

BASS STRAIT OIL COMPANY LTD
ABN 13 008 694 817

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2004

BASS STRAIT OIL COMPANY LTD
ACN 008 694 817

CORPORATE DIRECTORY

Directors

Bernard Wheelahan (Chairman)
E Geoffrey Albers
Henry J Askin
Robert J Flew

Company Secretary

David B Hill
Level 25, 500 Collins Street
Melbourne, Victoria 3000 Australia

Registered Office

and Principal Administration Office

Level 25, 500 Collins Street
Melbourne, Victoria 3000 Australia
Telephone +61 (3) 9614 0426
Facsimile +61 (3) 9629 6278
Email admin@bassoil.com.au

Auditors

Ernst & Young
Level 33, 120 Collins Street
Melbourne, Victoria 3000 Australia

Share Registry

ASX Perpetual Registrars Limited
Level 4, 333 Collins Street
Melbourne, Victoria 3000 Australia
Telephone +61 (3) 9615 9800
Facsimile +61 (3) 9615 9900

Stock Exchange Listing

Australian Stock Exchange Ltd
530 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: BAS

Incorporated in Australia

26 April 1965

Web Site: www.bassoil.com.au

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FORWARD LOOKING STATEMENTS

This Annual Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the Company or not currently considered material by the Company.

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REPORT BY DIRECTORS

30 JUNE 2004

The directors present their report on the results of Bass Strait Oil Company Ltd ("the Company" or "BSOC") for the year ended 30 June 2004 and the state of affairs of the Company at that date. Bass Strait Oil Company Ltd is a company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The Directors of the Company were in office during the entire year and to the date of the report:

Bernard Wheelahan BSc. Dip Ed. FRACI, FAusIMM, FAICD, FAIE – Chairman and non-executive independent director.

Mr Wheelahan is a company director with 40 years experience in education, petroleum, gas and mineral resources in Australia and overseas.

During his career he has been Chairman, director, or committee member of more than thirty public and private companies and joint ventures associated with petroleum, LNG, coal and minerals. His particular business interests include corporate governance, sustained scientific exploration, the systematic management of health, safety and environment and sustainable development.

Mr Wheelahan is Chairman of Pacific Hydro Ltd, a Director of Transfield Services Limited and The Gribbles Group Ltd, Chairman of the Council on Australian and Latin American Relations and a member of the South Australian Resources Development Board.

E Geoffrey Albers LL.B FAICD, FAIM Chief executive officer.

Mr Albers is a company director with over 30 years experience as a lawyer and administrator in corporate law, petroleum exploration and resource sector investment. During this period Mr Albers has sponsored the formation of companies that have made the original Maari (Moki) oilfield discovery in New Zealand, the Yolla Gas/Condensate discovery in Bass Strait, the Evans Shoal gasfield discovery/appraisal in the Timor Sea and the SE Gobe oilfield development in Papua New Guinea.

Mr Albers is Chairman of Methanol Australia Limited, Octanex NL, Strata Resources NL, Moby Oil & Gas Limited (MOG) and various other private and unlisted public companies. He is a member of the Petroleum Exploration Society of Australia and a member of the APPEA Exploration Committee.

Henry J Askin B.Sc (Hons 1st) Ph.D. Non-executive independent director.

Dr. Askin has over 30 years of experience in the oil exploration industry, of which some 25 years were with the Shell Group of Companies, most recently as a consultant. From 1990 until his retirement from executive duties in December 1997, he was exploration manager with Shell Development Australia in Melbourne, with responsibility for the conduct of the company's exploration programme. Throughout this period he was Shell's representative on the APPEA Exploration Committee, and was a Director of the various Shell companies established pursuant to operations in the Indonesia Australia Zone of Cooperation.

Dr. Askin's previous appointments with the Shell Group were in Australia, Oman, Norway, The Netherlands and India. During this time he held various positions including seismic interpreter, chief geophysicist, seismic processing manager, deputy head of new exploration ventures and, immediately prior to returning to Australia, general manager of Shell India.

While his career has ranged from seismic interpretation and prospect generation to senior management, Dr. Askin has contributed to the practice of geophysics in the wider sense, most notably in the co-authorship of a paper read at the EAEG meeting in Belgrade (1987) which received the inaugural best paper award. He is a life member of the Society of Exploration Geophysicists, an active member of the European Association of Geoscientists and Engineers, and a member of the Petroleum Exploration Society of Australia

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Robert J Flew B Ec (Hons) FAIMM, FAIM Non-executive independent director.

Mr Flew is an economist with extensive corporate management experience with BHP. Experienced on boards, and industry representation, he has a successful record in negotiations with financial institutions, governments and unions. He has wide exposure to global issues, especially in the context of competition, partners, customers, financial institutions and governments.

Mr Flew is a former Company Secretary of BHP and a former director of Tubemakers Australia Ltd, BHP Mitsui Ltd, CQCA and Gregory JV, Queensland Mining Council, World Coal Institute and a member of the Central Queensland University Council. Mr Flew is presently a director of Theiss Pty Ltd, Geodynamics Ltd, Astron Ltd and MPI Mines Ltd.

DIRECTORS' EMOLUMENTS

The amount of each element of the emoluments of each director including the assessed value of 500,000 options granted to each director during the year are set out below:

	<i>Directors Fees</i>	<i>Superann- uation</i>	<i>Option Plan</i>	<i>Total</i>
	\$	\$	\$	\$
B Wheelahan	40,000	3,600	4,181	47,781
EG Albers	25,000	2,250	4,181	31,431
HJ Askin	25,000	2,250	4,181	31,431
RJ Flew	25,000	2,250	4,181	31,431
TOTAL	115,000	10,350	16,724	142,074

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Board of directors held during the year and the number of meetings attended by each director.

	Held	Attended
EG Albers	9	9
HJ Askin	9	9
RJ Flew	9	8
B Wheelahan	9	9

DIRECTORS' INTERESTS

At the date of this report the relevant interest of each of the directors in the ordinary shares and options over ordinary shares on issue in the Company were:

	Ordinary Shares	30 June 2007 Options	30 September 2008 Options
EG Albers	22,718,324	1,923,056	500,000
HJ Askin	1,605,000	390,000	500,000
RJ Flew	1,476,250	120,000	500,000
B Wheelahan	2,292,500	180,000	500,000

ENVIRONMENT, HEALTH AND SAFETY

The Company has adopted an environmental, health and safety policy and conducts its operations in accordance with the APPEA Code of Practice.

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The Company's petroleum exploration and development activities are subject to environmental conditions specified in the Petroleum (Submerged Lands) Act, associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation Act 1999. During the period there were no known contraventions by the Company of any relevant environmental regulations.

The Company believes all injuries are avoidable and has policies and procedures to ensure employees and contractors manage safety accordingly. There is a continuous process of monitoring and evaluating our procedures. During the year there were no reported health and safety incidents.

CORPORATE GOVERNANCE

On 31 March 2003 the ASX Corporate Governance Council (CGC) issued "Principles of Good Corporate Governance and Best Practice Recommendations" (the CGC Paper) requiring ASX listed companies to report their corporate governance practices against those principles and recommendations. A company that has not followed a specified recommendation is required to disclose the reason why.

The Board has elected that the Company adopt the principles and recommendations set out in the CGC Paper, as appropriate to the Company's circumstances. Adherence by the Company to, and departures from, CGC recommendations, will be disclosed in the Corporate Governance Section of the 2004 annual report to shareholders.

The Directors are responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals and monitoring of the business and affairs of the Company on behalf of its members. One of the key objectives of the Board is to ensure timely, transparent and accurate communication with all members and compliance with all regulatory requirements.

Audit and Compliance Committee

For the year under review the Audit and Compliance Committee consisted of all the directors of the Company and the Company Secretary. Subsequent to the year end, and upon completion of the IPO, the committee was reconstituted and now has as its members the three non-executive directors of the company. These members, all of whom are considered to be independent, are: Mr Robert Flew (Chair), Mr Bernard Wheelahan, and Dr Henry Askin.

Given that the Company is small, with limited activities and limited resources, the Board has not established a series of committees to address specific areas of corporate governance such as risk management, strategic review, nominations, operations and remuneration. These issues will be dealt with by the board as a whole with any interested directors abstaining or being absent as required either by the Act or as necessary to avoid conflict or possible breach of their fiduciary duties.

PRINCIPAL ACTIVITY

The Company's principal activity during the year was petroleum exploration.

REVIEW OF OPERATIONS

The Company's operating profit for the year after income tax was \$162,745.

Permit Vic/P42

Vic/P42 is the Company's original Gippsland Basin permit, awarded on 14 May 1998. BSOC holds a 50% interest in this permit following the farmout of 50% to Inpex in 2001.

Vic/P42 covers approximately 1,876 km² of the southern offshore Gippsland Basin, with water depths of 50 to 80 metres. The producing Bream and Kingfish oil and gas fields lie immediately adjacent to the northern boundaries of Vic/P42.

Two wells drilled in Vic/P42 encountered strong hydrocarbon indications. Within 7 km of the Kingfish field, the 1972 Nannygai-1 well encountered 6m of oil interpreted from wireline logs. BSOC has applied modern 3D

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seismic mapping techniques to this area. The proposed ZaneGrey-1 well is designed to follow up on these indications of oil.

The 1983 Omeo-1 well encountered and sampled 34 m of net gas pay. The well was drilled on poor quality 2D seismic data south of the Bream gas and oil field. The Omeo discovery lies in reservoirs of the Golden Beach and Emperor subgroups and is currently the subject of further evaluation studies by BSOC to determine what appraisal opportunities may exist. The Omeo discovery is likely to be the location of future 3D seismic acquisition to accurately define the extent of this accumulation for the first time.

The Company has completed a comprehensive geophysical and geological interpretation integrating the BSOC operated 2002 3D seismic data with pre-existing well and seismic data. This work has identified four 3D-defined ready to drill prospects; ZaneGrey, ZaneGrey South, Edina Deep and Hemmingway; all Top Latrobe / Intra Latrobe targets.

Other leads, including the Edina Barrier pinchout, Devilfish Deep and the Omeo gas discovery and appraisal leads also exist within the permit, although they will require further evaluation work and field data acquisition before they could be considered mature for drilling.

The Vic/P42 joint venture has selected ZaneGrey as the next prospect to be drilled in 2004. The other prospects will be re-evaluated following the results of the ZaneGrey-1 well.

Permit Vic/P47

Vic/P47 is located on the northern margin of the Gippsland Basin and covers an area of approximately 718 km² in water depths increasing in a southerly direction from 20 m to 78 m. Three wells have been drilled in the permit, including Flathead-1 and Whale-1, which both had oil and gas shows at top Latrobe level and Judith-1 which has two possible gas columns at deeper levels.

The Patricia Baleen gas fields are located immediately adjacent to permit Vic/P47 in Vic/L21 (Figure 3.5). These adjacent fields have contracted to supply 66 bcf of sales gas, and commenced production during the first quarter of 2003. Gas is being delivered to a new plant near Orbost, before being transferred into the new Eastern Gas Pipeline to New South Wales.

BSOC has farmed out a 35% interest in Vic/P47 to MOG which has agreed with BSOC to meet the first \$3.75 million of the costs of the drilling of Moby-1 in Vic/P47 to earn a 35% interest. Any cost above \$3.75 million will be met by BSOC up to a total of \$5.75 million.

Moby Prospect

The Moby prospect in Vic/P47 is located approximately 5 km to the east of the Patricia gas field. The prospect has strong 3D seismic amplitude anomalies at the top Latrobe level, similar to those over the Patricia Baleen gas fields. In addition to gas, Moby also has the potential for an oil leg. Good oil shows were present in both Flathead-1 and Whale-1, lying immediately to the east of the prospect. Oil legs are present in the gas fields to the south (Tuna and Kipper), east (Leatherjacket) and west (Sperm Whale), outside the Vic/P47 permit. The Moby structure is a large anticline postulated to have an areal closure of over 70 km² and vertical closure of 275m. This interpretation is based on an extensive database of 3D and 2D seismic data. The 3D seismic amplitude anomalies, and their calibration to similar anomalies in the Patricia Baleen fields, in addition to a flat spot indicative of a fluid contact, gives high confidence that gas is present at the Moby-1 location.

The main risks in the Moby prospect are reservoir and gas quality, and to a lesser extent the risk that the amplitude anomalies may represent low saturation gas. Should oil be present in Moby-1, the main risks will be its quality and its producibility. As discussed, the occurrence of gas in the Gurnard Formation at Moby is given high likelihood by the amplitude response observed on the existing high quality 3D dataset.

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Potential for Gas Development

The Moby prospect is strategically located 5 km to the east of the Patricia Baleen development. This development was specifically designed to facilitate additional third party gas. Initial production at Patricia Baleen was planned to be about 50 terajoules per day (TJ/D), while the plant was sized to process 75 TJ/D and the gas sales pipeline 200TJ/D. Subsea equipment and the onshore plant site have also been laid out to allow expansion. Given also that the Patricia Baleen fields were anticipated to have a short plateau of about one year, there would appear to be potential, dependent upon gas quality and successful commercial negotiation, for any gas production from Vic/P47 resulting from a successful discovery and development, to be routed through spare or expansion capacity in the existing nearby infrastructure. This scenario would allow for both a low cost development and early production for Vic/P47, enhancing project economics, particularly for smaller gas discoveries. In the case of a larger gas discovery and/or an oil discovery, stand alone development projects could be considered. Depending on Moby-1 well outcomes, discussions with the owners/operator of the Patricia Baleen facility area may take place following the drilling of the well. There can be no assurance that any particular outcome from any such negotiations, if they take place, will be achieved.

Permit Vic/P41

Vic/P41 is located in the northeast of the offshore Gippsland Basin and covers an area of approximately 2165 km² in water depths ranging from 60 metres in the north to 2000 metres in the south.

Vic/P41 is currently held in a joint venture operated by BSOC (75%) with Eagle Bay Resources (25%). The Year 5 permit commitment is for 250 km² of 3D seismic which BSOC has budgeted to acquire, in late 2004 / early 2005, at a cost of \$3.0 million. MOG has an option to earn a 30% interest, from BSOC's 75%, by meeting the first \$1.0 million of costs for this survey. Currently the Vic/P41 Year 5 anniversary is 13 August 2004, however BSOC has requested a variation to the permit conditions to allow for the timing of this survey on the grounds that late 2004 / early 2005 will be the next availability of a 3D seismic vessel in southeastern Australia.

A layout for the 3D survey has not been finalised, but a 3D seismic programme of not less than 250 km², is planned.

Prospectivity

Vic/P41 is covered by an extensive 2D database in the western two thirds of the permit, although seismic coverage is low in the eastern area. There has been no 3D seismic shot in the block.

The most important potential in the permit is considered to be the downthrown fault closures interpreted along the Rosedale Fault (Figure 3.6). Emphasis is currently being given to plays adjacent to this Fault by analogy with discoveries to the west e.g. Kipper. The leads Kipling, Benchley and Cotton, and several other smaller features, are identified as intra-Latrobe and Golden Beach plays. Downdip of the Hammerhead-1 well, a potential fault closure remains untested at Golden Beach level (the Kipling Lead). These leads are proposed to be the subject the new 250 km² 3D seismic survey.

2D seismic acquired in 2003 by the Vic/P41 joint venture in the east of the permit was located on leads east of the Sole field and along the Rosedale Fault trend to the southeast. Results of this seismic indicate structural features, also warranting further seismic acquisition.

Yolla Royalty

BSOC holds a 0.00648% overriding royalty interest over production from the Yolla field in the Tasmanian Bass Basin.

The Yolla field development is operated by Origin Energy as part of its Bass Gas Project. Construction of an onshore gas plant, located near Lang Lang in south-eastern Victoria, commenced in January 2003 and offshore pipeline laying operations were undertaken during the second half of 2003. Development drilling and

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installation of offshore production facilities are underway and first production is scheduled for the third quarter of 2004.

Gross revenues over the 15+ year life of the Yolla field are estimated by AWE at \$1,800 million and on this basis total royalties receivable are estimated by BSOC at \$1.1 million.

DIVIDENDS

During the year and to the date of this report no dividends were recommended, provided for or paid.

SHARE CAPITAL

On 26 November 2003 the Company in general meeting approved the subdivision of each of the Company's issued shares into two shares.

On 20 August 2004 the Company issued 10,000,000 ordinary shares to raise a net \$1,510,050 pursuant to an excluded offer, to fund the preliminary costs relating to the drilling of the ZaneGrey exploration well.

On 22 September 2004 the Company issued 72,000,000 ordinary shares at an issue price of 20 cents per share pursuant to a prospectus offer dated 24 August 2004.

SHARE OPTIONS**30 June 2007 Options**

A total of 2,125,000 options exercisable on or before 30 June 2007 at an exercise price of 60 cents per share were on issue at the beginning of the year. Pursuant to the terms and conditions of issue the number of options and the exercise price have been amended in the same proportion as the issued capital. At balance date, 4,250,000 30 June 2007 options exercisable at 30 cents were outstanding and are outstanding at the date of this report.

Senior Executives and Officers Option Plan

During the year 2,000,000 options exercisable at a price of 25 cents on or before 30 September 2008, were granted to Directors pursuant to the terms of the Plan, and the approval of the members on 26 November 2003.

Holders of options granted under the Plan are entitled to progressively exercise 20% of the total number of options granted during each year of currency of the options. At a balance date 20% of the options granted during the period had vested and 80% remain unvested.

No options were exercised during the year and to the date of this report. The Company did not receive any consideration on granting the options.

On 20 August 2004, 700,000 options exercisable at a price of 25 cents on or before 30 September 2008 were issued to employees and consultants in the terms of the Plan, all of which are outstanding at the date of this report.

30 September 1998 Options

On 20 August 2004, 700,000 options exercisable at a price of 25 cents at any time on or before 30 September 2008 were granted to employees and consultants which are not subject to the progressive exercise terms of the Plan, all of which are outstanding at the date of this report.

Significant Events After Balance Date

Moby Oil & Gas Limited has raised over \$5 million to fund an exploration program that includes a \$3.75 million contribution to the drilling of Moby-1 in Vic/P47.

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On 20 August 2004 the Company issued 10,000,000 ordinary shares at a price of 16 cents per share, to raise \$1,510,500 (pursuant to an excluded offer) to fund the preliminary costs relating to the drilling of the ZaneGrey exploration well, and granted a total of 1,400,000 options details of which are set out above.

On 22 September 2004 the Company issued 72,000,000 ordinary shares at an issue price of 20 cents per share pursuant to a prospectus offer dated 24 August 2004.

Since balance date the Company has paid fees of \$100,000 to a director-related entity of EG Albers, relating to services rendered in the year ended 30 June 2001, payment of which was initially deferred pending admission of the Company to the official list of ASX.

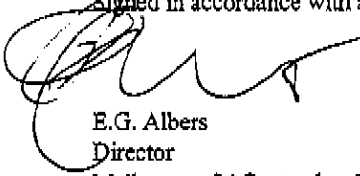
Likely Developments and Expected Results

The likely developments in the Company's operations in future years and the expected result from those operations are dependent on exploration success in the licence areas in which the Company holds an interest as described in Review of Operations.

Prospectus Issue and Admission to ASX

Following the successful prospectus capital raising the Company has applied for quotation of all of the Company's ordinary shares on ASX.

Signed in accordance with a resolution of the directors.



E.G. Albers
Director

Melbourne, 24 September 2004

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Bass Strait Oil Company Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company and the consolidated entity as at 30 June 2004 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and 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.

On behalf of the Board



E.G. ALBERS
Director

Melbourne, 24 September 2004

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenues from ordinary activities	3	987,091	945,960	987,091	945,960
Expenses from ordinary activities	4	671,412	534,771	671,412	534,771
Profit from ordinary activities before income tax expense		315,679	411,189	315,679	411,189
Income tax expense relating to ordinary activities	5	152,934	295,758	152,934	295,758
Net profit from ordinary activities after income tax expense	17	162,745	115,431	162,745	115,431
Share issue costs		-	3,245	-	3,245
Total revenues, expenses and valuation adjustments attributable to members of Bass Strait Oil Company Ltd and recognised directly in equity.		-	3,245	-	3,245
Total changes in equity other than those resulting from transactions with owners as owners.		162,745	112,186	162,745	112,186
Basic earnings per share (a)	24	0.4 cents	0.3 cents		
Diluted earnings per share (a)	24	0.4 cents	0.3 cents		

(a) The earnings per share calculation for the 2003 financial year has been adjusted for the impact of the share subdivision that occurred on 26 November 2003.

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STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		103,904	298,187	103,903	298,186
Receivables	6	30,986	19,146	30,986	19,146
Other	7	38,494	-	38,494	-
TOTAL CURRENT ASSETS		173,384	317,333	173,383	317,332
NON-CURRENT ASSETS					
Plant and equipment	8	85,743	146,796	85,743	146,796
Royalty interest	9	475,923	464,011	475,923	464,011
Deferred exploration costs carried forward	10	4,187,322	3,537,643	4,187,322	3,537,643
Other financial assets	11	-	-	1	1
TOTAL NON-CURRENT ASSETS		4,748,988	4,148,450	4,748,989	4,148,451
TOTAL ASSETS		4,922,372	4,465,783	4,922,372	4,465,783
CURRENT LIABILITIES					
Payables	13	410,930	225,322	410,930	225,322
Interest bearing liabilities	14	-	58,015	-	58,015
Provisions	15	13,317	-	13,317	-
TOTAL CURRENT LIABILITIES		424,247	283,337	424,247	283,337
NON-CURRENT LIABILITIES					
Deferred tax liabilities	5	444,473	291,539	444,473	291,539
TOTAL NON-CURRENT LIABILITIES		444,473	291,539	444,473	291,539
TOTAL LIABILITIES		868,720	574,876	868,720	574,876
NET ASSETS		4,053,652	3,890,907	4,053,652	3,890,907
EQUITY					
Contributed equity	16	2,904,602	2,904,602	2,904,602	2,904,602
Retained profits	17	1,149,050	986,305	1,149,050	986,305
TOTAL EQUITY		4,053,652	3,890,907	4,053,652	3,890,907

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		963,081	1,245,959	963,081	1,245,959
Payments to suppliers and employees		(1,024,401)	(2,171,910)	(1,024,401)	(2,171,910)
Payment of income tax		-	(4,219)	-	(4,219)
Interest received		3,334	21,112	3,334	21,112
Net cash (used in) operating activities		(57,986)	(909,058)	(57,986)	(909,058)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for shares in subsidiary		-	-	-	(1)
Payments for property plant and equipment		(2,111)	(46,443)	(2,111)	(46,443)
Payments for royalty interest		(11,912)	(119,011)	(11,912)	(119,011)
Net cash (used in) investing activities		(14,023)	(165,454)	(14,023)	(165,455)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		-	434,148	-	434,148
Repayment of advance from director related entity		-	(2,549)	-	(2,549)
Repayment of finance lease principal		(60,091)	(80,684)	(60,091)	(80,684)
Payment of prospectus costs		(62,183)	(68,047)	(62,183)	(68,047)
Payment of share issue costs		-	(3,245)	-	(3,245)
Net cash (used in) from financing activities		(122,274)	279,623	(122,274)	279,623
Net decrease in cash assets		(194,283)	(794,889)	(194,283)	(794,890)
Cash assets at the beginning of the period		298,187	1,093,076	298,186	1,093,076
CASH ASSETS AT THE END OF THE PERIOD		103,904	298,187	103,903	298,186
RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES WITH PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX					
Profit from ordinary activities after income tax		162,745	115,431	162,745	115,431
Deferred exploration costs		(604,965)	(1,592,475)	(604,965)	(1,592,475)
Non-Cash Items:					
Depreciation		18,949	12,750	18,949	12,750
Prospectus costs written off		28,183	(1,321)	28,183	(1,321)
Exploration costs written off		-	4,063	-	4,063
Changes in Assets and Liabilities:					
Increase (decrease) in deferred tax liabilities		152,934	291,539	152,934	291,539
Increase (decrease) in payables		182,691	(121,196)	182,691	(121,196)
Decrease (increase) in receivables		(11,840)	382,151	(11,840)	382,151
Increase in employee entitlements		13,317	-	13,317	-
Net cash used in operating activities		(57,986)	(909,058)	(57,986)	(909,058)

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 1 CORPORATE INFORMATION

Bass Strait Oil Company Ltd is a company limited by shares that is incorporated and domiciled in Australia, the registered office of which is located at Level 25, 500 Collins Street, Melbourne, Victoria 3000.

The principal activity of the company during the period was exploration for petroleum in Australia employing at 30 June 2004 3 employees (30 June 2003 3 employees).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention.

The financial statements have been prepared under the going concern convention on the assumption that the company achieves appropriate funding by capital raising or sale or farmout of its petroleum exploration tenement interests.

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is carried forward separately for each area of interest provided that such costs are expected to be recouped through successful development or sale, or exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above conditions is written off. In addition, a provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the period.

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Restoration, Rehabilitation and Environment Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining production life.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item are capitalised at the present value of the minimum lease payments and disclosed as property.

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NOTES TO THE FINANCIAL STATEMENTS
29 FEBRUARY 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Capitalised lease assets are depreciated over the estimated useful life of the assets. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

Plant and equipment

All classes of property, plant and equipment are measured at cost. Depreciation is provided on a straight line basis on computer equipment over 3 years.

Recoverable Amount

The carrying amount of non-current assets is reviewed at balance date to determine whether it is in excess of the recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows are not discounted to their present value.

Inventories

Casing, fittings and drill-bits held for use in future exploration or alternatively, sale, are carried at the lower of cost and realisable value.

Cash and Cash Equivalents

Cash assets are carried at nominal amounts and include cash at bank and short term deposits convertible into cash within 2 working days.

Payables

Payables are carried at cost which is the fair value of consideration to be paid for goods and services received, whether or not billed to the Company.

Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories; wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and other types of employee benefits, are recognised against profits on a net basis in their respective categories.

Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received.

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NOTES TO THE FINANCIAL STATEMENTS
29 FEBRUARY 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Taxes

Income Taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except receivables and payables 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Revenue Recognition

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

Rendering of Services

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Royalty Income

Where control has been attained of a right to receive the royalty payments.

Interest

Where control has been attained of a right to receive the interest payment.

Joint Venture Operations

Interest in joint venture operations is brought to account by including in the respective classifications, the Company's share of individual assets employed and share of liabilities and expenses incurred. Where the Company is acquiring or disposing of a joint venture interest the Company's share of joint venture assets is based on the contributions made to the joint venture.

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NOTES TO THE FINANCIAL STATEMENTS
29 FEBRUARY 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
NOTE 3 REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities:				
Management services arising as operator of Joint Venture for petroleum exploration	982,951	924,848	982,951	924,848
Revenue from non-operating activities:				
Interest received	4,140	21,112	4,140	21,112
Total revenues from ordinary activities	<u>987,091</u>	<u>945,960</u>	<u>987,091</u>	<u>945,960</u>
NOTE 4 EXPENSES AND LOSSES (GAINS)				
Audit fees	35,162	5,000	35,162	5,000
Consultants fees related parties	53,548	58,160	53,548	58,160
Consultants fees other	123,168	71,546	123,168	71,546
Depreciation computer hardware and software	18,949	12,750	18,949	12,750
Directors' remuneration	125,350	-	125,350	-
Exploration expenditure	-	4,064	-	4,064
Inventory written off	-	176,346	-	176,346
Insurance	4,601	4,249	4,601	4,249
Interest paid	-	1,896	-	1,896
Lease finance charges	623	1,869	623	1,869
Legal	-	15,927	-	15,927
Salaries and employee benefits	178,116	114,606	178,116	114,606
Prospectus costs	28,183	(1,321)	28,183	(1,321)
Premises costs	47,547	32,173	47,547	32,173
Subscriptions	9,495	7,089	9,495	7,089
Other expenses from ordinary activities	36,948	28,991	36,948	28,991
Shareholder costs	9,722	1,426	9,722	1,426
Total expenses from ordinary activities	<u>671,412</u>	<u>534,771</u>	<u>671,412</u>	<u>534,771</u>
NOTE 5 INCOME TAX				
The prima facie tax expense on profit from ordinary activities differs from the income tax provided in the financial statements as follows:				
Prima facie income tax on profit from ordinary activities	94,704	123,356	94,704	123,356
Tax effect of permanent differences				
Non-deductible expenditure	84	269	84	269
Prior year tax adjustment	58,146	172,133	58,146	172,133
Income tax expense attributable to ordinary activities	<u>152,934</u>	<u>295,758</u>	<u>152,934</u>	<u>295,758</u>
Deferred Tax Assets and Liabilities:				
Provision for deferred tax – non current	1,092,014	822,979	1,092,014	822,979
Future income tax benefits	647,541	531,440	647,541	531,440
	<u>444,473</u>	<u>291,539</u>	<u>444,473</u>	<u>291,539</u>

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

NOTE 5 INCOME TAX (cont)

The future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax consolidation

At the date of this report, the company has not decided whether it will be consolidating for tax purposes in the current income year. Based upon a high level review of the tax consolidation regime for Bass Strait Oil Company Ltd, it is expected that there will not be a significant impact upon the company's tax position as a result of entering into tax consolidation.

NOTE 6 RECEIVABLES

Goods and services tax refunds	29,364	19,146	29,364	19,146
Other	1,622	-	1,622	-
	<u>30,986</u>	<u>19,146</u>	<u>30,986</u>	<u>19,146</u>

NOTE 7 OTHER

Deferred share issue costs relating to shares issued since balance date pursuant to prospectus offer 16(iii)	38,494	-	38,494	-
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NOTE 8 PLANT AND EQUIPMENT

Computer hardware and software at cost	191,406	189,295	191,406	189,295
Accumulated depreciation	(105,663)	(42,499)	(105,663)	(42,499)
	<u>85,743</u>	<u>146,796</u>	<u>85,743</u>	<u>146,796</u>
Reconciliation:				
Carrying amount at beginning	146,796	-	146,796	-
Additions	2,111	189,295	2,111	189,295
Depreciation for the year charged to:				
Expenses from ordinary activities 4	(18,949)	(12,750)	(18,949)	(12,750)
Deferred exploration costs 10	(44,215)	(29,749)	(44,215)	(29,749)
	<u>85,743</u>	<u>146,796</u>	<u>85,743</u>	<u>146,796</u>

NOTE 9 ROYALTY

Royalty interest at cost	475,923	464,011	475,923	464,011
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On 30 April 2003 the Company acquired a royalty interest from Setright Oil & Gas Pty Ltd, a subsidiary of Bass Strait Group NL ("BSG"), of which Director EG Albers is a director and shareholder.

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 9 ROYALTY (cont)

The Yolla Royalty is a 0.0648% overriding royalty receivable out of the total net production from Production Licence T/L1 over the area of the Yolla Field and the adjacent T/RL1 in the Bass Basin.

Consideration for the acquisition was satisfied by the issue of 861,091 shares in the Company. The Company also met the costs relating to the scheme of arrangement.

NOTE	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

NOTE 10 DEFERRED EXPLORATION COSTS CARRIED FORWARD

Mineral tenements in the exploration phase				
Cost at the beginning of the period	3,537,643	2,031,440	3,537,643	2,031,440
Net cost for the period	649,689	1,506,203	649,689	1,506,203
Cost at the end of the period	<u>4,187,322</u>	<u>3,537,643</u>	<u>4,187,322</u>	<u>3,537,643</u>

Ultimate recovery of deferred exploration costs carried forward is dependent upon the company maintaining appropriate funding through success in exploration, or by capital raising or sale or farmout of its petroleum exploration tenement interests to support continued exploration activities.

NOTE 11 OTHER FINANCIAL ASSETS

Investment in controlled entity	-	-	1	1
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The controlled entity BSOC Business Services Pty Ltd is 100% owned, incorporated in Australia and its financial year end is 30 June. The controlled entity did not trade during the year and Company met the cost of the controlled entity's administration.

NOTE 12 INTEREST IN JOINT VENTURE OPERATIONS

The Company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 21. Details of the Company's interests in the joint ventures are:

		Interest 30/6/2003	Interest Acquired	Interest Sold	Interest 30/6/2004
Vic/P41	(a)	75%	-	-	75%
Vic/P42		50%	-	-	50%
Vic/P47	(b)	75%	-	35%	40%

- (a) Subject to option to Moby Oil & Gas Limited in respect of 30% interest (refer Note 21).
(b) The consideration of \$3.75 million towards drilling a well remains outstanding (refer Note 21).

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12 INTEREST IN JOINT VENTURE OPERATIONS (cont)

Assets and liabilities of the joint venture operations are included in the financial statements as follows:

	Consolidated	
	2004	2003
	\$	\$
CURRENT ASSETS		
Cash assets	44,832	38,410
Goods and services tax refunds	10,436	11,543
TOTAL CURRENT ASSETS	<u>55,268</u>	<u>49,953</u>
NON-CURRENT ASSETS		
Deferred exploration costs	4,187,322	3,537,643
TOTAL NON-CURRENT ASSETS	<u>4,187,322</u>	<u>3,537,643</u>
TOTAL ASSETS	<u>4,242,590</u>	<u>3,587,596</u>
CURRENT LIABILITIES		
Payables	14,395	120,835
TOTAL CURRENT LIABILITIES	<u>14,395</u>	<u>120,835</u>
TOTAL LIABILITIES	<u>14,395</u>	<u>120,835</u>
NET ASSETS	<u>4,228,195</u>	<u>3,466,761</u>

	Consolidated		The Company	
NOTE	2004	2003	2004	2003
	\$	\$	\$	\$
NOTE 13 PAYABLES				
Trade creditors	260,335	195,862	260,335	195,862
Goods and services tax payable	19,605	19,870	19,605	19,870
Director-related entities	130,990	9,590	130,990	9,590
	<u>410,930</u>	<u>225,322</u>	<u>410,930</u>	<u>225,322</u>

NOTE 14 INTEREST BEARING LIABILITIES

Finance Lease

Total minimum lease payments due not later than one year	-	60,091	-	60,091
Less: future finance charges	-	2,076	-	2,076
Total Lease Liability	<u>-</u>	<u>58,015</u>	<u>-</u>	<u>58,015</u>

NOTE 15 EMPLOYEE BENEFITS

Provision for annual leave	13,317	-	13,317	-
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BASS STRAIT OIL COMPANY LTD
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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

	NOTE			Consolidated		The Company	
		2004 Shares	2003 Shares	2004 \$	2003 \$	2004 \$	2003 \$
NOTE 16 CONTRIBUTED EQUITY							
Issued and Paid Up Capital							
Ordinary shares fully paid		36,884,524	18,442,262	2,904,602	2,904,602	2,904,602	2,904,602
Movements in Shares on Issue							
Ordinary shares on issue at beginning of period:		18,442,262	14,668,671	2,904,602	2,047,324	2,904,602	2,047,324
Subdivision of shares on issue	16(i)	18,442,262	-	-	-	-	-
Ordinary shares issued during the period:							
At 10 cents on exercise of 30 June 2003 options		-	350,000	-	35,000	-	35,000
In consideration for the cancellation of 30 June 2003 options		-	350,000	-	-	-	-
At 17.75 cents on exercise of 30 June 2004 options		-	875,000	-	155,312	-	155,312
At 15.50 cents in consideration for the cancellation of 30 June 2004 options		-	87,500	-	13,563	-	13,563
At 25 cents		-	1,250,000	-	312,500	-	312,500
At 40 cents to acquire royalty interest	9	-	361,091	-	344,000	-	344,000
Costs of issue		-	-	-	(3,097)	-	(3,097)
		<u>36,884,524</u>	<u>18,442,262</u>	<u>2,904,602</u>	<u>2,904,602</u>	<u>2,904,602</u>	<u>2,904,602</u>

(i) Terms and Conditions of Contributed Equity

On 26 November 2003, the company in general meeting approved the subdivision of each of the shares on issue into two shares.

Ordinary shares entitle the holder 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.

(ii) Options

The Company has granted options over unissued shares in the Company, each option conferring the right to subscribe for one fully paid ordinary share. The options do not confer the right to dividends or to vote at meetings of members. Shares allotted on exercise of the options will rank pari passu in all respects with other fully paid ordinary shares. Each option will entitle the holder to participate in new issues in which shares or other securities are offered to members on the prior exercise of the option.

(iii) Shares Issued Since Balance Date Pursuant to Prospectus Offer

On 22 September 2004 the Company issued 72,000,000 ordinary shares pursuant to the prospectus dated 24 August 2004. The Company incurred costs during the year of \$38,494, relating to the prospectus (Note 7).

(iv) Shares Issued Since Balance Date to Excluded Offerees

On 20 August 2004 the Company issued 10,000,000 ordinary shares, to raise \$1,510,500, pursuant to an offer to excluded offerees to fund the preliminary costs relating to the drilling of the ZaneGrey exploration well.

(v) 30 June 2007 Options

A total of 2,125,000 options exercisable on or before 30 June 2007 at an exercise price of 60 cents per share were on issue at the beginning of the period. Pursuant to the terms and conditions of issue the number of options and the exercise price have been amended in the same proportion as the issued capital following the subdivision of shares on 26 November 2003. At 29 February 2004, 4,250,000 30 June 2007 options exercisable at 30 cents were outstanding.

(vi) 30 September 2008 Options

On 20 August 2004, 700,000 options exercisable at a price of 25 cents at any time on or before 30 September 2008 were granted.

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 16 CONTRIBUTED EQUITY (Cont)

Senior Executives and Officers Option Plan

The Senior Executive and Officers Option Plan provides for the progressive exercise of 20% of the total number of options granted, during each year of the currency of the options.

On 26 November 2003 2,000,000 options exercisable at a price of 25 cents on or before 30 September 2008 were granted pursuant to the Plan which remain outstanding at 29 February 2004. On 20 August 2004 700,000 further options were granted on the same terms pursuant to the Plan.

NOTE 17 RETAINED PROFITS

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Balance at beginning of period	986,305	870,874	986,305	870,874
Net profit	162,745	115,431	162,745	115,431
Balance at end of period	<u>1,149,050</u>	<u>986,305</u>	<u>1,149,050</u>	<u>986,305</u>

NOTE 18 AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditor of the Company for:

Audit or review of the financial report of the entity and any other entity in the consolidated entity	4	20,000	8,000	20,000	8,000
Other services		15,162	-	15,162	-
		<u>35,162</u>	<u>8,000</u>	<u>35,162</u>	<u>8,000</u>

NOTE 19 DIRECTOR AND EXECUTIVE DISCLOSURES

Specified Directors

B Wheelahan	Chairman	HJ Askin	Director (non-executive)
EG Albers	Director and Managing Director	RJ Flew	Director (non-executive)

Specified Executives

A Adams	General Manager, Commercial	I Reid	General Manager, Exploration
D Hill	Company Secretary		

Remuneration Policy for Specified Directors and Specified Executives

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the managing director and senior executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a form optimal for the recipient.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 19 DIRECTOR AND EXECUTIVE DISCLOSURES (Cont)

Remuneration of Specified Directors

	Year	Primary Directors Fees	Post Employment Superann -uation	Equity Option Plan	Total
		\$	\$	\$	\$
B Wheelahan	2004	40,000	3,600	4,181	47,781
EG Albers	2004	25,000	2,250	4,181	31,431
HJ Askin	2004	25,000	2,250	4,181	31,431
RJ Flew	2004	25,000	2,250	4,181	31,431
TOTAL	2004	115,000	10,350	16,724	142,074

No remuneration was paid to Specified Directors in the 2003 year.

Remuneration of Specified Executives

A Adams	2004	190,500	24,000	-	214,500
	2003	163,750	24,000	-	187,750
D Hill	2004	20,750	4,815	-	25,565
	2003	17,480	600	-	18,080
I Reid	2004	246,348	-	-	246,348
	2003	238,487	-	-	238,487
TOTAL	2004	457,598	28,815	-	486,413
	2003	419,717	24,600	-	444,317

Equity Instruments of Specified Directors and Specified Executives issued by Bass Strait Oil Company Ltd

The number of equity instruments held at 1 July 2003 have been adjusted for the impact of the share subdivision that occurred on 26 November 2003.

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004
NOTE 19 DIRECTOR AND EXECUTIVE DISCLOSURES (Cont)

	Balance 1/7/2003 Shares	Received as Remuneration Shares	Options Exercised Shares	Net Change Other Shares	Balance 30/6/2004 Shares
Ordinary Shares					
Specified Directors					
B Wheelahan	1,980,000	-	-	-	1,980,000
EG Albers	21,460,824	-	-	-	21,460,824
HJ Askin	1,405,000	-	-	-	1,405,000
RJ Flew	1,320,000	-	-	-	1,320,000
Total	26,165,824	-	-	-	26,165,824
Specified Executives					
A Adams	175,000	-	-	-	175,000
D Hill	290,562	-	-	-	290,562
I Reid	1,500,000	-	-	-	1,500,000
Total	1,965,562	-	-	-	1,965,562

Options exercisable by 30 June 2007 at 30 Cents per Ordinary Share

	Options	Options	Options	Options	Options
Specified Directors					
B Wheelahan	180,000	-	-	-	180,000
EG Albers	1,923,056	-	-	-	1,923,056
HJ Askin	390,000	-	-	-	390,000
RJ Flew	120,000	-	-	-	120,000
Total	2,613,056	-	-	-	2,613,056
Specified Executives					
D Hill	40,000	-	-	-	40,000
I Reid	350,000	-	-	-	350,000
Total	390,000	-	-	-	390,000

Remuneration Options Exercisable by 30 September 2008 at 25 Cents per Ordinary Share

	Options	Options	Options	Options	Options
Specified Executives					
B Wheelahan	-	500,000	-	-	500,000
EG Albers	-	500,000	-	-	500,000
HJ Askin	-	500,000	-	-	500,000
RJ Flew	-	500,000	-	-	500,000
Total	-	2,000,000	-	-	2,000,000

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 19 DIRECTOR AND EXECUTIVE DISCLOSURES (Cont)

The disclosures relating to equity instruments of specified directors and specified executives include equity instruments of personally related entities, being relatives and the spouses of relatives and any entity under the joint or several control or significant influence of the specified director or specified executive.

All equity transactions with specified directors and specified executives other than remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

The amount attributable to the Option Plan in the table of remuneration reflects the allocation of the fair value of remuneration options at date of grant over the performance/vesting period. The Company's policy is not to treat the fair value as an expense in the calculation of net profit shown in the statement of financial performance.

Factors taken into account in assessing fair value include the exercise price, exercise period, performance conditions and the following material assumptions:

- the Company's shares were unlisted at the date of grant;
- the price of the underlying shares was assessed at 20 cents per share;
- the options will be exercised during the option exercise periods;
- a share price volatility of 95% as the high end of a range of implied volatilities of options issued by six oil and gas exploration companies listed on ASX;
- a risk free rate of 5.6% pa;
- a dividend yield of nil;
- a discount of 33% for the lack of negotiability of the options and the restriction on their exercise in the event of cessation of service by the holder.

NOTE 20 RELATED PARTY TRANSACTIONS

Controlled Entity

The controlled entity BSOC Business Services Pty Ltd is 100% owned, incorporated in Australia and its financial year end is 30 June. The controlled entity did not trade during the period and Company met the cost of the controlled entity's administration.

Other Transactions with Directors and Director-Related Entities

During the year the Company incorporated Moby Oil & Gas Limited which has farmed into the Company's interests in Vic/P47 and has acquired an option to acquire an interest in Vic/P41 as set out in Note 21. Director E.G. Albers is a director and chairman of Moby and Company Secretary D.B. Hill is a director of Moby.

Since balance date Moby Oil & Gas Limited has raised over \$5 million to fund an exploration program that includes a \$3,750,000 contribution to the drilling of Moby-1 in Vic/P47 and, if sufficient funds are available and an option exercised, a \$1 million contribution to a 3D seismic survey in Vic/P41 (Note 21).

During the year fees were paid for services provided under normal commercial terms and conditions to a director-related entity of Director E.G. Albers for project administration, management and other services in the amount of \$71,730 (2003 : \$141,150). Since balance date the Company has paid fees of \$100,000 to a director-related entity of Director EG Albers relating to services rendered for the year ended 30 June 2001 and \$32,000 relating to the issue of shares on 19 August 2004.

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NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

NOTE 21 EXPLORATION EXPENDITURE COMMITMENTS

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Expenditure commitments being minimum work requirements under exploration permit for petroleum.				
Not later than 1 year				
Vic/P41	3,000,000	2,500,000	3,000,000	2,500,000
Vic/P42	6,800,000	5,000,000	6,800,000	5,000,000
Vic/P47	300,000	5,750,000	300,000	5,750,000
Later than 1 year but not later than 5 years				
Vic/P47	-	3,900,000	-	3,900,000
	<u>10,100,000</u>	<u>17,150,000</u>	<u>10,100,000</u>	<u>17,150,000</u>

Expenditure commitments include obligations arising from farm-in arrangements, and minimum work obligations for the initial 3 year period of exploration permits and thereafter annually. Minimum work obligations, may, subject to negotiation and approval, be varied.

Vic/P41

Under an agreement with Eagle Bay Resources NL the Company became operator and acquired a 20% interest in Vic/P41. On 13 June 2003 the Company exercised its option to earn a further 55% interest by undertaking to meet the cost of the year 5 work requirement to bring its interest to 75%.

The Year 5 work requirement is a 250 km² 3D seismic survey at an indicative cost of \$4,000,000.

The Company has granted Moby Oil & Gas Limited an option to earn a 30% interest by contributing the first \$1 million to the costs of the 3D survey. Permit interests upon exercise of the option would be BSOC 45% and operator, MOG 30% and Eagle Bay Resources NL 25%.

The Year 6 work requirement is for geological and geophysical studies at an indicative cost of \$200,000. At the end of Year 6, Vic/P41 can be renewed for a further six year term after relinquishing 50% of the current permit area.

Vic/P42

Year 3 work requirement is the drilling of a well. Permit year 3 has been extended to 13 February 2005.

Vic/P47

Under an option agreement with Eagle Bay Resources NL the Company became operator and acquired a 75% interest in Vic/P47.

Vic/P47 is in permit Year 3, with two wells scheduled by 27 February 2005. Moby Oil & Gas Limited will contribute the first \$3.75 million to the drilling of the Moby 1 exploration well to meet one of these commitments and thereby earn a 35% interest. Permit interests are BSOC 40%, Moby Oil & Gas Limited 35% and Eagle Bay Resources NL 25%. The Company will meet any Moby 1 well costs between \$3.75 million and \$5.75 million. Any Moby 1 well costs over \$5.75 million, and exploration costs after the drilling of the Moby 1 well, will be met pro-rata with these new permit interests.

The expenditure commitments for Vic/P47 assumes Moby Oil & Gas Ltd meets the first \$3,750,000 of the costs of drilling Moby 1 to satisfy the second permit year well obligation, and Lakes Oil NL meets the costs of drilling the third permit year well. In the event that Lakes Oil NL does not drill the third permit year well the Company will contribute an estimated net \$1,600,000.

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NOTE 22 FINANCIAL INSTRUMENTS

Net Fair Value

The following methods and assumptions are used to determine the net fair values of financial assets and financial liabilities:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term to maturity.

Trade receivables and payables: The carrying amount approximates fair value because of settlement terms.

Terms, Conditions and Account Policies

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date.

Financial Instruments	Accounting Policies	Terms and Conditions
(i) Financial Assets		
Cash at bank	Stated at nominal value.	At call, interest rate subject to balance.
Receivables	Stated at nominal value	Normally settled on 90 day terms
(ii) Financial Liabilities		
Payables	Recognised for amounts to be paid for goods and services received, whether or not billed to the Company.	Trade liabilities are normally settled on 30 day terms.
(iii) Equity Instruments		
Ordinary shares	Recognised at the fair value of the consideration received by the Company.	Terms and conditions of shares issued and options outstanding are set out in Note 16.

Credit Risk Exposure

The maximum credit risk exposure of financial assets is represented by the carrying amounts of financial assets recognised as per the statement of financial position.

Interest Rate Risk

The consolidated entity's exposure to interest rate risk and the effective rates of interest of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per Statement of Financial Position		Weighted Average Effective Interest Rate	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	%	%
FINANCIAL ASSETS								
Cash	103,904	298,187	-	-	103,904	298,187	1	1
Trade and other receivables	-	-	1,622	-	1,622	-	N/A	N/A
	103,904	298,187	1,622	-	105,526	298,187		
FINANCIAL LIABILITIES								
Trade creditors	-	-	245,537	218,164	245,537	218,164	N/A	N/A
Director related entities	-	-	130,990	9,590	130,990	9,590	N/A	N/A
Finance lease liability	-	-	-	35,713	-	35,713	-	7
	-	-	376,527	263,467	376,527	263,467		

NOTE 23 SEGMENT INFORMATION

The Company operates in Australia in the petroleum exploration industry.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 24 EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Consolidated	
	2004	2003
	\$	\$
Net profit	162,745	115,431
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share (adjusted for the impact of the share subdivision that occurred on 26 November 2003)	36,884,524	32,718,294

6,250,000 (30/6/2003 4,250,000) potential ordinary shares arising from 30 September 2007 options and 30 September 2008 options (Note 16) are not considered dilutive and are not included in the calculation of diluted earnings per share.

Since balance date 72,000,000 ordinary shares have been issued (Note 16.)

Since balance date 1,400,000 30 September 2008 options have been granted (Note 16), no options have been exercised.

NOTE 25 SUBSEQUENT EVENTS

On 23 July 2004 Moby Oil & Gas Limited closed a prospectus offer having raised over \$5 million to fund an exploration program that includes a \$3.75 million contribution to the drilling of Moby-1 in Vic/P47 and, if sufficient funds are available, a \$1 million contribution to a 3D seismic survey in Vic/P41.

On 20 August 2004 the Company issued 10,000,000 ordinary shares, to raise \$1,510,500, pursuant to an excluded offer to excluded offerees, to fund preliminary costs relating to the drilling of the ZaneGrey exploration well.

On 20 August 2004 the Company granted 700,000 30 September 2008 25 cent options pursuant to the Senior executives and Officers Option Plan and a further 700,000 30 September 2008 25 cent options which are not subject to the terms of the Plan.

On 22 September 2004 the Company issued 72,000,000 shares at a price of 20 cents each pursuant to an offer contained in a prospectus dated 24 August 2004.

Since balance date the Company has paid fees of \$100,000 to a director-related entity of EG Albers, relating to services rendered in the year ended 30 June 2001, payment of which was deferred pending admission of the Company to the official list of ASX but was subsequently paid by agreement of the directors.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 26 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS

Bass Strait Oil Company Ltd has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents to International Financial Reporting Standards (IFRS). The Company has allocated internal resources and engaged the external auditors to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. The Company has established a process whereby solutions have been developed and will shortly be implemented. The Audit Committee is also a key participant in this process, overseeing progress and addressing any issues that may arise. As the Company has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with IFRS. This will form the basis of accounting for IFRS in the future, and is required when The Company prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are key areas where accounting policies will change and may have an impact on the Company's financial report. The Company has not yet been able to reliably quantify the impacts of changes to the financial report as a result of the adoption of IFRS.

(a) Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This will result in a change in the company's accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

(b) Classification of Financial Instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost, held to maturity - measured at amortised cost, held for trading - measured at fair value with fair value changes charged to net profit or loss, available for sale - measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

(c) Intangible Assets

Under AASB 138 *Intangible Assets*, costs incurred in the research phase of the development of an internally generated intangible asset must be expensed. This will result in a change in the company's current accounting policy which allows for the capitalization of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred. The future financial effect of this change in accounting policy is not yet known.

(d) Share Based Payments

Under AASB 2 *Share Based Payments*, the company will be required to recognise an expense in net profit for the fair value of share rights and options issued to employees as remuneration. It applies to all share rights issued after 7 November 2002 that have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

(e) Income Taxes

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax-effects of the transactions and other events that affect amounts recognized in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

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NOTE 25 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS (cont)

(f) Exploration and evaluation expenditure

Australian Accounting Standards currently have a specific accounting standard on extractive industries that includes the appropriate accounting treatment for exploration and development expenditure. An equivalent Australian-IFRS standard is not expected until late in 2004. Accordingly it is too early to comment on the differences, if any, between this future standard and existing Australian Accounting Standards.

However, the International Accounting Standards Board (IASB) has announced that it has decided to fully grandfather national GAAP, such as Australia's existing area of interest method of accounting for exploration costs, for both producers and explorers, until such time as the IASB produces a comprehensive extractive industry IFRS.

As soon as the IASB has incorporated this decision into its Standards, the Australian Accounting Standards Board is expected to produce an Australian equivalent so as to allow extractive industry companies to take advantage of the grandfathering in their 2005 transition to Australian-IFRS.



■ 120 Collins Street
Melbourne VIC 3000
Australia

■ Tel: 61 3 9288 8000
Fax: 61 3 9654 6166
DX: 293 Melbourne

■ GPO Box 67
Melbourne VIC 3001

Independent audit report to members of Bass Strait Oil Company Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Bass Strait Oil Company Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.



While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. 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.

Audit opinion

In our opinion, the financial report of Bass Strait Oil Company Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Bass Strait Oil Company Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in cursive script that reads "Ernst & Young".

Ernst & Young

A handwritten signature in cursive script that reads "R. C. Piltz".

R. C. Piltz
Partner

Melbourne
Date: 24 September 2004