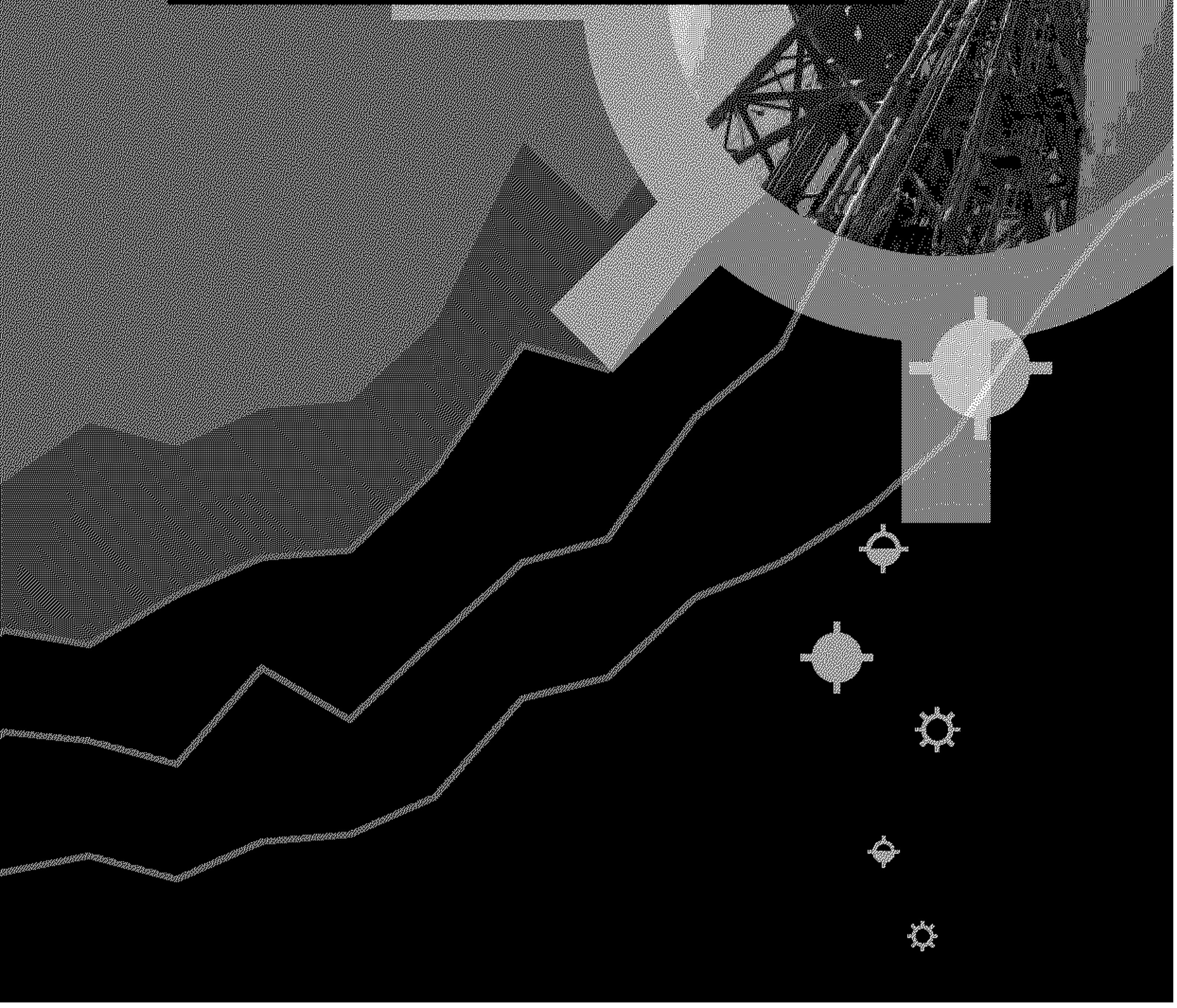
BASS STRAIT
Oil
Oil for Australians

BASS STRAIT OIL COMPANY LTD

ANNUAL REPORT 2005



CORPORATE DIRECTORY

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

Company Secretary
David B Hill
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Melbourne, Victoria 3000

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Stock Exchange Listing
Australian Stock Exchange Ltd
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ASX Code:
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 Company or not currently considered material by the Company.

Chairman's Letter

Dear Shareholder,

The 2004/2005 year has been a watershed for Bass Strait Oil Company.

Since June 2004 we have achieved many of the aims held by our original shareholders. We raised significant new capital and listed the Company on the Australian Stock Exchange. Operationally, we completed an intensive exploration programme which completed our farmin obligations and secured our acreage position in the offshore Gippsland Basin.

We drilled both the Moby-1 and ZaneGrey-1 wells. Whilst hydrocarbons were recovered from each of these wells, neither discovery has yet proven to be of commercial scale. The information gained from these wells has helped us further refine our 3D seismic data set. From this, we have identified the Maclean prospect close to Moby, and prospects in the vicinity of Zane Grey are also undergoing further assessment by the company.

Bass Strait Oil is in the exploration business for the long term and we have always recognised (as confirmed in our prospectus) that an ongoing programme of opportunities is the key to exploration success. We have therefore retained high equity shares in each of our properties and are maturing drill targets in each of them.

Throughout our history we have concentrated on the gathering and the refinement of the latest 3D seismic data. Through direct acquisition, data swaps and public file data, we now have over 7,000 sq km of 3D seismic data on file which is available to our interpretation system.

The global energy environment was transformed during the year with the dramatic rises of crude oil prices. This was caused by a combination of supply uncertainty in the Middle East and the rise in demand from the developing world and from China and India especially. Whilst price increases have correctly revitalised the call for energy conservation and research into hydrocarbon substitution, it has also provided an incentive for petroleum exploration in Australia.

It is the entrepreneurial Australian owned explorers, like Bass Strait Oil, which are responding to that incentive. We strongly believe that Australia in general, and the Gippsland Basin in particular, remain under-explored when the oil price is taken into account. Our shareholders have shown remarkable foresight in sustaining our scientific exploration of the Gippsland Basin and we thank them for that.

We will also thank the Australian Government, if it finally introduces the flow-through share scheme which would enable our shareholders to deduct the cost of exploration for personal income tax purposes. Large petroleum producing companies in Australia, most of which are majority foreign owned, can deduct exploration expenses (150% in some cases) against profits which would otherwise be taxable. Entrepreneurial, risk-taking, Australian owned companies like Bass Strait Oil, can effectively pay up to twice as much for exploration, compared to their producing competitors on an after tax basis.

Australia's brilliant resources industries were established by small explorers like Bass Strait Oil who persevered, in some cases for decades, to become producers of global significance. The current tax regime ignores that brilliant history at the very time when Australia needs to recreate its Australian owned resource businesses.

Since balance date, we have appointed our General Manager Commercial, Andrew Adams, as Chief Executive Officer of the Company and he has risen to the task with great enthusiasm and professionalism.

We have also formalised our relationship with Ian Reid as our Technical Advisor. Ian's contribution, both personally and through his engagement with industry explorationists, continues to deepen and strengthen our understanding of the Gippsland Basin.

Geoff Albers, who founded the Company, has stepped aside as Managing Director, but remains a Non Executive Director of the Company and continues to contribute his wealth of experience to the board.

The Company is also fortunate to have Bob Flew and Henry Askin as independent Non Executive Directors.

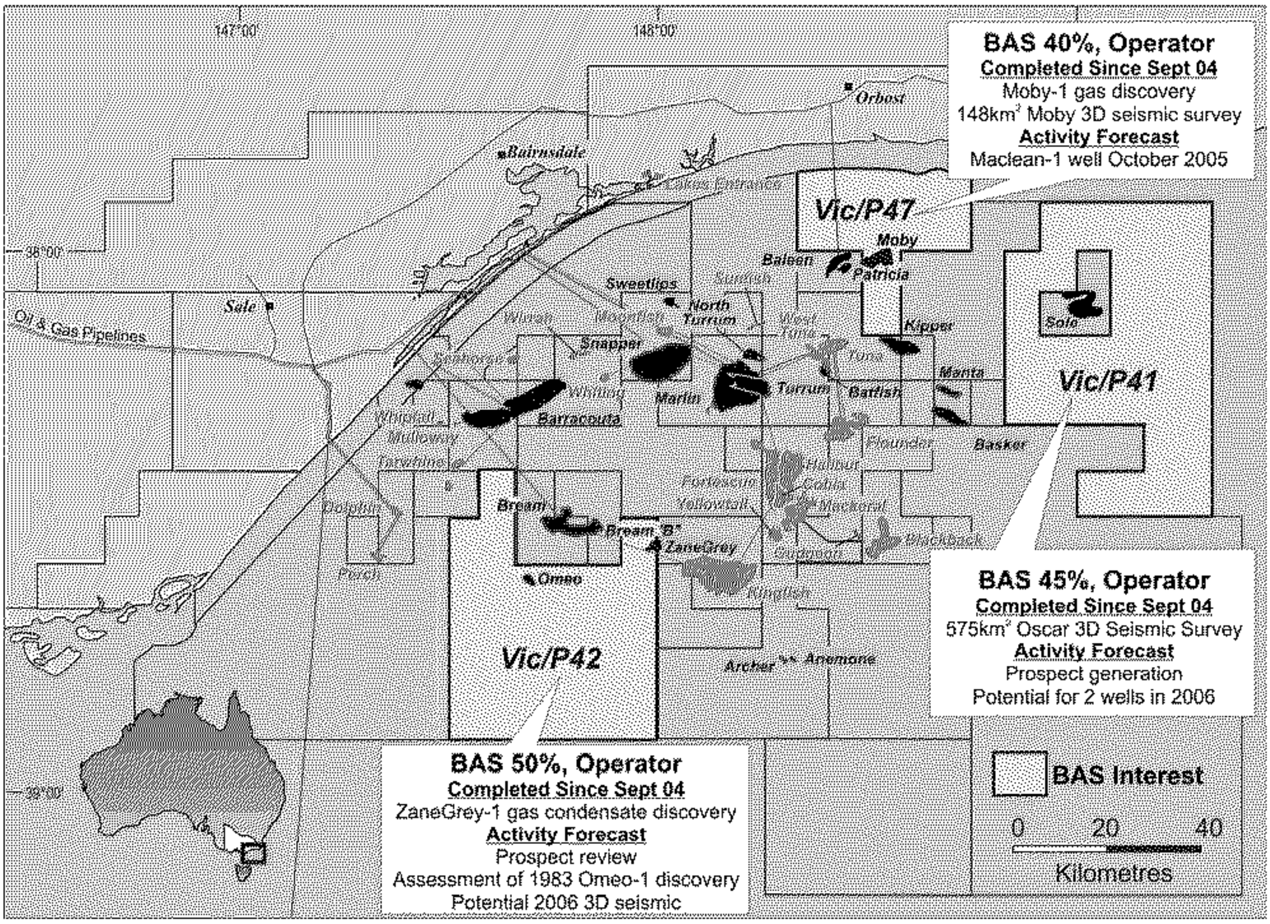
We have worked together as a team now for 5 years and look forward to success for our shareholders in our exciting search for oil for Australians.

Bernard Wheelahan
Chairman
18 October 2005

REVIEW OF OPERATIONS

The Company's operating loss for the year ended 30 June 2005 after income tax was $9,956,186.

BAS is involved in exploration for oil and gas in the offshore waters of south-eastern Australia. The interests and exploration programs in which the Company has interests are not mature and can be regarded as highly speculative.



Gippsland Basin map showing the location of BAS permits

VIC/P47, GIPPSLAND BASIN (BAS 40% and operator)

During October 2004 BAS drilled the Moby-1 well. The drilling of Moby-1 was funded by BAS and Moby Oil & Gas Limited (MOG) and fulfilled farmin commitments whereby BAS and MOG earned 40% and 35% interest in the permit respectively. Moby-1 recovered gas from wireline sampling of the Gurnard Formation reservoir target and the well is interpreted to have intersected 12.5 metres of net gas pay.

In January 2005, BAS recorded the 148 sq km Moby 3D seismic survey which was designed to map the extent of the Moby gas discovery by completing 3D seismic coverage to the south and east of the Moby-1 discovery well. Additionally, integration of the Moby survey with existing data would provide good quality 3D seismic coverage over the entire southern area of the permit to detail further potential drilling targets.

During the June quarter, BAS received the final processed data from the Moby 3D seismic survey. Interpretation of the survey indicated that the Flathead Anticline, which contains the Moby gas field, is split by a number of significant faults. These faults potentially 'compartmentalise' the gas field. The fault block containing the Moby-1 gas discovery is interpreted to be isolated from an adjacent fault block to the east. Interpretation of the eastern fault block is masked by the Flathead gas chimney. This compartmentalisation would likely reduce the recoverable gas from each production well, and increase the cost of any development because of the possible need for a well in each compartment.

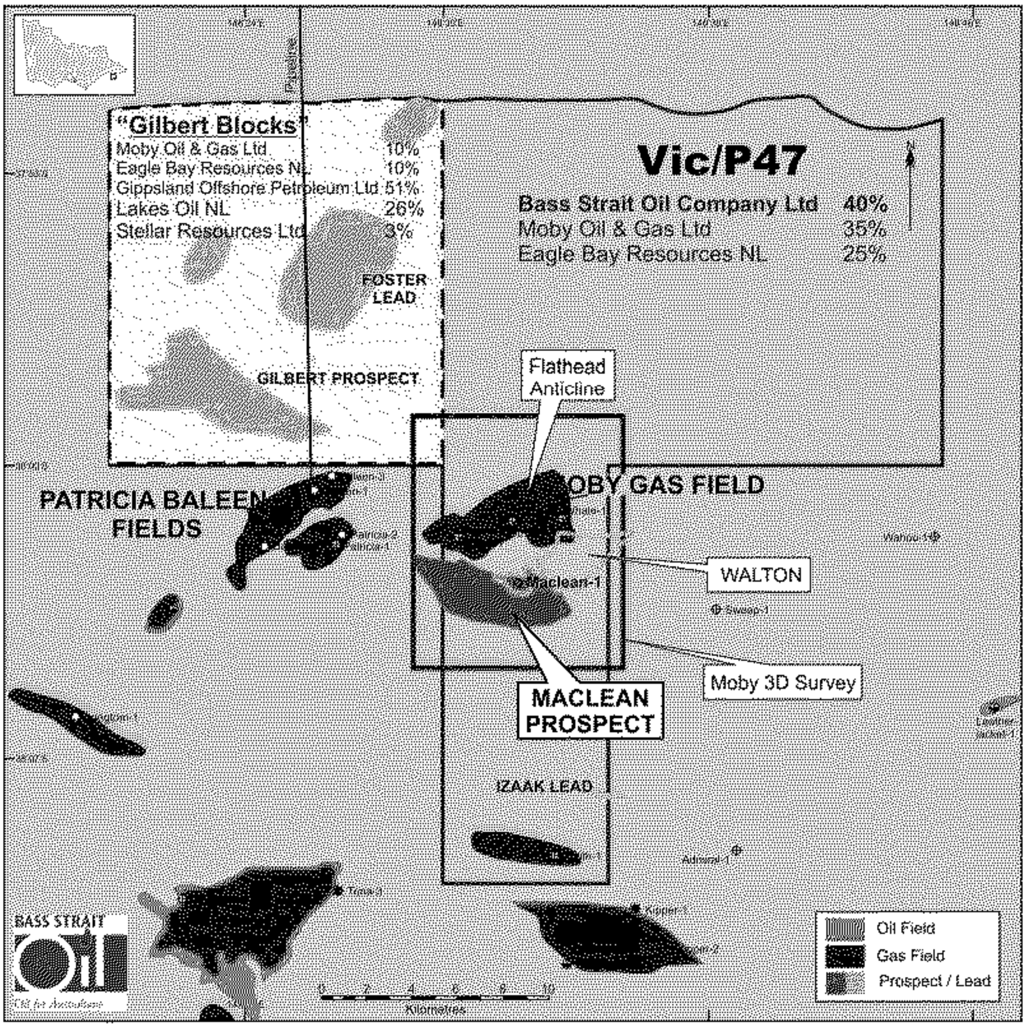
REVIEW OF OPERATIONS (Cont)

Given the potential negative economic impact of compartmentalisation on any development proposal, BAS has redefined the Moby Gas Field as a contingent resource, a lesser category of petroleum resource definition than reserves, until such time as commercial status can be demonstrated. Such work would involve notional development plans together with reservoir modeling to estimate likely deliverable and recoverable volumes, as well as financial modelling to confirm that any potential development was economically viable.

The Vic/P47 Joint Venture has commenced discussions with a potential purchaser of Moby gas.

While the interpreted faulting has reduced BAS's estimate of the Moby gas field resource, this geometry also offers potential for additional petroleum accumulations in undrilled fault blocks, such as the Maclean Prospect.

Moby-1 fulfilled the Year 2 permit commitment and Gilbert-1 will fulfil the Year 3 commitment. Maclean-1 and the Moby 3D seismic survey will credit to future permit work commitments. Vic/P47 enters Year 4 of a six year term on 27 December 2005.



VicP47 permit map showing the location of the Maclean Prospect

REVIEW OF OPERATIONS (Cont)

Maclean Prospect

The Vic/P47 Joint Venture has decided to drill the Maclean Prospect scheduled for October 2005.

BAS has assessed the potential size of the Maclean prospect and estimates that, in the event of an oil discovery at Maclean-1, the P50 or 'most likely' prospective resource of recoverable oil in the Maclean Prospect would be 77 million barrels, with an upside case (P10) of 135 million barrels.

Maclean-1 will be the second well in a two-well, back-to-back drilling programme scheduled for early October with the Ocean Patriot rig. BAS has no participating interest in the first well, Gilbert-1, but will operate both wells and retains its 40% interest in Maclean-1. The Maclean-1 project will be shielded from the current high rig rates due to BAS's 2004 multi-well contract with the Ocean Patriot.

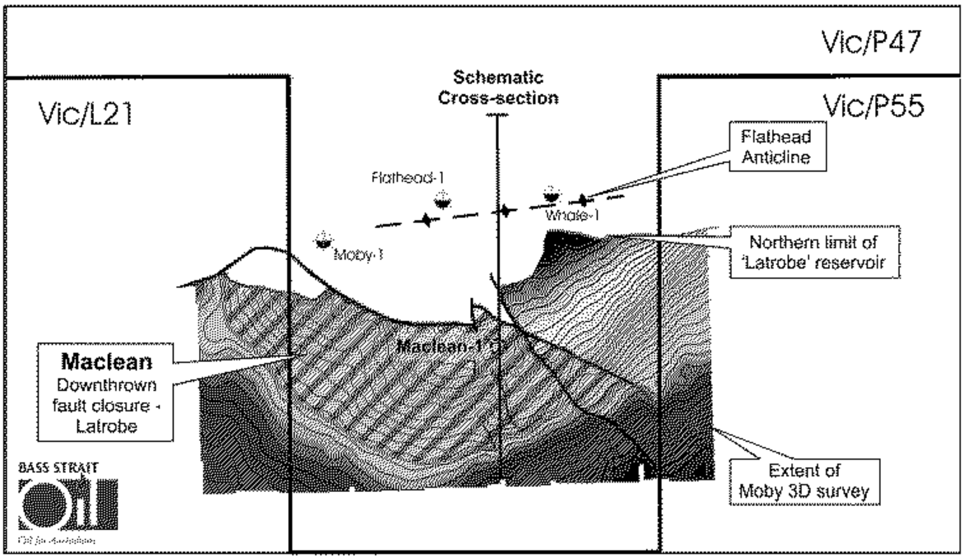
The Maclean prospect is defined on the Vic/P47 3D seismic data recorded in January this year and is a downthrown fault closure located on the southern flank of the Flathead Anticline, downdip of the Moby Gas Field.

The main reservoir target is the Latrobe Group Kingfish Formation sandstone, which is interpreted to thicken significantly southwards and eastwards over the Maclean Prospect. This reservoir is expected to have good porosity and permeability and is the main producing reservoir of the Gippsland Basin oil and gas fields.

The occurrence of significant oil shows and extracts from the existing wells Moby-1, Flathead-1 and Whale-1, indicates that the Flathead Anticline received migrating oil at one time in its geological past. The absence of amplitude anomalies over deeper parts of the Maclean structure would suggest that, if there is any petroleum present, it would be oil rather than gas.

BAS considers that trap sealing is the main risk at Maclean, with a lesser risk associated with potential biodegradation of any oil in the structure.

The Maclean-1 well will be drilled vertically and the operation is programmed for approximately 10 days, with a total depth of approximately 771 metres.



Top Kingfish Formation structure map showing the Maclean-1 location

REVIEW OF OPERATIONS (Cont)

VIC/P41, GIPPSLAND BASIN (BAS 45% and operator)

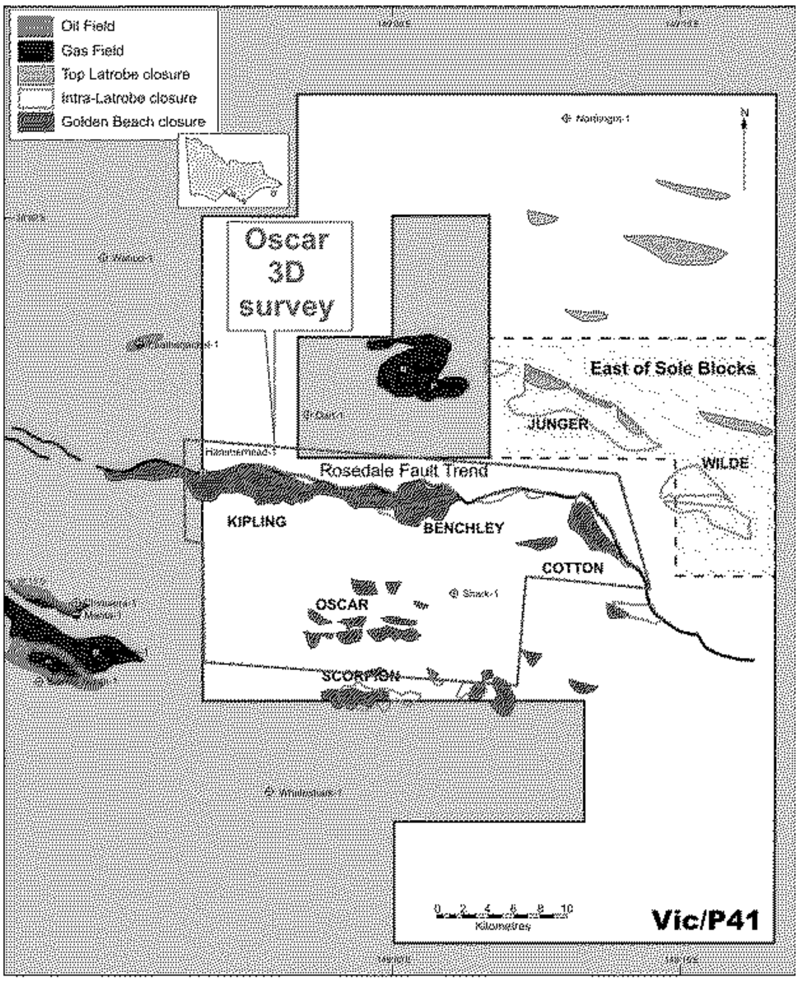
The 575 km^2 Oscar 3D seismic survey was recorded during February 2005, the first 3D data recorded in this permit. Data processing was completed in the September quarter and BAS has now commenced a seismic interpretation project to delineate a number of prospective leads identified on older 2D seismic data. BAS is optimistic that the Oscar 3D survey will generate a number of prospects that may be suitable drilling targets.

The Kipling feature is the highest-ranked Vic/P41 lead, with scope for prospective recoverable resources of 118 million barrels of oil and 820 billion cubic feet of gas as mapped using the existing 2D seismic data. It is on trend with and analogous to the Kipper oil and gas field where first production is planned for 2009.

Similarly, the Vic/P41 Oscar lead is analogous to the Basker Manta oil and gas fields where first oil production is due this year. With the application of the Oscar 3D seismic data, BAS hopes to mature these and other leads to drillable prospect status for drilling in 2006.

BAS and Moby Oil & Gas Limited both earned farm-in interests in Vic/P41 by meeting the costs of the first 250 km^2 of the Oscar 3D survey.

The Vic/P41 permit enters a new five year term on 13 February 2006. 50% of the permit area will be relinquished, with the remainder subject to a work programme to be negotiated with the Department of Primary Industries. BAS is confident that all areas of prospective interest will be retained, including the entire Oscar survey area.



Vic/P41
Leads and Prospects, adjacent Oil and Gas Fields, and relevant 3D Seismic Survey.

REVIEW OF OPERATIONS (Cont)

VIC/P42, GIPPSLAND BASIN (BAS 50% and operator)

The ZaneGrey-1 exploration well was drilled in February/March 2005 with BAS 50% and operator.

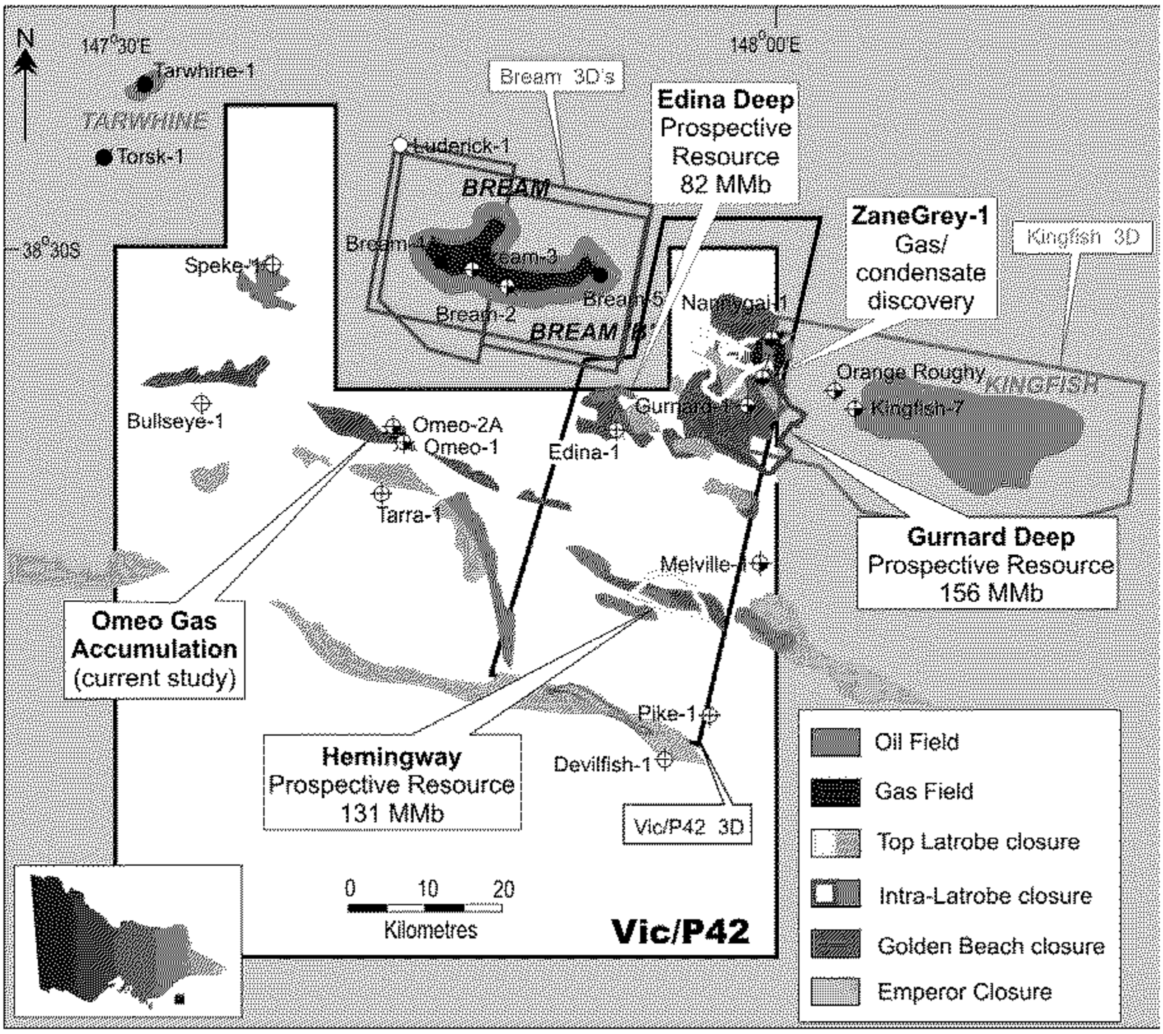
Technical assessment of the ZaneGrey-1 well results has been difficult due to operational problems during drilling and the equivocal nature of some well data, particularly reservoir pressure measurements. However, the well recovered hydrocarbon samples confirming the presence of a gas and condensate accumulation. ZaneGrey-1 is interpreted to have intersected 2.5 metres of net gas and condensate pay near the edge of the accumulation.

Based on the analysis, BAS considers that the ZaneGrey-1 discovery would not currently support a commercial development.

In the light of the ZaneGrey-1 results, recent activity in the Vic/P42 permit has been directed towards reviewing known Vic/P42 prospects. Several of these prospects are defined by modern 3D seismic recorded by BAS in 2002; namely, Edina Deep, Gurnard Deep and Hemingway.

Vic/P42 also contains the Omeo-1 gas/condensate discovery drilled by Aquitaine in 1982. All available seismic and well data in the area of this discovery is being assessed in anticipation of further delineation work, including the possibility of a new 3D seismic program over this discovery and the north west of this permit.

The Vic/P42 permit will enter Year 5 of a six year term on 13 February 2006. The Year 5 commitment has already been fulfilled as a result of the Vic/P42 3D seismic survey recorded by BAS in 2002.



REVIEW OF OPERATIONS (Cont)

TL/1, BASS BASIN (BAS 0.0648% over-riding royalty)

The BassGas project is experiencing delays in commissioning and the operator, Origin Energy, has reported that it expects production to commence in late 2005.

Notwithstanding project construction delays to date, the great majority of the production infrastructure is in place. On 18 July 2005 Origin announced 2P sales gas reserves had been increased by 26% to 324 PJ.

HEALTH, SAFETY AND ENVIRONMENT

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

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

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

REPORT BY DIRECTORS

The directors present their report on the results of Bass Strait Oil Company Ltd ("the Company" or "BAS") for the year ended 30 June 2005 and the state of affairs of the Company at that date.

PRINCIPAL ACTIVITY

The Company's principal activities during the year were oil and gas exploration in Australia.

Bass Strait Oil Company Ltd is a company limited by shares that is incorporated and domiciled in Australia, the registered office of which is located at Level 25, 500 Collins Street, Melbourne, Victoria 3000. At 30 June 2005, the Company had 8 employees (30 June 2004 8 employees), including directors.

DIRECTORS

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

Bernard Wheelahan BSc. Dip Ed. FRACI, FAusIMM, FAICD, FAIE – Chairman and non-executive independent director ***(Appointed 16/8/2000)***

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

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

During the last three years Mr Wheelahan has served as Chairman of Pacific Hydro Ltd, as deputy Chairman of Transfield Services Limited, director of The Gribbles Group Ltd, Chairman of the Council on Australian and Latin American Relations and a member of the South Australian Resources Development Board.

E Geoffrey Albers LL.B FAICD, FAIM Non-executive officer ***(Appointed 9/4/1981)***

Mr Albers acted as chief executive officer during the year and until 19 August 2005.

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

For the last three years Mr Albers has served as a director of Methanol Australia Limited, Octanex NL, Moby Oil & Gas Limited (appointed 13 October 2003) and Cue Energy Resources Limited. He is a member of the Petroleum Exploration Society of Australia and a member of the APPEA Exploration Committee.

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

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

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

REPORT BY DIRECTORS (Cont)

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

Dr Askin was appointed a director of Central Petroleum Limited in April 2005.

Robert J Flew B Ec (Hons) FAIMM, FAIM Non-executive independent director ***(Appointed 16/8/2000)***

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

Mr Flew is a former Company Secretary of BHP and a former director of Tubemakers Australia Ltd, BHP Mitsui Ltd, CQCA and Gregory JV, Queensland Mining Council, World Coal Institute and a member of the Central Queensland University Council. Mr Flew, presently a director of Theiss Pty Ltd, Geodynamics Ltd, Astron Ltd and Leviathon Resources Ltd, retired as a director of MPI Mines Ltd in March 2005.

Company Secretary

The Company Secretary, Mr D.B. Hill has many years experience as Company Secretary of listed companies in the extractive industries. Mr Hill retired in 2000 as an Associate of The Institute of Chartered Accountants.

DIRECTORS' MEETINGS

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

	Board		Audit Committee	
	Held	Attended	Held	Attended
EG Albers	10	9	-	-
HJ Askin (member of audit committee)	10	10	1	1
RJ Flew (member of audit committee)	10	10	1	1
B Wheelahan (member of audit committee)	10	9	1	1

DIRECTORS' INTERESTS

The amount of each element of the remuneration of each director are set out in the Remuneration Report on page 12.

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

	Ordinary Shares	**30 June 2007 Options**	**30 September 2008 Options**
EG Albers	22,086,464	1,923,056	400,000
HJ Askin	1,205,000	390,000	500,000
RJ Flew	1,476,250	120,000	500,000
B Wheelahan	2,157,350	180,000	500,000

STATE OF AFFAIRS

On 29 September 2005 the Company was admitted to the Official List of ASX and the Company's securities were quoted for the first time on 30 September 2005. The Company raised a net $13,548,194 from the issue of shares pursuant to the Prospectus dated 24 August 2004.

REPORT BY DIRECTORS (Cont)

DIVIDENDS

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

CAPITAL STRUCTURE

During the year the Company issued the following Shares:

- On 20 August 2004 10,000,000 ordinary shares to raise a net $1,436,591 pursuant to an excluded offer, to fund the preliminary costs relating to the drilling of the Zane Grey exploration well;
- On 22 September 2004 72,000,000 ordinary shares at an issue price of 20 cents per share pursuant to a prospectus offer dated 24 August 2004 to raise a net $13,548,194, the public offer that preceded admission to the official list of ASX; and
- On exercise of a total of 357,944 options raising $97,383.

SHARE OPTIONS

Unissued ordinary shares in the capital of the Company under option during the year and at the date of this report:

30 June 2007 Options

A total of 4,250,000 options exerciseable on or before 30 June 2007 at an exercise price of 30 cents per share were on issue at the beginning of the year. A total of 157,944 options were exercised during the year and at balance date and at the date of this report, 4,092,056 30 June 2007 options exerciseable at 30 cents were outstanding.

Senior Executives and Officers Option Plan

Holders of options granted under the Plan are entitled to progressively exercise 20% of the total number of options granted during each year of currency of the options. The Company does not receive any consideration on granting the options. Pursuant to the Plan:

- 2,000,000 options exerciseable at a price of 25 cents on or before 30 September 2008, granted to Directors, were outstanding at the beginning of the year of which 100,000 were exercised during the year, and 1,900,000 options were outstanding at the date of this report.
- 700,000 options exercisable at a price of 25 cents on or before 30 September 2008 were granted to employees and consultants on 20 August 2004 of which 100,000 were exercised during the year, the balance of 600,000 options were outstanding at the date of this report.
- 1,050,000 options exerciseable at 25 cents and 1,050,000 options exerciseable at 30 cents, on or before 30 June 2010, were granted to employees and consultants on 30 June 2005, all of which were outstanding at the date of this report.

Other Remuneration Options

On 20 August 2004, 700,000 options exercisable at a price of 25 cents at any time before 30 September 2008 were granted to employees and consultants which are not subject to the progressive exercise terms of the Plan, all of which are outstanding at the date of this report. Since balance date 500,000 options exerciseable by 30 June 2007 at an exercise price of 30 cents were issued.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

REPORT BY DIRECTORS (Cont)

REMUNERATION REPORT

The Remuneration Report is subject to audit: refer to the Audit Report on page 35. The Company has used the exemption under the relevant class order, to include AASB disclosures in the Remuneration Report.

Each element of remuneration of directors and executives during the year showing the % that consists of options.

	Year	Primary	Post Employment	Equity		Total
		Directors Fees	Superann -uation	Options		
		$	$	$	%	$
Directors:						
B Wheelahan	**2005**	**40,000**	**3,600**	**7,167**	**14.12**	**50,767**
	2004	40,000	3,600	4,181	8.75	47,781
EG Albers	**2005**	**25,000**	**2,250**	**7,167**	**20.82**	**34,417**
	2004	25,000	2,250	4,181	13.30	31,431
HJ Askin	**2005**	**25,000**	**2,250**	**7,167**	**20.82**	**34,417**
	2004	25,000	2,250	4,181	13.30	31,431
RJ Flew	**2005**	**25,000**	**2,250**	**7,167**	**20.82**	**34,417**
	2004	25,000	2,250	4,181	13.30	31,431
TOTAL	**2005**	**115,000**	**10,350**	**28,668**		**154,018**
	2004	115,000	10,350	16,724		142,074
Executives		Salaries & Fees $				
A Adams	**2005**	**225,425**	**24,000**	**2,318**	**0.85**	**251,743**
	2004	190,500	24,000	-	-	214,500
D Hill	**2005**	**22,413**	**5,610**	**2,318**	**7.64**	**30,341**
	2004	20,750	4,815	-	-	25,565
I Reid	**2005**	**291,761**	**-**	**5,796**	**1.95**	**297,557**
	2004	246,348	-	-	-	246,348
TOTAL	**2005**	**539,599**	**29,610**	**10,432**		**579,641**
	2004	457,598	28,815	-		486,413

This report outlines the remuneration arrangements in place for non-executive directors, executive directors (referred to below as executives) and other executives.

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives. The company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives.
- Link executive rewards to shareholder value.
- Ensure a significant portion of executive remuneration is dependent upon meeting pre-determined shareholder value benchmarks.

The Board is responsible for determining and reviewing compensation arrangements for directors and executives. The Board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The structure of non-executive director and executive remuneration is separate and distinct.

REPORT BY DIRECTORS (Cont)

REMUNERATION REPORT (Cont)

The Company's activities during the year and during the past 4 financial years has been predominantly petroleum exploration. As has been the case in those years, increase in shareholder wealth, will for the foreseeable future be dependent on exploration success and not necessarily improvement in the Company's earnings.

The Company's share price is seen as the best measure of exploration success and accordingly variable remuneration and long term incentives presently consist of options over unissued shares in the Company. During the year the Company's share price, following the prospectus issue at a price of 20 cents, had a high sale price of 82 cents and a low sale price of 11.5 cents.

Non-executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of high calibre, at a cost acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by members in general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 3 October 2001 shareholders approved an aggregate remuneration of $250,000 of which $115,000 was paid to directors during the year ended 30 June 2005. As from 1 September 2005 directors' remuneration will be paid at the rate of $180,000 per annum.

Each director receives remuneration for being a director of the company in a manner optimal to the recipient, being either fee or superannuation. No fee is paid for serving on Board Committees or on the boards of wholly owned subsidiaries. In addition non-executive directors have been granted options to further align the interests of non-executive directors with those of shareholders, details of which are set out below.

Executive remuneration

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

- reward executives for individual performance;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Board reviews market levels of remuneration for comparable executive roles.

It is the Board's policy that the employment contract entered into with the Chief Executive Officer and other executives and consultants consist of the following key elements:

Variable Remuneration – Long Term Incentives

The objective of long term incentives is to reward the creation of shareholder wealth and are delivered in the form of options over the Company's shares, details of which are set out below.

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed regularly by the Board, with access to external advice if required.

REPORT BY DIRECTORS (Cont)

REMUNERATION REPORT (Cont)

Employment contracts

The Chief Executive Officer, Mr A Adams was employed during the year as General Manager, Commercial under a contract that included salary, superannuation and the grant of 200,000 30 September 2008, 25 cent options. On 30 June 2005 Mr Adams was granted 500,000 30 June 2010, 25 cent options and 500,000 30 June 2010, 30 cent options. The current employment contract as CEO, commenced on 19 August 2005 under which:

- Mr Adams receives salary remuneration,
- Mr Adams has been granted 500,000 30 June 2007, 30 cent options,
- Mr Adams may resign from his position and thus terminate this contract by giving 3 months written notice,
- The company may terminate the employment agreement at any time subject to service based termination payment,
- The company may terminate the contract at any time without notice if serious misconduct has occurred.

Mr Hill acts as Company Secretary remunerated on the basis of time engaged in such services at commercial rates. Mr Reid, during the year was General Manager, Exploration, remunerated on a time basis at commercial rates. Through his consulting firm Terra Firma Technology, Mr Reid has since year end been appointed Technical Advisor to the Company.

Details of Options Granted

	Plan Options Granted	Other Options Granted	Grant Date	Fair Value at Grant Date	Options Vested During the Year	Value of Options Exercised During Year (a)	Value of Options Granted During Year (b)	Aggregate of (a) & (b)	Options Vested & Exerciseable at Report Date
Director									
B Wheelahan	500,000	-	26/11/03	6.9¢	100,000	-	-	-	200,000
EG Albers	500,000	-	26/11/03	6.9¢	100,000	$35,000	-	$35,000	100,000
HJ Askin	500,000	-	26/11/03	6.9¢	100,000	-	-	-	200,000
RJ Flew	500,000	-	26/11/03	6.9¢	100,000	-	-	-	200,000
Executives									
A Adams	-	200,000	20/8/04	7.1¢	200,000	-	$14,200	$14,200	200,000
	500,000	-	(i) 30/6/05	7.1¢	100,000	-	$35,500	$35,500	100,000
	500,000	-	(ii) 30/6/05	6.5¢	100,000	-	$32,500	$32,500	100,000
D Hill	200,000	-	20/8/04	7.1¢	40,000	-	$14,200	$14,200	80,000
I Reid	-	700,000	20/8/04	7.1¢	700,000	-	$49,700	$49,700	700,000
	500,000	-	(i) 30/6/05	7.1¢	100,000	-	$35,500	435,500	100,000
	500,000	-	(ii) 30/6/05	6.5¢	100,000	-	$32,500	$32,500	100,000

The options are over unissued ordinary shares in the capital of Bass Strait Oil Company Ltd. There are no non-market performance conditions other than service criteria. No consideration is received by the Company for the grant of options. No options lapsed during the year.

Factors taken into account in assessing the fair value of the options include an assumption that the options will be exercised and the following material assumptions:

Options granted 26 November 2003
- an expiry date of 30 September 2008;
- a share price of 20 cents;
- an exercise price of 25 cents;
- the Company's shares were unlisted at the date of grant;
- a share price volatility of 0.95;
- a risk free rate of 5.82% pa;
- a discount of 33% for the lack of negotiability and the expected life of the options.

REPORT BY DIRECTORS (Cont)

REMUNERATION REPORT (Cont)

Options granted 20 August 2004
- an expiry date of 30 September 2008;
- a share price of 20 cents;
- an exercise price of 25 cents;
- the Company's shares were unlisted at the date of grant;
- a share price volatility of 0.59;
- a risk free rate of 5.34% pa;
- a discount of 20% for the lack of negotiability and the expected life of the options.

Options granted (i) 30 June 2005
- an expiry date of 30 June 2010;
- a share price of 15 cents;
- an exercise price of 25 cents;
- a share price volatility of 0.65;
- a risk free rate of 5.1% pa;
- a discount of 25% for the lack of negotiability and the expected life of the options.

Options granted (ii) 30 June 2005
- an expiry date of 30 June 2010;
- a share price of 15 cents;
- an exercise price of 30 cents;
- a share price volatility of 0.65;
- a risk free rate of 5.1% pa;
- a discount of 25% for the lack of negotiability and the expected life of the options.

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 on the prior exercise of the options. The options do not confer the right to dividends or to vote at meetings of members.

Plan Options

Holders of options under the Senior Executives and Officers Option Plan are entitled to progressively exercise 20% of the total number of options granted during each year of currency of the options. On retrenchment or retirement from the Company the holder has 6 months in which to exercise the options, otherwise the options lapse on cessation of service by the holder.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the declaration from the auditor of Bass Strait Oil Company Ltd attached at page 15. There were no non-audit services provided by Ernst & Young during the year.

Signed in accordance with a resolution of the directors.

E.G. Albers
Director
Melbourne, 30 September 2005

ERNST & YOUNG

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

In relation to our audit of the financial report of Bass Strait Oil Company Limited for the financial year ended 30 June 2005, 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

R C Piltz

R C Piltz
Partner

30 September 2005

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2005 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.

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 period ending 30 June 2005.

On behalf of the Board

E.G.ALBERS
Director
Melbourne, 30 September 2005

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Revenues from ordinary activities	2	1,501,376	987,091	1,501,376	987,091
Expenses from ordinary activities	3	(11,902,035)	(671,412)	(11,902,035)	(671,412)
(Loss) profit from ordinary activities before income tax expense		(10,400,659)	315,679	(10,400,659)	315,679
Income tax credit (expense) relating to ordinary activities	4	444,473	(152,934)	444,473	(152,934)
Net (loss) profit from ordinary activities after income tax expense	15	(9,956,186)	162,745	(9,956,186)	162,745
Share issue costs		(1,015,215)	-	(1,015,215)	-
Total revenues, expenses and valuation adjustments attributable to members of Bass Strait Oil Company Ltd and recognised directly in equity.	14	(1,015,215)	-	(1,015,215)	-
Total changes in equity other than those resulting from transactions with owners as owners.		(10,971,401)	162,745	(10,971,401)	162,745
Basic (loss) earnings per share	22	(9.83) cents	0.4 cents		
Diluted (loss) earnings per share	22	(9.83) cents	0.4 cents		

The statement of financial performance is to be read in conjunction with the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2005

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
CURRENT ASSETS					
Cash assets		2,803,015	103,904	2,803,014	103,903
Receivables	5	1,726,437	30,986	1,726,437	30,986
Other	6	1,660	38,494	1,660	38,494
TOTAL CURRENT ASSETS		4,531,112	173,384	4,531,111	173,383
NON-CURRENT ASSETS					
Plant and equipment	7	53,721	85,743	53,721	85,743
Royalty interest	8	475,923	475,923	475,923	475,923
Deferred exploration costs carried forward	9	6,053,009	4,187,322	6,053,009	4,187,322
Other financial assets	10	-	-	1	1
TOTAL NON-CURRENT ASSETS		6,582,653	4,748,988	6,582,654	4,748,989
TOTAL ASSETS		11,113,765	4,922,372	11,113,765	4,922,372
CURRENT LIABILITIES					
Payables	12	1,906,562	410,930	1,960,562	410,930
Provisions	13	27,569	13,317	27,569	13,317
TOTAL CURRENT LIABILITIES		1,934,131	424,247	1,934,131	424,247
NON-CURRENT LIABILITIES					
Deferred tax liabilities	4	-	444,473	-	444,473
TOTAL NON-CURRENT LIABILITIES		-	444,473	-	444,473
TOTAL LIABILITIES		1,934,131	868,720	1,934,131	868,720
NET ASSETS		9,179,634	4,053,652	9,179,634	4,053,652
EQUITY					
Contributed equity	14	17,986,770	2,904,602	17,986,770	2,904,602
Retained (losses) profits	15	(8,807,136)	1,149,050	(8,807,136)	1,149,050
TOTAL EQUITY		9,179,634	4,053,652	9,179,634	4,053,652

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	667,147	963,081	667,147	963,081
Payments to suppliers and employees	(1,068,291)	(1,024,401)	(1,068,291)	(1,024,401)
Petroleum exploration expenditure	(12,333,411)	-	(12,333,411)	-
Interest received	349,602	3,334	349,602	3,334
Interest paid	(3,705)	-	(3,705)	-
Net cash used in operating activities	(12,388,658)	(57,986)	(12,388,658)	(57,986)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for property plant and equipment	(32,893)	(2,111)	(32,893)	(2,111)
Payments for royalty interest	-	(11,912)	-	(11,912)
Net cash used in investing activities	(32,893)	(14,023)	(32,893)	(14,023)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issues of ordinary shares	16,097,383	-	16,097,383	-
Repayment of finance lease principal	-	(60,091)	-	(60,091)
Payment of prospectus and share issue costs	(976,721)	(62,183)	(976,721)	(62,183)
Net cash from (used in) financing activities	15,120,662	(122,274)	15,120,662	(122,274)
Net increase (decrease) in cash assets	2,699,111	(194,283)	2,699,111	(194,283)
Cash assets at the beginning of the period	103,904	298,187	103,903	298,186
CASH ASSETS AT THE END OF THE PERIOD	2,803,015	103,904	2,803,014	103,903
RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES WITH PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX				
(Loss) profit from ordinary activities after income tax	(9,956,186)	162,745	(9,956,186)	162,745
Deferred exploration costs	(1,822,406)	(604,965)	(1,822,406)	(604,965)
Non-Cash Items:				
Depreciation	44,212	18,949	44,212	18,949
Prospectus costs written off	-	28,183	-	28,183
Changes in Assets and Liabilities:				
Increase (decrease) in deferred tax liabilities	(444,473)	152,934	(444,473)	152,934
Increase in payables	1,556,383	182,691	1,556,383	182,691
Decrease (increase) in receivables	(1,778,781)	(11,840)	(1,778,781)	(11,840)
Decrease (increase) in prepayments	(1,660)	-	(1,660)	-
Increase in employee entitlements	14,253	13,317	14,253	13,317
Net cash used in operating activities	(12,388,658)	(57,986)	(12,388,658)	(57,986)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

The financial statements have been prepared under the going concern convention on the assumption that the company continues to receive appropriate funding for its exploration and evaluation activities, by capital raising or sale or farmout of its petroleum exploration tenement interests.

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

Exploration and Evaluation Expenditure

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

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

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

Restoration, Rehabilitation and Environment Expenditure

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

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

Plant and equipment

All classes of plant and equipment are measured at cost. Depreciation is provided on a straight line basis over 3 to 7 years.

Recoverable Amount

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

Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Payables

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

Employee Benefits

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, and other leave benefits are recognised against profits on a net basis.

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. Liabilities arising in respect of wages and salaries, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Equity based compensation in the form of options, valued at grant date, are disclosed as director and executive remuneration but not recognised against profits.

Share Capital

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

Taxes

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

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST but receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable or payable, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable or payable.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Revenue Recognition

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

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

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

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

Joint Venture Operations

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

Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Methanol Australia Limited (the parent company) and all entities that Methanol Australia Limited controlled from time to time during the year and at reporting date.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
NOTE 2 REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities:				
Management services arising as operator of petroleum exploration joint ventures	1,141,000	982,951	1,141,000	982,951
Administrative services	5,882	-	5,882	-
Revenue from non-operating activities:				
Interest received	354,494	4,140	354,494	4,140
Total revenues from ordinary activities	1,501,376	987,091	1,501,376	987,091
NOTE 3 EXPENSES AND LOSSES (GAINS)				
Audit fees	53,020	35,162	53,020	35,162
Consultants fees related parties	65,729	53,548	65,729	53,548
Consultants fees other	177,167	123,168	177,167	123,168
Depreciation	39,621	18,949	39,621	18,949
Directors' remuneration	125,350	125,350	125,350	125,350
Exchange loss (gain)	(16,830)	-	(16,830)	-
Exploration expenditure written off	10,792,853	-	10,792,853	-
Insurance	-	4,601	-	4,601
Interest paid	3,705	-	3,705	-
Lease finance charges	-	623	-	623
Salaries and employee benefits	308,063	178,116	308,063	178,116
Prospectus costs	-	28,183	-	28,183
Premises costs	54,817	47,547	54,817	47,547
Subscriptions	-	9,495	-	9,495
Other expenses from ordinary activities	194,390	36,948	194,390	36,948
Shareholder costs	73,223	9,722	73,223	9,722
Travel	30,927	-	30,927	-
Total expenses from ordinary activities	11,902,035	671,412	11,902,035	671,412
NOTE 4 INCOME TAX				
The prima facie tax expense on profit from ordinary activities differs from the income tax provided in the financial statements as follows:				
Prima facie income tax on profit (loss) from ordinary activities	(3,120,198)	94,704	(3,120,198)	94,704
Tax effect of permanent differences				
Non-deductible expenditure	283	84	283	84
Prior year tax adjustment	-	58,146	-	58,146
Share issue costs	(31,778)	-	(31,778)	-
Future tax benefit not brought to account	2,707,220	-	2,707,220	-
Income tax (credit) expense attributable to ordinary activities	(444,473)	152,934	(444,473)	152,934
Deferred Tax Assets and Liabilities:				
Provision for deferred tax – non current	1,651,804	1,092,014	1,651,804	1,092,014
Future income tax benefits	1,651,804	647,541	1,651,804	647,541
	-	444,473	-	444,473

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
NOTE 4 INCOME TAX (cont)					
Potential future income tax benefits arising from tax losses have not been recognised as an asset because realisation of the benefit is not virtually certain.		2,738,998	647,541	2,738,998	647,541

The future income tax benefit will only be obtained if:
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

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

NOTE 5 RECEIVABLES

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Trade receivables	5(a)	1,019,493	-	1,019,493	-
Trade receivables – director related parties	18, 5(a)	685,623	1,622	685,623	1,622
Goods and services tax and withholding tax refunds	5(a)	21,321	29,364	21,321	29,364
		1,726,437	30,986	1,726,437	30,986

(a) Terms and conditions
(i) Trade receivables are non-interest bearing and generally on 30 day terms.
(ii) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

NOTE 6 OTHER CURRENT ASSETS

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Prepayments		1,660	-	1,660	-
Deferred share issue costs relating to shares issued after balance date pursuant to prospectus offer	14	-	38,494	-	38,494
		1,660	38,494	1,660	38,494

NOTE 7 PLANT AND EQUIPMENT

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Computer hardware and software					
At cost		196,886	191,406	196,886	191,406
Accumulated deprecation		(169,074)	(105,663)	(169,074)	(105,663)
Total computer hardware and software		27,812	85,743	27,812	85,743

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
NOTE 7 PLANT AND EQUIPMENT (cont)				
Office equipment				
At cost	7,575	-	7,575	-
Accumulated depreciation	(259)	-	(259)	-
Total office furniture and fittings	7,316	-	7,316	-
Leasehold improvements				
At cost	19,838	-	19,838	-
Accumulated depreciation	(1,245)	-	(1,245)	-
Total leasehold improvements	18,593	-	18,593	-
Total plant and equipment				
At cost	224,299	191,406	224,299	191,406
Accumulated depreciation	(170,578)	(105,663)	(170,578)	(105,663)
Total written down amount	53,721	85,743	53,721	85,743
Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current financial year				
Computer hardware and software				
Carrying amount at beginning	85,743	146,796	85,743	146,796
Additions	5,480	2,111	5,480	2,111
Depreciation - expense from ordinary activities	(38,117)	(18,949)	(38,117)	(18,949)
Depreciation - deferred exploration costs	(25,294)	(44,215)	(25,294)	(44,215)
	27,812	85,743	27,812	85,743
Office equipment				
Carrying amount at beginning	-	-	-	-
Additions	7,575	-	7,575	-
Depreciation – expense from ordinary activities	(259)	-	(259)	-
	7,316	-	7,316	-
Leasehold improvements				
Carrying amount at beginning	-	-	-	-
Additions	19,838	-	19,838	-
Depreciation - expense from ordinary activities	(1,245)	-	(1,245)	-
	18,593	-	18,593	-
NOTE 8 ROYALTY				
Royalty interest at cost	475,923	475,923	475,923	475,923

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 8 ROYALTY (cont)

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

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
NOTE 9 DEFERRED EXPLORATION COSTS CARRIED FORWARD				
Mineral tenements in the exploration phase				
Balance at beginning of year	4,187,322	3,537,643	4,187,322	3,537,643
Net cost for the year	12,658,540	649,679	12,658,540	649,679
Costs written off	(10,792,853)	-	(10,792,853)	-
Balance at end of year	6,053,009	4,187,322	6,053,009	4,187,322

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

NOTE 10 OTHER FINANCIAL ASSETS

Investment in controlled entity	-	-	1	1

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

NOTE 11 INTEREST IN JOINT VENTURE OPERATIONS

The Company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 19. Details of the Company's interests in the joint ventures are:

	Interest 30/6/2004	Interest Acquired	Interest Disposed	Interest 30/6/2005
Vic/P41	75%	-	30%	45%
Vic/P42	50%	-	-	50%
Vic/P47	40%	-	-	40%

During the year Moby Oil & Gas Limited satisfied the farmin obligation to acquire from the Company a 35% interest in Vic/P47 by a $3,750,000 contribution to the drilling of Moby-1 (shown as a disposition in 2004), and a 30% interest in Vic/P41, by a $1 million contribution to the Oscar 3D seismic survey.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 11 INTEREST IN JOINT VENTURE OPERATIONS (cont)

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

	Consolidated	
	2005	2004
	$	$
CURRENT ASSETS		
Cash assets	1,584,386	44,832
Receivables	1,312,261	10,436
TOTAL CURRENT ASSETS	2,896,647	55,268
NON-CURRENT ASSETS		
Deferred exploration costs	6,053,009	4,187,322
TOTAL NON-CURRENT ASSETS	6,053,009	4,187,322
TOTAL ASSETS	8,949,656	4,242,590
CURRENT LIABILITIES		
Payables	1,635,724	14,395
TOTAL CURRENT LIABILITIES	1,635,724	14,395
TOTAL LIABILITIES	1,635,724	14,395
NET ASSETS	7,313,932	4,228,195
Revenue – interest received	44,960	806
Expenses	-	-
Operating result before income tax	44,960	806

Expenditure commitments in respect of joint ventures are disclosed in Note 19.

	NOTE	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
		$	$	$	$
NOTE 12 PAYABLES					
Trade payables	12(a)	1,535,247	260,335	1,535,247	260,335
Trade payables - directors related parties	18, 12(a)	255,641	130,990	255,641	130,990
Other payables	12(a)	98,876	-	98,876	-
Goods and services tax payable	12(a)	16,798	19,605	16,798	19,605
		1,906,562	410,930	1,906,562	410,930

(a) Terms and conditions to the above financial instruments
  (i) Trade payables are non-interest bearing and are normally settled on 30 days.
  (ii) Other payables are non-interest bearing and have an average term of 6 months.

NOTE 13 PROVISIONS

	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Provision for annual leave	27,569	13,317	27,569	13,317

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

	2005	2004	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
	Shares	Shares	$	$	$	$
NOTE 14 CONTRIBUTED EQUITY						
Issued and Paid Up Capital						
Ordinary shares fully paid	119,242,468	36,884,524	19,001,985	2,904,602	19,001,985	2,904,602
Movements in Shares on Issue						
Ordinary shares on issue at beginning of period:	36,884,524	18,442,262	2,904,602	2,904,602	2,904,602	2,904,602
Subdivision of shares on issue	-	18,442,262	-	-	-	-
Ordinary shares issued during the period:						
- Excluded offer on 20 August 2004	10,000,000	-	1,600,000	-	1,600,000	-
- Prospectus equity raising	72,000,000	-	14,400,000	-	14,400,000	-
Exercise of 30 June 2007 options	157,944	-	47,383	-	47,383	-
Exercise of 30 September 2008 options	200,000	-	50,000	-	50,000	-
Costs of issue	-	-	(1,015,215)	-	(1,015,215)	-
	119,242,468	36,884,524	17,986,770	2,904,602	17,986,770	2,904,602

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

(iii) 30 June 2007 Options
A total of 4,250,000 options exerciseable on or before 30 June 2007 at an exercise price of 30 cents per share were on issue at the beginning of the period. At 30 June 2005, 4,092,056 30 June 2007 options exerciseable at 30 cents were outstanding.

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

At the beginning of the year, 2,000,000 options exerciseable at a price of 25 cents on or before 30 September 2008 were granted pursuant to the Plan. During the year 700,000 options were granted on the same terms, 200,000 options were exercised, and at balance date 2,500,000 options exerciseable at 25 cents were outstanding.

On 30 June 2005 2,100,000 options were granted pursuant to the plan exerciseable on or before 30 June 2010, 1,050,000 at an exercise price of 25 cents and 1,050,000 at an exercise price of 30 cents, all of which were outstanding at balance date.

(v) Other Remuneration Options
A total of 700,000 options exercisable at a price of 25 cents at any time before 30 September 2008 on issue at the beginning of the period were outstanding at balance date. On 19 August 2005 500,000 options exerciseable by 30 June 2007 at an exercise price of 30 cents were issued.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 15 RETAINED (LOSSES)/PROFITS

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		$	$	$	$
Balance at beginning of period		1,149,050	986,305	1,149,050	986,305
Net (loss) profit		(9,956,186)	162,745	(9,956,186)	162,745
Balance at end of period		(8,807,136)	1,149,050	(8,807,136)	1,149,050

NOTE 16 AUDITOR'S REMUNERATION

	NOTE	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Amounts received or due and receivable by the auditor of the Company for:					
Audit or review of the financial reports of the entity and the consolidated entity	3	53,020	20,000	53,020	20,000
Other services		-	15,162	-	15,162
		53,020	35,162	53,020	35,162

NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES

Specified Directors

B Wheelahan	Chairman	HJ Askin	Director (non-executive)
EG Albers	Director and Managing Director (Resigned as Managing Director on 19 August 2005)	RJ Flew	Director (non-executive)

Specified Executives

A Adams	General Manager, Commercial (Appointed Chief Executive Officer on 19 August 2005)	I Reid	General Manager, Exploration (Appointed Technical Adviser since year end)
D Hill	Company Secretary		

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

	Balance 1/7/2004 Shares	*Received as Remuneration Shares*	*Options Exercised Shares*	*Net Change Other Shares*	*Balance 30/6/2005 Shares*
Ordinary Shares					
Specified Directors					
B Wheelahan	1,980,000	-	-	177,350	2,157,350
EG Albers	21,460,824	-	100,000	525,640	22,086,464
HJ Askin	1,405,000	-	-	(200,000)	1,205,000
RJ Flew	1,320,000	-	-	156,250	1,476,250
Total	26,165,824	-	100,000	659,240	26,925,064
Specified Executives					
A Adams	175,000	-	-	(25,000)	150,000
D Hill	290,562	-	-	(90,000)	200,570
I Reid	1,500,000	-	-	(145,000)	1,355,000
Total	1,965,562	-	-	(260,000)	1,705,570

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES (Cont)

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

	Balance 1/7/2004 Options	*Received as Remuneration Options*	*Options Exercised Options*	*Net Change Other Options*	*Balance 30/6/2005 Options*
Specified Directors					
B Wheelahan	180,000	-	-	-	180,000
EG Albers	1,923,056	-	-	-	1,923,056
HJ Askin	390,000	-	-	-	39,000
RJ Flew	120,000	-	-	-	120,000
Total	2,613,056	-	-	-	2,613,056
Specified Executives					
D Hill	40,000	-	-	-	40,000
I Reid	350,000	-	-	-	350,000
Total	390,000	-	-	-	390,000

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

	Options	*Options*	*Options*	*Options*	*Options*
Specified Directors					
B Wheelahan	500,000	-	-	-	500,000
EG Albers	500,000	-	(100,000)	-	400,000
HJ Askin	500,000	-	-	-	500,000
RJ Flew	500,000	-	-	-	500,000
Total	2,000,000	-	(100,000)	-	1,900,000
Specified Executives					
A Adams	-	200,000	-	-	200,000
D Hill	-	200,000	-	-	200,000
I Reid	-	500,000	-	-	500,000
Total	-	900,000	-	-	900,000

Remuneration Options Exerciseable by 30 June 2010 at 25 Cents per Ordinary Share

	Options	*Options*	*Options*	*Options*	*Options*
Specified Executives					
A Adams	-	500,000	-	-	500,000
I Reid	-	500,000	-	-	500,000
Total	-	1,000,000	-	-	1,000,000

Remuneration Options Exerciseable by 30 June 2010 at 30 Cents per Ordinary Share

	Options	*Options*	*Options*	*Options*	*Options*
Specified Executives					
A Adams	-	500,000	-	-	500,000
I Reid	-	500,000	-	-	500,000
Total	-	1,000,000	-	-	1,000,000

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES (Cont)

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

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

NOTE 18 RELATED PARTY TRANSACTIONS

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

Other Transactions with Directors and Director-Related Entities
During the previous year Moby Oil & Gas Limited ("MOG") farmed into the Company's interests in Vic/P47 and Vic/P41. Director E.G. Albers is a director and chairman of MOG and Company Secretary D.B. Hill is a director of MOG.

During the year the Company received fees as operator of Vic/P47 and Vic/P41 from MOG, which earned its 35% interest in Vic/P47 by a $3,750,000 contribution to the drilling of Moby-1, and its 30% interest in Vic/P41 by a $1 million contribution to a 3D seismic survey.

During the year fees were paid for services provided under normal commercial terms and conditions to a director-related entity of Director E.G. Albers for project administration, management and other services in the amount of $107,690 (2004 : $71,730) and underwriting and management fees of $7,700 relating to shares issued pursuant to the excluded offer on 20 August 2004.

NOTE 19 EXPLORATION EXPENDITURE COMMITMENTS

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
Expenditure commitments being minimum work requirements under exploration permits for petroleum.				
Not later than 1 year				
Vic/P41	90,000	3,000,000	90,000	3,000,000
Vic/P42	100,000	6,800,000	100,000	6,800,000
Vic/P47	-	300,000	-	300,000
	190,000	10,100,000	190,000	10,100,000

Expenditure commitments include obligations arising from farm-in arrangements, and minimum work obligations for the initial 3 year period of exploration permits and thereafter annually. Minimum work obligations, may, subject to negotiation and approval, be varied. No obligation is recorded where the permit in question is subject to renewal and has not been renewed at the date of this report.

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

Vic/P42
Year 3 work requirement for the drilling of a well has been fulfilled by ZaneGrey-1. The permit is now in Year 4 with a commitment for geological and geophysical studies.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 19 EXPLORATION EXPENDITURE COMMITMENTS (Cont)

Vic/P47

Vic/P47 is in permit Year 3, with a well required by 27 December 2005 to be satisfied by the drilling of Gilbert-1 funded by other parties. Maclean-1 is not an obligation well under the minimum work commitment, assuming Gilbert-1 is drilled. However, the Company plans to participate in the drilling of Maclean-1 in October 2005.

NOTE 20 FINANCIAL INSTRUMENTS

Net Fair Value

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

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

Terms, Conditions and Account Policies

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

Financial Instruments	Accounting Policies	Terms and Conditions
(i) **Financial Assets**		
Cash at bank	Stated at nominal value.	At call, interest rate subject to balance.
Receivables	Stated at nominal value.	Normally settled on 90 day terms.
(ii) **Financial Liabilities**		
Payables	Recognised for amounts to be paid for goods and services received, whether or not billed to the Company.	Trade liabilities are normally settled on 30 day terms.
(iii) **Equity Instruments**		
Ordinary shares	Recognised at the fair value of the consideration received by the Company.	Terms and conditions of shares issued and options outstanding are set out in Note 14.

Credit Risk Exposure

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

Interest Rate Risk

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

	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per Statement of Financial Position		Weighted Average Effective Interest Rate	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	%	%
FINANCIAL ASSETS								
Cash	2,803,015	103,904	-	-	2,803,015	103,904	3	1
Trade and other receivables	-	-	1,019,493	1,622	1,019,493	1,622	N/A	N/A
Director related entities	-	-	685,623		685,623		N/A	N/A
	2,803,015	103,904	1,705,116	1,622	4,508,131	105,526		
FINANCIAL LIABILITIES								
Trade creditors	-	-	1,634,123	260,335	1,634,123	260,335	N/A	N/A
Director related entities	-	-	255,641	130,990	255,641	130,990	N/A	N/A
	-	-	1,889,764	391,325	1,889,764	91,325		

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2004

NOTE 21 SEGMENT INFORMATION

The Company operates in Australia in the petroleum exploration industry.

NOTE 22 EARNINGS PER SHARE

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

	Consolidated	
	2005	**2004**
	$	**$**
Net (loss) profit	(9,956,186)	162,745
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	101,306,032	36,884,524

6,592,056 (2004: 6,250,000) potential ordinary shares arising from 30 September 2007 options and 30 September 2008 options (Note 14) are not considered dilutive and are not included in the calculation of diluted earnings per share.

NOTE 23 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Company is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (A-IFRS) which will be applicable for the financial year ended 30 June 2006.

The company has allocated internal resources to conduct impact assessments to identify key areas that would be impacted by the transition to A-IFRS. The Audit Committee oversees progress of the assessment process and makes necessary decisions.

Priority has been given to the preparation of the opening A-IFRS balance sheet as at 1 July 2004, (the Company's transition date to A-IFRS), which will form the basis of accounting for A-IFRS, and is required when the Company prepares its first A-IFRS financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of A-IFRS.

The actual effects of transition to A-IFRS may differ from the explanation below due to ongoing impact assessment, potential amendments to A-IFRS and interpretations thereof being issued by the standard-setters and by IFRIC, and emerging accepted practice in the application of A-IFRS and UIG interpretations.

(a) Under AASB 2 *Share based Payments*, the company would recognise the fair value of options granted to employees as remuneration, as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under AGAAP.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
30 JUNE 2005

NOTE 23 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont)

(b) *Impairment of Assets*
Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This will result in a change in the company's accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs may be greater. It is estimated that no adjustments will be necessary against opening accumulated losses and asset balances.

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

This will result in a change in the current accounting policy that does not classify financial instruments. Adjustments will be necessary against opening accumulated losses and non-current liability balance.

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

(e) *Exploration and Evaluation Expenditure*
Under AASB 6 *Exploration for and Evaluation of Mineral Resources*, the Company will be able to "grandfather" the existing accounting treatments employed for exploration and evaluation of mineral resources.

Specifically, AASB 6 provides that entities with exploration and evaluation costs that elect to continue to recognise and measure exploration and evaluation assets in accordance with the accounting policies they applied in their most recent annual financial information will be considered IFRS compliant. However, entities will only be permitted to carry forward exploration and evaluation costs for an area of interest (as per the grandfathering) after having also applied the Australian equivalent of IAS 36 in respect of any impairment of exploration and evaluation assets, therefore no impact is expected.

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Independent audit report to members of Bass Strait Oil Company Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Bass Strait Oil Company Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard 1046 *Director and Executive Disclosures by Disclosing Entities,* under the heading "remuneration report" in the directors' report, as permitted by the *Corporations Regulations 2001.* These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit, which has been identified as such.

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

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001.*

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

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

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

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

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Audit opinion

In our opinion:

1. the financial report of Bass Strait Oil Company Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Bass Strait Oil Company Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures, that are contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

R C Piltz

R C Piltz
Partner
30 September 2005

CORPORATE GOVERNANCE STATEMENT

Since the Company's ASX listing on 29 September 2004, the Board has progressed adoption of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice recommendations.

At the date of this report the Company generally complies with Council's ten corporate governance principles. Specific instances where the Company during the year followed alternative corporate governance practices, and details of current practices, are set out below.

Details of the Company's corporate governance policies is contained in the Corporate Governance section of the Company's website.

Principle 1 - Lay Solid Foundations for Management and Oversight

The Board's primary role is the stewardship of shareholders' funds with the objective of creating long term shareholder value. In fulfilling this role, the Board accepts overall responsibility for corporate governance.

A Board Charter, setting the framework for its operation and of those functions delegated to management, in preparation during the year, was adopted in October 2005 and posted on the Company's website.

Principle 2 - Structure the Board to Add Value

At the date of this report, the Board comprises 4 non-executive Directors, 3 of whom are independent:

Mr B Wheelahan - Chairman
Mr E G Albers
Mr H J Askin
Mr R J Flew

During the year, and until 19 August 2005, Mr Albers acted as chief executive officer, at which time Mr A Adams was appointed to the role. Mr Albers is not independent, being a substantial shareholder of the Company.

The Directors' Report sets out the qualification, skills, expertise and financial and industry experience of each Director. The procedure for Directors to seek independent professional advice, at the Company's expense, to assist them to fulfil their obligations is administered by the Chairman

The Board has established an audit committee, but given the Company's limited activities and limited resources, has not established committees to address specific areas such as, nomination & remuneration, risk management, and health, safety & environment: such issues are dealt with by the Board. The Board has not formalised procedures for the selection and appointment of new Directors.

Principle 3 - Promote Ethical and Responsible Decision-making

The corporate goal of the Company is to build an energy business providing lasting growth in shareholder value while at the same time maintaining a reputation for integrity and fairness.

In preparation during the year, the Board in October 2005, adopted and posted on the Company's website:

- Code of Conduct, setting out the standards of ethical behaviour required of directors, officers and employees, and
- Share Tranding Policy, setting out the position of the Company on trading in Company securities.

Principle 4 - Safeguard Integrity in Financial Reporting

An Audit Committee Charter was adopted by the Board and posted on the Company's website in October 2005.

The names, qualifications and attendances of Committee members in set out in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT (Cont)

Principle 5 - Timely and Balanced Disclosure

The Board has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

- all investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Company Secretary is responsible for communications with ASX. The CEO, or a member of the Audit Committee authorises all disclosures necessary to ensure compliance with ASX Listing Rules.

Principle 6 - Respect the Rights of Shareholders

The Board has established a process for communicating with shareholders:

- using the Company's website to promote and to facilitate shareholder communications;
- ensuring shareholder participation in meetings by use of Corporate Governance Council guidelines for meetings and notices, and placing all shareholder related information and Company ASX announcements promptly onto the website in an accessible manner.
- encouraging shareholders at the annual general meeting, and providing adequate time, to question the directors about the Company's governance and business, and the auditor about the conduct of the audit and the content of the audit report.

Principle 7 - Recognise and Manage Risk

The Board is responsible for overseeing the effectiveness of risk management so as to:

- identify, assess, monitor and manage risk; and
- inform investors, of the nature of, and material changes to the Company's risk profile.

The inherent nature of petroleum exploration is high-risk, in that there is no certainty of success, however the company takes all prudent analytical and planning steps to control risk. This applies to the selection of exploration targets, the data requirements ahead of decision making, drilling and seismic operations, environmental and occupational and safety consideration. At each major milestone of exploration projects, specific risk oversight and management policies will be developed consistent with activities at that time.

The systems of internal financial control have been determined by the Board as adequate to provide reasonable, but not absolute, protection against fraud, material misstatement or loss.

Principle 8 - Encourage Enhanced Performance

There is no formal process for performance evaluation, however in order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the chairman reviews the performance of each director annually. The Board as a whole discusses on an annual basis the effectiveness of the Board's overall performance.

Principle 9 - Remuneration Fairly and Equally

The Board has not appointed a remuneration committee and reviews the remuneration packages of Directors and executive officers on an annual basis. The Company's policy for determining the nature and amount of emoluments of Directors and senior executives is set out in the Remuneration Report

Principle 10 - Recognise the Legitimate Interests of Stakeholders

The Board has established a code of conduct to guide compliance with legal and other obligations to stakeholders in the Company. The code of conduct gives guidance to the Directors for:

- the practices necessary to maintain confidence in the integrity of the Company; and
- the right of employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and, where necessary, recording and investigation of such alerts.

SHAREHOLDER AND OTHER INFORMATION

COMPILED AS AT 30 SEPTEMBER 2005

DISTRIBUTION OF ORDINARY SHARES

Numbers of members by size of holding and the total number of shares on issue:

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	198	101,011
1,001 – 5,000	604	1,878,000
5,001 – 10,000	631	5,705,146
10,001 – 100,000	1,170	41,595,640
100,001 and over	143	69,962,671
TOTAL ON ISSUE	2,746	119,242,468

328 holders held less than a marketable parcel of ordinary shares. There is no current on-market buy-back.

SUBSTANTIAL SHAREHOLDERS

As disclosed in notices given to the Company.

Name of Substantial Shareholder	Interest in Number of Shares *Beneficial and non-beneficial*	% of Shares
Ernest Geoffrey Albers	22,086,464	18,52
Commonwealth Bank Group	10,737,182	9.00

VOTING RIGHTS

At meetings of members or classes of members:

(a) each member entitled to vote may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a member or a proxy, attorney or representative of a member has one vote; and

(c) on a poll, every person present who is a member or a proxy, attorney or representative of a member has:

 (i) for each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;

 (ii) for each partly paid share, only the fraction of one vote which the amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited),

subject to any rights or restrictions attached to any shares or class or classes of shares.

SHAREHOLDER AND OTHER INFORMATION (Cont)

COMPILED AS AT 30 SEPTEMBER 2005

THE 20 LARGEST HOLDERS OF ORDINARY SHARES

Holder	Ordinary Shares	% of Total Issued
Great Australia Corporation Pty Ltd	10,460,114	8.80
Citicorp Nominees Pty Ltd	8,831,832	7.41
Cue Petroleum Pty Ltd	6,773,920	5.68
Australian Natural Gas Pty Ltd	2,392,870	2.01
CSFB THIRD Nominees Pty Ltd	2,200,000	1.84
City Corp Nominees Pty Ltd	1,505,350	1.26
R.J. Flew	1,476,250	1.24
ANZ Nominees Ltd	1,453,936	1.22
Askin Nominees Pty Ltd	1,205,000	1.01
Emmanjay Holdings Pty Ltd	1,098,009	0.92
Chatfield Investments Pty Ltd	975,000	0.82
Terra Firma Technology Pty Ltd	915,000	0.77
B & H.A. Wheelahan	854,850	0.72
E+P Investments Australia Pty Ltd	650,000	0.55
Australian Executor Trustees Ltd	634,000	0.53
Booguez Pty Ltd	600,000	0.50
Relativity Pty Ltd	600,000	0.50
Great Missenden Group Pty Ltd	588,750	0.49
B. Wheelahan	550,000	0.46
Atlantic Ridge Pty Ltd	528,993	0.44

The 20 largest shareholders hold 43,793,874 shares representing 36.73% of the issued share capital.

SHAREHOLDER AND OTHER INFORMATION (Cont)

COMPILED AS AT 30 SEPTEMBER 2005

DISTRIBUTION OF 30 JUNE 2007 OPTIONS (EXERCISE PRICE 30 CENTS)

Numbers of optionholders by size of holding and the total number of options on issue:

	No. of Holders	No. of Options
1 – 1,000	0	-
1,001 – 5,000	0	-
5,001 – 10,000	-	10,000
10,001 – 100,000	13	719,106
100,001 and over	12	3,862,950
TOTAL ON ISSUE	3	4,592,056

There are no voting rights in relation to these options and they are not listed on ASX.

DISTRIBUTION OF 30 SEPTEMBER 2008 OPTIONS (EXERCISE PRICE 35 CENTS)

Numbers of optionholders by size of holding and the total number of options on issue:

	No. of Holders	No. of Options
1 – 1,000	0	-
1,001 – 5,000	0	-
5,001 – 10,000	0	-
10,001 – 100,000	0	-
100,001 and over	9	3,200,000
TOTAL ON ISSUE	9	3,200,000

There are no voting rights in relation to these options and they are not listed on ASX.

RESTRICTED SECURITIES

Class	Number	Expiry Date
Ordinary shares	16,926,425	30 September 2006
30 June 2007 Options at 30 cents	2,613,056	30 September 2006
30 September 2008 Options at 25 cents	1,900,000	30 September 2006

SHAREHOLDER AND OTHER INFORMATION (Cont)

COMPILED AS AT 30 SEPTEMBER 2005

DISTRIBUTION OF 30 JUNE 2010 OPTIONS (EXERCISE PRICE 25 CENTS)

Numbers of optionholders by size of holding and the total number of options on issue:

	No. of Holders	No. of Options
1 – 1,000	0	-
1,001 – 5,000	0	-
5,001 – 10,000	-	-
10,001 – 100,000	1	50,000
100,001 and over	2	1,000,000
TOTAL ON ISSUE	3	1,050,000

There are no voting rights in relation to these options and they are not listed on ASX.

DISTRIBUTION OF 30 JUNE 2010 OPTIONS (EXERCISE PRICE 35 CENTS)

Numbers of optionholders by size of holding and the total number of options on issue:

	No. of Holders	No. of Options
1 – 1,000	0	-
1,001 – 5,000	0	-
5,001 – 10,000	0	-
10,001 – 100,000	1	50,000
100,001 and over	2	1,000,000
TOTAL ON ISSUE	3	1,050,000

There are no voting rights in relation to these options and they are not listed on ASX.

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