22,424,333** |
| Loss for the period | - | (22,440,033) | - | - | - | **(22,440,033)** |
| Other comprehensive income | | | | 251,167 | | **251,167** |
| **Total comprehensive income for the half-year** | - | (22,440,033) | - | 251,167 | - | **(22,188,866)** |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Shares issued | 327,564 | - | - | - | - | **327,564** |
| Fair Value loss on derivative | 8,553 | - | - | - | - | **8,553** |
| Transaction costs on shares issued | (28,271) | - | - | - | - | **(28,271)** |
| **Balance at 31 December 2013** | **112,117,586** | **(112,300,129)** | **4,029,740** | **(4,673,077)** | **1,369,193** | **543,313** |

The Consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

## Consolidated statement of cash flows

For the half-year ended 31 December 2013

| | Consolidated | |
|---|---|---|
| | 31 Dec 2013 $ | 31 Dec 2012 $ |
| **Cash flows from operating activities** | | |
| Receipts from customers | 1,599,875 | 1,970,241 |
| Payment to suppliers and employees | (1,185,251) | (3,085,711) |
| Interest received | 289 | 1,951 |
| Interest paid | (40,505) | (141,416) |
| **Net cash flows (used in) operating activities** | **374,408** | **(1,254,935)** |
| | | |
| **Cash flows from investing activities** | | |
| Payments for exploration and evaluation expenditure | - | (3,851,182) |
| Production and development costs | (1,117,731) | (451) |
| Proceeds from sale of assets | - | 839,727 |
| **Net cash flows (used in) investing activities** | **(1,117,731)** | **(3,011,906)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from the issue of shares | 126,000 | - |
| Proceeds from loans | 7,490 | - |
| Proceeds from the issue of convertible notes | 200,000 | 2,580,000 |
| Share issue costs | (14,933) | (317,630) |
| **Net cash flows from financing activities** | **318,557** | **2,262,370** |
| | | |
| **Net (decrease) / increase in cash held** | **(424,766)** | **(2,004,471)** |
| Add opening cash brought forward | 671,811 | 3,035,204 |
| Effect of exchange rate changes on cash | 21,139 | (30,175) |
| **Cash and cash equivalents at 31 December** | **268,184** | **1,000,558** |

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

# Notes to the financial statements

## 1. Basis of preparation and accounting policies

### Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2013 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and considered together with any public announcements made by Golden Gate Petroleum Limited during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

### Significant accounting policies

The accounting policies applied by the group in this consolidated half-year financial statements for the six months to 31 December 2013 are the same as those applied by the group in its consolidated financial report as at and for the year ended 30 June 2013.

### Estimates

The preparation of the half-year financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated half-year financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were, other than described in the notes below are the same as those applied to the consolidated financial report as at and for the year ended 30 June 2013.

### Going Concern

The Company's financial statements have been prepared and presented on a basis assuming it continues as a going concern. The going concern basis of accounting contemplates the continuity of normal business activities, including the realization of assets and settlement of liabilities in the normal course of business.

The Company incurred a net loss of $22,440,033 (2012: 3,240,203). At 31 December 2013 the Company had cash at bank totaling $268,184 and a working capital deficiency of $1,251,775 (2012: $3,489,551).

Included in current liabilities are non-cash items such as the derivative liability of $456,493, Series 3 Convertible Notes which can be redeemed by the Company (at the Company's discretion) in shares rather than in cash of $860,000 and a disputed creditor for $667,799.

## Notes to the financial statements

### 1. Basis of preparation and accounting policies (continued)

If all these items are taken into account the Company would have a positive working capital position of $732,518.

The Company has arrangements with creditors to extend payments terms of invoices associated with the SRH #5H well, the SRH #6 well as well as general overheads.

The directors believe that the reduced level of overheads, continued oil and gas production from the Napoleonville and Bowtie West projects, or the sale of these projects, will enable the Company to continue as a going concern.

### 2. Operating segments

No information is disclosed for operating segments as the management accounts that are reviewed by the board of directors only include consolidated numbers together with revenue and capital expenditure by project.

### 3. Loss for the half-year

Loss for the half-year includes the following items:

**Continuing Operations**

| | 31 Dec 2013<br>$ | 31 Dec 2012<br>$ |
|---|---|---|
| Impairment of exploration costs | (458,550) | - |
| Impairment of oil and gas properties | (399,427) | - |
| Office costs | (287,218) | (209,527) |
| Professional fees | (139,539) | (748,384) |
| Employee costs | (519,975) | (638,758) |

**Discontinued Operations**

| | 31 Dec 2013<br>$ | 31 Dec 2012<br>$ |
|---|---|---|
| Revenue from oil and gas sales | 1,173,924 | 868,298 |
| Costs of sales | (1,099,631) | (1,324,284) |
| Impairment of exploration costs | (4,329,618) | (181,580) |
| Impairment of oil and gas properties | (15,650,136) | (328,610) |
| | (19,905,461) | (966,176) |

## Notes to the financial statements

### 4. Exploration and evaluation assets

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **a) Expenditure carried forward in respect of hydrocarbon areas of interest** | | |
| Exploration and evaluation assets - at cost | 734,124 | 22,000,001 |

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.

| | Six months ended 31 Dec 2013 $ | Twelve months ended 30 June 2013 $ |
|---|---|---|
| **b) Reconciliation:** | | |
| Carrying amount at beginning | 22,000,001 | 18,569,170 |
| Movement in carrying value as a result of foreign currency variations | 141,285 | 1,988,760 |
| Additions | 486,833 | 9,213,570 |
| Sales | - | (1,922,630) |
| Transfer to production | (17,105,827) | (5,289,064) |
| Amortisation | - | (74,705) |
| Impairment expense | (4,788,168) | (485,100) |
| **Carrying amount at end of period** | **734,124** | **22,000,001** |

### 5. Oil and gas properties

| | 31 Dec 2013 $ | 30 June 2013 $ |
|---|---|---|
| **a) Oil and gas properties** | | |
| Oil and gas properties - at cost | **787,479** | **5,102,120** |

| | Six months ended 31 Dec 2013 $ | Twelve months ended 30 June 2013 $ |
|---|---|---|
| **b) Reconciliation:** | | |
| - **Oil and gas properties** | | |
| Carrying amount at beginning | 5,102,120 | 631,905 |
| Transferred from exploration | 17,105,827 | 5,289,064 |
| Movement in carrying value as a result of foreign currency variations | 202,662 | 489,840 |
| Additions | 24,159 | 37,508 |
| Transfer to assets held for sale | (5,040,791) | - |
| Impairment expense | (16,049,562) | (700,392) |
| Amortisation | (556,936) | (645,805) |
| **Carrying amount at end** | **787,479** | **5,102,120** |

# Notes to the financial statements

## 6. Non-current assets classified as held for sale

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **Non-current assets held for sale** | | |
| Oil and gas properties | 5,040,791 | - |
| | 5,040,791 | - |

Non-current assets held for sale are measured at the lower of their carrying value amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction instead of use. They are not depreciated or amortised. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

On 31 March 2014, the Company advised that it had signed a Purchase & Sales Agreement for the sale of its Permian Assets, for further details see the Subsequent Event Note. The Company has prepared these accounts based on a total sale price of US$5.35 million less an escrow amount of USD$500,000 in regard to litigation costs, less brokerage costs of 7%. As the directors are not in a position to give guidance as to the whether the case will be resolved or not, the total escrow amount has been discounted at this point in time.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of recognition.

## 7. Interest bearing loans

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **Current** | | |
| Convertible Notes – Series 1 – Maturing 30 June 2014 | 300,000 | 300,000 |
| Convertible Notes – Series 2 – Maturing 30 June 2014 | 206,000 | 206,000 |
| Convertible Notes – Series 3 – Maturing 31 December 2014 | 830,000 | - |
| Convertible Notes – Series 4 – Maturing 31 December 2014 | 200,000 | - |
| Convertible Security – Maturing 19 March 2015 | 550,000 | - |
| | 2,086,000 | 506,000 |

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **Non-current** | | |
| Convertible Notes – Series 3 – Maturing 31 December 2014 | - | 980,000 |
| Convertible Security – Maturing 19 March 2015 | - | 27,351 |
| | - | 1,007,351 |

## Notes to the financial statements

### 8. Derivative liability

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **Current** | | |
| Derivative liability – convertible security | 456,493 | - |
| | 456,493 | - |

| | 31 Dec 2013 $ | 30 Jun 2013 $ |
|---|---|---|
| **Non-current** | | |
| Derivative liability – convertible security | - | 444,837 |
| | - | 444,837 |

The derivative liability represents the value of the convertible security issued on 19 March 2013. The convertible security is convertible at any time through to 19 March 2015. The embedded derivative arose due to the variability of the conversion price in the Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP. Under accounting standards the liability will be required to be re-valued at each reporting date. The Company obtained an independent valuation of the value of the liability as at 31 December 2013.

### 9. Contingent assets & liabilities

**Permian Project**

Mr. Paul Page and Petro-Raider, LLC, "Petro Raider" together a party to a previous agreement with a subsidiary of Arturus Capital Limited in connection with the Permian project leases have enjoined the Company in an action to enforce an option agreement previously entered into by Arturus Capital Limited with the parties prior to the sale of the leaseholds to the Company. Petro Raider is seeking to transfer the option agreement to a US based subsidiary of the Company. The primary claims by Petro Raider are its rights to a 5% net profits interest and 20% working interest back-in. The working interests back-in would not vest until the Company's capital costs have been recovered, which is expected to take years. Petro Raider also contends that when the Company recovers 110% of the amount of its capital costs that the back-in increases to 25%. Petro Raider makes no claim to the balance of the working interest. Petro Raider also claim fraud, tortious interference and civil conspiracy.

The action has been stayed by the court in Reagan County Texas, USA until the Arturus Capital Limited liquidation proceedings are completed in Australia.

Petro Raider have also filed a claim with the Texas Railroad Commission challenging the validity of the drilling permit for the Company's SRH #5H horizontal well. The Company considers this claim to be without merit and has lodged a vigorous defence.

Caerleon Capital Texas, LP. claim a 1.5% override royalty on the Permian project. This action, similar to the Chalk Sea Development, Limited action concerns an agreement entered into by Caerleon Capital Pty Ltd (now assigned to Caerleon Capital Texas, LP) with Arturus Capital Limited prior to the acquisition of the leases by the Company. The Company is considering its position in regard to this claim. In the 2013 Annual Report it was stated that Chalk Sea Development, Limited was claiming 3%, the correct position was that Chalk Sea Development, Limited was claiming 1.5% and Caerleon Capital Pty Ltd was claiming 1.5%.

## Notes to the financial statements

### 9. Contingent Assets & liabilities (continued)

As Arturus Capital Limited was placed in liquidation in June 2013, the value of this indemnity is uncertain. The Company has lodged a proof of debt with the liquidator in regard to certain legal, royalties and administration costs that the Company considers that Arturus Capital is required to pay.

**Dugas & Leblanc #1 Well**

Several class action suits have been filed in the United States against the operator of the Dugas & Leblanc #1 well and the joint venture partners. Commercial settlement was reached between the landowners affected by the well blow out and the joint venture partners. The settlement was achieved without additional cash outlay by the Company.

The Company continues to have (as a joint venture partner) ongoing personal injuries cases that are pending. In addition under the settlement with the landowners, the joint venture partners remain obligated to complete the remaining remediation of the land affected by the blowout. As at the date of this report the Company does not expect any material costs to eventuate given the level of the Company's insurance. Any eventuating costs and insurance reimbursements are unable to be quantified at this time.

### 10. Contributed equity

| **Reconciliation of movement in share capital** | **31 Dec 2013** | | **31 Dec 2012** | |
|---|---|---|---|---|
| | **$** | **No.** | **$** | **No.** |
| On issue at 1 July – fully paid | 111,809,740 | 4,470,816,468 | 104,616,230 | 2,384,396,755 |
| Issued for cash | 126,000 | 132,555,556 | - | - |
| Issued for redemption of convertible notes | 150,000 | 140,522,875 | 2,305,000 | 416,884,815 |
| Issued in lieu of Interest payment | 51,564 | 29,561,916 | - | - |
| Fair value loss on derivative liability | 8,556 | - | - | - |
| Less: Transaction costs | (28,271) | - | (317,630) | - |
| On issue at 31 December – fully paid | 112,117,589 | 4,773,456,815 | 106,603,600 | 2,801,281,570 |

### 11. Dividends

No dividend has been paid or is proposed in respect of the half-year ended 31 December 2013 (2012: Nil).

### 12. Share Based Payments

There were no options issued or vested during the six months ended 31 December 2013.

## Notes to the financial statements

### 13. Subsequent Events

As a result of the Company announcing to the ASX its intention to seek expressions of interest for the purchase of the Company's working interests in the Dugas & Leblanc #3 well and Hensarling #1 well as well as continuing to investigate the sale of the Permian assets, the Australian Special Opportunities Fund "ASOF" advised the Company that this process may breach the Equity Funding Agreement. ASOF further advised that they would not seek to action the default clause of the agreement, although they do reserve the right to do so. Interest will be paid on the Convertible Security at the rate of 8.5% compounded monthly.

On 17 March 2014, the Company's securities were suspended from trading on the ASX due to the Company's failure to lodge the half year report in accordance with the ASX timetable.

On 31 March 2014, the Company announced that it had signed a Purchase & Sales Agreement (PSA) with Laredo Petroleum Inc, of the Unites States of America to dispose of the Permian project. The sales price was US$5,350,000 with an effective date of 1 February 2014.

The sale is subject to the satisfaction of various conditions precedent including the approval of shareholders at a General Meeting of the Company to be held in early May 2014.

The sales price will be adjusted for the production and sale of hydrocarbons and the allocation of taxes both prior to and after the Effective Time as well as any environmental an title defects identified during due diligence.

The Agreement also includes an escrow provision to cover litigation costs over the next year in the lawsuit filed in the Reagan County 112th District Court under cause No. 1573. Laredo will fund this escrow with a US$500,000 deposit. The balance of that fund will be distributed at the earlier of the litigation's conclusion to the Company or one year from the effective date to Laredo.

The escrow is a contractual obligation and is not an estimate of the Company's liability for expenses or an adverse judgment. The Reagan County litigation is currently stayed due to Arturus Capital Limited being in liquidation.

Completion is subject to satisfaction of a number of conditions customary for an agreement of this nature, including the representations made by one party to the other being correct on the closing date, the parties complying with their obligations under the Agreement prior to closing, no action prohibiting the transaction is threatened or pending and closing deliverables being delivered. In addition, completion is subject to satisfaction of the following conditions:

- various liens on the Permian Project as set out in the Agreement removed in full;
- the adjustment to the purchase price for defects identified during due diligence is not greater than US$535,000; and
- Company shareholder approval of the disposal within 60 days of the date of the Agreement. If this condition is not satisfied, the Company is required to pay Laredo an amount of US$535,000 in liquidated damages.

## Notes to the financial statements

### 13. Subsequent Events (Continued)

The Company will pay brokerage costs of 7% of the final sales price received. No brokerage fee is being paid to any current or former key management personnel.

The Permian Project is the Company's main undertaking. If the disposal of the project completes, the Company intends to:

(c) maintain its working interest in the wells at the Napoleonville project and the Bowtie West project;
(d) review new projects both within the Gulf states of the United States and in Australia with a view to investing in minority working interests.

The Company intends to send a notice of meeting seeking shareholder approval for the disposal in April. If shareholders approve the disposal, completion of the disposal is expected to occur by the middle of May 2014.

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## Auditor's Independence Declaration
## To The Directors of Golden Gate Petroleum Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Golden Gate Petroleum Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Nicholas E. Burne
Partner - Audit & Assurance

Melbourne, 31 March 2014

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## Independent Auditor's Review Report
## To the Members of Golden Gate Petroleum Limited

We have reviewed the accompanying half-year financial report of Golden Gate Petroleum Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year..

### Directors' responsibility for the half-year financial report

The directors of Golden Gate Petroleum Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Golden Gate Petroleum Limited consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Golden Gate Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Golden Gate Petroleum Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

**Material uncertainty regarding going concern**

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the Company incurred a net loss of $22,440,033 during the six months ended 31 December 2013 and, as of that date, the company's current liabilities exceeded its current assets by $1,251,775. Such deficiency is after the inclusion of the Permian asset to a value of $5,040,791 as a "non-current asset held for sale," categorised within current assets. Note 13 outlines events subsequent to year end and refers to conditions precedent in order for the sale of the Permian asset to take place. These conditions, as set forth in Notes 1 and 13, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N Burne

Nicholas E. Burne
Partner - Audit & Assurance

Melbourne, 31 March 2014