

31st July, 2014



## **ACTIVITIES REPORT JUNE 2014 QUARTER**

### **SUMMARY**

- Malolos-1 oil production flow test operations commenced on the 24<sup>th</sup> April 2014.
- Swabbing operations of both targeted sandstones commenced on the 10<sup>th</sup> May 2014 with oil to surface within the first day of swabbing.
- Oil and gas produced during swabbing operations.
- Blockage of perforations by sediment fines an ongoing issue with Malolos-1 which was drilled and completed in 1960 – limited alternatives to remediate that well due to age.
- Remedial procedures employed to restore production partially successful - increased oil production rates for short periods with 8 barrels of oil produced in one hour.
- Oil production at sustained rate equivalent to 33 barrels oil per day (“bopd”) and on short period production at equivalent of 200 bopd .
- Sufficient test data gathered to support an application to Philippine DOE for time to establish an appropriate completion technology for sustained production and full appraisal and oil field development (application lodged in July).
- New geological field mapping of Malolos surface anticline establishes at least 10 square kilometres of areal closure.
- Possibly 496 metres of vertical closure between oil bearing sandstones in the Malolos-1 and 4 wells located on the eastern anticlinal limb with anticlinal crest still to be tested.
- Geological mapping, well data and oil flow test data support the calculated Best Estimate Contingent Total Oil Initially in Place of 20.4 million barrels.
- SC 44 underwent a partial relinquishment of non-prospective areas and the addition of immediately adjacent areas with identified surface anticlines.
- France: St. Griede seismic survey application re-submitted and being processed.
- France: 3 new petroleum exploration licence applications being processed.
- Rights Issue announced on 2<sup>nd</sup> April 2014 was twice extended before withdrawal on the 12<sup>th</sup> June 2014 due to low acceptances while the share price traded below the Rights Issue price during the offer period.



**Figure 1- Malolos-1 (7am Tuesday, 13th May) – gas flare**

#### **PHILIPPINES: SERVICE CONTRACT 44 (100%), Onshore Cebu**

**PROGRAM:** The Company acquired a fit for purpose swabbing unit under a lease/purchase agreement. The swabbing unit and Rig-2 operated by Gas2Grid personnel were used to conduct the extended oil production test which commenced swabbing operations on the 10<sup>th</sup> May 2014. This arrangement provided the Company with flexibility and operational control in the oil production testing program while saving significant cost compared to engaging well services contractors and renting available equipment which, due to limited options, has not always been fit for purpose.

The two targeted sandstone intervals were placed on short term production test in 2013 and they produced 30 bbls of oil over a 2.5 hour period before the swabbing assembly parted at surface, dropped downhole in the tubing and had to be retrieved. The oil level in the tubing rose to 970 feet (296 metres) below surface in 24 hours under natural flow. Also in 2013, oil flowed from the lower sandstone interval under natural pressure and reached within 22 metres of the surface, with gas flowing to surface under natural pressure at a small but unmeasured rate.

The extended oil production testing program in the June 2014 Quarter aimed at gathering sufficient technical information to confirm commerciality of the Malolos Oil Field to justify the Department of Energy awarding a 25 year production period that leads to full field appraisal and development.

**OPERATIONS:** Firstly, two cement plugs were successfully cleaned out of the hole to provide clear access to the two oil bearing sandstone intervals ((7,152-7,207 feet; 2,178-2,195 metres and 2,219 – 2,227.5 metres; 7,280 – 7,308 feet).

The swabbing unit commenced operations on the 10<sup>th</sup> May 2014 testing both oil bearing intervals concurrently. Oil was produced to surface within the first day with the oil concentration increasing as the tubing fluid level was lowered, indicating the tubing is being filled with oil produced from the reservoir as fluid in the tubing is being removed. 100% oil was eventually produced once all the completion water had been removed from the tubing. Gas, which is in solution in the oil trapped in the formation, was also produced and it increased wellhead pressure when the well was shut-in each night. Gas was flared each morning before swabbing operations could recommence.

Whilst 100% oil was being recovered the perforations in the wellbore, through which the oil flowed from the reservoirs, became clogged. Swabbing operations had induced small amounts of fine grained clay to be produced with the oil and this clay plugged the perforations. This situation is a common condition with some sandstone reservoirs and it is technically termed “migration of fines”.

Remedial work (acid wash) was undertaken to unblock the perforations and that immediately resulted in an improved influx rate, with 8 barrels of fluid being produced within a 1 hour period. That indicated that the perforations had been successfully cleaned by the procedures. Significant amounts of fine sand and clay were also produced with the oil (see photos at Figures 2 and 3). After a period, the sediment had again partially plugged the perforations while clean oil continues to be produced but at a lower influx rate.

The short term high influx rate indicates that the oil sands are capable of producing an equivalent of 200 bopd as long as the perforations are not partially blocked. This production rate is in line with that observed during the 2013 testing and at the higher end of our pre-test expectations.

The perforations were subjected to a second cleaning process by the use of high-pressure water jets. Following this procedure, the packer was re-set and the production tubing swabbed. A strong oil influx was recorded when the fluid level was at 4,199 feet. The oil influx caused a rise in fluid level in the tubing to 755 feet. The well was then swabbed for almost a full day with a sustained oil influx rate of 33 bopd. The increased oil production rate indicated that the remedial work has been at least partly successful.



**Figure 2 - Fine sand and clay recovered during swabbing operations (1st June, 2014)**



**Figure 3 - Fine sand recovered during swabbing operations (1st June, 2014)**



The lower and the upper oil bearing sandstones were also successfully tested separately. The upper sandstone did not record any significant improvement in oil production rate although oil continued to be produced. The lower sandstone did record a significant increase in production rates to over 100 bbls/day of fluid although it was also associated with a significant increase in water production indicating proximity to the oil-water contact.

The Malolos-1 well has demonstrated that it can produce oil at commercial rates. The well has previously produced approximately 200 bopd on several occasions but only for short times. Oil flow has been impaired when the perforations within the wellbore at the sandstone reservoirs become blocked with formation fines.

Well testing has determined that the two objective sandstones are oil bearing, established an oil-water contact for the lower oil sandstone indicating a minimum 500 metre vertical oil accumulation (when Malolos-1 is correlated with the oil sands in Malolos-4) and established that oil production rates are being impeded by fines migration and sand production.

Malolos-1 production by swabbing was suspended on the 17th June 2014 after sufficient test data had been gathered to support an application to the Philippine Department of Energy (submitted on the 17<sup>th</sup> July 2014) to continue with SC 44 in order to establish an appropriate completion technology and fully appraise the oil field.

Upon receiving approval from the Philippine Department of Energy, the forward plan includes seismic data acquisition, processing and interpretation. The new seismic data will be used to locate appraisal/development wells in optimum structural locations. New well completion technologies will be applied in these wells to overcome the issue of fines migration in order to sustain high rates of oil production. Future work will also include assessment of nearby surface anticlines which could also form oil fields.

Additional technical data has also been gathered from the production flow test to attract a farminee to fund field appraisal and development.

**RESOURCE ESTIMATES:** In the Malolos Oil Field, the “Contingent Resource” of oil in place in the two productive sandstones was re-assessed upwards in the March Quarter 2014 to be between **6.8 million** barrels (Low Estimate “1C”) and **68.1 million** barrels (High Estimate “3C”), with a Best Estimate “2C” of **20.4 million** barrels of “Total Oil Initially in Place”. (In June 2013, the Company had reported a “Contingent Resource” of the Malolos Oil Field to between **4 million** barrels (Low Estimate

“1C”) and **42 million** barrels (High Estimate “3C”), with a Best Estimate “2C” of **12 million** barrels of “Total Oil Initially in Place”.) The size of these resources warrants further investment in that oil field.

**GEOLOGICAL MAPPING:** New surface geological mapping was conducted in conjunction with the swabbing operations and this new mapping was integrated with previous map data. The new mapping has now clearly defined the areal extent of the Malolos anticline, covering approximately 10 square kilometres, and the location of the main thrust fault that cores the anticline. Geological mapping also established that the two deep Malolos wells (Malolos-1 & 4) are located down-dip, on the eastern anticlinal limb near the eastern edge of the field. This interpretation is supported by seismic data and water produced from the lower sandstone interval during swabbing operations, indicating close proximity to the oil-water contact.

The two oil bearing sandstones that have tested oil are located within the eastern limb of the Malolos anticline where they are steeply dipping (60°). The crest of the anticline remains to be tested by drilling. Previously drilled wells, Malolos-1 and Malolos-4, recorded oil bearing sandstones over a 496 metre (1,627 feet) vertical interval. The recent oil test production rates (between 100 – 200 bopd) confirm Malolos-1 as an oil discovery well. The Company is confident that further assessment of the Malolos anticline will result in commercial oil production from a much larger Malolos Oil Field than currently assessed.

Geological mapping, well data and oil flow test data support the calculated Best Estimate Contingent Resource of Total Oil Initially in Place of 20.4 million barrels.

**LICENCE AREA VARIATION:** The Company successfully applied for a variation in the area covered by SC 44 by the relinquishment of non-prospective parts of SC 44 and the addition of adjacent areas containing mapped surface anticlines.

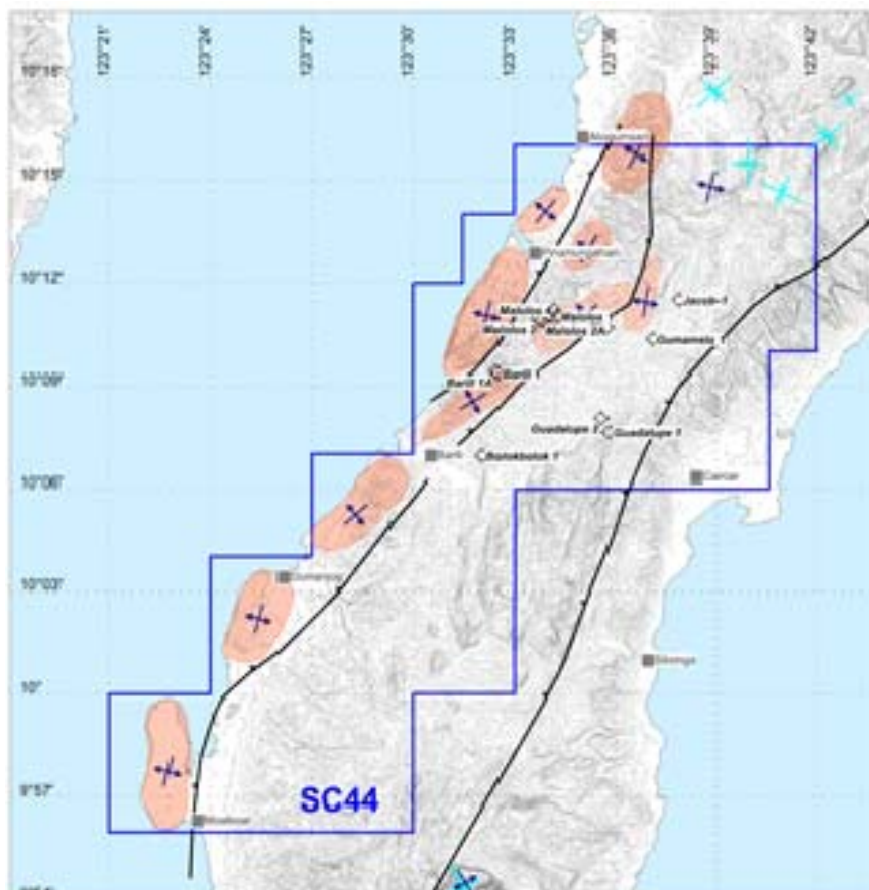


Figure 4 - Outline of Amended SC 44

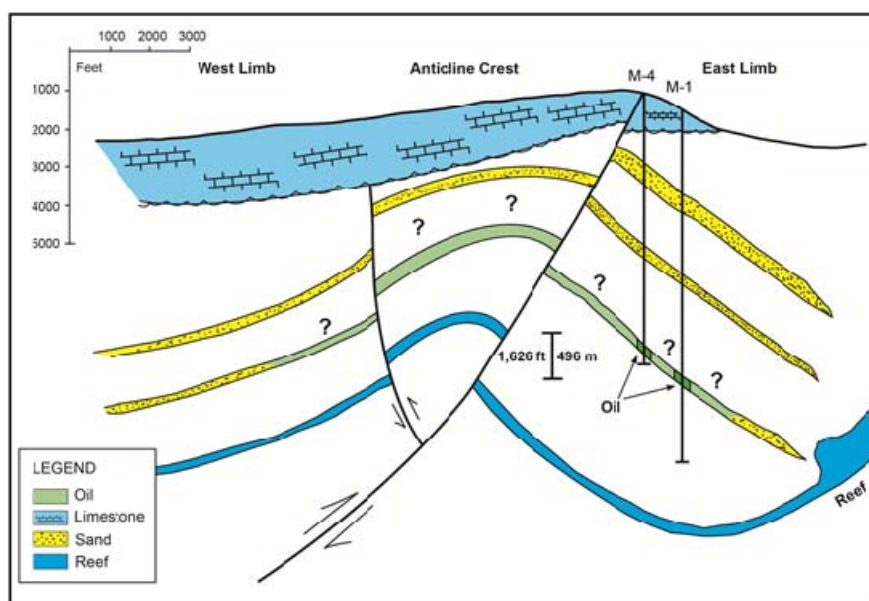


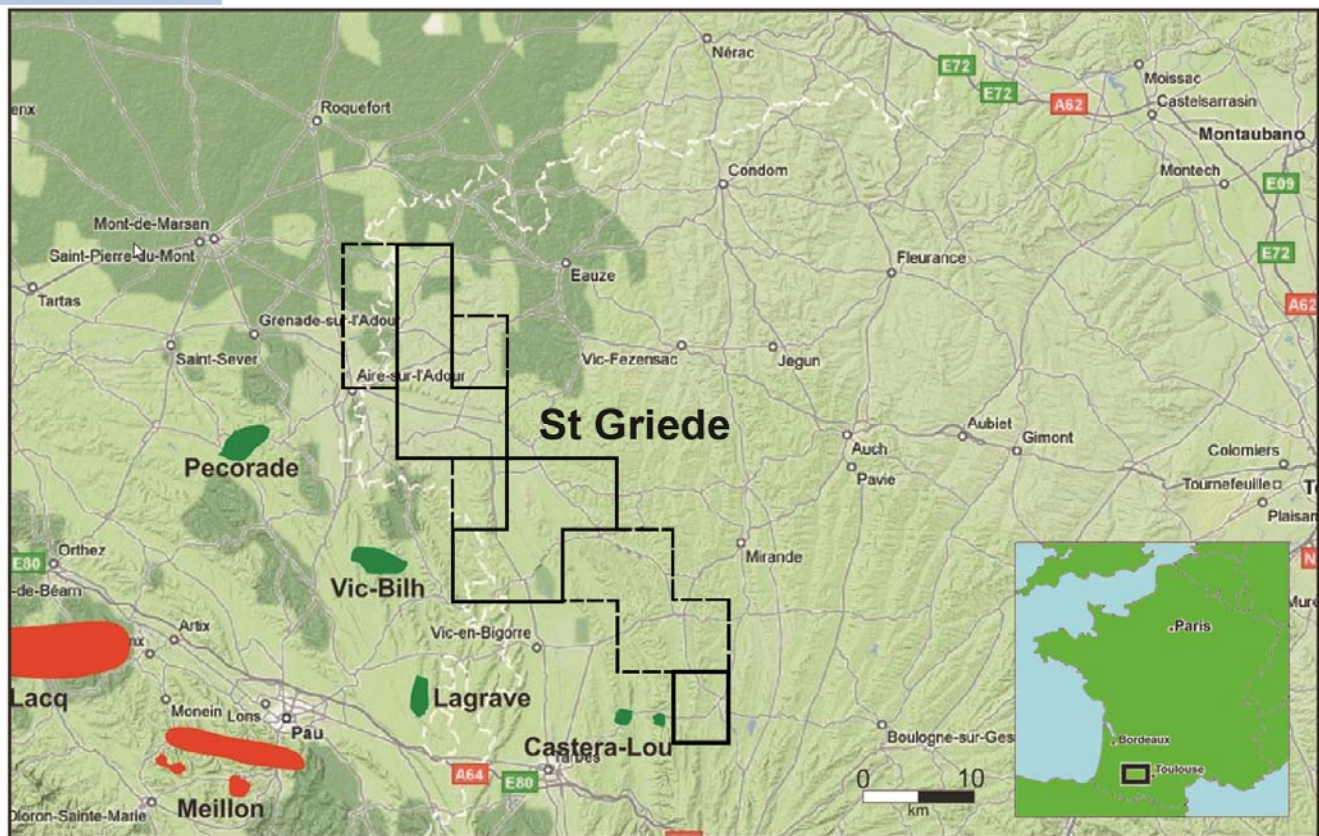
Figure 5 - Cross-Section: Malolos Oil Field

**FUNDING:** The preferred funding for the complete appraisal and development of the Malolos Oil Field is by a farmout of SC 44, thus reducing the Company's current 100% interest. The Company is engaged in discussions with entities interested in this opportunity.

### **FRANCE: ST. GRIEDE (100%), Onshore Aquitaine Basin**

The Company owns 100% of the St. Griede licence and it regards the oil and gas exploration potential within that licence as being exceptional and the 100% ownership provides a great opportunity to create significant value for shareholders.

The Company has planned acquisition of a new seismic survey commencing in late-2014 to delineate a drilling location. A revised seismic survey application was been submitted to the Government in May 2014 and it is progressing through the approval process.



**Figure 6 - France: St. Griede Licence with Oil and Gas Field Locations**

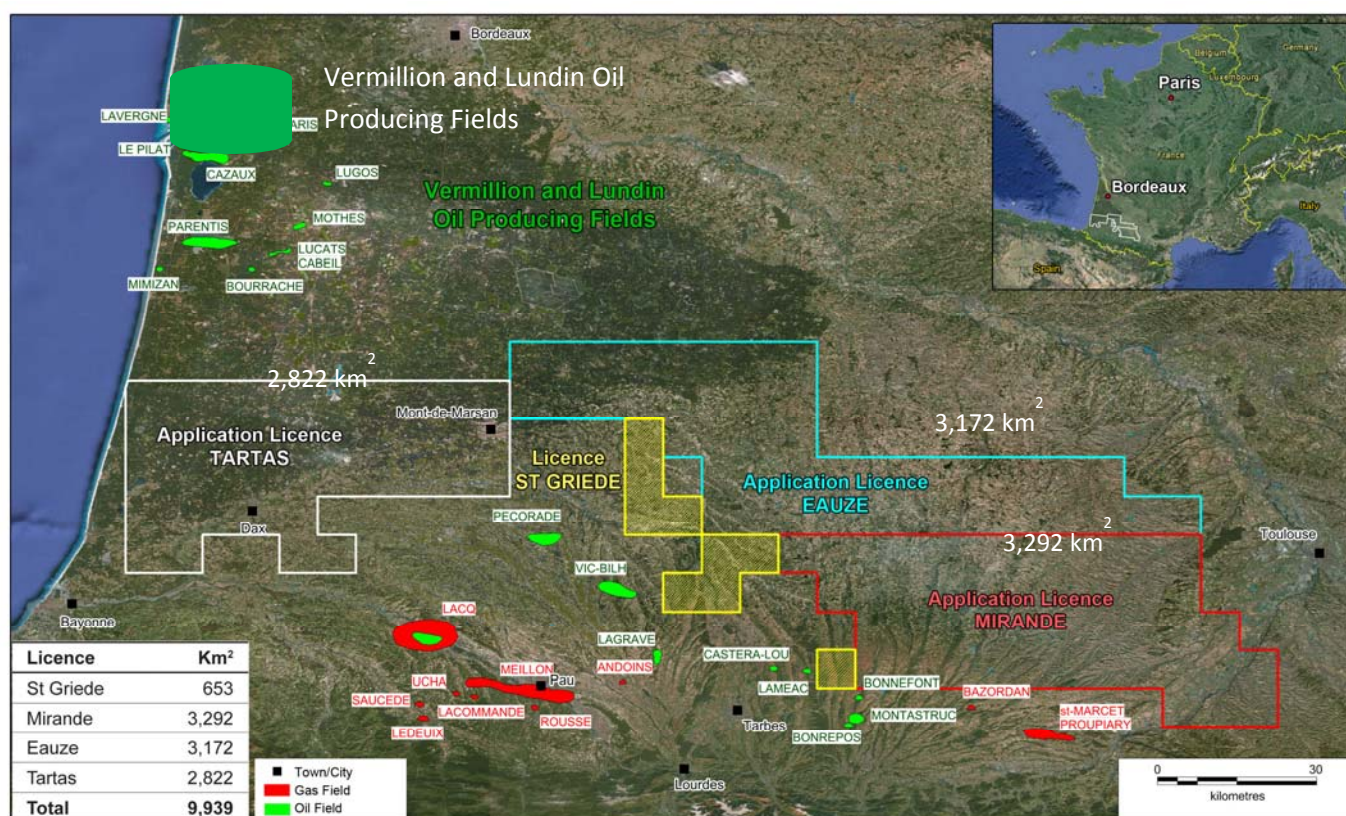


**2014/2015 Planned Activities:** The Company plans on the following work activities in 2014/2015:

- Complete the acquisition of a new seismic survey to determine at least one drilling location on a conventional oil and gas prospect.
- Drill one exploration well.

## FRANCE: NEW APPLICATIONS (100%), Onshore Aquitaine Basin

Three new licence applications (Tartas, Eauze and Mirande) were submitted to the French Government over 2 years ago. These licence applications have been advertised in the European Union Gazette under normal processing procedure. The Company will be advised by the French Government of the outcome of its applications once they have completed processing.



**Figure 7 - Aquitaine Basin: St. Griede Licence and 3 New Licence Application Areas**

**RIGHTS ISSUE:** The Rights Issue announced on 2nd April 2014 was twice extended before its withdrawal on the 12th June 2014 due to low level of acceptance while the share price traded below the Rights Issue price during the offer period.

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*The information in this report has been compiled by Dennis Morton, Managing Director of Gas2Grid Limited, who graduated with First Class Honours in Geology (Macquarie University) and has 38 years' experience in the oil and gas industry.*

<sup>1</sup> The Resources assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The Resource estimates used in this presentation were compiled by Mr Len Diekman (Member SPE), Energetica Consulting, who is a qualified person as defined under the ASX Listing Rule 5.11 and has consented to the use of Resource figures in the form and context in which they appear in this presentation.

# Appendix 5B

## Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

GAS2GRID LIMITED

ABN

46 112 138 780

Quarter ended ("current quarter")

JUNE 2014

### Consolidated statement of cash flows

		Current quarter	Year to date (12 months)
		\$A'000	\$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	-	59
1.2	Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(156)  (111)	(3,399)  (531)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	1	4
1.5	Interest and other costs of finance paid	(3)	(10)
1.6	Income taxes paid		
1.7	Other (GST/forex differences)	(1)	(107)
<b>Net Operating Cash Flows</b>		(270)	(3,984)
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets		(69)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (security deposit)	(4)	(4)
<b>Net investing cash flows</b>		(4)	(73)
1.13	Total operating and investing cash flows (carried forward)	(274)	(4,057)

+ See chapter 19 for defined terms.

**Appendix 5B****Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(274)	(4,057)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	1,474
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	3	1,380
1.17	Repayment of borrowings	(200)	(200)
1.18	Dividends paid		
1.19	Other		
	<b>Net financing cash flows</b>	(197)	2,654
	<b>Net increase (decrease) in cash held</b>	(471)	(1,403)
1.20	Cash at beginning of quarter/year to date	782	1,706
1.21	Exchange rate adjustments to item 1.20	(6)	2
1.22	<b>Cash at end of quarter</b>	305	305

**Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.



### **Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	5,550	3,952
3.2 Credit standby arrangements		

### **Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	450
4.2 Development	
4.3 Production	
4.4 Administration	160
<b>Total</b>	<b>610</b>

**NOTE:** The Company will draw on the loan facilities at item 3.1 to meet cash outflows for the next quarter.

### **Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	176	181
5.2 Deposits at call	129	601
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>305</b>	<b>782</b>

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+ See chapter 19 for defined terms.

### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	756,542,413	723,692,413		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> (description)				

+ See chapter 19 for defined terms.

**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

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7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: ..... Date: 31 July 2014  
Company secretary

Print name: Patrick Sam Yue

## Notes

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+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

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- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.