



16 May 2012

DESIREE DRILLING AND FARMOUT UPDATE

HIGHLIGHTS

- GGE has completed a farmout of 15% of Desiree as a result of increased well costs
- Farmout will see GGE with a 41% interest and carried for 5% of drilling costs
- New experienced onshore US partner to operate well
- Desiree prospect upgraded to 1 million barrels oil and 15-30 BCF gas
- Well is targeting 4 potential pay sands, 2 sands (Cris R II & III) are updip of a water drive well that produced 2.3 MMBLS oil and ceased production producing 100 bopd
- 2 additional potential pay sands, Cris R IV & V, are deeper pool secondary tests
- Well is due to spud July 2012
- Project generated from proprietary 3D seismic

Managing Director, Mark Freeman, commented that "As we have added further potential to the prospect the drilling costs have risen significantly to warrant a farmout of a portion of the Company's interest. GGE still maintains a significant interest of 41% in the prospect with exploration risk exposure of US\$1.4m. One of the major benefits of the farmout is having a capable and experienced partner take on the operatorship and provide the necessary skill base for drilling this well".

EXPLORATION PROGRAM

Program	Date	P50 Oil (net) MBO	P50 Gas (net) BCF
Vermilion	Drilling (15,105ft)	260-430	8.5-14.5
Austin Bayou	May 12	40-60	2.7-4
Leduc	June 12	170-1,680	-
Desiree	July 12	330-410	6-12
W. Klondike	Aug 12	210-500	0.6-1.7
Pintail	Nov 12	120-280	7.5 – 17.5
Total		1,121-3,358	27.5-52

PRODUCTION

D&L#3	Prod.	160	0.5
Abita	Prod.	70-140	1.6
Total		230-300	2.1

Board & Management

Mr Mark Freeman

Managing Director

Mr Charles Morgan

Executive Chairman

Mr Allan Boss

Executive Director

Mr Stephen Keenihan

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ASX Codes

GGE (3,739m)

GGEO (1,469m)

Market Cap @ 0.4c is A\$15m



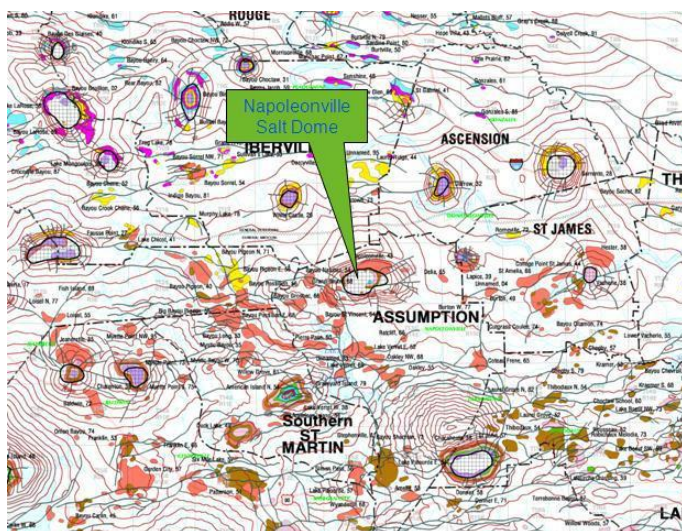
DESIREE PROSPECT

Assumption Parish, LA, 41%WI, Non Operator

The Board is pleased to advise that it has entered into a farmout agreement to sell a 15% working interest in the Desiree Prospect which covers an area of 140 acres in Assumption Parish, Louisiana and to be operated by a large US GOM Oil and Gas Company.

This well will be drilled to a total depth of 12,550ft and is expected to spud in July 2012. The Company's net share of dry hole costs is estimated at ~US\$1.4m (total drilling costs are US\$3.6m). The Primary objectives are the Cris R II and III which have the potential for 600,000 - 800,000 bbls of oil and secondary objectives in the Cris R IV and V (200,000 bbls oil and 15-30 BCF gas).

The well is updip and 270ft from the largest producer in the Napoleonville Field (2.3 MMBO – Cris R II & III) which was abandoned at low oil prices with split casing while still producing 100 bbls per day (collectively from Cris R II and III).



This is a proven productive fault block with a strong water drive in the primary objectives. The prospect has a significant oil column and long life production potential and was generated from 3D seismic and subsurface support for updip attic structure.

If successful, the project offers long life reserves, with IP's of 400-800 bbls per day and will have a substantial positive cash flow and reserve impact on the Company. Based on current rig availability the Company anticipates spudding the well in July 2012.

This farmout will provide Grand Gulf with a dedicated partner who has the significant and specific geological, geophysical and engineering expertise warranted for this project. The Board is very pleased with the completion of this farmout and looks forward to working with its new partner.

It is also prudent that the Company, with its significant drilling program, manage its capital carefully during what can only be described as turbulent capital and commodity markets. Desiree's drilling costs were previously factored into the Company's quarterly cash outflows in the Appendix 5B lodged 30 April 2012. These costs will now be expected to be spent in the September quarter.

Drilling Updates

Austin Bayou – as a result of drilling delays the secured Paterson Rig 532 is not expected to be on location for another 12 days. The location has been completed for a few weeks and notwithstanding heavy rains over the weekend it is ready to receive the rig.

Leduc - as a result of movements in other equity holders the prospect has been delayed in progressing to drilling. The Company now anticipates drilling to commence in June 2012.

Mark Freeman
Managing Director
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For more information visit www.grandgulfenergy.com and sign up for email news.

About Grand Gulf Energy: Grand Gulf is an ASX listed US based oil and gas exploration and production company with management in Houston and assets in Louisiana, Arkansas and Texas.

COMPETENT PERSONS STATEMENT: The information in this report has been reviewed and signed off by Mr KC Whittemore (Registered Geologist, Texas USA), and Kevin Kenning (Registered Reservoir Engineer) with over 36 and 30 years relevant experience respectively within oil and gas sector.

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