BASS STRAIT OIL COMPANY LTD

ABN 13 008 694 817

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2006

CORPORATE DIRECTORY

Directors
Bernard Wheelahan (Chairman)
Andrew R Adams (Managing Director)
E Geoffrey Albers
Henry J Askin
Robert J Flew

Company Secretary
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Melbourne, Victoria 3000 Australia

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

ASX Codes: BAS – Ordinary Shares
BASO –30 June 2007 Options

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.

REVIEW OF OPERATIONS

NEW ACREAGE FOR BASS STRAIT OIL COMPANY PORTFOLIO

During the 2006 year Bass Strait Oil Company Ltd ("BAS" or the "Company") drilled two offshore Gippsland Basin wells and continued with its exploration programme, as detailed in the following section.

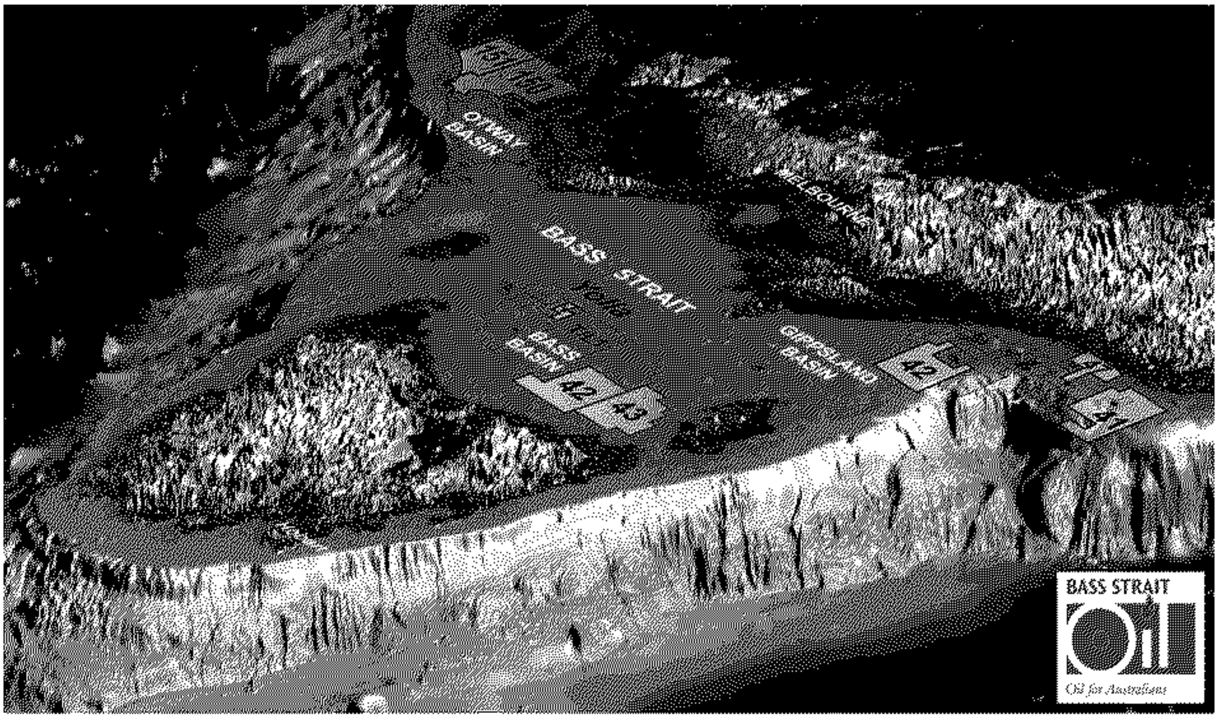
The Company also diversified its acreage holding by acquiring four new areas outside the Gippsland Basin, while at the same time maintaining a regional focus on southeast Australia. Specifically, BAS farmed-in to two permits in the onshore Otway Basin and was granted two new permits in the Bass Basin off the north coast of Tasmania.

The four new permit interests add balance to the BAS portfolio. Firstly, by adding an onshore component where operational costs and cycle times are reduced compared to offshore, and secondly, by adding an under-explored 'greenfields' area in the Bass Basin, where the Company's expertise can add value early in the exploration cycle.

With the addition of the new acreage to our quality holding in the Gippsland Basin, BAS now holds a strong and balanced acreage position encompassing all the productive basins of southeast Australia.

In the Gippsland Basin, the Company seeks to leverage the value inherent in its growing knowledge of the region and in a 3D seismic database which contains over 7000 sq km of proprietary and open file data. All of this data is available on BAS seismic interpretation system and helps to provide a competitive edge in our exploration of the Bass Strait region.

BAS continues to assess new opportunities to expand our acreage portfolio so that it maintains a strong pipeline of future drilling targets.



BAS Permit Interests

REVIEW OF OPERATIONS (CONTINUED)

GIPPSLAND BASIN

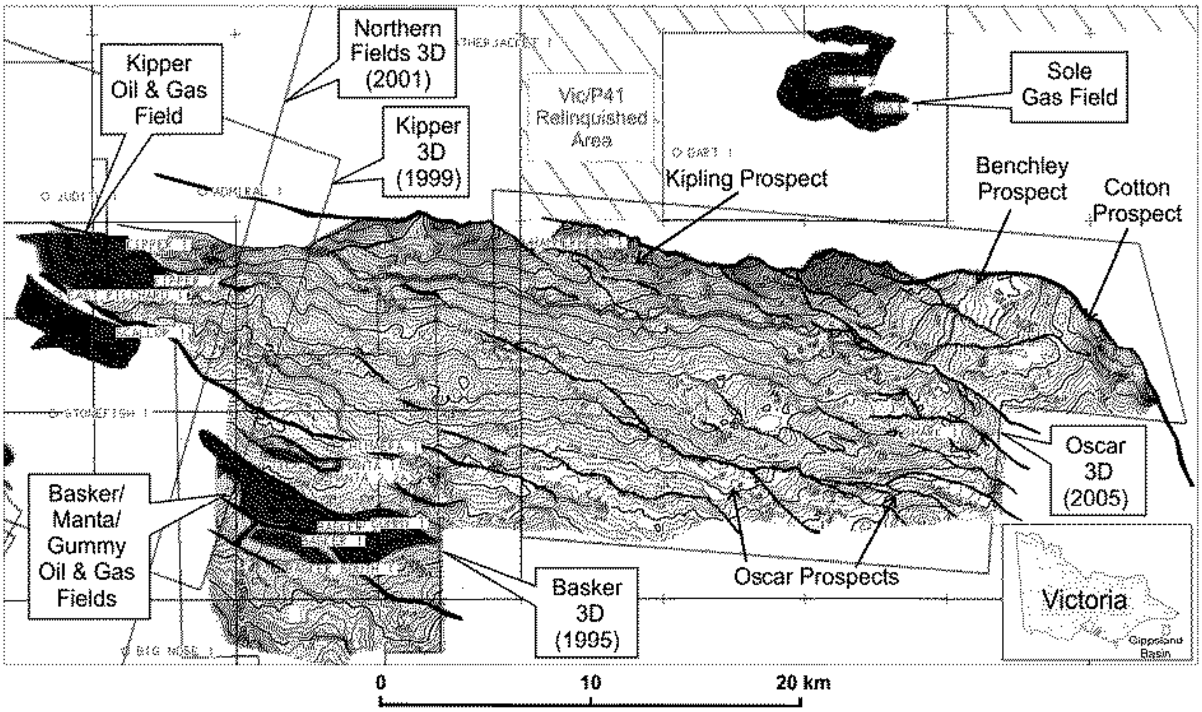
Vic/P41, BAS 45% and Operator

In early 2005 the Vic/P41 joint venture recorded the first 3D seismic survey in this eastern Gippsland Basin permit. Interpretation of the 3D data has detailed a number of high-potential prospects, including on-trend analogues of the Basker/Manta/Gummy and Kipper fields. Production plans for Basker/Manta/Gummy and for Kipper have been announced by the operators of these fields.

BAS is now seeking farmin parties to earn an interest in Vic/P41 by funding drilling based on the 3D seismic dataset. The tight market for offshore drilling rigs is expected to push any Vic/P41 drilling activity in to 2007 or later.

The eastern area of Vic/P41, which exhibits potential leads on the limited existing seismic coverage, is targeted for additional 2D seismic acquisition as part of the work commitment for the second permit term.

Vic/P41 has reached the end of its first permit term. Following relinquishment of 50% of the original area, a new five year term has been offered by the Designated Authority and has been accepted by the joint venture. The new term will commence upon formal grant and the renewed permit will cover all areas of prospective interest, including the Oscar 3D survey area.



Regional map of Vic/P41 area based on 3D seismic data

REVIEW OF OPERATIONS (CONTINUED)

Vic/P42, BAS 50% and Operator, reducing to 20% after farm out

An external prospectivity review of this permit was completed in early 2006, confirming the potential for oil accumulations in the under-explored northwest area of the permit. These plays include leads analogous to the nearby Dolphin and Perch producing oil fields.

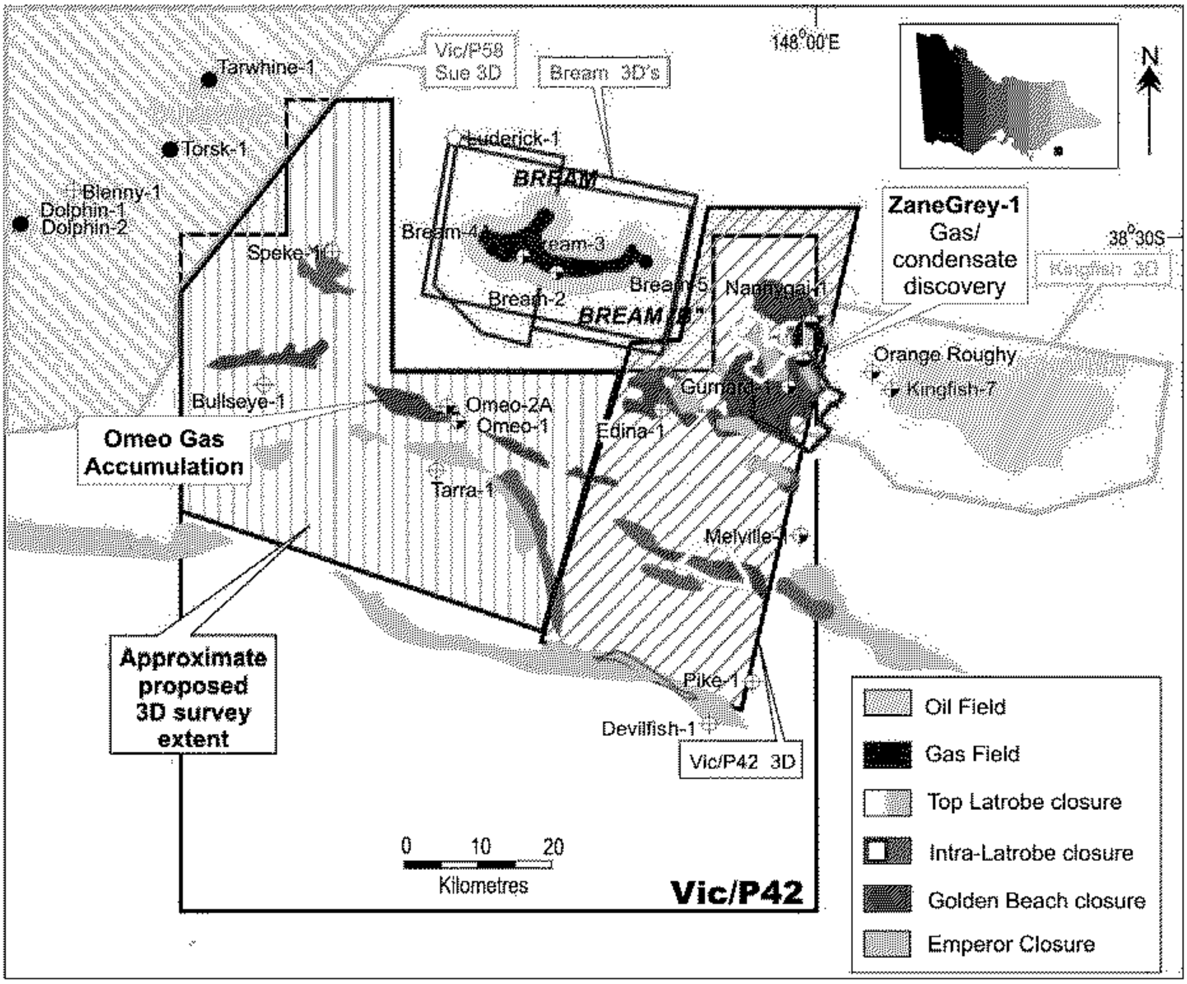
Based in part on this prospectivity, in May 2006 BAS agreed a farmout of Vic/P42 to Apache Northwest Pty Ltd ("Apache"). Apache will fund the recording and processing of approximately 500 sq km of 3D seismic, plus the drilling of one exploration well, in order to earn a 60% interest and operatorship in the permit.

BAS will retain a 20% interest, fully funded through the seismic acquisition and processing and the drilling of a well. BAS now estimates the value of the work to be undertaken by Apache to be on the order of $35 million.

Apache has contracted WesternGeco to record the 3D seismic survey which is scheduled for December 2006. Exploration drilling is conditionally planned as part of a programme to start approximately late 2007.

The farmout seismic will be the first 3D survey in the western and northwestern areas of the Vic/P42 permit and will be designed to complete continuous coverage between BAS' 2002 3D survey in the east of the permit and Apache's 2005 3D survey in permit Vic/P58 adjacent to the west. .

A number of leads have been identified on older 2D seismic in the new 3D survey area, including leads analogous to the nearby Dolphin and Perch producing oil fields. The new 3D survey will also cover the 1983 Omeo gas and condensate discovery.



Vic/P42 prospects and leads and 3D seismic coverage

REVIEW OF OPERATIONS (CONTINUED)

Vic/P47, BAS 40% and Operator

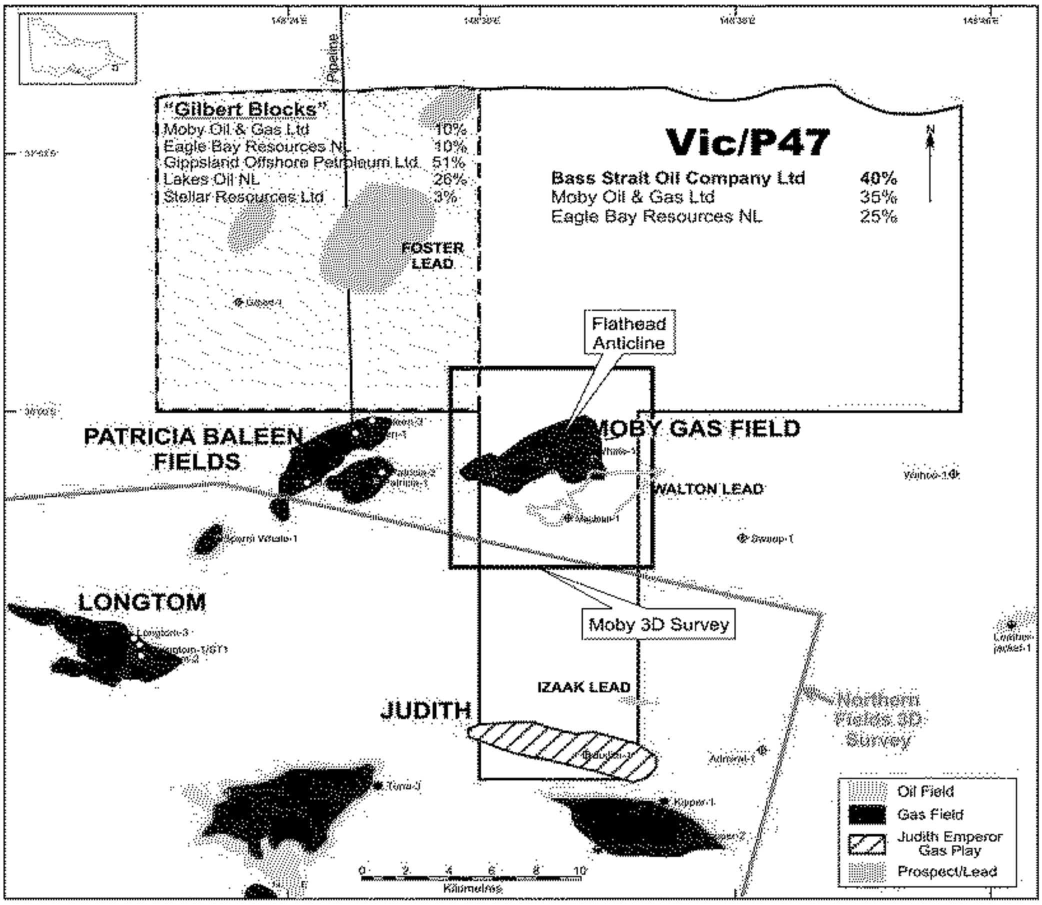
In this permit BAS operated a two-well, back-to-back drilling programme with the Ocean Patriot rig during October 2005.

Gilbert-1/1A encountered fluorescence and hydrocarbon shows in the Gurnard Formation indicating that hydrocarbons have moved into the Gilbert area. However, it was concluded that Gilbert-1A did not encounter commercial hydrocarbons. BAS held no participating interest in Gilbert-1/1A but received a fee for operating the well.

BAS retained its 40% participating interest in the second well, Maclean-1, which targeted a downthrown fault closure with the Latrobe Group sandstones as the main reservoir target. The well intersected the reservoir zones as planned but there was no evidence of significant hydrocarbons in the well. BAS believes that a lack of fault sealing, and therefore a lack of an effective hydrocarbon trap, is the most likely explanation for the Maclean-1 result.

During the year the Company continued to review options for the development of the 2004 Moby gas discovery.

The Company completed a technical review of the Judith-1 gas discovery well in the south of Vic/P47 (drilled by Shell in 1989), including re-mapping of the structure using modern 3D seismic data. The Judith feature contains a gas resource which shares many characteristics with the Longtom gas field in the adjacent Vic/P54 permit. Both accumulations rely on sandstone reservoirs in the Emperor Subgroup where the primary risk has been seen as the low permeability, and therefore low potential production rates, of the reservoir sands. The recent successful production test at the Longtom-3 appraisal / development well – the first ever for the Emperor Subgroup - has significantly upgraded the potential at Judith, as well as for this play across the basin.



Vic/P47 prospects and leads and 3D seismic coverage

REVIEW OF OPERATIONS (CONTINUED)

BASS BASIN

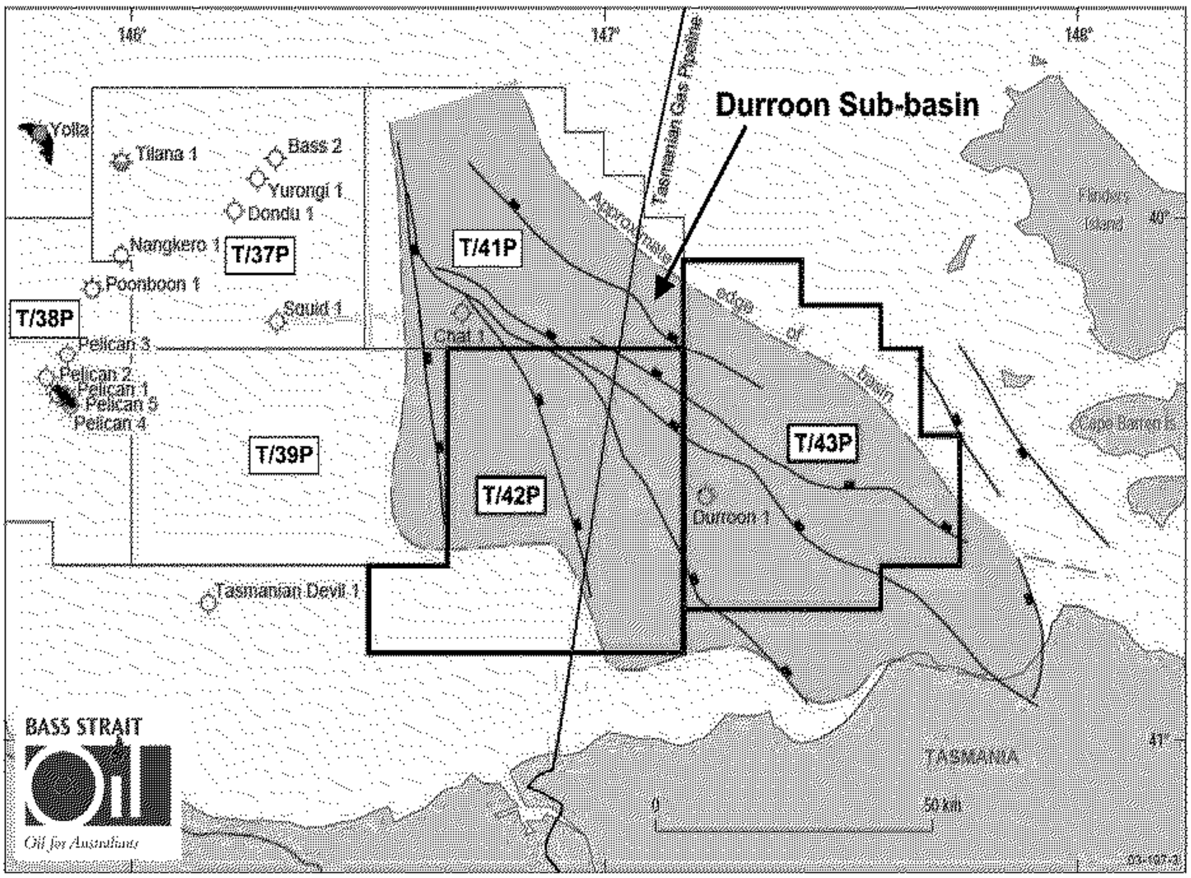
T/42P and T/43P, BAS 100% and Operator

In March 2006, BAS announced that it had been awarded two new offshore Bass Basin exploration permits. Permits T/42P and T/43P comprise a total of some 6,120 sq km covering the Durroon Sub-basin off the north coast of Tasmania. Only two wells have been drilled in the Durroon Sub-basin, neither of which penetrated the older section where BAS is initially targeting new play concepts. The Company views these under-explored areas as a 'grass roots' exploration opportunity, where its early-phase geological and geophysical work has the potential to add significant value to the permit.

While there is relatively little geological data relating to these large permits, one attractive play concept the Company will evaluate is that of turbidite sand deposits within the lacustrine (i.e. lake-deposited) shale of the Durroon Formation. Turbidites are submarine sediment flows that can deposit sandy reservoir units and can lead to a prospective combination of a sandy reservoir unit encased in sealing shale.

The Durroon Sub-basin turbidite play is still conceptual at this stage but is supported by high amplitude events and mounded structures evident on the relatively sparse existing seismic data. BAS believes there is strong potential for further development of this and other play concepts in T/42P and T/43P. BAS will pursue a technically-driven programme of data analysis and data acquisition with the initial aim of adding value to these permits by maturing this potential into drillable targets. A re-interpretation of all available data is now underway, as a basis for planning future seismic acquisition.

The new T/42P and T/43P permits complement the Company's existing Bass Basin asset, which is a 0.0648% over-riding royalty on production from the Yolla Field in the TL/1 production licence. Yolla Field operator, Origin Energy, has reported that sales of gas and liquids have commenced and that production ramp-up and plant testing is continuing.



Durroon Sub-basin Location Map

After Edgerly and Taylor 1990, 2004 Gazettal package

REVIEW OF OPERATIONS (CONTINUED)

OTWAY BASIN

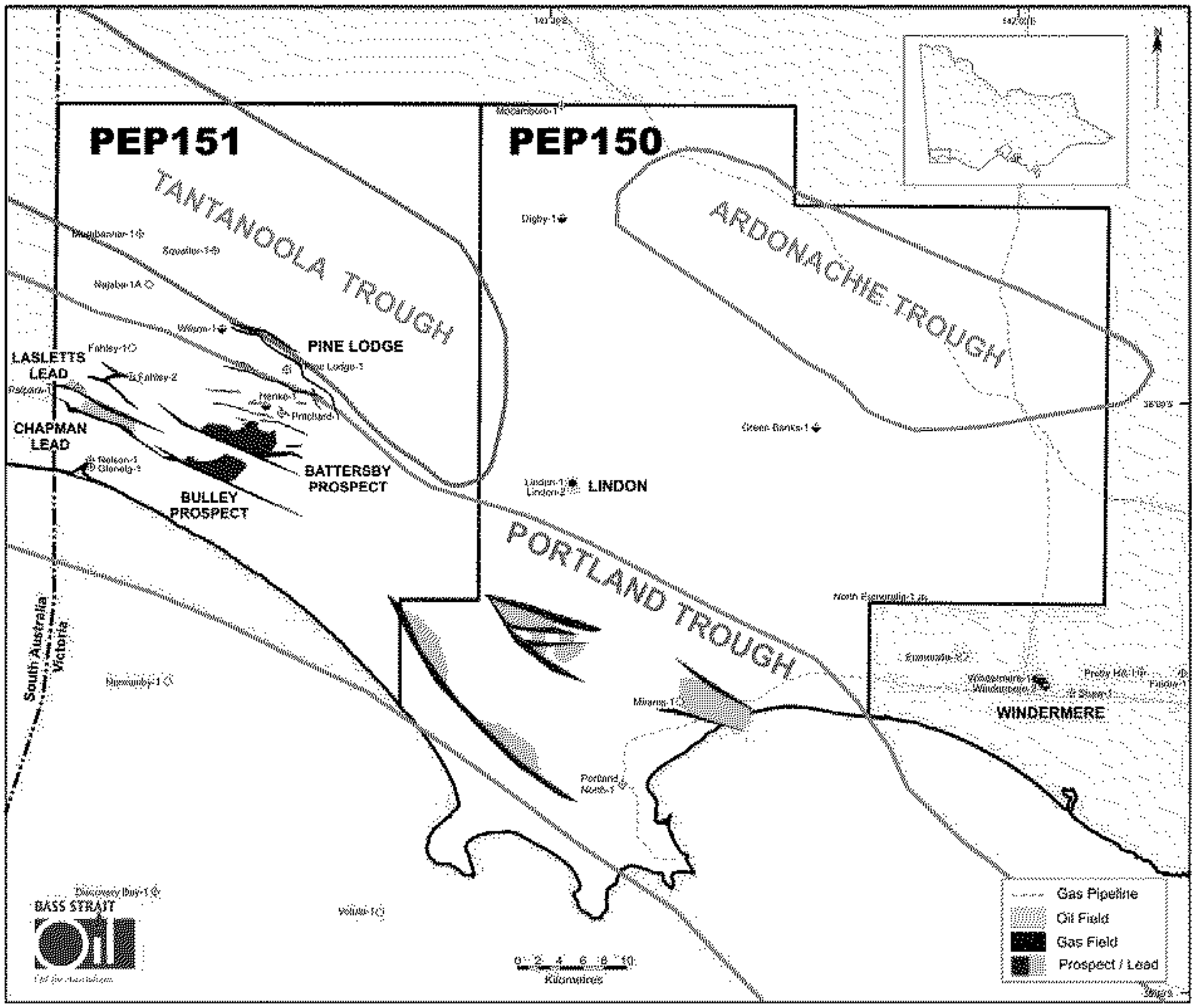
In April 2006, BAS participated in the drilling of the Pritchard-1 well in permit PEP 151 on the north-eastern flank of the Portland Trough in the onshore Otway Basin, approximately 50 km northwest of Portland, Victoria.

Analysis of wire line logs indicated that all zones in Pritchard-1 were water bearing and the well was plugged and abandoned. The operator, Essential Petroleum Resources Limited, reported that good quality reservoirs were intersected at several levels in the well and that Pritchard-1 has made a significant contribution to understanding the hydrocarbon potential of the Late Cretaceous age Discovery Bay High and the Tertiary age Portland Trough.

By contributing to the Pritchard-1 well, BAS earned the right to take up a 25% interest in the PEP 151 permit. During July 2006 BAS exercised this right and BAS will be assigned a 25% interest in PEP 151.

BAS' contribution to Pritchard-1 also earned it the right to farm in to a 15% interest in the adjacent PEP 150 permit application (yet to be awarded subject to negotiation of Native Title), which contains the Lindon oil discovery. BAS also exercised this right during July 2006 and a farm in agreement will be executed whereby BAS can earn a 15% interest in PEP 150 by contributing to the drilling of a well on promoted terms.

The operator is now preparing a proposal for further exploration of the PEP 151 permit.



PEP 150 and PEP 151 location map

REVIEW OF OPERATIONS (CONTINUED)

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 the Company for the year ended 30 June 2006 and the state of affairs of the Company at that date. BAS is a company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

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

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

Mr Wheelahan served on the audit committee during the year. He 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. He is an honorary life member of the Australian Petroleum Production and Exploration Association.

During the last three years Mr Wheelahan has served as Chairman of Pacific Hydro Ltd, as deputy Chairman of Transfield Services Limited, Chairman of The Gribbles Group Ltd, Chairman of the Council on Australian and Latin American Relations and a member of the Rio Tinto Foundation for Sustainable Minerals Processing Board.

Andrew R Adams Managing Director B.Sc. MBA MAICD ***(Appointed 19/7/2006)***

Mr Adams has been working with the Company since 2001 and was appointed chief executive officer on 19 August 2005. He was appointed Managing Director on 19 July 2006.

Mr Adams holds a Bachelor's degree in geophysics as well as an MBA and has been working in the upstream petroleum industry since starting as a geophysicist in 1979 in his native Canada. His experience spans both technical and commercial aspects of the business with large and small enterprises, including Amoco Canada, Santos and Cue Energy Resources.

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

Mr Albers acted as chief executive officer until 19 August 2005 and a non executive director from that date.

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 gas field 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 (MOG) and Cue Energy Resources Limited. He is a member of the Petroleum Exploration Society of Australia and a member of the APPEA Exploration Committee.

REPORT BY DIRECTORS (CONTINUED)

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

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

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

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

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

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

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

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

Company Secretary

Mr David .B. Hill has been Company Secretary for 5 years and presently holds the position of Company Secretary in other listed companies in the resources sector. Mr Hill has served as Company Secretary of listed companies in the mining exploration sector for 26 years.

REPORT BY DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS

The amount of each element of the remuneration of each director is set out in the Remuneration Report on page 16.

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:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
AR Adams	300,000	1,725,000
EG Albers	24,168,283	2,323,056
HJ Askin	1,505,000	890,000
RJ Flew	1,476,250	620,000
B Wheelahan	2,207,350	680,000
	29,656,883	6,238,056

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 Meetings		Audit Committee	
	Held	Attended	Held	Attended
EG Albers	9	9	-	-
HJ Askin	9	9	2	2
RJ Flew	9	9	2	2
B Wheelahan	9	8	2	2

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 15,392,056 unissued ordinary shares under option (14,892,056 at the reporting date). Refer to note 15 of the financial statements for further details of the options outstanding. Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

Between 1 July 2005 and the date of this report, no options to acquire fully paid ordinary shares in Bass Strait Oil Company Ltd were exercised by either employees or executives.

30 June 2007 Options

A total of 4,092,056 options exercisable 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 5,000,000 options were issued during the year and at balance date and at the date of this report, 9,092,056 30 June 2007 options exercisable at 30 cents were outstanding. These options were admitted for quotation by the ASX on 3 January 2006, under the code BASO.

REPORT BY DIRECTORS (CONTINUED)

SHARE OPTIONS (CONTINUED)

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. Pursuant to the Plan:

- 1,900,000 options, exercisable at a price of 25 cents on or before 30 September 2008, granted to Directors were outstanding both at the beginning of the year and at the date of this report.
- 600,000 options, exercisable at a price of 25 cents on or before 30 September 2008, granted to employees and consultants were outstanding both at the beginning of the year and at the date of this report.
- Both 1,050,000 options, exercisable at 25 cents, and 1,050,000 options, exercisable at 30 cents, expiring on or before 30 June 2010, granted to employees and consultants were outstanding both at the beginning of the year and at the date of this report.

Other Remuneration Options

- 700,000 options, exercisable at a price of 25 cents at any time before 30 September 2008, granted to employees and consultants are not subject to the progressive exercise terms of the Plan, were outstanding both at the beginning of the year and at the date of this report.
- On 20 September 2005, 500,000 options, expiring on 30 June 2007 are exercisable at a price of 30 cents in two equal tranches of 250,000 at 1 June 2006 and 1 April 2007, granted to the then Chief Executive Officer were outstanding at the date of this report.
- On 17 July 2006, 500,000 options, expiring on 30 June 2008 are exercisable at a price of 15 cents in two equal tranches of 250,000 at 1 June 2007 and 1 April 2008, granted to the Managing Director were outstanding at the date of this report.

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITY

BAS is involved in exploration for oil and gas in onshore and offshore areas of south-eastern Australia. Refer to page 3 of the Annual Report for a detailed review of the corporate activities . The interests and exploration programs in which the Company has interests are not mature and can be regarded as highly speculative.

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 2006, the Company had 8 employees (30 June 2005 8 employees), including directors.

OPERATING AND FINANCIAL REVIEW

Operating results for year

The Company's operating loss for the year ended 30 June 2006 after income tax was $2,582,105.

The Company was the operator for four joint ventures increasing its revenue by $572,028 to $1,713,028. As operator it successfully supervised the drilling of two off-shore wells and it also participated in one on-shore well. The wells, having been plugged and abandoned, resulted in all direct well costs of $3,363,555 being written off and adversely affecting the operating results.

Capital raising

On 4 October 2005, the Company issued, pursuant to an excluded offer to sophisticated investors, 10,000,000 ordinary shares and 5,000,000 attaching options, exercisable at 30 cents by 30 June, 2007, to raise a net $1,885,962 for both working capital and to fund its 2006 exploration programme.

REPORT BY DIRECTORS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Liquidity

The Group consolidated cash flow statement for the year determined that there was a decrease of $133,143 (2005: increase of $2,699,111) in cash and cash equivalents. The cash inflow derived from both the capital raising of $1,885,962 and net operating receipts of $3,184,718 but cash outflows relating to petroleum expenditure of $5,162,366 exceeded the inflows. Cash assets at 30 June 2006 were $2,669,871which are sufficient to meet forecast budgets for the year ending 30 June 2007.

STATE OF AFFAIRS

The Group total equity declined by $609,403. A net capital raising to sophisticated investors of $1,885,962 was offset by a decline in retained earnings of $2,582,104.

In May 2006 the Company agreed to farmout 30% of its interest in the Vic P42 licence area to Apache Northwest Pty Ltd which has agreed to fund both the recording and processing of a 3D seismic survey and one exploration well. The Company will retain a 20% interest in the licence area.

DIVIDENDS

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

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.

EVENTS SUBSEQUENT TO BALANCE DATE

There are no subsequent events to balance date that require disclosure.

REMUNERATION REPORT

The Remuneration Report outlines the remuneration arrangements in place for key management personnel.

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

- Provide competitive rewards to attract high calibre executives.
- Link executive rewards to shareholder value.
- 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 (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Relationship of rewards to performance

The Company's activities, during the past four financial years, have been predominantly in 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 a 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 had a highest sale price of 26 cents and a lowest sale price of 5.4 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 $184,392 was paid to directors during the year ended 30 June 2006. As from 1 September 2005, non-executive directors' remuneration payable increased from $125,350 to $196,200 per annum.

Each non-executive director receives remuneration 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 in the financial statements.

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 that total remuneration is competitive by market standards.

Executive remuneration (continued)

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 incentive plans is to reward the creation of shareholder wealth. These incentives are delivered in the form of options over the Company's shares, details of which are set out in the financial statements.

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 (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Employment contracts

The Managing Director, Mr A Adams was employed during the year as Chief Executive Officer from 19 August 2005 to 19 July 2006, being the date of his new appointment. He acted as General Manager, Commercial prior to 19 August, 2005. As Chief Executive Officer, Mr Adams' employment contract included the following terms:

- salary remuneration,
- the grant of 500,000 options, expiring on 30 June, 2007 at an exercise price of 30 cents per option,
- 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, Company Secretary, was remunerated on the basis of time engaged in such services at commercial rates. Mr Reid, General Manager, Exploration, was remunerated on a time basis at commercial rates. Mr Reid's consulting firm, Terra Firma Technology Pty Ltd, was appointed Technical Advisor to the Company at the beginning of the financial year.

Remuneration of directors and named executives

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

30 June 2006	Short-Term Salary & Fees $	Post Employment Superannuation $	Share-based Payment Options $	Total $	Total Performance Related
Directors					
B Wheelahan	56,667	5,100	5,754	67,521	8.52%
EG Albers	27,500	13,375	4,603	45,478	10.12%
HJ Askin	27,500	13,375	5,754	46,629	12.34%
RJ Flew	37,500	3,375	5,754	46,629	12.34%
Executives					
AR Adams (a)	234,432	24,000	32,835	291,267	11.27%
DB Hill	12,510	3,536	1,806	17,852	10.11%
ISA Reid	271,051	-	24,613	295,664	8.32%
	667,160	62,761	81,119	811,040	

(a) Mr Adams was appointed Chief Executive Officer on 19 August 2005 following his role as General Manager, Commercial. On 19 July 2006 Mr Adams was appointed Managing Director.

REPORT BY DIRECTORS (CONTINUED)

REMUNERATION REPORT (CONTINUED)

	Short-Term	Post Employment	Share-based Payment Options	Total	Total Performance Related
30 June 2005	Salary & Fees	Superannuation			
	$	$	$	$	
Directors					
B Wheelahan	40,000	3,600	7,167	50,767	14.12%
EG Albers	25,000	2,250	7,167	34,417	20.82%
HJ Askin	25,000	2,250	7,167	34,417	20.82%
RJ Flew	25,000	2,250	7,167	34,417	20.82%
Executives					
AR Adams	225,425	24,000	2,318	251,743	0.92%
DB Hill	22,413	5,610	2,318	30,341	7.64%
ISA Reid	291,761	-	5,796	297,557	1.95%
	654,599	39,960	39,100	733,659	

Options granted as part of remuneration

	Grant date	Grant number	Value per option at grant date	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Total value of options granted, exercised and lapsed during year	% remuneration consisting of options for the year
				$	$	$	$	
Executives								
AR Adams	19/08/05	250,000	0.028	7,075	-	-	7,075	
	19/08/05	250,000	0.029	7,325	-	-	7,325	
		500,000		14,400	-	-	14,400	3.75%

For details on the valuation of the options, including models and assumptions used, please refer to Note 19. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

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 options lapsed during the year. Refer to note 19 in the financial statements for detailed option information.

REPORT BY DIRECTORS (CONTINUED)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the declaration from the auditor of Bass Strait Oil Company Ltd attached at page 19.

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that the auditor independence was not compromised.

Advice on application of A-IFRS	$10,000

Signed in accordance with a resolution of the Directors.

Managing Director
Melbourne, 27 September 2006

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777

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 year ended 30 June 2006, 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
Melbourne
27 September 2006

Liability limited by a scheme approved under
Professional Standards Legislation

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the Company and 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 2006 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 2006.

On behalf of the Board

Managing Director
Melbourne, 27 September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent	
	NOTE	2006	2005	2006	2005
		$	$	$	$
Management services arising as operator of petroleum exploration joint ventures		1,713,028	1,141,000	1,713,028	1,141,000
Administrative services		15,845	5,882	15,845	5,882
Interest from banks		141,766	354,494	141,766	354,494
Total revenue		1,870,639	1,501,376	1,870,639	1,501,376
Other Income	3(a)	350	17,062	350	17,062
Employee benefits expense	3(e)	(437,617)	(363,533)	(437,617)	(363,533)
Depreciation expense	3(d)	(31,496)	(39,853)	(31,496)	(39,853)
Exploration expenditure	3(f)	(3,224,175)	(10,792,853)	(3,224,175)	(10,792,853)
Other expenses	3(b)	(759,806)	(774,623)	(759,806)	(774,623)
Finance costs	3(c)	-	(3,705)	-	(3,705)
Loss before income tax		(2,582,105)	(10,456,129)	(2,582,105)	(10,456,129)
Income tax benefit	4	-	444,473	-	444,473
Loss attributable to members of the parent		(2,582,105)	(10,011,656)	(2,582,105)	(10,011,656)
Basic (loss) earnings per share	25	(2.04) cents	(9.88) cents		
Diluted (loss) earnings per share	25	(2.04) cents	(9.88) cents		

BALANCE SHEET
AS AT 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
ASSETS					
Current Assets					
Cash and cash equivalents	5	2,669,871	2,803,015	2,669,870	2,803,014
Trade and other receivables	6	233,080	1,726,437	233,080	1,726,437
Other	7	-	1,660	-	1,660
Total Current Assets		2,902,951	4,531,112	2,902,950	4,531,111
Non-current Assets					
Plant and equipment	8	56,586	53,721	56,586	53,721
Intangible assets	9	475,923	475,923	475,923	475,923
Exploration and evaluation expenditure	10	5,304,233	6,053,009	5,304,233	6,053,009
Investment in controlled entities	11	-	-	1	1
Total Non-current Assets		5,836,742	6,582,653	5,836,743	6,582,654
TOTAL ASSETS		8,739,693	11,113,765	8,739,693	11,113,765
LIABILITIES					
Current Liabilities					
Trade and other payables	13	145,924	1,906,562	145,924	1,906,562
Provisions	14	11,665	27,569	11,665	27,569
Total Current Liabilities		157,589	1,934,131	157,589	1,934,131
Non-current Liabilities					
Provisions	14	11,873	-	11,873	-
Total Non-current Liabilities		11,873	-	11,873	-
TOTAL LIABILITIES		169,462	1,934,131	169,462	1,934,131
NET ASSETS		8,570,231	9,179,634	8,570,231	9,179,634
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	15	19,872,732	17,986,770	19,872,732	17,986,770
Retained earnings	16	(11,458,187)	(8,876,082)	(11,458,187)	(8,876,082)
Reserves	17	155,686	68,946	155,686	68,946
TOTAL EQUITY		8,570,231	9,179,634	8,570,231	9,179,634

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Issued Capital	Share based payment reserve	Accumulated Losses	Consolidated Total Equity
	$	$	$	$
At 1 July 2005	17,986,770	68,946	(8,876,082)	9,179,634
Loss for period	-	-	(2,582,104)	(2,582,104)
Cost of share based payment during period	-	86,740	-	86,740
Issue of shares	2,000,000	-	-	2,000,000
Costs of issue	(114,038)	-	-	(114,038)
At 30 June 2006	19,872,732	155,686	(11,458,186)	8,570,232
At 1 July 2004	2,904,602	13,477	1,080,104	3,998,183
Loss for period	-	-	(9,956,186)	(9,956,186)
Cost of share based payment during period	-	55,469	-	55,469
Issue of shares	16,000,000	-	-	16,000,000
Exercise of options	97,383	-	-	97,383
Costs of issue	(1,015,215)	-	-	(1,015,215)
At 30 June 2005	17,986,770	68,946	(8,876,082)	9,179,634

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash flows from operating activities					
Receipts from customers		4,254,345	733,862	4,254,345	733,862
Payments to suppliers and employees		(1,450,173)	(1,175,120)	(1,450,173)	(1,175,120)
Petroleum exploration expenditure		(5,162,366)	(13,566,752)	(5,162,366)	(13,566,752)
Net goods and services tax receipts		234,244	1,273,455	234,244	1,273,455
Interest received		146,302	349,602	146,302	349,602
Interest paid		-	(3,705)	-	(3,705)
Net cash used in operating activities	5	(1,977,648)	(12,388,658)	(1,977,648)	(12,388,658)
Cash flows from investing activities					
Payments for plant and equipment	8	(41,808)	(32,893)	(41,808)	(32,893)
Receipts from disposal of plant and equipment		350	-	350	-
Net cash used in investing activities		(41,458)	(32,893)	(41,458)	(32,893)
Cash flows from financing activities					
Proceeds from issues of ordinary shares	15	2,000,000	16,097,383	2,000,000	16,097,383
Payment of prospectus and share issue costs	15	(114,038)	(976,721)	(114,038)	(976,721)
Net cash from financing activities		1,885,962	15,120,662	1,885,962	15,120,662
Net increase / (decrease) in cash assets		(133,144)	2,699,111	(133,144)	2,699,111
Cash assets at the beginning of the period		2,803,015	103,904	2,803,014	103,903
Cash assets at the end of the period	5	2,669,871	2,803,015	2,669,870	2,803,014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1 CORPORATE INFORMATION

The financial report of Bass Strait Oil Company Ltd. (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 22 September 2006.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial statements have been prepared both on a historical cost basis and under the going concern convention on the assumption that the company continues to receive appropriate funding for its exploration and evaluation activities, either from capital raising, sale or farm-out of its petroleum exploration tenement interests.

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. The financial report is presented in Australian dollars.

Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, conforms to International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 26.

Except for the revised AASB 119 Employee Benefits (issued December 2005), the Australian Accounting Standards that, were recently issued or amended but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2006 include:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard *	Application date for Group
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First-time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation , AASB 101: Presentation of Financial Statements , AASB 114: Segment Reporting , AASB 117: Leases , AASB 133: Earnings per Share , AASB 139: Financial Instruments: Recognition and Measurement , AASB 1: First-time adoption of AIFRS	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
New Standard	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates	No change to accounting policy required. Therefore no impact	1 January 2006	
	New or revised Standard/ UIG Affected Standard (s)			
	UIG 4 Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact	1 January 2006	1 January 2006
	UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Funds	No change to accounting policy required. Therefore no impact	1 January 2006	1 January 2006
	UIG 8 Scope of AASB 2	No change to accounting policy required. Therefore no impact	1 May 2006	1 May 2006

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement , AASB 132: Financial Instruments: Disclosure and Presentation , AASB 1: First-time adoption of AIFRS , AASB 1023: General Insurance Contracts and AASB 1028: Life Insurance Contracts
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts , AASB 1023: General Insurance Contracts , AASB 139: Financial Instruments: Recognition and Measurement , AASB 132: Financial Instruments: Disclosure and Presentation
2005-12	AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
2005-13	AAS 25: Financial Reporting by Superannuation Plans

Principles of Consolidation

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

The financial statements of subsidiaries are prepared, for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, including income, expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

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

Significant Accounting Estimates and Assumptions

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer, using a binomial model, using the assumptions detailed in the notes.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in the notes.

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 either the contract outcome or control of the right to be compensated for the services and the stage of completion can be reliably measured, revenue is recognised by reference to the stage of completion of the contract. The 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Royalty income
Royalty revenue is recognised as it is received on a quarterly basis in accordance with the royalty distributions. It is calculated by reference to the gross value of hydrocarbons produced.

Interest income
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ending 30 June 2005
Revenue is recognised when the Group's right to receive payment is established.

Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and Other Receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Trade receivables, which generally have 30-90 day terms, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ending 30 June 2005
Trade receivables were recognised and carried at the original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

Impairment of Financial Assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ending 30 June 2006 and 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies applicable for the year ending 30 June 2006
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are significant, and individually or collectively for financial assets that are not significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Accounting policies applicable for the year ending 30 June 2005
For current financial assets, refer to the note containing details of that policy and the impairment accounting policy. For non-current financial assets, refer to the impairment accounting policy.

Foreign Currency Translation

Both the functional and presentation currency of Bass Strait Oil Company Ltd. and its Australian subsidiary is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.
All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency suppliers that provide materials and services for exploration activities. These are capitalised to exploration expenditure.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in a Jointly Controlled Operation

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

Income Tax

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

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

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in either profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other Taxes

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

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

- receivables and payables, which are stated with the amount of GST included.

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

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

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

Plant and Equipment

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

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

Plant and equipment – over 3 to 10 years
Leasehold improvements – up to 3 years

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

Impairment
The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated, when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Plant and equipment impairment losses are recognised, in the income statement, under the depreciation and amortisation line item.

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Investments and Other Financial Assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Accounting policies applicable for the year ending 30 June 2005
All other non-current investments were carried at the lower of cost and recoverable amount.

Recoverable amount
Non-current financial assets measured using the cost basis was not carried at an amount above their recoverable amount, and if a carrying value exceeded this recoverable amount, the financial asset would be written down to its recoverable amount. In determining the recoverable amount, the expected net cash flows would be discounted to their present value using a market determined risk adjusted discount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

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

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

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is carried forward separately for each area of interest provided that:

- the right to explore is current and is expected to be renewed if the expiry date is near;
- substantive expenditure on exploration and evaluation is either budgeted or planned;
- exploration and evaluation work has not determined that the resource is not sufficient to be commercially viable;
- sufficient data exists to determine that the carrying amount is likely to be recovered in full from successful development or by sale.

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, using the production output basis method.

The rights of tenure over exploration areas are current.

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 discounted 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.

Trade and Other Payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies applicable for the year ending 30 June 2006
Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005
Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Employee Benefits

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

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

Share-based Payment Transactions

Equity based compensation in the form of options, valued at grant date, are disclosed as director and executive remuneration and recognised against profits.

Equity settled transactions:
The Group provides benefits to employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for rights over shares (equity-settled transactions).

There is currently an Employee Share Option Plan (ESOP) in place that provides benefits to directors and senior executives.
The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 19.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 25).

Contributed Equity

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

Earnings per Share

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

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for costs of servicing equity (other than dividends); divided by the weighted average number of ordinary shares plus dilutive potential ordinary shares and adjusted for any bonus element.

		Consolidated		Parent	
	NOTE	2006	2005	2006	2005
		$	$	$	$
NOTE 3 REVENUE AND EXPENSES					
Revenue and expenses from continuing operations:					
(a) Other Income					
Net gains on disposal of plant and equipment		350	-	350	-
Net foreign exchange differences		-	17,062	-	17,062
		350	17,062	350	17,062

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $

NOTE 3 REVENUE AND EXPENSES (CONTINUED)

(b) Other Expenses

Audit fees	47,000	53,020	47,000	53,020
Consultants fees related parties	10,500	65,729	10,500	65,729
Consultants fees other	214,503	177,167	214,503	177,167
Directors' remuneration	184,392	125,350	184,392	125,350
Legal expenses	18,000	-	18,000	-
Premises costs	108,071	54,817	108,071	54,817
Other expenses	92,031	194,390	92,031	194,390
Shareholder costs	83,177	73,223	83,177	73,223
Travel	2,131	30,927	2,131	30,927
	759,805	774,623	759,805	774,623

(c) Finance Costs

Interest paid	-	3,705	-	3,705

(d) Depreciation, Amortisation, Foreign Exchange differences included in the Income Statement

Depreciation	28,285	39,621	28,285	39,621
Exchange loss	3,211	232	3,211	232
	31,496	39,853	31,496	39,853

(e) Employee Benefits Expense

Wages and salaries	293,348	251,969	293,348	251,969
Superannuation	36,565	43,457	36,565	43,457
Workers compensation	9,091	12,637	9,091	12,637
Provision for long service leave	11,873	-	11,873	-
Share-based payments expense	86,740	55,470	86,740	55,470
	437,617	363,533	437,617	363,533

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 3 REVENUE AND EXPENSES (CONTINUED)					
(f) Exploration Expenditure					
Exploration expenditure written off		3,363,555	10,792,853	3,363,555	10,792,853
Exploration expenditure recovered		(150,694)	-	(150,694)	-
Other exploration expenditure		11,314	-	11,314	-
		3,224,175	10,792,853	3,224,175	10,792,853

NOTE 4 INCOME TAX

The major components of income tax expense are:

Income Statement

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current income tax				
Deferred income tax expense/(benefit)	-	(444,473)	-	(444,473)
Income tax expense reported in the Income Statement	-	(444,473)	-	(444,473)

Statement of changes in equity

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Income tax expense reported in Equity	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 4 INCOME TAX (CONTINUED)					
A reconciliation between tax expense and the product of accounting profit (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:					
Accounting profit before tax from continuing operations		(2,582,105)	(10,456,129)	(2,582,105)	(10,456,129)
Accounting loss before income tax		(2,582,105)	(10,456,129)	(2,582,105)	(10,456,129)
At the Group's statutory income tax rate of 30% (2005: 30%)		(774,632)	(3,136,839)	(774,632)	(3,136,839)
Non-deductible expenses		2,605	-	2,605	-
Share based payment expense		26,022	16,641	26,022	16,641
Other		(13,139)	-	(13,139)	-
Adjustments in respect to prior periods		71,997	-	71,997	-
Tax losses not brought to account		687,147	2,675,725	687,147	2,675,725
Income tax expense/(benefit) reported in the consolidated income statement		-	(444,473)	-	(444,473)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 4 INCOME TAX (CONTINUED)

	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	$	$	$	$
Deferred Income Tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	-	-	-	-
Exploration expenditure recoverable	(1,591,271)	(1,815,904)	224,633	(559,707)
Intangible asset	(142,777)	(142,777)	-	-
Other	-	(1,965)	1,965	-
Gross deferred income tax liabilities	(1,734,048)	(1,960,646)		
Deferred tax assets				
Accruals	8,948	11,923	2,975	36,235
Provisions	7,061	8,271	1,210	(4,276)
Share issue costs	220,525	267,193	46,668	152,671
Other	3,540	1,458	(2,082)	-
Tax losses recognised to offset net deferred tax liability	1,493,974	1,671,801	177,827	819,550
Deferred tax assets not accounted	-	-	(453,196)	-
Gross deferred income tax assets	1,734,048	1,960,646		
Deferred tax income / (expense)			-	444,473
PARENT				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	-	-	-	-
Exploration expenditure recoverable	(1,591,271)	(1,815,904)	224,633	(559,707)
Intangible asset	(142,777)	(142,777)	-	-
Other	-	(1,965)	1,965	-
Gross deferred income tax liabilities	(1,734,048)	(1,960,646)		
Deferred tax assets				
Accruals	8,948	11,923	2,975	36,235
Provisions	7,061	8,271	1,210	(4,276)
Share issue costs	220,525	267,193	46,668	152,671
Other	3,540	1,458	(2,082)	-
Tax losses recognised to offset net deferred tax liability	1,493,974	1,671,801	177,827	819,550
Deferred tax assets not accounted	-	-	(453,196)	-
Gross deferred income tax assets	1,734,048	1,960,646		
Deferred tax income / (expense)			0	444,473

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 4 INCOME TAX (CONTINUED)

Tax losses

The Group has unrecognised tax losses arising in Australia of $16,171,326 (2005: $14,350,884) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The unused tax losses will not be recognised as deferred income tax assets until it is probable that taxable profits will be available to utilise those losses.

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	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 5 CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		393,353	1,779,051	393,352	1,779,050
Short-term deposits		2,276,518	1,023,964	2,276,518	1,023,964
		2,669,871	2,803,015	2,669,870	2,803,014

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

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

The fair value of cash and cash equivalents is $2,669,871 (2005: $2,803,015).

The group has no undrawn borrowing facilities (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 5 CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation to Cash Flow Statement

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash

	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Cash at bank and in hand	393,353	1,779,051	393,352	1,779,050
Short-term deposits	2,276,518	1,023,964	2,276,518	1,023,964
	2,669,871	2,803,015	2,669,870	2,803,014
Reconciliation of net loss after tax to net cash flows from operations				
Net loss	(2,582,105)	(10,011,656)	(2,582,105)	(10,011,656)
Adjustments for:				
Depreciation	38,945	44,212	38,945	44,212
Net (profit)/loss on disposal of property, plant and equipment	(350)	-	(350)	-
Share options expensed	86,740	55,470	86,740	55,470
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	1,485,029	(1,778,781)	1,485,029	(1,778,781)
(Increase)/decrease in deferred exploraton costs	748,775	(1,822,406)	748,775	(1,822,406)
(Increase)/decrease in prepayments	1,660	(1,660)	1,660	(1,660)
(Decrease)/increase in deferred tax liabilities	-	(444,473)	-	(444,473)
(Decrease)/increase in trade and other payables	(1,752,310)	1,556,383	(1,752,311)	1,556,383
(Decrease)/increase in provisions	(4,032)	14,253	(4,032)	14,253
Net cash from operating activities	(1,977,648)	(12,388,658)	(1,977,648)	(12,388,658)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 6 TRADE AND OTHER RECEIVABLES

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Trade receivables	(a)	113,154	1,019,493	113,154	1,019,493
Trade receivables – director related parties	21, (a)	-	685,623	-	685,623
Other receivables	(a)	114,567	-	114,567	-
Goods and services tax and withholding tax	(a)	5,359	21,321	5,359	21,321
		233,080	1,726,437	233,080	1,726,437

(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.

For terms and conditions relating to related party receivables refer to note 22 and note 24.

Details regarding the effective interest rate and credit risk of current receivables is disclosed in note 23.

NOTE 7 OTHER CURRENT ASSETS

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Prepayments	-	1,660	-	1,660

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 8 PLANT AND EQUIPMENT					
Computer hardware and software					
Opening balance, net of accumulated amortisation and impairment		27,812	85,743	27,812	85,743
Additions		-	5,480	-	5,480
Reclassified to office equipment		(9,215)	-	(9,215)	-
Amortisation charge for the year - ordinary activities		(12,357)	(38,117)	(12,357)	(38,117)
Amortisation charge for the year - deferred exploration costs		(6,240)	(25,294)	(6,240)	(25,294)
Closing balance, net of accumulated depreciation and impairment		-	27,812	-	27,812
Cost		169,441	196,886	169,441	196,886
Accumulated depreciation and impairment		(169,441)	(169,074)	(169,441)	(169,074)
Net carrying amount		-	27,812	-	27,812
Office equipment					
Opening balance, net of accumulated amortisation and impairment		-	-	-	-
Additions		32,006	-	32,006	-
Reclassify from computer software		9,215	-	9,215	-
Depreciation charge for the year - ordinary activities		(6,801)	-	(6,801)	-
Depreciation charge for the year - deferred exploration costs		(3,434)	-	(3,434)	-
Closing balance, net of accumulated depreciation and impairment		30,986	-	30,986	-
Cost		59,452	-	59,452	-
Accumulated depreciation and impairment		(28,466)	-	(28,466)	-
Net carrying amount		30,986	-	30,986	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 8 PLANT AND EQUIPMENT (CONTINUED)

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Leasehold improvements					
Opening balance, net of accumulated amortisation and impairment		18,593	-	18,593	-
Additions		3,291	19,838	3,291	19,838
Depreciation charge for the year - ordinary activities		(6,036)	(1,245)	(6,036)	(1,245)
Depreciation charge for the year - deferred exploration costs		(3,141)	-	(3,141)	-
Closing balance, net of accumulated depreciation and impairment		12,707	18,593	12,707	18,593
Cost		23,130	19,838	23,130	19,838
Accumulated depreciation and impairment		(10,423)	(1,245)	(10,423)	(1,245)
Net carrying amount		12,707	18,593	12,707	18,593
Total					
Opening balance, net of accumulated amortisation and impairment		53,721	85,743	53,721	85,743
Additions		41,808	32,893	41,808	32,893
Depreciation charge for the year - ordinary activities		(25,809)	(39,621)	(25,809)	(39,621)
Depreciation charge for the year - deferred exploration costs		(13,134)	(25,294)	(13,134)	(25,294)
Closing balance, net of accumulated depreciation and impairment		56,586	53,721	56,586	53,721
Cost		266,109	224,299	266,109	224,299
Accumulated depreciation and impairment		(209,523)	(170,578)	(209,523)	(170,578)
Net carrying amount		56,586	53,721	56,586	53,721

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 9 INTANGIBLE ASSET

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Yolla royalty					
Cost (gross carrying amount)		475,923	475,923	475,923	475,923
Accumulated amortisation and impairment		-	-	-	-
		475,923	475,923	475,923	475,923

The balance at 1 July 2004 was $475,923, represented by cost of $475,923 and accumulated amortisation of nil.

The Yolla Royalty is a 0.0648% overriding royalty from the total net production of the Production Licence T/L1, being the area of the Yolla Field, and the adjacent T/RL1 in the Bass Basin. The royalty was purchased in 2003 and has a finite life depending upon economic gas and oil condensate reserves in the field. The amortisation of the royalty will be based on units of production method. The current owners of the field have announced that commercial production will commence in the financial year ending 30 June 2007.

NOTE 10 EXPLORATION AND EVALUATION COSTS CARRIED FORWARD

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Petroleum tenements in the exploration phase					
Cost (gross carrying amount)		19,309,948	16,845,862	19,309,948	16,845,862
Accumulated amortisation and impairment		(14,005,714)	(10,792,853)	(14,005,714)	(10,792,853)
Net carrying amount		5,304,233	6,053,009	5,304,233	6,053,009
Balance at beginning of year		6,053,009	4,187,322	6,053,009	4,187,322
Cost for the year		3,378,800	12,658,540	3,378,800	12,658,540
Supplier refunds and cost recoupment		(914,715)	0	(914,715)	0
Write off of expenditure		(3,212,861)	(10,792,853)	(3,212,861)	(10,792,853)
Balance at end of year		5,304,233	6,053,009	5,304,233	6,053,009

Ultimate recovery of exploration and evaluation costs is dependent upon the company maintaining appropriate funding through success in exploration, by capital raising or sale or farmout of its petroleum exploration tenement interests to support continued exploration activities. The tenements were reviewed for impairment at period end and costs relating to abandoned wells were written off.

NOTE 11 INVESTMENTS IN CONTROLLED ENTITIES

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Investment in controlled entity		-	-	1	1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 12 INTEREST IN JOINT VENTURE OPERATIONS

The Company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 22. Details of the Company's interests in the joint ventures are:

	Interest 30/6/2005	Interest Acquired	Interest Disposed	Interest 30/6/2006
Vic/P41	45%	-	-	45%
Vic/P42	50%	-	-	50%
Vic/P47	40%	-	-	40%

During the year, the participants in the Vic P42 Joint Venture agreed with Apache Northwest Pty Ltd to farm-out 60% (BAS share 30%) of their interest provided both a 3D seismic survey is recorded and processed over 500 square kilometres and an exploration well is drilled within the area of interest by 2008.

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

	Consolidated 2006 $	Consolidated 2005 $
Current Assets		
Cash assets	81,922	1,584,386
Receivables	364	1,312,261
Total Current Assets	82,286	2,896,647
Exploration and evaluation costs	5,304,233	6,053,009
Total Non-Current Assets	5,304,233	6,053,009
Total Assets	5,386,519	8,949,656
Current Liabilities		
Payables	18,192	1,635,724
Total Current Liabilities	18,192	1,635,724
Total Liabilities	18,192	1,635,724
Net Assets	5,368,327	7,313,932
Revenue		
Revenue – interest received	44,960	44,960
Operating result before income tax	44,960	44,960

Expenditure commitments in respect of joint ventures are disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 13 TRADE AND OTHER PAYABLES (CURRENT)					
Trade payables	(a)	34,160	1,535,247	34,160	1,535,247
Other payables	(a)	111,338	98,876	111,338	98,876
Goods and services tax payable	(a)	426	16,798	426	16,798
		145,924	1,650,921	145,924	1,650,921
Related party payables					
Other related parties	21, (b)	-	255,641	-	255,641
		145,924	1,906,562	145,924	1,906,562

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

(b) For terms and conditions relating to related party payables refer to note 21.

Information regarding the effective interest rate and credit risk of current payables is set in note 23.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14 PROVISIONS

CONSOLIDATED	PROVISION FOR ANNUAL LEAVE	PROVISION FOR LONG SERVICE LEAVE	TOTAL
At 1 July 2005	27,569	-	27,569
Arising during the year	15,734	11,873	27,607
Utilised	(31,638)	-	(31,638)
At 30 June 2006	11,665	11,873	23,538
Current 2006	11,665	-	11,665
Non-current 2006	-	11,873	11,873
	11,665	11,873	23,538
Current 2005	27,569	-	27,569
Non-current 2005	-	-	0
	27,569	-	27,569

PARENT			
At 1 July 2005	27,569	-	27,569
Arising during the year	15,734	11,873	27,607
Utilised	(31,638)	-	(31,638)
At 30 June 2006	11,665	11,873	23,538
Current 2006	11,665	-	11,665
Non-current 2006	-	11,873	11,873
	11,665	11,873	23,538
Current 2005	27,569	-	27,569
Non-current 2005	-	-	0
	27,569	-	27,569

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

			Consolidated	
	2006 Shares	2005 Shares	2006 $	2005 $
NOTE 15 CONTRIBUTED EQUITY				
Issued and paid up capital				
Ordinary shares fully paid	129,242,468	119,242,468	19,872,732	17,986,770
Movements in ordinary shares on issue				
Ordinary shares on issue at beginning of perioc	119,242,468	36,884,524	17,986,770	2,904,602
Ordinary shares issued during the period:				
- Share placement on 4 October 2005	10,000,000	-	2,000,000	-
- Excluded offer on 20 August 2004	-	10,000,000	-	1,600,000
- Prospectus equity raising	-	72,000,000	-	14,400,000
Exercise of 30 June 2007 options	-	157,944	-	47,383
Exercise of 30 September 2008 options	-	200,000	-	50,000
Costs of issue	-	-	(114,038)	(1,015,215)
	129,242,468	119,242,468	19,872,732	17,986,770

(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 4,092,056 options exercisable on or before 30 June 2007 at an exercise price of 30 cents per share were on issue at the beginning of the period. During the year 5,000,000 options were issued on 4th October 2005 as part of the placement to investors. At 30 June 2006, 9,092,056 30 June 2007 options exercisable at 30 cents were outstanding.

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

At the beginning of the year, 2,500,000 options exercisable at a price of 25 cents on or before 30 September 2008 were granted pursuant to the Plan and at balance date 2,500,000 options were outstanding.

At the beginning of the year, 2,100,000 options exercisable on or before 30 June 2010, in tranches of 1,050,000, at an exercise price of 25 cents, and 1,050,000, at an exercise price of 30 cents were on issue, all of which remain outstanding at balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 15 CONTRIBUTED EQUITY (CONTINUED)

(v) Other Remuneration Options

700,000 options, exercisable at a price of 25 cents at any time before 30 September 2008, granted to employees and consultants are not subject to the progressive vesting terms of the Plan, were outstanding both at the beginning of the year and at the date of this report.

On 20 September 2005, 500,000 options, expiring on 30 June 2007 were issued and are exercisable at a price of 30 cents in two equal tranches of 250,000 at 1 June 2006 and 1 April 2007, granted to the then Chief Executive Officer were outstanding at the date of this report.

On 17 July 2006, 500,000 options , expiring on 30 June , 2008 are exercisable at a price of 15 cents in two equal tranches of 250,000 at 1 June 2007 and 1 April 2008, granted to the Managing Director were outstanding at the date of this report.

NOTE 16 RETAINED (LOSSES)/PROFITS

	NOTE	Consolidated		Parent	
		2006	2005	2006	2005
		$	$	$	$
Balance at beginning of period		(8,876,082)	1,080,104	(8,876,082)	1,080,104
Net (loss) profit the year		(2,582,105)	(9,956,186)	(2,582,105)	(9,956,186)
Balance at end of period		(11,458,187)	(8,876,082)	(11,458,187)	(8,876,082)

NOTE 17 RESERVES

Employee equity benefits reserve

Balance at beginning of period	68,946	13,477	68,946	13,477
Share-based payments	86,740	55,469	86,740	55,469
Balance at end of period	155,686	68,946	155,686	68,946

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 19 for further details of these plans.

NOTE 18 AUDITOR'S REMUNERATION

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

Amounts received or due and receivable by Ernst and Young for:

An audit or review of the financial report of the entity and any other entity in the consolidated group	3	47,000	53,020	47,000	53,020
Other services in relation to the entity and any other entity in the consolidated group					
- Accounting services on transition to A-IFRS		10,000	-	10,000	-
		57,000	53,020	57,000	53,020

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 19 SHARE BASED PAYMENTS

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

The exercise price of the options is set by the directors on the date of grant. The options vest progressively, at the rate of 20% of the total number of options granted, during each year of the currency of the options.

The expense recognised in the income statement in relation to share-based payments is disclosed in note **3.**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2006 No.	**2006 WAEP**	**2005 No.**	**2005 WAEP**
Outstanding at the beginning of the year	5,300,000	0.260	2,000,000	0.250
Granted during the year	500,000	0.300	3,600,000	0.273
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(200,000)	0.250
Expired during the year	-	-	(100,000)	0.550
Outstanding at the end of the year	5,800,000	0.263	5,300,000	0.260
Exercisable at the end of the year	2,710,000	0.256	1,380,000	0.254

The outstanding balance as at 30 June 2006 is represented by:
- 2, 500,000 options over ordinary shares with an exercise price of $0.30 each, exercisable upon meeting the above conditions and expiring at 30 June 2007;
- 1,050,000 options over ordinary shares with an exercise price of $0.30 each, exercisable upon meeting the above conditions and expiring at 30 June 2010;
- 1,050,000 options over ordinary shares with an exercise price of $0.25 each, exercisable upon meeting the above conditions and expiring at 30 June 2010;
- 500,000 options over ordinary shares with an exercise price of $0.30 each and expiring at 30 June 2007;
- 700,000 options over ordinary shares with an exercise price of $0.25 each and expiring at 30 June 2007.

The weighted average share price at the date of exercise of options during the year ended 30 June 2005 was $0.605. No options were exercised in the year ended 30 June 2006.

The remaining contractual life for the share options outstanding as at 30 June 2006 is between 1 and 4 years (2005: 2 and 5 years).

The range of exercise prices for options outstanding at the end of the year was $0.25-$0.30 (2005: $0.25-$0.30).

The weighted average fair value of options granted during the year was $0.029 (2005: $0.04).

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 options lapsed during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 19 SHARE BASED PAYMENTS (CONTINUED)

The fair value of the equity-settled share options granted under the option plans is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted. The model used a volatility factor, being a measure of uncertainty about the future share price and returns provided by the underlying shares, that was determined by using a basket of similar stocks listed on the ASX to calculate the historical volatility of their share price movements and to use this measure as the predictor for future BAS share price volatility. Other factors taken into account in assessing the fair value at grant 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 95%:
- a risk free rate of 5.82% pa;

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 59%;
- a risk free rate of 5.34% pa;

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 65%;
- a risk free rate of 5.1% pa;

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 65%;
- a risk free rate of 5.1% pa;

Options granted 19 August 2005
- an expiry date of 30 June 2007;
- a share price of 16 cents;
- an exercise price of 30 cents;
- a share price volatility of 65%;
- a risk free rate of 5.06% pa;

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. Those options not granted pursuant to the Plan have varying vesting and exercise dates occurring prior to the option expiry date for the holder. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel

(i) 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)
		AR Adams	Managing Director (appointed on 19 July 2006)

(ii) Executives

A Adams	General Manager, Commercial (Appointed Chief Executive Officer from 19 August 2005 to 19 July 2006)	I Reid	General Manager, Exploration (Appointed Technical Adviser from 1 July 2005)
D Hill	Company Secretary		

Other than the appointment of Mr Adams, there were no other key management changes between the reporting date and the date the financial report was authorised for issue.

Compensation of Key Management Personnel (Consolidated)

	Short-Term	Post Employment	Share-based Payment Options	Total	Total Performance Related
30 June 2006	**Salary & Fees**	**Superannuation**			
Directors					
B Wheelahan	56,667	5,100	5,754	67,521	8.52%
EG Albers	27,500	13,375	4,603	45,478	10.12%
HJ Askin	27,500	13,375	5,754	46,629	12.34%
RJ Flew	37,500	3,375	5,754	46,629	12.34%
Executives					
AR Adams (a)	234,432	24,000	32,835	291,267	11.27%
DB Hill	12,510	3,536	1,806	17,852	10.11%
ISA Reid	271,051	-	24,613	295,664	8.32%
	667,160	62,761	81,119	811,040	
30 June 2005					
Directors					
B Wheelahan	40,000	3,600	7,167	50,767	14.12%
EG Albers	25,000	2,250	7,167	34,417	20.82%
HJ Askin	25,000	2,250	7,167	34,417	20.82%
RJ Flew	25,000	2,250	7,167	34,417	20.82%
Executives					
AR Adams	225,425	24,000	2,318	251,743	0.92%
DB Hill	22,413	5,610	2,318	30,341	7.64%
ISA Reid	291,761	-	5,796	297,557	1.95%
	654,599	39,960	39,100	733,659	

(a) Mr Adams was appointed Chief Executive Officer on 19 August 2005 following his role as General Manager, Commercial. On 19 July 2006 Mr Adams was appointed Managing Director.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Contract for Services

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Directors, Chief Executive Officer, Managing Director and General Manager, Exploration and with no other key management personnel.
The current employment contract for the Managing Director, Mr Adams, superseded his Chief Executive Officer contract, commenced on 19 July 2006 and terminates on three months notice from Mr Adams or without notice from the Company.
Under the terms of the present contract:
• Mr Adams will be paid fixed compensation of $305,000 p.a. and is entitled to short-term and long-term incentives as detailed in note 19.
• Mr Adams may resign from his position and thus terminate this contract by giving 3 months written notice. Upon resignation, options that have been issued to Mr Adams will be subject to their respective terms and conditions. For details refer to note 19.

• The company may terminate this employment agreement at any time but it must provide 6 months remuneration payment in lieu of the notice period (based on the fixed component of Mr Adams' remuneration) plus a payment for service of one month per year of service with a maximum aggregate of 12 months. Upon termination on notice by the company, any options issued will be subject to their terms and conditions.
• The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Managing Director is only entitled to that portion of remuneration that is fixed, up to the date of termination, and any payments required by statutory regulations or by-laws . On termination with cause any any options issued will be subject to their terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Compensation options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits under the senior executives and officers option plan and other remuneration options plan to certain key management personnel as disclosed above. No share options have been granted to the non-executive members of the Board of Directors under these schemes. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price The contractual life of each option granted is up to five years. For further details relating to the options, refer to note 19 and the Remuneration Report.

	Vested	Granted	Terms & Conditions for each Grant					
30 June 2006	No.	No.	Grant Date	Fair Value per option at grant date ($) (note 19)	Exercise price per option ($) (note 19)	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
B Wheelahan	100,000	-	26-Nov-2003	0.058	0.25	30-Sep-2008	26-Nov-2005	30-Sep-2008
EG Albers	100,000	-	26-Nov-2003	0.058	0.25	30-Sep-2008	26-Nov-2005	30-Sep-2008
HJ Askin	100,000	-	26-Nov-2003	0.058	0.25	30-Sep-2008	26-Nov-2005	30-Sep-2008
RJ Flew	100,000	-	26-Nov-2003	0.058	0.25	30-Sep-2008	26-Nov-2005	30-Sep-2008
Executives								
AR Adams (a)	100,000	-	30-Jun-2005	0.044	0.25	30-Jun-2010	30-Jun-2006	30-Jun-2010
	100,000	-	30-Jun-2005	0.040	0.30	30-Jun-2010	30-Jun-2006	30-Jun-2010
	-	250,000	19-Aug-2005	0.028	0.30	30-Jun-2007	1-Jun-2006	30-Jun-2007
	-	250,000	19-Aug-2005	0.029	0.30	30-Jun-2007	1-Apr-2007	30-Jun-2007
DB Hill	40,000	-	20-Aug-2004	0.063	0.25	30-Sep-2008	20-Aug-2005	30-Sep-2008
ISA Reid	100,000	-	30-Jun-2005	0.044	0.25	30-Jun-2010	30-Jun-2006	30-Jun-2010
	100,000	-	30-Jun-2005	0.040	0.30	30-Jun-2010	30-Jun-2006	30-Jun-2010
Total	840,000	500,000						

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Compensation options: Granted and vested during the year

	Vested	**Granted**	**Terms & Conditions for each Grant**					
30 June 2005	No.	No.	Grant Date	Fair Value per option at grant date ($) (note 19)	Exercise price per option ($) (note 19)	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
B Wheelahan	100,000	-	26-Nov-2003	(a)	0.25	30-Sep-2008	26-Nov-2004	30-Sep-2008
EG Albers	100,000	-	26-Nov-2003	(a)	0.25	30-Sep-2008	26-Nov-2004	30-Sep-2008
HJ Askin	100,000	-	26-Nov-2003	(a)	0.25	30-Sep-2008	26-Nov-2004	30-Sep-2008
RJ Flew	100,000	-	26-Nov-2003	(a)	0.25	30-Sep-2008	26-Nov-2004	30-Sep-2008
Executives								
AR Adams (a)	200,000	200,000	20-Aug-2004	(a)	0.25	30-Sep-2008	20-Aug-2004	30-Sep-2008
	100,000	100,000	30-Jun-2005	0.041	0.25	30-Jun-2010	30-Jun-2005	30-Jun-2010
	-	100,000	30-Jun-2005	0.044	0.25	30-Jun-2010	30-Jun-2006	30-Jun-2010
	-	100,000	30-Jun-2005	0.053	0.25	30-Jun-2010	30-Jun-2007	30-Jun-2010
	-	100,000	30-Jun-2005	0.061	0.25	30-Jun-2010	30-Jun-2008	30-Jun-2010
	-	100,000	30-Jun-2005	0.067	0.25	30-Jun-2010	30-Jun-2009	30-Jun-2010
	100,000	100,000	30-Jun-2005	0.038	0.30	30-Jun-2010	30-Jun-2005	30-Jun-2010
	-	100,000	30-Jun-2005	0.040	0.30	30-Jun-2010	30-Jun-2006	30-Jun-2010
	-	100,000	30-Jun-2005	0.047	0.30	30-Jun-2010	30-Jun-2007	30-Jun-2010
	-	100,000	30-Jun-2005	0.054	0.30	30-Jun-2010	30-Jun-2008	30-Jun-2010
	-	100,000	30-Jun-2005	0.061	0.30	30-Jun-2010	30-Jun-2009	30-Jun-2010
DB Hill	40,000	200,000	20-Aug-2004	(a)	0.25	30-Sep-2008	20-Aug-2004	30-Sep-2008
	40,000	-	20-Aug-2004	0.000	0.25	30-Sep-2008	30-Jun-2005	30-Sep-2008
ISA Reid	500,000	500,000	20-Aug-2004	(a)	0.25	30-Sep-2008	20-Aug-2004	30-Sep-2008
	100,000	100,000	30-Jun-2005	0.041	0.25	30-Jun-2010	30-Jun-2005	30-Jun-2010
	-	100,000	30-Jun-2005	0.044	0.25	30-Jun-2010	30-Jun-2006	30-Jun-2010
	-	100,000	30-Jun-2005	0.053	0.25	30-Jun-2010	30-Jun-2007	30-Jun-2010
	-	100,000	30-Jun-2005	0.061	0.25	30-Jun-2010	30-Jun-2008	30-Jun-2010
	-	100,000	30-Jun-2005	0.067	0.25	30-Jun-2010	30-Jun-2009	30-Jun-2010
	100,000	100,000	30-Jun-2005	0.038	0.30	30-Jun-2010	30-Jun-2005	30-Jun-2010
	-	100,000	30-Jun-2005	0.040	0.30	30-Jun-2010	30-Jun-2006	30-Jun-2010
	-	100,000	30-Jun-2005	0.047	0.30	30-Jun-2010	30-Jun-2007	30-Jun-2010
	-	100,000	30-Jun-2005	0.054	0.30	30-Jun-2010	30-Jun-2008	30-Jun-2010
	-	100,000	30-Jun-2005	0.061	0.30	30-Jun-2010	30-Jun-2009	30-Jun-2010
Total	1,580,000	2,900,000						

(a) The Group has elected to apply the transition exemption contained in AASB 1 First time adoption of A-IFRS and has elected not to value options granted after 7 November 2002 and vested prior to 1 January 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Shares issued on Exercise of Compensation Options (Consolidated)

No shares were issued upon the exercise of compensation options during the year (2005: $25,000).

Option holdings of Key Management Personnel (Consolidated)

						Vested at 30 June 2006		
30 June 2006	Opening Balance	Received as Remuneration	Options Exercised	Net Change Other	Closing Balance	Total	Exercisable	Not Exercisable
Directors								
B Wheelahan	680,000	-	-	-	680,000	680,000	480,000	200,000
EG Albers	2,323,056	-	-	-	2,323,056	2,323,056	2,123,056	200,000
HJ Askin	890,000	-	-	-	890,000	890,000	690,000	200,000
RJ Flew	620,000	-	-	-	620,000	620,000	420,000	200,000
Executives								
AR Adams	1,200,000	500,000	-	25,000	1,725,000	1,725,000	675,000	1,050,000
DB Hill	240,000	-	-	-	240,000	240,000	120,000	120,000
ISA Reid	1,850,000	-	-	-	1,850,000	1,850,000	1,050,000	800,000
Total	7,803,056	500,000	-	25,000	8,328,056	8,328,056	5,558,056	2,770,000
30 June 2005								
Directors								
B Wheelahan	680,000	-	-	-	680,000	680,000	380,000	300,000
EG Albers	2,423,056	-	(100,000)	-	2,323,056	2,323,056	2,023,056	300,000
HJ Askin	890,000	-	-	-	890,000	890,000	590,000	300,000
RJ Flew	620,000	-	-	-	620,000	620,000	320,000	300,000
Executives								
AR Adams	-	1,200,000	-	-	1,200,000	1,200,000	400,000	800,000
DB Hill	40,000	200,000	-	-	240,000	240,000	80,000	160,000
ISA Reid	350,000	1,500,000	-	-	1,850,000	1,850,000	1,050,000	800,000
	5,003,056	2,900,000	(100,000)	0	7,803,056	7,803,056	4,843,056	2,960,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Shareholdings of Key Management Personnel (Consolidated)

Shares held in Bass Strait Oil Company Ltd

30 June 2006	Balance 1/7/05 Shares	Received as Remuneration Shares	Options Exercised Shares	Net Change Other Shares	Balance 30/6/06 Shares
Ordinary Shares					
Directors					
B Wheelahan	2,157,350	-	-	50,000	2,207,350
EG Albers	22,086,464	-	-	2,081,819	24,168,283
HJ Askin	1,305,000	-	-	200,000	1,505,000
RJ Flew	1,476,250	-	-	0	1,476,250
Executives					
AR Adams	150,000	-	-	150,000	300,000
DB Hill	200,570	-	-	200,000	400,570
ISA Reid	1,355,000	-	-	0	1,355,000
Total	28,730,634	-	-	2,681,819	31,412,453

30 June 2005	Balance 1/7/04 Shares	Received as Remuneration Shares	Options Exercised Shares	Net Change Other Shares	Balance 30/6/05 Shares
Ordinary Shares					
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	-	-	(100,000)	1,305,000
RJ Flew	1,320,000	-	-	156,250	1,476,250
Executives					
A Adams	175,000	-	-	(25,000)	150,000
D Hill	290,570	-	-	(90,000)	200,570
I Reid	1,500,000	-	-	(145,000)	1,355,000
Total	28,131,394	-	100,000	499,240	28,730,634

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 21 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 year the Company received fees as the operator of Vic/P47 of $144,055 (2005: $75,325) and Vic/P41 of $135,547 (2005: $20,697) in which Moby Oil & Gas Limited ("Moby") is a co-venturer. A Director, E.G. Albers, is both a Director and Chairman of Moby whilst the Company Secretary, D.B. Hill, acts as a Director and Secretary of Moby. The Company derived fees from Exoil Ltd of $8,438 (2005: $22,240), in which E.G. Albers is a Director, when it managed a 3D seismic survey on its tenement.

During the year the Company received administration and accounting fees of $15,845 (2005: $5,883) from Moby of which a Director, E.G. Albers, is both a Director and Chairman of Moby and the Company Secretary, D.B. Hill, acts as a Director and Secretary of Moby. The fees were provided under normal commercial terms and conditions

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 $10,500 (2005 : $107,690) and underwriting and management fees of $ Nil (2005: $7,700) relating to shares issued pursuant to the excluded offer.

NOTE 22 COMMITMENTS

Expenditure commitments being minimum work requirements under exploration permits for petroleum.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
Within one year	657,500	190,000	657,500	190,000
After on year but not more than five years	2,957,500	-	2,957,500	-
More than five years	-	-	-	-
	3,615,000	190,000	3,615,000	190,000

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

Vic/P41
The Company has been offered and has accepted renewal of the tenement after relinquishing 50% of the former permit area. The expected work requirement for years 1 and 2 is geological and geophysical studies ($157,500) Year 3 requirement is engineering studies and a 2D seismic survey ($450,000).

Vic/P42
Year 5 commitment has already been met. The Company is fully funded by farmout through a 3D seismic survey and potentially a year 6 well.

Vic/P47
Vic/P47 years 4 and 5 commitments have been met.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

NOTE 22 COMMITMENTS (CONTINUED)

T/42P
Committed work program consists of years 1 and 2 geological and geophysical studies ($600,000) and a 2D seismic survey in year 3 ($787,500).
T/43P

Committed work program consists of years 1 and 2 geological and geophysical studies ($600,000) and a 2D seismic survey in year 3 ($862,500).

PEP 151
PEP 151 year 4 commitments has been met.

Operating lease commitments

The Group has entered into a commercial lease of its premises. The lease expires in 16 months and there are no restrictions upon the lessee by entering into this lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
Within one year	123,827	109,834	123,827	109,834
After on year but not more than five years	42,232	166,059	42,232	166,059
More than five years	0	0	0	0
	166,059	275,894	166,059	275,894

NOTE 23 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.

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.

Liquidity Risk Exposure
The management prepare detailed annual cash budgets and regularly monitor the actual cash flows to analyse material variances. The Board reviews the Company's liquidity at its meetings as part of its financial review of the Group.

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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per Statement of Financial Position		Weighted Average Effective Interest Rate	
	2006	2005	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$	%	%
FINANCIAL ASSETS								
Cash	2,669,871	2,803,015	-	-	2,669,871	2,803,015	3.5	3
Trade and other receivables	-	-	233,080	1,019,493	233,080	1,019,493	N/A	N/A
Director related entities	-	-	-	685,623	-	685,623	N/A	N/A
	2,669,871	2,803,015	233,080	1,705,116	2,902,951	4,508,131		
FINANCIAL LIABILITIES								
Trade and other payables	-	-	145,924	1,634,123	145,924	1,634,123	N/A	N/A
Director related entities	-	-	-	255,641	-	255,641	N/A	N/A
	-	-	145,924	1,889,764	145,924	1,889,764		

All financial assets and liabilities mature in less than one year.

NOTE 24 SEGMENT INFORMATION

The Company operates in Australia in the petroleum exploration industry.

NOTE 25 EARNINGS PER SHARE

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

	Consolidated	
	2006	**2005**
	$	**$**
Net loss	(2,582,105)	(10,011,656)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	126,639,728	101,306,032

15,392,056 (2005: 6,592,056) potential ordinary shares arising from options expiring on 30 June 2007, 30 September 2008 and 30 June 2010 (Note 15) are not considered dilutive and are not included in the calculation of diluted earnings per share.

NOTE 26 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26 TRANSITION TO AIFRS (CONTINUED)

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. There was no transition disclosures required as at this date.
- AASB 2 Share-based Payment has been neither applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement
There is no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

NOTE 26 TRANSITION TO AIFRS (CONTINUED)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

		Consolidated			Parent		
	NOTE	AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
EQUITY							
Equity attributable to equity holders of the parent							
Contributed equity		2,904,602	-	2,904,602	2,904,602	-	2,904,602
Retained earnings	(a)	1,149,050	(13,476)	1,135,574	1,149,050	(13,476)	1,135,574
Reserves	(a)	-	13,476	13,476	-	13,476	13,476
TOTAL EQUITY		4,053,652	-	4,053,652	4,053,652	-	4,053,652

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26 TRANSITION TO AIFRS (CONTINUED)

Balance Sheet reflecting reconciliation of adjustments toAIFRS as at 30 June 2005

		Consolidated			Parent		
	NOTE	AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
EQUITY							
Equity attributable to equity holders of the parent							
Contributed equity		17,986,770	-	17,986,770	17,986,770	-	17,986,770
Retained earnings	(a)	(8,807,136)	(68,946)	(8,876,082)	(8,807,136)	(68,946)	(8,876,082)
Reserves	(a)	-	68,946	68,946	-	68,946	68,946
TOTAL EQUITY		9,179,634	-	9,179,634	9,179,634	-	9,179,634

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

Management services arising as operator of petroleum exploration joint ventures		1,141,000	-	1,141,000	1,141,000	-	1,141,000
Administrative		5,882	-	5,882	5,882	-	5,882
Interest from banks		354,494	-	354,494	354,494	-	354,494
Revenue		1,501,376	-	1,501,376	1,501,376	-	1,501,376
Other Income		17,062	-	17,062	17,062	-	17,062
Employee benefits expense	(a)	(294,587)	(68,946)	(363,533)	(294,587)	(68,946)	(363,533)
Depreciation expense		(39,853)	-	(39,853)	(39,853)	-	(39,853)
Exploration		(10,792,853)	-	(10,792,853)	(10,792,853)	-	(10,792,853)
Other expenses		(774,623)	-	(774,623)	(774,623)	-	(774,623)
Finance costs		(3,705)	-	(3,705)	(3,705)	-	(3,705)
Profit (loss) before income ta		(10,387,183)	(68,946)	(10,456,129)	(10,387,183)	(68,946)	(10,456,129)
Income tax benefit		444,473	-	444,473	444,473	-	444,473
Net profit (loss) for period		(9,942,710)	(68,946)	(10,011,656)	(9,942,710)	(68,946)	(10,011,656)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26 TRANSITION TO AIFRS (CONTINUED)

Reference	Item	AGAAP	AIFRS	Impact	
				CONSOLIDATED	PARENT
(a)	Share-based payments	Share-based payments were not required to be expensed.	AASB 2 Share-based Payments requires entities to recognise an expense in relation to shares, options, and other equity instruments provided to employees (including directors). These share-based payment transactions must be fair valued at grant date and recognised as an expense in profit or loss evenly over the vesting period. An adjustment was required to recognise share based payments granted after 7 November 2002 and vesting after 1 January 2005.	*Equity at transition*: Decrease to retained earnings and increase to employee equity benefits reserve of $13,476. Net effect is zero. *Equity at 30 June 2005*: Decrease to retained earnings and increase to employee equity benefits reserve of $68,946. Net effect is zero. *Profit for 30 June 2005*: Decrease to profit of $55,470.	*Equity at transition*: Decrease to Retained earnings and increase to employee equity benefits reserve of $13,746. . Net effect is zero. *Equity at 30 June 2005: Decrease to retained earnings and increase to employee equity benefits reserve of $68,946. Net effect is zero.* *Profit for 30 June 2005*: Decrease to profit of $55,470.
(b)	Impairment	The recoverable amount of a non-current asset was the net amount that was expected to be recovered through the discounted net cash flows arising from its continued use and subsequent disposal.	Under AASB 136 Impairment of Assets, which applies to current and non-current assets, the recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The recoverable amount of an asset other than goodwill or intangible assets with indefinite useful lives or not yet available for use is only estimated when there is an indication of impairment at the reporting date. If it is not possible to estimate the recoverable amount of an individual asset, the asset is tested for impairment as part of the cash-generating unit to which it belongs. At the date of transition, the Group identified no potential impairment to its current and non-current assets.	*Equity at transition*: No effect *Equity at 30 June 2005*: No effect *Profit for 30 June 2005*: No effect	. *Equity at transition*: No effect *Equity at 30 June 2005*: No effect *Profit for 30 June 2005*: No effect Net effect is zero.
(c)	Income tax	The income statement method was used, which involved tax-effecting only those items that impacted profit and loss.	AASB 112 Income Taxes requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. A net deferred tax asset has not been recognised as its recovery is not probable.	*Equity at transition*: No effect *Equity at 30 June 2005*: No effect *Profit for 30 June 2005*: No effect	*Equity at transition*: No effect *Equity at 30 June 2005*: No effect *Profit for 30 June 2005*: No effect *Profit for 30 June 2005*: No effect

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Independent audit report to members of Bass Strait Oil Company Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, 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 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and 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.

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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, a copy of which is included in the Directors' Report. In addition to our audit of the financial report we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

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

(a) the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the financial position of Bass Strait Oil Company Limited and the consolidated entity at 30 June 2006 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.

Ernst & Young

Ernst & Young

R.C. Piltz
Partner
Melbourne
27 September 2006