



BASS STRAIT OIL COMPANY LTD

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2011



CORPORATE DIRECTORY

ABN 13 008 694 817

Directors

John L C McInnes, Chairman
Henry J Askin
John G Tuohy
Andrew P Whittle (Appointed 9 August 2011)
Andrew R Adams, Managing Director (Terminated 31 March 2011)

Company Secretary

Robyn M Hamilton (Appointed 31 March 2011)
Andrew R Adams (Terminated 31 March 2011)

Chief Executive Officer

Steven I Mackie (Appointed 27 June 2011)

Registered Office

and Principal Administration Office

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Facsimile +61 (3) 9614 6533
Email admin@bassoil.com.au

Auditors

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000 Australia

Share Registry

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Telephone +61 (3) 9615 9800
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Stock Exchange Listing

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

ASX Codes: BAS – Ordinary Shares

Web Site: www.bassoil.com.au

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FORWARD LOOKING STATEMENTS

This Annual 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 Group or not currently considered material by the Group.



DIRECTORS' REPORT

The Directors present their report on the results of Bass Strait Oil Company Ltd consolidated entity ("BAS" or "the Company" or "the Group") for the year ended 30 June 2011.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report follow. Directors were in office for the entire period unless otherwise stated.

John L C McInnes OAM BCom FCA - Chairman and non-executive independent director (Appointed 1/10/2008)

Mr McInnes holds an Economics and Commerce degree from the University of Melbourne and is a Chartered Accountant. He was the founding partner of McInnes Graham & Gibbs, which in 2006 merged with Mutual Trust Pty Ltd, of which he is now a director. Mr McInnes is also currently a director of AssetCo Pty Ltd & Associated companies, Hillview Quarries Pty Ltd, Castlegate James Pty Ltd, Roy Morgan Research Pty Ltd and Haoma Mining NL Group. He has previously been Deputy Chairman of Pacific Hydro Ltd and Chairman of Futuris Ltd.

He is a Fellow of the Institute of Chartered Accountants in Australia and in 2007 he was awarded a Medal of the Order of Australia in recognition of his services to sport, business and the community.

Mr McInnes served on the audit committee during the year.

Henry J Askin BSc (Hons 1st) Ph.D. - Non-executive independent director (Appointed 2/2/1999)

Dr Askin has over 40 years of experience in the oil exploration industry, including some 25 years with the Shell Group of Companies. From 1990 until his retirement in December 1997, he was exploration manager with Shell Development Australia in Melbourne. Throughout this period he was Shell's representative on the APPEA Exploration Committee and was a Director of various Shell companies established pursuant to operations in the Indonesia/Australia Zone of Cooperation.

Dr Askin 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.

Dr Askin was appointed Chairman of Central Petroleum Limited in April 2005.
Dr Askin served on the audit committee during the year.

John G Tuohy BCA CA - Non-executive independent director (Appointed 31/8/2009)

Mr Tuohy has over 20 years corporate experience in the oil and gas exploration and production and motor vehicle industries, acting as a director and company secretary.

Mr Tuohy holds a Bachelor's degree in accountancy from Victoria University of Wellington and is a Chartered Accountant in New Zealand. He relocated to Australia in 2008.

Mr Tuohy is currently Company Secretary for a number of listed and unlisted Australian public companies, including Moby Oil & Gas Limited, Octanex N.L. and Exoil Limited.

Mr Tuohy served on the audit committee during the year.

Andrew P Whittle BSc (Hons 1st) - Non-executive independent director (Appointed 9/8/2011)

Mr Whittle has over 40 years experience in the petroleum exploration and production industries world wide, with a focus on SE Asia and Australia. His experience includes over 21 years with several affiliates of Exxon Corporation and was finally Geological Manager of Esso Australia.

He is also currently a Director of Petroval Australasia Pty Ltd, Bumi Armada Berhad, Usafe Pty Ltd and Sheristowe Pty Ltd.

He is a member of the American Association of Petroleum Geologists, the Society of Professional Well Log Analysts and the Petroleum Exploration Society of Australia.



DIRECTORS' REPORT (CONTINUED)

Andrew R Adams BSc MBA GAICD - Managing Director (*Terminated 31/3/2011*)

Mr Adams was appointed Managing Director on 19 July 2006 and has not held any other directorships over the past three years. He was terminated as Managing Director and ceased to be Company Secretary on 31 March 2011.

INTERESTS IN THE SHARES & OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares and options of Bass Strait Oil Company Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
J L C McInnes	750,000	-
H J Askin	1,840,000	-
J G Tuohy	-	-
A P Whittle	-	-

COMPANY SECRETARY

Mrs R Hamilton was appointed Company Secretary on the 31st March 2011, replacing Mr A Adams who held the position to that date. She is a Chartered Accountant.

DIVIDENDS

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

PRINCIPAL ACTIVITY

The principal activity during the year was exploration for oil and gas in onshore and offshore areas of south-eastern Australia. This principal activity remains unchanged from the previous financial year. The interests and exploration programs in which the Company has interests are not mature and should be regarded as highly speculative.

OPERATING AND FINANCIAL REVIEW

Operating results for year

The Company's operating loss for the year ended 30 June 2011 after income tax was \$932,078 (2010: (\$534,294)). The Company was the operator of five exploration permits during the financial year. Revenue amounted to \$288,770 (2010: \$443,653) during this financial year.

Review of Operations

During the financial year, the Company successfully concluded a number of important projects in its permits, including:

- Acquiring, processing and interpreting the Windermere 3D seismic survey in PEP 167 leading to the proposal to drill Windermere-3 being approved by the Joint Venture;
- Formal acceptance of the Windermere-3 Operations Plan by the Victorian Department of Primary Industry allowing Windermere-3 to be drilled in 4th Quarter 2011;
- Simultaneous seismic inversion of the Oscar 3D seismic survey in Vic/P41 leading to derisking the Benchley and Kipling prospects and Lead A; and
- 3D basin modeling of the primary source kitchens and migration pathways in the eastern Gippsland Basin leading to further derisking of the Vic/P41 and Vic/P66 prospects and leads.

Review of Financial Condition

Liquidity

The Group's consolidated statement of cash flows for the year records a decrease of \$1,442,176 (2010: increase of \$2,994,865) in cash and cash equivalents. The cash flows were derived from operating receipts of \$280,958 (2010: \$430,314), other receipts of \$174,199 (2010: \$115,573) and capital raising net of transaction costs of \$nil (2010: \$3,721,312). Cash outflows relating to operations of \$1,474,613 (2010: \$1,043,845) exceeded the total operating inflows. There were also cash outflows in investing activities of petroleum expenditure and plant and equipment of \$422,720 (2010: \$228,489). Cash assets at 30 June 2011 were \$2,254,605 (2010: \$3,696,781).



DIRECTORS' REPORT (CONTINUED)

CHANGES IN THE STATE OF AFFAIRS

Total equity decreased to \$11,431,521 from \$12,331,307, a decrease of \$899,786. The movement was the result of the operating loss for the year of \$932,078.

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 permit areas in which the Company currently holds an interest and any new permit areas that may be acquired.

EVENTS SUBSEQUENT TO BALANCE DATE

On 2 August 2011 the Company announced that it had signed a Joint Study Agreement with CNOOC Australia E&P Pty Ltd, the Australian subsidiary of China National Offshore Oil Corporation Ltd (CNOOC).

On 8 September 2011 the Company announced a fully underwritten Rights Issue. Registered shareholders can participate in the non-renounceable rights issue on the basis of one fully paid ordinary share in the Company for every three shares held, at an issue price of 2.5 cents per share. The Rights Issue will result in the issue of up to approximately 97,010,083 shares and will raise approximately \$2,425,252 before costs and expenses. Additionally, the underwriter will be granted 10,000,000 unlisted options to acquire shares in the Company at an issue price of 4 cents each. The options will expire within 3 years of the date of issue.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were nil unissued ordinary shares under options (2,100,000 at 30 June 2010). Refer to the remuneration report for further details of shares under options.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

BAS maintains a directors and officers insurance policy and has paid an insurance premium for the policy. The contract of insurance prohibits disclosure of the amount of the premium and the nature of the liabilities insured. Pursuant to the constitution the Company has entered into Deeds of Indemnity with the Directors and Chief Executive Officer.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Board Meetings		Audit Committee	
	Held	Attended	Held	Attended
J L C McInnes	13	13	2	2
H J Askin	13	13	2	2
J G Tuohy	13	13	2	2
A R Adams	9	9	-	-

REMUNERATION REPORT (AUDITED) (30 June 2011)

This Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses senior managers and secretaries of the Parent and Group.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2011) (continued)

Details of Key Management Personnel (including executives of the Group)

(i) Directors

J L C McInnes	Chairman
H J Askin	Director (Non-executive)
J G Tuohy	Director (Non-executive)
A P Whittle	Director (Non-executive) (Appointed 9 August 2011)
A R Adams	Managing Director & Company Secretary (Terminated 31 March 2011)

(ii) Executives

S I Mackie	Chief Executive Officer (Appointed 27 June 2011)
R M Hamilton	Company Secretary (Appointed 31 March 2011)
K Jackson	Exploration Manager (Resigned 10 September 2010)

There have been no other changes to KMP's after 30 June 2011 and before the date the financial report was authorised for issue.

The Board of Directors ("the Board") is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The Board assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from retention of a high quality, high performing director and executive team.

Remuneration Philosophy

The performance of the Company largely depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value.

Remuneration Structure

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

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 3 October 2011, when shareholders approved an aggregate remuneration of \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. The Board considers advice from external consultants if required, as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a base fee of \$43,600 for being a director of the Company. An additional fee of \$21,800 is paid to the Chair of the Board. No fee is paid for serving on Board committees or on boards of wholly owned subsidiaries.

Non-executive directors have been encouraged by the Board to hold shares in the Company.

The remuneration of non-executive directors for the period ending 30 June 2011 and 30 June 2010 is detailed in Table 1 and 2 respectively of this Remuneration Report.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2011) (continued)

Executive Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for individual performance;
- Align the interests of executives with those of shareholders; and
- Ensure that total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Board engages external consultants as needed to provide independent advice.

The Company entered into a contract of employment with each of the Managing Director (terminated on 31 March 2011) and the Chief Executive Officer (commenced on 27 June 2011) and standard contracts with other executives and consultants. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary and superannuation)
- Variable remuneration
 - Long term incentive (LTI)

The proportion of fixed remuneration and variable remuneration (potential long term remuneration incentives) for each executive is set out in Table 1.

Fixed remuneration

Objective

Fixed remuneration is reviewed regularly by the Board, with access to external advice if required.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and superannuation. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue costs for the Company.

The fixed remuneration component of executives is detailed in Table 1.

Variable Remuneration – Long Term Incentives (LTI)

Objective

The objective of LTI plans is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth.

Structure

LTI grants to executives are delivered in the form of share options under the Senior Executives and Officers Option Plans. There was no such Plan in place or share options extant at 30 June 2011. Share options may be granted to senior executives with more than 12 months service. The share options may vest over a period . There are no non-market performance conditions other than service criteria. Executives are able to exercise the share options for up to 3 years after vesting before the share options lapse.

As the Company's activities have been predominantly in petroleum exploration, shareholder wealth is dependent, for the foreseeable future, on exploration success rather than an improvement in the Company's earnings.

The Company's share price is seen as a measure of exploration success and, accordingly, variable remuneration and LTI grants that existed during the 30 June 2011 financial year consisted of options over unissued shares in the Company. During the year, the Company's share price had a highest sale price of 8 cents and a lowest sale price of 2 cents. The share price at 30 June 2011 was 3 cents (2010: 3 cents, 2009: 3 cents, 2008: 7 cents, 2007: 9 cents).

Table 3 provides details of the value of options granted, exercised and lapsed during the year. No options were granted during the year. Mr Adams' employment was terminated on 31 March 2011 and he forfeited his LTI awards for 2008.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2011) (continued)

In addition, Dr Jackson resigned on 10 September 2010 and hence forfeited his LTI awards for 2008 due to ceasing employment prior to the conclusion of the vesting period for these awards.

Dr Mackie commenced employment on 30 August 2010 and at 30 June 2011 had not completed twelve months service.

Employment contracts

Chief Executive Officer

Dr S Mackie was appointed Exploration Manager on 30 August 2010, Acting CEO on 1 April 2011 and Chief Executive Officer on 27 June 2011. The CEO is employed under a rolling contract.

Under the terms of the contract:

- Dr Mackie receives fixed remuneration of \$326,000 per annum.
- Dr Mackie may resign from his position and thus terminate this contract by giving 2 months written notice.
- The Company may terminate this employment agreement at any time subject to paying 2 month's salary in lieu of notice (based on the fixed component of Dr Mackie's remuneration).
- In certain specified circumstances relating to a change of control of the Company, if the Company terminates the contract or if Dr Mackie resigns from his position, he is entitled to a termination benefit of 6 months remuneration (based on the fixed component of Dr Mackie's remuneration).
- The Company may terminate the contract at any time without notice if serious misconduct has occurred.

Payments applicable to outgoing executives

The following arrangements applied to outgoing executives in office during the 2011 financial year:

- Mr Adams received a termination payment of \$326,000, equivalent to 12 months fixed remuneration, in accordance with the terms of his employment contract.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2011) (continued)

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2011

	Short-term benefits	Post employment	Share-based payments	Long-term benefits	Termination payments		Performance related
	Salary & fees	Super-annuation	Options	Long service leave		Total	
	\$	\$	\$	\$	\$	\$	%
Non-executive Directors							
J L C McInnes	60,000	5,400	-	-	-	65,400	0.00%
H J Askin	20,000	23,600	-	-	-	43,600	0.00%
J G Tuohy	5,900	37,700	-	-	-	43,600	0.00%
Sub-total non-executive directors	85,900	66,700	-	-	-	152,600	
Executive Director							
A R Adams (a)	230,415	33,087	-	13,949	326,000	603,451	0.00%
Other key management personnel							
K S Jackson (b)	35,589	7,424	254	-	-	43,267	0.59%
S I Mackie (c)	203,609	43,378	-	-	-	246,987	0.00%
R M Hamilton (d)	14,360	-	-	-	-	14,360	0.00%
Sub-total other KMP	253,558	50,802	254	-	-	304,614	
Totals	569,873	150,589	254	13,949	326,000	1,060,665	

- (a) Terminated 31 March 2011
- (b) Resigned 10 September 2010
- (c) Appointed 30 August 2010
- (d) Appointed 31 March 2011

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2011) (continued)

Table 2: Remuneration for the year ended 30 June 2010

	Short-term benefits	Post employment	Share-based payments	Long-term benefits		Performance related
	Salary & fees	Super-annuation	Options	Long service leave	Total	
	\$	\$	\$	\$	\$	%
Non-executive Directors						
J L C McInnes	60,000	5,400	-	-	65,400	0.00%
E G Albers (a)	6,667	600	-	-	7,267	0.00%
H J Askin	20,000	23,600	-	-	43,600	0.00%
J G Tuohy (b)	3,400	32,933	-	-	36,333	0.00%
Sub-total non-executive directors	90,067	62,533	-	-	152,600	
Executive Director						
A R Adams	283,083	50,000	6,690	19,228	359,001	1.86%
Other key management personnel						
K S Jackson	202,094	49,933	1,310	-	253,337	0.52%
Sub-total KMP	485,177	99,933	8,000	19,228	612,338	
Totals	575,244	162,466	8,000	19,228	764,938	

(a) Resigned 31 August 2009

(b) Appointed 31 August 2009

Equity Instruments

Table 3: Value of options awarded, exercised or lapsed during the year

	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed, cancelled during the year	Remuneration consisting of options for the year
	\$	\$	\$	
A R Adams	-	-	40,400	0.00%
K S Jackson	-	-	4,668	0.59%

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

No shares were issued as a result of options exercised during the year.



DIRECTORS' REPORT (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT

The Company has adopted an Environment Policy and a Safety Policy and conducts its operations in accordance with the APPEA Code of Environmental Practice 2008.

The Company's petroleum exploration and development activities are subject to environmental conditions specified in the Offshore Petroleum and Greenhouse Gas Storage Act 2006, 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

The ASX Corporate Governance Council has issued "Corporate Governance Principles and Recommendations" (the CGC Paper) requiring ASX listed companies to report their corporate governance practices against those principles and recommendations.

The Board has elected that the Company adopt those principles and recommendations set out in the CGC Paper that are appropriate to a company of the size and stage of development of BAS.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors have received the declaration from the auditor of Bass Strait Oil Company Ltd attached at page 10.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. We note that no non-audit services were provided in the current financial year.

Signed in accordance with a resolution of the Directors

A handwritten signature in black ink, appearing to read "John Liskman".

Chairman
Melbourne, 16 September 2011



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Auditor's Independence Declaration to the Directors of Bass Strait Oil Company Ltd

In relation to our audit of the financial report of Bass Strait Oil Company Ltd for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Matthew A. Honey'.

Matthew A. Honey
Partner
16 September 2011



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 consolidated entity, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their 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.
- (c) the financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

On behalf of the Board

A handwritten signature in black ink, appearing to read "John Liskman". The signature is written in a cursive style with a horizontal line underneath the name.

Chairman
Melbourne, 16 September 2011



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 \$	Consolidated 2010 \$
Management services arising as operator of petroleum exploration joint ventures		288,770	443,653
Interest		167,983	126,536
Other revenue		13	-
Revenue		<u>456,766</u>	<u>570,189</u>
Administrative expenses	4	(536,181)	(499,629)
Depreciation and amortisation	5	(40,850)	(33,816)
Employee benefits expense	6	(779,775)	(539,000)
Loss before income tax		<u>(900,040)</u>	<u>(502,256)</u>
Income tax expense	8	(32,038)	(32,038)
Net loss for the period		<u>(932,078)</u>	<u>(534,294)</u>
Total comprehensive income/(loss) for the period		<u>(932,078)</u>	<u>(534,294)</u>
Basic (loss) earnings per share	22	(\$0.003)	(\$0.002)
Diluted (loss) earnings per share	22	(\$0.003)	(\$0.002)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**

	Note	2011 \$	Consolidated 2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	2,254,605	3,696,781
Trade and other receivables	10	26,624	44,143
Other current assets	11	45,176	54,367
Total current assets		<u>2,326,405</u>	<u>3,795,291</u>
Non-current assets			
Plant and equipment	12	42,491	66,085
Intangible assets	13	135,450	159,106
Exploration and evaluation expenditure	14	9,082,266	8,653,146
Total non-current assets		<u>9,260,207</u>	<u>8,878,337</u>
TOTAL ASSETS		<u>11,586,612</u>	<u>12,673,628</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	152,846	162,656
Provisions	17	2,245	179,665
Total current liabilities		<u>155,091</u>	<u>342,321</u>
NET ASSETS		<u>11,431,521</u>	<u>12,331,307</u>
EQUITY			
Contributed equity	19	26,945,138	26,913,100
Accumulated losses	20	(15,513,617)	(14,626,607)
Share-based payments reserve	21	-	44,814
TOTAL EQUITY		<u>11,431,521</u>	<u>12,331,307</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	Consolidated			Total \$
		Contributed equity \$	Accumulated losses \$	Share- based payments \$	
At 1 July 2010		26,913,100	(14,626,607)	44,814	12,331,307
Net loss for the period		-	(932,078)	-	(932,078)
Total comprehensive income for the period		-	(932,078)	-	(932,078)
Transactions with owners in their capacity as owners:					
Share-based payments	21	-	-	254	254
Income tax on items recognised directly in equity	8	32,038	-	-	32,038
Transfer to accumulated losses for lapsed options	20/21	-	45,068	(45,068)	-
At 30 June 2011		26,945,138	(15,513,617)	-	11,431,521
At 1 July 2009		23,159,750	(14,155,727)	100,228	9,104,251
Net loss for the period		-	(534,294)	-	(534,294)
Total comprehensive income for the period		-	534,294)	-	(534,294)
Transactions with owners in their capacity as owners:					
Shares issued	19	4,067,379	-	-	4,067,379
Transaction costs on share issues	19	(346,067)	-	-	(346,067)
Share-based payments	21	-	-	8,000	8,000
Income tax on items recognised directly in equity	8	32,038	-	-	32,038
Transfer to accumulated losses for lapsed options	20/21	-	63,414	(63,414)	-
At 30 June 2010		26,913,100	(14,626,607)	44,814	12,331,307

The above statement of changes in equity should be read in conjunction with the accompanying notes.



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 \$	Consolidated 2010 \$
Cash flows from operating activities			
Receipts from customers		280,958	430,314
Payments to suppliers and employees inclusive of GST		(1,474,613)	(1,043,845)
Interest received		174,199	115,573
Net cash flows used in operating activities		<u>(1,019,456)</u>	<u>(497,958)</u>
Cash flows from investing activities			
Petroleum exploration expenditure		(422,720)	(228,489)
Net cash flows used in investing activities		<u>(422,720)</u>	<u>(228,489)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	4,067,379
Transaction costs on issue of shares		-	(346,067)
Net cash flows from financing activities		<u>-</u>	<u>3,721,312</u>
Net increase/(decrease) in cash and cash equivalents		(1,442,176)	2,994,865
Cash and cash equivalents at the beginning of the period		3,696,781	701,916
Cash and cash equivalents at the end of the period	9	<u>2,254,605</u>	<u>3,696,781</u>

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1. Corporate Information

The financial report of Bass Strait Oil Company Ltd (the Group, being the Company and its controlled entity) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 16 September 2011.

Bass Strait Oil Company Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are oil and gas exploration.

Note 2. Summary of Significant Accounting Policies

Basis of Preparation

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

The financial report is presented in Australian dollars.

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year.

There has been no impact on the financial statements or performance of the Group from adopting the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2010.

- AASB 2009-5 *Amendments to Australian Accounting Standard arising from the Annual Improvements Project* effective 1 July 2010
- AASB 2009-8 *Amendments to Australian Accounting Standard – Group Cash-settled Share-based Payment Transactions [AASB 2]* effective 1 July 2010
- AASB 2009-10 *Amendments to Australian Accounting Standard – Classification of Rights Issues [AASB 132]* effective 1 July 2010
- AASB 2010-3 *Amendments to Australian Accounting Standard arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB128, AASB 131, AASB 132 & AASB 139]* effective 1 July
- *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010

(ii) New Accounting Standards and Interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They have been issued but are not yet effective and are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>► These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>► <u>This Standard shall be applied when AASB 9 is applied.</u></p>	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <p>(a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;</p> <p>(b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and</p> <p>(c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</p> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2011

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	<p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 redefines and clarifies the notion of control that is the basis for determining which entities should be incorporated on a line-by-line basis into the consolidated financial statements of a group.	1 January 2013	This new standard may change the entities that are consolidated into the Group's financial statements.	1 July 2013

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 11	Joint Arrangements	<p>AASB 11 responds to concerns that the superseded Standard required the legal form of an arrangement to determine the accounting for that arrangement, and allowed an accounting option, which undermined comparability between entities.</p> <p>This new standard better reflects the underlying economic by requiring the financial statements of a party to a joint arrangement to reflect its rights and obligations arising from that arrangement.</p>	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	<p>AASB 12 focuses on disclosures that would help users better assess the nature and financial effects of an entity's involvement with other entities, and particularly enhances disclosures about consolidated entities and unconsolidated (off balance sheet) structured entities. For example, new disclosures will help assessments to be made of the risks to which an entity is exposed from involvement with structured entities.</p>	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

Other amendments issued but not yet effective from the Annual Improvements Projects to the following Standards will have no impact on the accounting policies, financial position or performance of the Group:

AASB 2009-12 Amendments to Australian Accounting Standards [AASB 5,8,108,110,112,119,133,137,139, 1023 & 1031 and interpretations 2,4,16,1039 & 1052]
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters
AASB 1053 Application of Tiers of Australian Accounting Standards
AASB 1054 Australian Additional Disclosures
AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements
AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosure on Transfers of Financial assets [AASB 1 & AASB 7]
AASB 2010-9 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]
AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]
AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]
AASB 127 Separate Financial Statements
AASB 128 Investments in Associates and Joint Ventures
AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards
AASB 13 Fair Value Measurement
AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
AASB 119 Employee Benefits
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

(c) Going Concern

The financial report has been prepared on a going concern basis, which assumes that the Company and the Group will be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. This includes the Group's exploration expenditure commitments, being the minimum work requirements under exploration permits for petroleum as set out in Note 25.

At 30 June 2011, the Group had cash reserves of \$2,254,605 and exploration permit work commitments with associated indicative costings as set out in Note 25. In order to meet these exploration commitments, and continue to pay its debts as and when they fall due and payable, the Group will rely on taking appropriate steps, including:

- Meeting its obligations by either farmout or partial sale of the Group's exploration interests;
- Raising capital by one of a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or further issue of shares to the public;
- In some circumstances, subject to negotiation and approval, minimum work requirements may be varied or suspended, and/or permits may be surrendered or cancelled.
- Other avenues that may be available to the Group

On 8 September 2011, the Company announced a fully underwritten 1 for 3 non-renounceable rights issue which is expected to raise \$2.4 million. On this basis, the Directors believe that there are reasonable grounds to expect the Group will continue to be able to meet its exploration commitments and pay its debts as and when they fall due and payable.

The underwriting agreement is subject to normal commercial terms and conditions. The Directors have reasonable grounds to believe that the underwritten rights issue will be completed and the Group will raise the required capital.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(c) Going concern (continued)

However, if the underwritten rights issue is not completed, and the other options set out above are not ultimately available to the Group, then the Group may not be able to continue as a going concern.

No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bass Strait Oil Company Ltd and its subsidiary as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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

Investments in subsidiaries held by Bass Strait Oil Company Ltd are accounted for at cost by the parent entity less any impairment charges.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 2. Summary of Significant Accounting Policies (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Bass Strait Oil Company Ltd and its subsidiary is Australian dollars (\$).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates applicable at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and short term deposits with an original maturity of three months or less that are readily convertible to known cash amounts of cash which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(g) Trade and other receivables

Trade and other receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost less an allowance for impairment.

An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(h) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held to maturity financial assets or available for sale financial assets. The classification depends on the purpose for which the assets were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transactions costs.

Recognition and Derecognition

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all of the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the asset.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(i) Interests in jointly controlled operations

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

Interest in a jointly controlled asset

The Group recognises its share of the asset, classified as Exploration and Evaluation expenditure. In addition the Group recognises its share of liabilities, expenses and income from the use and output of the jointly controlled asset.

(j) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Office furniture and equipment – over 3 to 10 years
Leasehold improvements – up to 3 years

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each financial year end.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

Derecognition

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(k) Leases

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

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(l) Impairment of non-financial assets other than indefinite life intangibles

Non-financial assets other than indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess any indicators for impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(m) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised exploration and evaluation costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(n) Exploration and evaluation expenditure

Exploration and evaluation expenditure is carried forward separately for each area of interest provided that the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in or relating to, the area of interest are continuing.

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the area of interest level whenever facts and circumstances suggest that the carrying value may exceed its recoverable amount.

An impairment exists when the carrying amount of capitalised exploration and evaluation expenditure relating to an area of interest exceeds its recoverable amount. The asset is then written down to its recoverable amount. Any impairment losses are recognised in profit or loss.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which the determination is made.

Farmouts

The Group will account for farm-out arrangements as follows:

- The Group will not record any expenditure by the farminee on the Group's behalf;
- The Group will not recognise a gain or loss on the farm-out arrangement but rather will redesignate any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
- Any cash consideration to be received will be credited against costs previously capitalised in relation to the whole interest with any excess to be accounted for by the Group as gain on disposal.

(o) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(p) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee leave benefits

(i) Salaries, annual leave and sick leave

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

(ii) Long service leave

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

(q) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide these benefits:

- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 23.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Bass Strait Oil Company Ltd (market conditions), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest; and
- (iii) the expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

If an equity award is cancelled, it is treated as if it had vested on the day of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 22).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 2. Summary of Significant Accounting Policies (continued)

(r) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Where either the contract outcome or control of the right to be compensated for the services and the stage of completion can be reliably measured, revenue is recognised by reference to the stage of completion of the contract or contracts in progress at balance date or at the time of completion and billing to the customer.

Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Royalty income

Royalty revenue is recognised on a quarterly basis in accordance with the royalty agreement. The Group has received only minimal royalty amounts to date. Refer to Note 13 for further details.

Interest income

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

(t) Income tax and other taxes

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

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 2. Summary of Significant Accounting Policies (continued)

(t) Income tax and other taxes (continued)

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Other taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the 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 part of operating cash flows.

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

(u) Earnings per share

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

Diluted earnings per share are calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of interest associated with dilutive potential ordinary shares that have been recognised as expenses; and/or
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares and adjusted for any bonus element.

(v) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model, and using the assumptions detailed in Note 23.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 2. Summary of Significant Accounting Policies (continued)

(v) Significant accounting estimates and assumptions (continued)

Exploration and evaluation costs

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2011 exploration activities in each area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are planned and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The completion of the proposed underwritten rights issue is important to the group to provide funding to allow active and significant operations in relation to each area of interest to continue in the future.

In the event that the underwritten rights issue is not completed, or where ongoing committed activities cannot be funded by existing financial resources, the Group will either need to raise additional capital, or meet its obligations either by farm-out or partial sale of the company's exploration interests, or subject to negotiation and approval, vary the minimum work requirements. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

Note 3. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the Company's and the Group's policies approved by the Board, which provide written principles on the use of financial derivatives.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate risks and foreign exchange rates.

Credit risk

Credit risk arises from financial assets of the Group, which comprise cash and cash equivalents, and trade & other receivables.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk without taking account of any collateral or other security obtained.

It is the Group's policy that all parties who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are assessed for each individual party and are regularly monitored.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3. Financial Risk Management Objectives and Policies (continued)

In addition, receivable balances are monitored on an ongoing basis with the result being that the Group's exposure to bad debts is not significant. Currently there are no receivables that are impaired or past due but not impaired.

Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking facilities through monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The only financial liabilities are trade and other payables. At 30 June 2011, the Group had \$152,846 (2010: \$162,656) in trade and other payables. Trade payables are non-interest bearing and have a contractual maturity of less than 30 days.

Market risk

Market risk is that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group.

The majority of the Group's cash flow is denominated in AUD and, as a result, the Group's exposure to foreign currency risk is minimal.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is \$nil (2010: nil).

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash (refer to Note 9).

	2011 \$	Consolidated 2010 \$
Assets		
Cash and cash equivalents	2,254,605	3,696,781
	<u>2,254,605</u>	<u>3,696,781</u>

The following table demonstrates the estimated sensitivity to a 1% increase and decrease in the interest rate, where all other variables are held constant. Reasonably possible movements in interest rates were determined based on a review of historical movements. The sensitivity is based on the interest rate exposures in existence as at balance date.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 3. Financial Risk Management Objectives and Policies (continued)

	2011 \$	Consolidated 2010 \$
Judgements of reasonably possible movements		
Impact on post tax profit		
+1% (100 basis points)	22,546	36,968
-1% (100 basis points)	(22,546)	(36,968)

There is no impact on equity other than the impact of the above post tax profit sensitivities would have on accumulated (losses)/profits.

Fair value of financial instruments

The Directors consider that the carrying amount of the financial assets and liabilities recorded in the financial statements approximate their fair values unless otherwise stated.

The fair values are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Capital management

Capital is defined as equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders.

The Group will seek to raise further capital, if required, as and when necessary to meet its projected operations. The decision of how the Group will raise future capital will depend on market conditions existing at that time. It is the Group's plan that this capital will be raised by any one or a combination of the following: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the company's intention to meet its obligations by either partial sale of the company's interests or farmout, the latter course of action being part of the company's overall strategy.

The Group is not subject to any externally imposed capital requirements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 4. Administrative expenses

	Note	2011 \$	Consolidated 2010 \$
Audit fees	7	67,700	62,000
Consultants fees other		76,725	40,365
Directors' remuneration		152,600	152,600
Exchange losses		-	515
Insurance		22,312	21,778
Legal expenses		17,791	8,479
Operating lease costs		69,974	67,739
Other expenses		64,277	64,179
Shareholder costs		57,499	75,752
Travel		7,303	6,222
		<u>536,181</u>	<u>499,629</u>

Note 5. Depreciation and amortisation

	Note	2011 \$	Consolidated 2010 \$
Depreciation	12	17,194	16,922
Amortisation of intangibles	13	23,656	16,894
		<u>40,850</u>	<u>33,816</u>

Note 6. Employee benefits expense

	Note	2011 \$	Consolidated 2010 \$
Wages and salaries		302,388	386,351
Superannuation		73,311	71,769
Workers compensation		3,628	2,370
Payroll tax		29,638	19,520
Provision for annual leave		34,511	39,711
Provision for long service leave		10,045	11,279
Share-based payments expense	21	254	8,000
Termination payments		326,000	-
		<u>779,775</u>	<u>539,000</u>

These Employee benefits are in the statement of comprehensive income. Additionally employee benefits of \$169,895 (2010: \$342,630) have been included in deferred exploration costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 7. Auditors Remuneration

The auditor of Bass Strait Oil Company Ltd. is Ernst & Young.

	Note	2011 \$	Consolidated 2010 \$
Amounts received or due and receivable by Ernst & Young for:			
An audit or review of the financial report of the entity and any other entity in the consolidated group	4	67,700	62,000
Tax compliance services for the group		-	13,000
		<u>67,700</u>	<u>75,000</u>

Note 8. Income Tax

The major components of income tax expense are:

	2011 \$	Consolidated 2010 \$
Statement of Comprehensive Income		
Current income tax expense/(benefit)	(134,122)	(37,032)
Deferred income tax expense/(benefit)	166,160	69,070
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>32,038</u>	<u>32,038</u>
Statement of Changes in Equity		
Share issue costs	<u>(32,038)</u>	<u>(32,038)</u>
Income tax benefit reported directly in Equity	<u>(32,038)</u>	<u>(32,038)</u>

Tax reconciliation

A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax	(900,040)	(502,256)
At the Group's statutory income tax rate of 30% (2010: 30%)	(270,012)	(150,677)
Non-deductible expenditure	-	-
Share-based payment expense	76	2,400
Other	(4,185)	(5,768)
Tax losses not brought to account	306,159	186,083
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>32,038</u>	<u>32,038</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 8. Income Tax (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2011 \$	2010 \$	2011 \$	2010 \$
Deferred Income Tax				
Deferred income tax at 30 June relates to the following:				
Consolidated				
<i>Deferred tax liabilities</i>				
Exploration and evaluation costs	(2,724,681)	(2,595,943)	128,738	67,760
Intangible assets	(40,635)	(49,290)	(8,655)	(3,510)
Accrued revenue	(5,531)	(8,120)	(2,589)	4,152
Prepayments	(8,022)	(8,191)	(169)	(2,556)
Accrued interest	(1,533)	(3,398)	(1,865)	3,289
Other	1,452	486	(966)	(1,643)
Gross deferred income tax liabilities	<u>(2,778,950)</u>	<u>(2,664,456)</u>		
<i>Deferred tax assets</i>				
Accruals	13,830	12,270	(1,560)	3,900
Provisions	674	53,900	53,226	(2,361)
Share issue costs	73,566	105,604	-	-
Other	-	-	-	39
Tax losses recognised to offset net deferred tax liability	2,690,880	2,492,682	(134,122)	(37,032)
Gross deferred income tax assets	<u>2,778,950</u>	<u>2,664,456</u>		
Net deferred tax asset/(liability)	<u>-</u>	<u>-</u>		
Deferred income tax (benefit)/expense			<u>32,038</u>	<u>32,038</u>

Tax losses

The Group has unrecognised gross income tax losses arising in Australia of \$23,963,818 (2010: \$22,943,288) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose other than to offset recognised deferred tax liabilities. The unused tax losses will not be recognised as deferred income tax assets until it is probable that taxable profits will be available to utilise those losses subject to continuing to meet statutory tests. In addition, the Group has unrecognised gross capital tax losses for which no deferred tax asset is recognised in the statement of financial position of \$774,000 (2010: \$774,000) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet statutory tests.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 9. Cash and Cash Equivalents

	2011 \$	Consolidated 2010 \$
Cash at bank and in hand	222,871	229,148
Short term deposits	2,031,734	3,467,781
	<u>2,254,605</u>	<u>3,696,781</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is \$2,254,605 (2010: \$3,696,781).

The Group has no undrawn borrowing facilities (2010: Nil).

Note 10. Trade and Other Receivables

	2011 \$	Consolidated 2010 \$
Other receivables	22,257	11,327
Goods and services tax and withholding tax refunds	4,367	32,816
	<u>26,624</u>	<u>44,143</u>

At balance date, there are no receivables that are past due but not impaired. Due to the short-term nature of these receivables, their carrying value approximates fair value. Trade receivables are non-interest bearing and are generally on 30 day terms. Details regarding the credit risk of receivables are disclosed in Note 3.

Note 11. Other Current Assets

	2011 \$	Consolidated 2010 \$
Prepayment	26,739	27,302
Accrued revenue	18,437	27,065
	<u>45,176</u>	<u>54,367</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 12. Plant and Equipment

	Note	2011 \$	Consolidated 2010 \$
Computer hardware and software			
Opening balance, net of accumulated depreciation and impairment		244	1,336
Depreciation charge for the year		(177)	(630)
Depreciation charge for the year – deferred exploration costs		(67)	(462)
Closing balance, net of accumulated depreciation and impairment		-	244
Cost		173,227	173,227
Accumulated depreciation and impairment		(173,227)	(172,983)
Net carrying amount		-	244
Office equipment, furniture and fittings			
Opening balance, net of accumulated depreciation and impairment		33,849	47,513
Depreciation charge for the year		(7,014)	(7,984)
Depreciation charge for the year – deferred exploration costs		(2,641)	(5,680)
Closing balance, net of accumulated depreciation and impairment		24,194	33,849
Cost		121,098	121,098
Accumulated depreciation and impairment		(96,904)	(87,249)
Net carrying amount		24,194	33,849
Leasehold improvements			
Opening balance, net of accumulated depreciation and impairment		31,992	45,687
Depreciation charge for the year		(10,003)	(8,308)
Depreciation charge for the year – deferred exploration costs		(3,692)	(5,387)
Closing balance, net of accumulated depreciation and impairment		18,297	31,992
Cost		68,475	68,475
Accumulated depreciation and impairment		(50,178)	(36,483)
Net carrying amount		18,297	31,992

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 12. Plant and Equipment (continued)

	Note	2011 \$	Consolidated 2010 \$
Total			
Opening balance, net of accumulated depreciation and impairment		66,085	94,536
Depreciation charge for the year	5	(17,194)	(16,922)
Depreciation charge for the year – deferred exploration costs		(6,400)	(11,592)
Closing balance, net of accumulated depreciation and impairment		42,491	66,085
Cost		362,800	362,800
Accumulated depreciation and impairment		(320,309)	(296,715)
Net carrying amount		42,491	66,085

Note 13. Intangible Assets

	Note	Yolla Royalty \$	Consolidated Total \$
Year ended 30 June 2011			
At 1 July 2010 net of accumulated amortisation and impairment		159,106	159,106
Amortisation	5	(23,656)	(23,656)
At 30 June 2011 net of accumulated amortisation and impairment		135,450	135,450
At 30 June 2011			
Cost (gross carrying amount)		475,923	475,923
Accumulated amortisation and impairment		(340,473)	(340,473)
Net carrying amount		135,450	135,450
Year ended 30 June 2010			
At 1 July 2009 net of accumulated amortisation and impairment		176,000	176,000
Amortisation	5	(16,894)	(16,894)
At 30 June 2010 net of accumulated amortisation and impairment		159,106	159,106
At 30 June 2010			
Cost (gross carrying amount)		475,923	475,923
Accumulated amortisation and impairment		(316,817)	(316,817)
Net carrying amount		159,106	159,106



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 13. Intangible Assets (continued)

The Yolla Royalty is a 0.0648% overriding royalty from the total net production of the Production Licence T/L1, being the area of the Yolla Field, and the adjacent T/RL1 in the Bass Basin. The royalty was acquired in 2003 through the issue of shares and has a finite life depending upon economic gas and oil condensate reserves in the field. The amortisation of the royalty is based on the units of production method. The current owners commenced commercial production in early July 2006. The Group has received only minimal royalty amounts to date, and the methodology used by the owners in calculating payment sums is in dispute.

Judgement is required in determining the extent of future economic benefits to be derived from the Yolla Royalty. Under AASB 136 *Impairment of Assets*, the receipt of lower than expected royalty amounts received to date are an indicator of impairment. Application of the requirements of this standard in the year ended 30 June 2009 resulted in a reduction to the carrying value to \$176,000, based on the expected future economic benefits receivable as a result of royalties being paid in accordance with the methodology adopted by the owners.

The Directors are confident that the carrying value of the royalty at 30 June 2011 is supported by the minimum expected future economic benefits to be derived from the Yolla Royalty. The Directors continue to seek legal advice on the position adopted by the Group, and are actively taking steps to resolve the dispute through agreement with the owners regarding the calculation methodology to be adopted. Alternatively, the directors may pursue legal action to resolve the dispute. If the dispute is resolved in the favour of the Group, the impairment recognised in the year ended 30 June 2009 may be reversed.

Note 14. Exploration and Evaluation Costs

	2011 \$	Consolidated 2010 \$
Petroleum tenements in the exploration phase		
Cost (gross carrying amount)	23,136,353	22,707,233
Impairment	(14,054,087)	(14,054,087)
Net carrying amount	<u>9,082,266</u>	<u>8,653,146</u>
Petroleum tenements in the exploration phase		
Balance at the beginning of year	8,653,146	8,427,280
Cost capitalised for the year	429,120	225,866
Balance at the end of year	<u>9,082,266</u>	<u>8,653,146</u>

Ultimate recovery of exploration and evaluation costs is dependent upon the company maintaining appropriate funding through success in exploration, by capital raising or sale or farm out of its petroleum exploration tenement interests to support continued exploration activities. The tenements are reviewed for impairment at each year end and costs (if any) relating to abandoned wells are written off. Commitments and tenure of each permit are included at Note 25.

Note 15. Investments in Controlled Entities

BSOC Business Services Pty Ltd, is a non-operating subsidiary, which is 100% owned and incorporated in Australia.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 16. Trade and Other Payables

	2011 \$	Consolidated 2010 \$
Trade payables	63,055	4,972
Other payables	89,791	157,684
	152,846	162,656

Note 17. Provisions

	2011 \$	Consolidated 2010 \$
Provision for annual leave	2,245	30,088
Provision for long service leave	-	149,577
	2,245	179,665

Note 18. Interest in Joint Venture Operations and Assets

The Company has an interest in the assets, liabilities and output of joint venture operations and assets 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 25. Details of the Company's interests in the joint ventures are:

	Interest 30/6/2010	Interest Acquired	Interest Disposed	Interest 30/6/11
Vic/P41	45%	-	-	45%
Vic/P47	40%	-	-	40%
Vic/P66	60%	-	-	60%
PEP 167	50%	-	-	50%



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 19. Contributed Equity

	2011 Shares	2010 Shares	2011 \$	Consolidated 2010 \$
Issued and paid up capital				
Ordinary shares fully paid	291,030,250	291,030,250	26,945,138	26,913,100
Movements in ordinary shares on issue				
Ordinary shares on issue at beginning of period	291,030,250	155,450,953	26,913,100	23,159,750
Ordinary shares issued during period	-	135,579,297	-	4,067,379
Transaction costs	-	-	-	(346,067)
Deferred Tax asset on share issue costs	-	-	32,038	32,038
	<u>291,030,250</u>	<u>291,030,250</u>	<u>26,945,138</u>	<u>26,913,100</u>

(i) Terms and Conditions of Contributed Equity

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) Other Remuneration Options

On 3 June 2008, 1,500,000 options, expiring on 3 June 2011, with progressive vesting, and exercisable at a price of 15 cents in three equal tranches of 500,000 at 3 June, 2008, 2009 and 2010, were granted to the Managing Director. These options were cancelled on his termination on 31 March 2011.

On 21 October 2008, 600,000 options, expiring on 21 October 2011, with progressive vesting, and exercisable at a price of 15 cents in three equal tranches of 200,000 at 21 October, 2008, 2009 and 2010, were granted to the Exploration Manager. These options were cancelled on his resignation on 10 September 2010.

Note 20. Accumulated (Losses)/Profits

	2011 \$	Consolidated 2010 \$
Balance at beginning of period	(14,626,607)	(14,155,727)
Net (loss)	(932,078)	(534,294)
Share options lapsed and forfeited	45,068	63,414
Balance at end of period	<u>(15,513,617)</u>	<u>(14,626,607)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 21. Reserves

	2011	Consolidated 2010
	\$	\$
Balance at beginning of period	44,814	100,228
Share-based payments	254	8,000
Share options lapsed and forfeited	(45,068)	(63,414)
Balance at end of period	-	44,814

The share-based payments reserve is used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to Note 23 for further details of these plans.

Note 22 Earnings per Share

The following reflects the income used in the basic and diluted earnings per share computations.

	2011	Consolidated 2010
	\$	\$
Net loss attributable to ordinary equity shareholders of the parent	(932,078)	(534,294)
Weighted average number of ordinary shares:		
	2011 Number	2010 Number
Issued ordinary shares at 1 July	291,030,250	51,958,949
Effect of shares issued October 2009	-	193,754,386
Weighted average number of ordinary shares at 30 June	291,030,250	245,713,335

Share options have not been included in the diluted earnings per share calculation as they are antidilutive for the periods presented.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 23. Share-based Payments

Share options are granted to key management personnel and other personnel that have terms and conditions that are subject to contractual arrangements. The contractual life of each option granted is up to five years. There are no cash settlement alternatives.

The exercise price of the options is set by the Directors on the date of grant. At 30 June 2011 and at the date of this report there were no options outstanding.

The expense recognised in profit or loss in relation to share-based payments is disclosed in note 6.

The following table illustrates the number and weighted average exercise prices (WAEP) of movements in share options:

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at the beginning of year	2,100,000	0.150	4,100,000	0.162
Options lapsed	-	-	(2,000,000)	(0.175)
Options forfeited	(2,100,000)	(0.150)	-	-
Outstanding at the end of the year	-	-	2,100,000	0.150
Exercisable at the end of the year	-	-	1,900,000	0.150

Shares allotted on exercise of options rank pari passu in all respects with other fully paid ordinary shares. Each option entitles the holder to participate in new issues in which shares or other securities are offered to shareholders of the Company upon the prior exercise of the options. The options do not confer the right to dividends or to vote at meetings of members.

Note 24. Key Management Personnel Disclosures

(a) Compensation for key management personnel

	2011 \$	Consolidated 2010 \$
Short term employee benefits	569,873	575,244
Post-employment benefits	150,589	162,466
Share-based payments	254	8,000
Long term employee benefits	13,949	19,228
Termination payments	326,000	-
	<u>1,060,665</u>	<u>764,938</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 24. Key Management Personnel Disclosures (continued)

(b) Option holdings of key management personnel

	1 July 2010					30 June 2011
	Balance at beginning of period	Granted as remuneration	Options exercised	Options lapsed or forfeited	Balance at end of period	Vested and exercisable
2011						
<i>Directors</i>						
A R Adams	1,500,000	-	-	(1,500,000)	-	-
<i>Executives</i>						
K S Jackson	600,000	-	-	(600,000)	-	-
	<u>2,100,000</u>	<u>-</u>	<u>-</u>	<u>(2,100,000)</u>	<u>-</u>	<u>-</u>

	1 July 2009					30 June 2010
	Balance at beginning of period	Granted as remuneration	Options exercised	Options lapsed or forfeited	Balance at end of period	Vested and exercisable
2010						
<i>Directors</i>						
A R Adams	3,500,000	-	-	(2,000,000)	1,500,000	1,500,000
<i>Executives</i>						
K S Jackson	600,000	-	-	-	600,000	600,000
	<u>4,100,000</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>2,100,000</u>	<u>2,100,000</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 24. Key Management Personnel Disclosures (continued)

(c) Shareholdings of key management personnel

Shares held in Bass Strait Oil Company Ltd (number)

	1 July 2010 Balance at beginning of period	Granted as remuneration	On exercise of options	Net change other	30 June 2011 Balance at end of period
2011					
<i>Directors</i>					
J L C McInnes	366,667	-	-	383,333	750,000
A R Adams (a)	1,500,000	-	-	-	1,500,000
H J Askin	1,840,000	-	-	-	1,840,000
<i>Executives</i>					
K S Jackson (b)	80,000	-	-	-	80,000
	<u>3,786,667</u>	<u>-</u>	<u>-</u>	<u>383,333</u>	<u>4,170,000</u>

	1 July 2009 Balance at beginning of period	Granted as remuneration	On exercise of options	Net change other	30 June 2010 Balance at end of period
2010					
<i>Directors</i>					
J L C McInnes	100,000	-	-	266,667	366,667
A R Adams	900,000	-	-	600,000	1,500,000
E G Albers (c)	45,241,677	-	-	-	45,241,677
H J Askin	1,506,000	-	-	334,000	1,840,000
<i>Executives</i>					
K S Jackson	48,000	-	-	32,000	80,000
	<u>47,795,677</u>	<u>-</u>	<u>-</u>	<u>1,232,667</u>	<u>49,028,344</u>

- (a) Terminated 31 March 2011
(b) Resigned 10 September 2010
(c) Resigned 31 August 2009

(d) Other transactions and balances with key management personnel and their related parties

During the year the Group received fees as the operator of Vic/P47 of \$44,178 (2010: \$49,422) and Vic/P41 of \$125,109 (2010: \$72,069) in which Moby Oil & Gas Limited ("Moby") is a co-venturer. A Director, J G Tuohy, is a Director of Moby. The fees were provided under normal commercial terms and conditions. No amounts were outstanding at balance date (2010: nil).



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 25. Commitments

Permit work commitments

Indicative expenditure commitments at balance date (being minimum work requirements under exploration permits for petroleum).

	2011 \$	Consolidated 2010 \$
Within one year	2,725,000	933,000
After one year but not more than five years	900,000	2,362,000
	3,625,000	3,355,000

Indicative expenditure commitments include minimum work obligations for the initial 3 year period of exploration permits (and thereafter annually) and obligations arising from farmin arrangements. The Group is dependent on certain factors to be able to meet these minimum work requirements. These are set out in Note 2(c).

Vic/P41

The Year 5 commitment of geological and geophysical studies is being completed (\$150,000). The Vic P/41 joint venture has met all permit commitments to date.

Vic/P42

The Year 2 commitment of geological and geophysical studies is being completed (\$100,000). The committed work program consists of 3D seismic reprocessing in Year 3 (\$500,000).

Vic/P47

The Year 1 commitment of geological and geophysical studies is completed. The committed work program consists of 3D seismic reprocessing in Year 2 (\$100,000) and geological and geophysical studies to be completed in Year 3 (\$400,000).

Vic/P66

The Year 3 commitment of a 2D seismic survey is being completed (\$450,000).

T/42P

The Year 6 commitment of geological and geophysical studies is being completed (\$250,000).

T/43P

The Year 6 commitment of geological and geophysical studies is being completed (\$250,000).

PEP 167

The Year 4 commitment of further geological and geophysical studies has been completed. The committed work program consists of a well in Year 5 (\$1,425,000).



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 25. Commitments (continued)

Non-cancellable operating lease commitments

Future operating lease rentals are not provided for in the financial statements and payable:

	2011	Consolidated 2010
	\$	\$
Within one year	78,443	75,425
After one year but not more than five years	19,801	98,244
	98,244	173,669

Note 26. Parent Entity Disclosures

Information relating to Bass Strait Oil Company Ltd

	2011	Consolidated 2010
	\$	\$
Current assets	2,326,404	3,795,290
Total assets	11,586,612	12,673,628
Current liabilities	155,091	342,321
Total liabilities	155,091	342,321
Contributed equity	26,945,138	26,913,100
Accumulated losses	(15,513,617)	(14,676,607)
Share-based payments reserve	-	44,814
Total shareholders' equity	11,431,521	12,331,307
Loss of the parent entity	(932,078)	(534,294)
Total comprehensive income/(loss) of the parent entity	(932,078)	(534,294)

The parent has permit work commitments of \$3,625,000 and non-cancellable operating lease commitments of \$98,244. Refer to Note 25 for further details of the liability.

Note 27. Segment Information

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

The consolidated entity operates in the petroleum exploration industry within Australia.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

Note 28. Reconciliation of Cash flows from Operating Activities

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank, and short term deposits at call.

Reconciliation of profit after income tax to net cash provided/used in operating activities

	2011	Consolidated
	\$	2010
	\$	\$
Net loss before tax	(900,040)	(502,256)
<i>Adjustments for:</i>		
Depreciation	17,194	16,922
Amortisation	23,656	16,894
Share options expensed	254	8,000
	<u>(858,936)</u>	<u>(460,440)</u>
<i>Changes in assets and liabilities</i>		
(increase)/decrease in trade and other receivables and other current assets	26,147	(54,496)
(Increase)/decrease in prepayments	563	8,521
(Decrease)/increase in trade and other payables	(9,810)	591
(Decrease)/increase in provisions	<u>(177,420)</u>	<u>7,866</u>
Net cash from/(used in) operating activities	<u>(1,019,456)</u>	<u>(497,958)</u>

Note 29. Contingent Liabilities

The Consolidated Entity has negotiated a number of bank guarantees in favour of various government authorities and service providers. The total nominal amount of these guarantees at balance date is \$39,510 (2010: \$39,510).

Note 30. Events after Balance Date

On 2 August 2011 the Company announced that it had signed a Joint Study Agreement with CNOOC Australia E&P Pty Ltd, the Australian subsidiary of China National Offshore Oil Corporation Ltd (CNOOC).

On 8 September 2011 the Company announced a fully underwritten Rights Issue. Registered shareholders can participate in the non-renounceable rights issue on the basis of one fully paid ordinary share in the Company for every three shares held, at an issue price of 2.5 cents per share. The Rights Issue will result in the issue of up to approximately 97,010,083 Shares and will raise approximately \$2,425,252 before costs and expenses. Additionally, the underwriter will be granted 10,000,000 unlisted options to acquire shares in the Company at an issue price of 4 cents. These Options will expire within 3 years of the date of issue.



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Independent Auditor's Report to the Members of Bass Strait Oil Company Ltd

Report on the financial report

We have audited the accompanying financial report of Bass Strait Oil Company Ltd, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation

Opinion

In our opinion:

- a. the financial report of Bass Strait Oil Company Ltd is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Bass Strait Oil Company Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Matthew A. Honey'.

Matthew A. Honey
Partner
Melbourne
16 September 2011