BASS STRAIT Oil

Oil for Australians

Annual Report 2008

CORPORATE DIRECTORY

Directors
Bernard Wheelahan (Chairman)
Andrew R Adams (Managing Director)
E Geoffrey Albers
Henry J Askin
John L C McInnes (Appointed 7 October 2008)

Company Secretary
John M Nethersole (Resigned 24 April 2008)
Andrew R Adams (Appointed 24 April 2008)

Registered Office
and Principal Administration Office
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Auditors
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Share Registry
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Stock Exchange Listing
Australian Stock Exchange Ltd
525 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: BAS – Ordinary Shares

Web Site: www.bassoil.com.au

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FORWARD LOOKING STATEMENTS

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

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

CHAIRMAN'S LETTER

Dear Shareholder


Bernard Wheelahan, Chairman

The global oil business remains volatile and challenging. Prices have abated from the record levels seen earlier this year, but costs are high and competition for rigs, seismic vessels and people is intense. The financial crisis has made the raising of both debt and equity almost impossible in the short term. In Australia, developments in the coal seam methane business have thrown a new light on eastern States gas supply and future power generation options.

The climate change debate has escalated globally in the last year and measures directed both at energy conservation and at increasing energy prices (through implementing new technologies) are inevitable.

In all of this, Australia still needs to find more oil. Under all scenarios relating to decreased oil intensity in our economic growth, this Country remains dependent on oil for transport for the foreseeable future. Oil will be used, we hope, far more efficiently than it is used now, but used none the less. However, Australia's self-sufficiency continues to decline and our dependence on imported oil increases.

Bass Strait Oil Company Ltd's ('BAS' or the 'Company') aspiration is to find that Australian oil, and it's getting on with the job.

2007/08 has been, therefore, another eventful year for your Company.

Since I wrote to you with my update in April, a number of foreshadowed programmes have been completed - viz:

- 2D seismic surveys were successfully acquired in the offshore Bass Basin (T/42P and T/43P, BAS 100%) and Gippsland Basin (Vic/P41, BAS 45%) – in areas showing promising lead developments.
- An independent certification by Gaffney Cline & Associates of the gas resources in the Judith field in Gippsland permit Vic/P47 gave a very positive view of that field's potential. (BAS 40%)
- Re-processing and interpretation of data in the onshore Otway block PEP167 have encouraged us to proceed with recording a new 3D seismic survey over the existing Windermere oil discovery. (BAS 100%)

All of this confirms our ongoing prospects and programmes. It also helps me move on from the disappointing result at the Speke South-1 farm-in well drilled by Apache Energy in Vic/P42 in April (BAS 20%). As I noted in last year's report, a long term exploration company must ensure that maturing prosects are continually succeeded by new opportunities and our progress since Speke South demonstrates that strategy assertively.

The Board has appointed Mr John McInnes OAM as a director since balance date and he stands for re-election at the Annual General Meeting (AGM). John is an experienced company director who has an outstanding track record in business, accounting and community service. I commend him to shareholders.

I do not propose to stand for re-election myself at this year's AGM and will retire a the end of the meeting. I am proud of my association with your company over the last eight years. The transition for me from 'big oil' to entrepreneurial oil exploration has been a fascinating journey and has brought me much closer to the energy and excitement of the business.

I thank my colleagues, Geoff Albers, founder of the Company, Dr Henry Askin, the explorer's explorer and Andrew Adams, Managing Director, for their expertise and commitment to the Company's advancement. I also thank our senior staff, Dr Keith Jackson and Anne Powell for their invaluable contribution. Finally, I thank you, the shareholders, for your support. This is your Company and the Board and management are here to increase your wealth.

As I have said before, Bass Strait Oil Company Ltd is an ethically sound, science-based, long-term Australian owned and Australian focussed oil exploration company, which vigorously seeks success on behalf of its shareholders.

I wish you and your Company great success in the future.

Yours Sincerely

Bernard Wheelahan
Chairman
8 October 2008

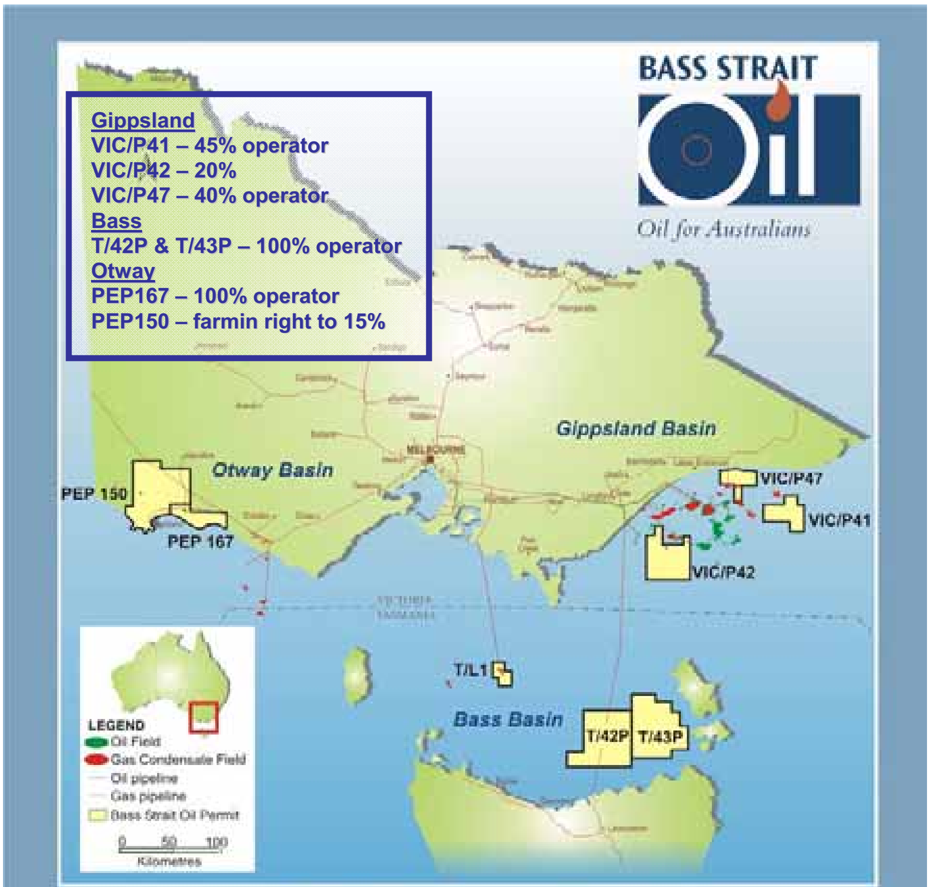
REVIEW OF OPERATIONS

The 2008 financial year saw Bass Strait Oil Company Ltd ('BAS' or the 'Company') pursue its southeast Australian petroleum exploration strategy with a programme that included:

- exploration drilling in the offshore Gippsland Basin,
- independent certification of gas resources at Judith in the offshore Gippsland Basin,
- new seismic data acquisition in the offshore Gippsland and Bass Basins,
- reprocessing of existing seismic data onshore and offshore, and
- new onshore exploration acreage granted July 2007.

From a corporate perspective, BAS expanded its exploration team, moved to new offices and completed a rights issue to help fund its ongoing exploration operations.

A block-by-block review of the Company's activities follows.



Bass Strait Oil Company Permits

Gippsland Basin offshore

Vic/P41, BAS 45% and Operator

Permit Vic/P41 is located in the offshore Gippsland Basin, approximately 40 km south of the eastern Victorian coast.

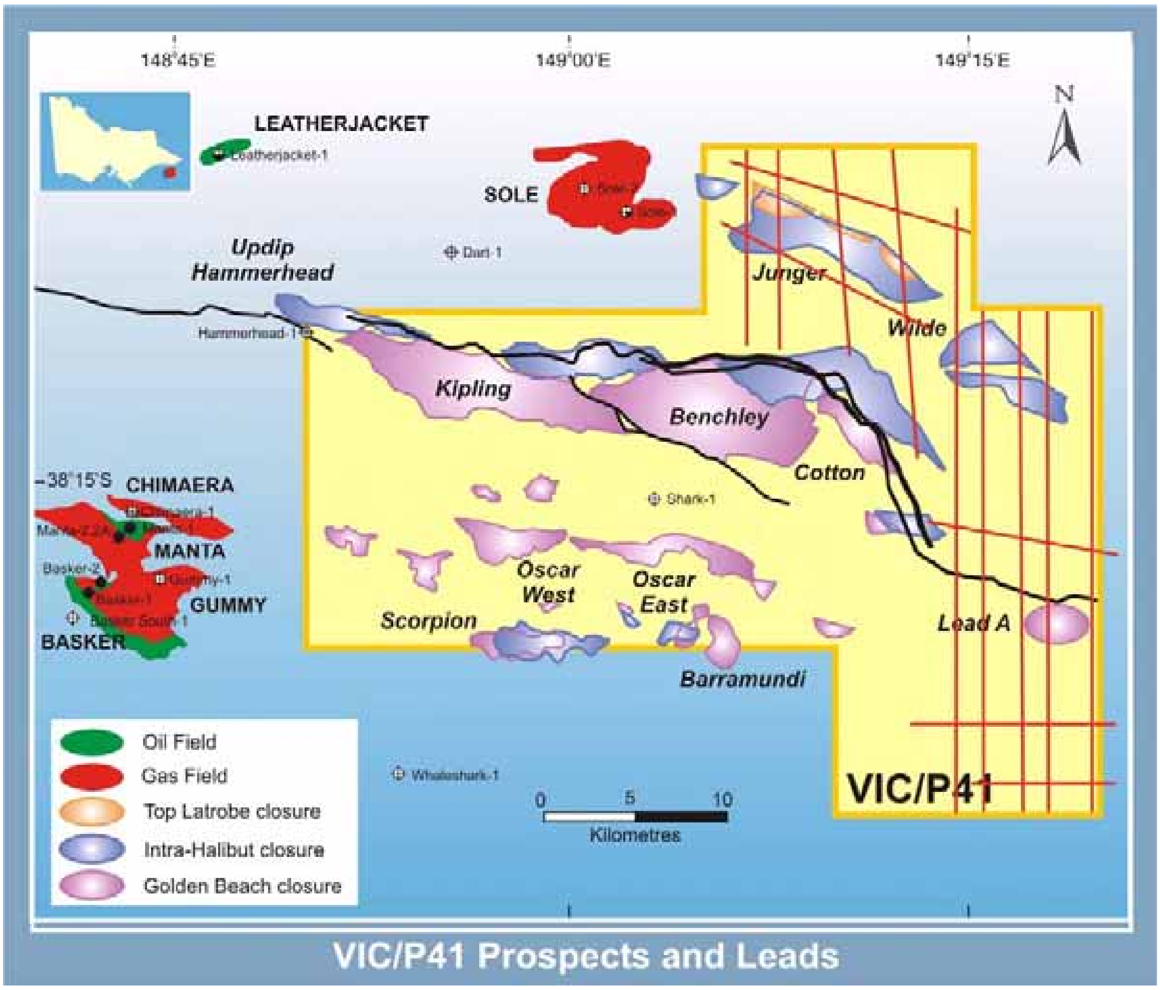
Data acquisition for the 2008 Vic/P41 offshore 2D seismic survey commenced on 1 June 2008 and was completed on 4 June 2008. Weather conditions for the survey were excellent and operations were completed without incident and with minimal down-time. The 2008 2D survey recorded a total of 295 km of new seismic data in the east of the permit. It has fulfilled the Vic/P41 Year 3 work programme commitment, which calls for a 250 km 2D seismic survey by September 2009.

REVIEW OF OPERATIONS (CONTINUED)

Vic/P41, BAS 45% and Operator (continued)

The joint venture accelerated the Vic/P41 2D seismic commitment in order to better define the eastern area of the permit, where several leads are defined only on sparse existing data. Integration of the 2008 survey results with the reprocessing of existing data will provide an updated understanding of the area's potential.

This eastern area of Vic/P41 has not been targeted for significant exploration in the past, partly due to its being located further out in the Basin than existing producing fields. Also, at least in the southeastern corner of the permit, previous exploration was discouraged by increasing water depths that are now within reach of modern drilling rigs. When the Vic/P41 joint venture first acquired a reconnaissance 2D seismic survey in the east of the permit in 2003, it was the first seismic survey targeting this area since the 1970s.



While BAS continues to invest in new 2D seismic data in the east, the western area of Vic/P41 was covered by 3D seismic in 2005. Based on this 3D survey data, several large prospects along the Rosedale Fault trend are interpreted as analogous to the Kipper oil and gas field, which lies on-trend to the west, outside Vic/P41. Development plans for Kipper have been announced targeting first production for 2011.

Further to the south within Vic/P41, 3D seismic also defines the Oscar prospects, which are interpreted to be on trend with and analogous to the producing Basker / Manta / Gummy (BMG) fields, which are outside the BAS permit area to the west. BMG commenced oil production in December 2006.

While the Vic/P41 3D-defined prospects are ready to be tested, the timing of any potential drilling is dependent on the availability of a semi-submersible drilling rig slot in the Gippsland Basin (with current scheduling indicating potential availability in 2010) and on the progress of farmout negotiations.

REVIEW OF OPERATIONS (CONTINUED)

Vic/P42, BAS 20%

Vic/P42 is located approximately 40 km offshore and comprises 1876 sq km. Water depths range from 50 to 80 metres. The permit lies adjacent to Kingfish, Australia's largest oil field, as well as a number of other Esso/BHP Billiton producing oil and gas fields. Gas and condensate discoveries at ZaneGrey (BAS, 2005) and Omeo, lie within Vic/P42.

The Vic/P42 joint venture has met or exceeded all permit commitments during the first permit term. The permit is currently undergoing the renewal and relinquishment process prior to starting a new five year permit term in which the permit would be reduced to 50% of the original permit area. The joint venture expects that all prospective blocks within the original permit will be retained.

Permit operator Apache Energy completed the processing and interpretation of a 500 sq km 3D seismic survey in late 2007 and also drilled the Speke South-1 exploration well during April 2008. These projects were completed at no cash cost to BAS and finalised a $35 million farmin programme by Apache.

The Speke South-1 well was drilled using the West Triton jackup rig to a depth of 3137 metres and reached the primary objective Golden Beach Subgroup with no significant shows or indications of pay. Speke South-1 was plugged and abandoned in accordance with the approved drilling programme.

Vic/P42 now has extensive modern 3D seismic coverage and a strong inventory of undrilled prospects and leads. In particular, the SE Tarra prospect remains an attractive exploration target, and may be addressed in the future.

Vic/P47, BAS 40% and Operator

Permit Vic/P47 is located in the offshore Gippsland Basin, approximately 5 km offshore, south of the Victorian town of Orbost. Water depths range from 20 to 80 metres and the permit covers an area of some 718 sq km. Vic/P47 will enter a renewal and relinquishment process towards the end of its first permit term on 27 December 2008. It is anticipated that this process will lead to a new five year permit term in which the permit would be reduced to 50% of the original permit area. The joint venture expects that all prospective blocks within the original permit area will be retained.

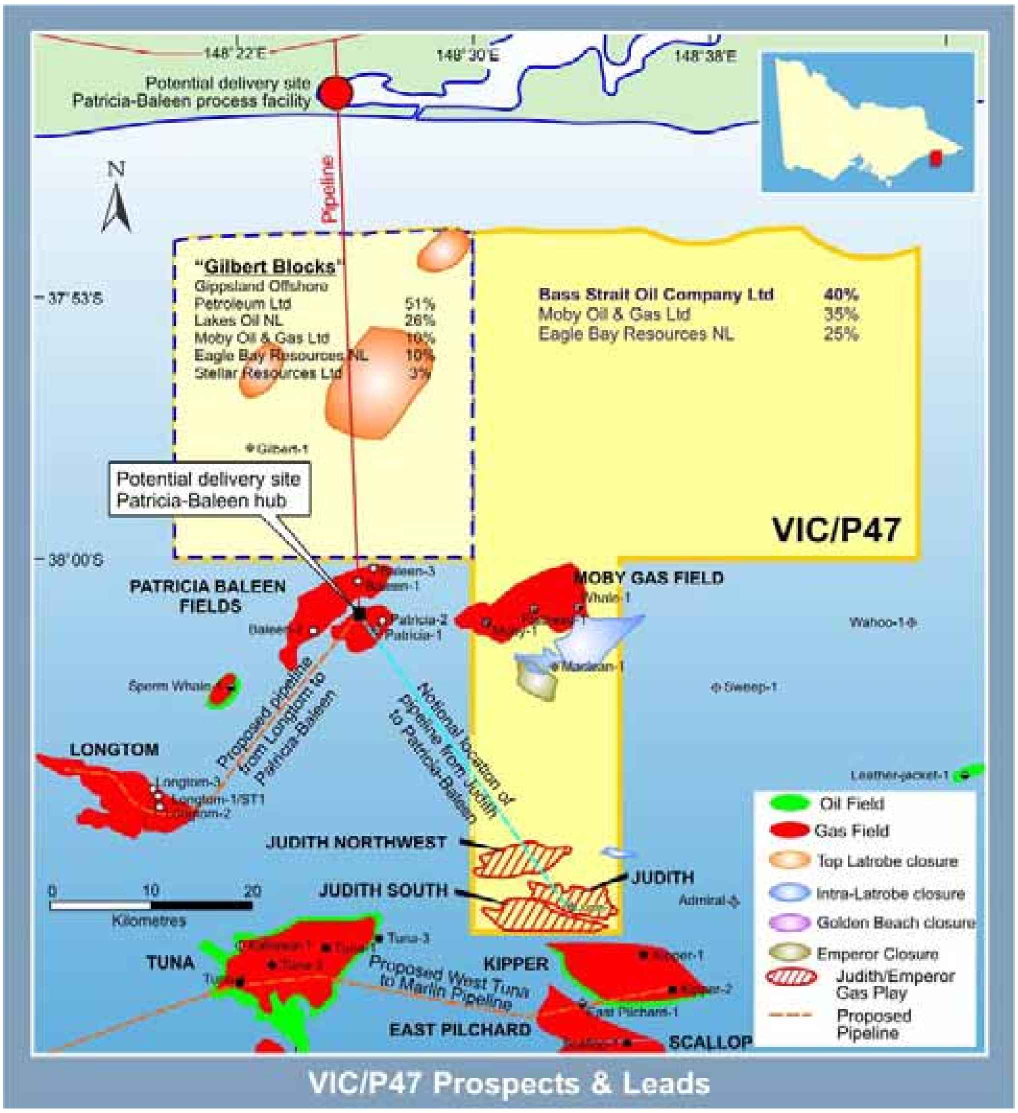
The permit contains the Judith Gas Discovery, which is located 22 km east of the Longtom Gas Field, where Nexus Energy holds a 100% interest and is planning first gas from its new development in 2009. Longtom will be the first commercial production from the Emperor Subgroup, a geological unit which also forms the reservoir at Judith.

During June 2008, internationally recognized consultants, Gaffney, Cline & Associates (GCA) completed an independent resource certification of the Judith Gas Discovery and associated prospects in Vic/P47.

The Judith-1 well was drilled by Shell in 1989, but not production tested or appraised. GCA reported that a gross gas column of 290 metres can be interpreted from Judith-1 electric log data and GCA's petrophysical analysis indicated 135.5 metres of net gas pay in the Judith-1 well.

REVIEW OF OPERATIONS (CONTINUED)

Vic/P47, BAS 40% and Operator (continued)



The principal results of the GCA Certification Letter are as follows:
Contingent Recoverable Gas Resources for the Judith Gas Field (ie based on the known accumulation penetrated by Judith-1)

	Low Estimate	Best Estimate	High Estimate
Estimated Ultimate Recovery (Bscf)	48.3	193.7	934.2

In addition to Contingent Recoverable Gas Resources identified from the Judith-1 well, GCA has certified Prospective Recoverable Gas Resources for the both the Judith Field area and Judith Northwest area (the "Greater Judith Area"). This provides an independent estimate of the undiscovered potential related to Judith, as follows:

	Low Estimate	Best Estimate	High Estimate
Estimated Ultimate Recovery (Bscf)	28.7	209.8	801.3

Therefore the total resource potential (discovered and undiscovered) of the Greater Judith Area within Vic/P47 is:
Contingent+ Prospective Recoverable Gas Resources for the Greater Judith Area

	Low Estimate	Best Estimate	High Estimate
Estimated Ultimate Recovery (Bscf)	77.0	403.5	1735.5

REVIEW OF OPERATIONS (CONTINUED)

Vic/P47, BAS 40% and Operator (continued)

Note: all estimates quoted are 100% Vic/P47 joint venture volumes
*Bscf = Billion standard cubic feet

While BAS plans to focus on appraising Judith based on the Best Estimate volumes, GCA has estimated very significant upside potential for the Greater Judith Area, at over 1,700 Bscf recoverable. BAS is now conducting a more detailed assessment of Judith appraisal options, including seismic re-processing and analysis.

By way of comparison, the Longtom Field is being developed on the basis of a contract to sell 350 PJ (approximate conversion = 325 Bscf) of sales gas. In this context, and with moves by other operators to export gas from eastern Australia in the form of LNG, together with the growing pressure for higher gas prices and the building awareness of gas as a much cleaner alternative to coal for electricity generation, the Company is very encouraged by the GCA Judith resource certification result.

The timing of any potential drilling at Judith is dependent on further appraisal studies and planning, the availability of drilling rig slots and on the progress of funding / farmout discussions by the Vic/P47 joint venture.

Otway Basin onshore

PEP 167: BAS 100%

Exploration permit PEP 167 is located in the onshore Otway Basin, near Portland, in western Victoria. BAS holds a 100% interest in the permit which comprises some 833 sq km.

The Company's exploration focus in PEP 167 is on pursuing the potential of known discoveries in the permit: at the 1987 Windermere-1 well, which produced oil on test, and also at the 2002 Port Fairy-1 oil and gas discovery well. The adjacent PEP 150 permit also contains an oil discovery at the Lindon-1 and 2 wells.

During the year, BAS progressed the re-processing of the existing 2D seismic grid over the Windermere discovery. The Company is now re-mapping the feature on the basis of this revised database.

Windermere-1 produced 32 barrels of 41 API oil from an open-hole test of the Heathfield Sandstone Member. BAS's review indicates that there is good potential to achieve commercial flow rates at Windermere, particularly given careful well design, modern drilling techniques and potentially employing horizontal drilling. The economics of any oil production that may be established in this area are favourable, with good access and relatively short transport distance to the Geelong refinery.

PEP 167 is now in permit Year 2 with a commitment for 80km of 2D seismic acquisition. Preliminary operational planning is underway.

PEP 150 (application area): BAS 15% farmin right

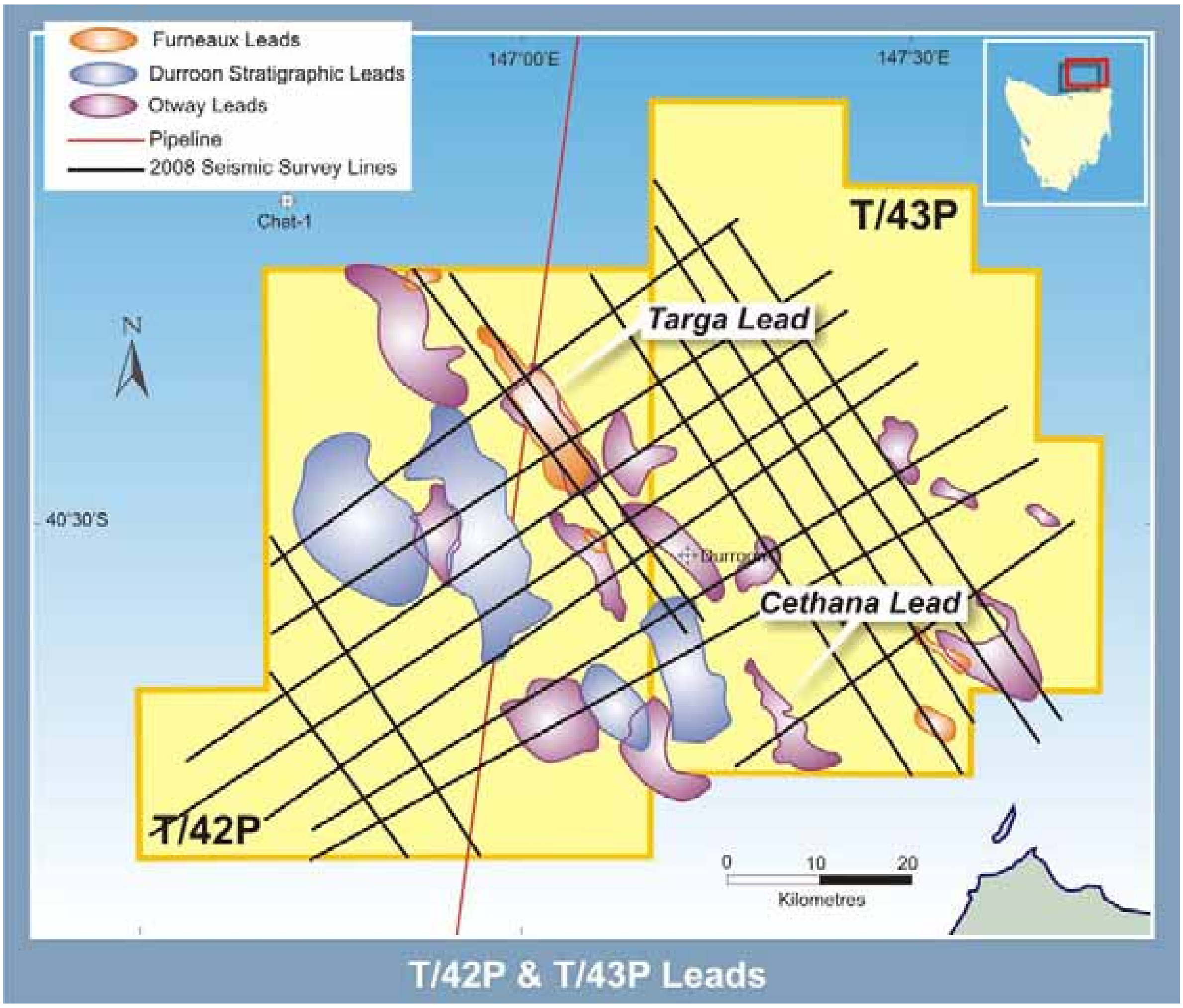
BAS can earn a 15% interest in PEP 150 by contributing to the drilling of a well. This area contains the Lindon oil discovery, but the permit is yet to be granted subject to negotiation of Native Title. BAS looks forward to a resolution of Native Title issues that will allow the granting of the PEP 150 permit and the commencement of an exploration programme in the area.

Bass Basin offshore

In the Bass Basin, the Company holds a 100% interest in permits T/42P and T/43P covering virtually the entire Durroon Sub-basin. The Durroon Sub-basin extends north from approximately 15 km off the north coast of Tasmania, in water depths ranging from 35 to 80 metres. These permits cover approximately 6140 sq km and provide BAS with the potential to create significant value by pursuing this 'grass roots' exploration opportunity.

REVIEW OF OPERATIONS (CONTINUED)

Bass Basin Offshore (continued)



Data acquisition for the Company's 'Targa' offshore 2D seismic survey was completed during May 2008. Operations were successfully completed without incident and with minimal down-time. A total of 1,192 km of new seismic data was recorded.

Data from the survey is now being interpreted in order for BAS to create new and more detailed subsurface mapping of the Durroon Sub-basin area of the Bass Basin. The new Targa 2D data will be integrated with existing geological and geophysical data, some of which BAS is re-processing to modern standards in conjunction with the new survey. The resulting updated maps will allow BAS to further define a number of high-potential leads identified from our existing database.

The Targa survey is the first new exploration investment in this area since the early 1990s. BAS views the Durroon Sub-basin as a prospective and under-explored area which forms an integral part of its regional acreage portfolio strategy.

The Targa survey fulfils the Year 3 permit obligation for both permits.

REVIEW OF OPERATIONS (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT

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

The Company's petroleum exploration and development activities are subject to environmental conditions specified in the Offshore Petroleum Act 2006, associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation Act 1999. During the period there were no known contraventions by the Company of any relevant environmental regulations.

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

Andrew Adams
Managing Director
Melbourne, 24 September 2008.

DIRECTORS' REPORT

The directors present their report on the results of Bass Strait Oil Company Ltd ("BAS") for the year ended 30 June 2008.

DIRECTORS

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

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

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

During his career Mr Wheelahan has been either Chairman, director, or a 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 Council on Australian and Latin American Relations and a member of the Rio Tinto Foundation for Sustainable Minerals Processing Board.

Mr Wheelahan served on the audit committee during the year.

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

Mr Adams has been with the Company since 2001 and was appointed Managing Director on 19 July 2006 and has not held any other directorships over the past three years.

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

He is a member of the Petroleum Exploration Society of Australia and a member of the Exploration Committee of the Australian Petroleum Production and Exploration Association.

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 has since acted as 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, the SE Gobe oilfield development in Papua New Guinea and the Oyong oil and gas development in Indonesia.

During the last three years Mr Albers has served as a director of Octanex NL, Moby Oil & Gas Limited, Cue Energy Resources Limited, Strata Resources NL, Exoil Ltd and Auralandia NL as well as a number of private companies involved in the oil and gas business. He is a member of the Petroleum Exploration Society of Australia.

Mr Albers served on the audit committee during the year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (continued)

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

Dr Askin has over 30 years of experience in the oil exploration industry, of which some 25 years were with the Shell Group of Companies. 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 Royal & Dutch 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.

Dr Askin served on the audit committee during the year.

INTERESTS IN THE SHARES & OPTIONS OF THE COMPANY

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
B Wheelahan	2,646,140	500,000
AR Adams	900,000	3,500,000
EG Albers	45,241,677	400,000
HJ Askin	1,506,000	500,000

COMPANY SECRETARY

Mr John M Nethersole, B.Bus CA resigned as Company Secretary on 24 April 2008 (appointed 30 March 2007).
Mr A Adams was appointed Company Secretary on 24 April 2008.

DIVIDENDS

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

PRINCIPAL ACTIVITY

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

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

Operating results for year

The Company's operating loss for the year ended 30 June 2008 after income tax was $1,004,088 (2007: ($781,406)).
The Company was the operator of five exploration permits. Revenue amounted to $392,385 (2007: 451,063) during this financial year.

Review of Financial Condition

Liquidity
The Group's consolidated cash flow statement for the year illustrates an increase of $1,658,430 (2007: decrease of $1,003,992) in cash and cash equivalents. The cash inflow was derived from capital raising net of transaction costs of $3,095,659 (2007: nil), operating receipts of $416,819 (2007: $564,703) and other receipts of $118,433 (2007: $114,643) but cash outflows relating to operations of $1,184,644 (2007: $1,214,706) exceeded the operating inflows. There were also cash outflows in investing activities of petroleum expenditure and plant and equipment of $787,837 (2007: $468,632). Cash assets at 30 June 2008 were $3,324,309 (2007: $1,665,879) which are sufficient to meet forecast budgets for the year ending 30 June 2009.

Share issues during the year
The Company raised $3,238,561 by issuing 25,908,485 ordinary shares at a price of $0.125 per share through a rights issue, less costs of $187,902. The Company also raised $45,000 when 300,000 options were exercised at an issue price of $0.15 per share.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to $10,136,861 from $7,852,224, an increase of $2,284,637. The movement was largely the result of the capital raising, less the operating loss for the year of $1,004,088.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

EVENTS SUBSEQUENT TO BALANCE DATE

There are no subsequent events requiring disclosure.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 7,200,000 unissued ordinary shares under options (7,200,000 at 30 June 2008). Refer to the remuneration report 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.

Shares issued as a result of the exercise of options

During the financial year, executives have exercised options to acquire 300,000 fully paid ordinary shares in Bass Strait Oil Company Ltd at a weighted average price of $0.15 per share.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

BAS maintains a Directors' and Officers' insurance policy and has paid an insurance premium for the policy. The contract of insurance prohibits disclosure of the amount of the premium and the nature of the liabilities insured.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

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

	Board Meetings		Audit Committee	
	Held	Attended	Held	Attended
AR Adams	6	6	-	-
EG Albers	6	6	2	2
HJ Askin	6	6	2	2
B Wheelahan	6	5	2	1

Mr Adams is not a member of the audit committee. Otherwise all directors were eligible to attend all meetings held.

REMUNERATION REPORT (AUDITED) (30 June 2008)

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

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

Details of Key management personnel (including executives of the Company and Group)

(i) Directors

B Wheelahan	Chairman
AR Adams	Managing Director & Company Secretary
E G Albers	Director (Non-executive)
H J Askin	Director (Non-executive)

(ii) Executives

K Jackson	Exploration Manager
I Reid	Technical Advisor
J Nethersole	Company Secretary – resigned 24 April 2008

There have been no changes to KMP after reporting date or before the date the financial report was authorised for issue.

The Board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives.

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

DIRECTOR'S REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2008) (continued)

Remuneration Philosophy

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

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 significant portion of executive remuneration is dependent upon meeting pre-determined shareholder benchmarks.

Remuneration Structure

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

Non-Executive Director Remuneration

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

Structure

The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 3 October 2001 when shareholders approved an aggregate remuneration of $250,000 per year.

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

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

Non-executive directors have been encouraged by the Board to hold shares in the Company. The Company facilities this through the non-executive director's share plan.

The remuneration of non-executive directors for the period ending 30 June 2008 and 30 June 2007 is detailed in Table 1 and 2 respectively of this report.

Executive Remuneration

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

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

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

The Board has entered into a detailed contract of employment with the Managing Director and standard contracts with other executives and consultants. Details of these contracts are provided below.

DIRECTOR'S REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2008) (continued)

Remuneration consists of the following key elements:

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

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

Fixed remuneration

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

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

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

Variable Remuneration – Long Term Incentives (LTI)

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

Structure
LTI grants to executives are delivered in the form of share options under the Senior Executives and Officers Option Plans. Share options are granted to senior executives with more than 12 months service. The share options will vest over a period of 3 years. There are no non-market performance conditions other than service criteria. Executives are able to exercise the share options for up to 3 years after vesting before the share options lapse.

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

The Company's share price is seen as a measure of exploration success and, accordingly, variable remuneration and LTI grants presently consist of options over unissued shares in the Company. During the year, the Company's share price had a highest sale price of 22 cents and a lowest sale price of 7 cents. The share price at 30 June 2008 was 7 cents (2007: 9 cents, 2006: 6 cents; 2005: 15 cents).

Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change of control of the Group, the performance period end date will be brought forward to the date of the change of control and awards will vest. The Company prohibits executives from entering into arrangements to protect the value of unvested LTI awards. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Table 3 provides details of LTI options granted and the value of options granted, exercised and lapsed during the year.

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2008) (continued)

Employment contracts

Managing Director
The Managing Director, Mr A Adams, is employed under a rolling contract. His current employment contract was reviewed on 1 February 2008. Under the terms of the present contract:

- Mr Adams receives fixed remuneration of $321,000 per annum.
- Mr Adams may resign from his position and thus terminate this contract by giving 3 months written notice. On resignation any unvested options will be forfeited.
- The company may terminate this employment agreement at any time subject to a service based termination payment comprising 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.

Other contracts

Mr Nethersole, Company secretary until 24 April 2008, was remunerated on the basis of time engaged in such services at commercial rates. Mr Jackson was appointed Exploration Manager on 27 August 2007 and has a rolling contract. 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 Technical Advisor to the Company during the financial year.

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2008

	Short-Term	Post Employment	Share-based payment		
	Salary & Fees $	Superannuation $	Options $	Total $	Total Performance Related %
Non-executive Directors					
B Wheelahan	60,000	5,400	705	66,105	1.07%
EG Albers	-	43,600	705	44,305	1.59%
HJ Askin	-	43,600	705	44,305	1.59%
Sub-total non-executive directors	60,000	92,600	2,115	154,715	
Executive Director					
AR Adams	211,667	100,000	36,264	347,931	10.42%
Other key management personnel					
JM Nethersole (a)	42,407	41,418	-	83,825	0.00%
ISA Reid	132,197	-	10,777	142,974	7.54%
K Jackson (b)	134,455	100,000	-	234,455	0.00%
Sub-total executive KMP	520,726	241,418	47,041	809,185	
Totals	580,726	334,018	49,156	963,900	

(a) Resigned 24 April 2008
(b) Appointed 27 August 2007

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2008) (continued)

Table 2: Remuneration for the year ended 30 June 2007

	Short-Term	Post Employment	Share-based payment		
	Salary & Fees $	Superannuation $	Options $	Total $	Total Performance Related %
Non-executive Directors					
B Wheelahan	-	65,400	2,424	67,824	3.57%
EG Albers	-	43,600	1,939	45,539	4.26%
HJ Askin	20,000	23,600	2,424	46,024	5.27%
RJ Flew (a)	19,231	1,731	1,498	22,460	6.67%
Sub-total non-executive directors	39,231	134,331	8,285	181,847	
Executive Director					
AR Adams (b)	201,906	103,128	44,845	349,879	12.82%
Other key management personnel					
DB Hill (c)	-	3,220	1,923	5,143	0.00%
JM Nethersole (d)	-	25,757	-	25,757	0.00%
ISA Reid	297,796	-	11,115	308,911	3.60%
Sub-total executive KMP	499,702	132,105	57,883	689,690	
Totals	538,933	266,436	66,168	871,537	

(a) Resigned 22 December 2006
(b) Appointed 19 July 2006
(c) Resigned 30 March 2007
(d) Appointed 30 March 2007

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (continued)

Table 3: Compensation options: Granted and vested during the year

	Granted	Terms and conditions for each grant						Vested	
	No.	Grant Date	Fair Value per option at grant date ($) (Note 25)	Exercise price per option ($) (Note 25)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
30 June 2008									
Executives									
A Adams	500,000	3-Jun-08	0.0255	0.15	3-Jun-11	3-Jun-08	3-Jun-11	500,000	100
A Adams	500,000	3-Jun-08	0.0264	0.15	3-Jun-11	3-Jun-09	3-Jun-11	-	-
A Adams	500,000	3-Jun-08	0.0289	0.15	3-Jun-11	3-Jun-10	3-Jun-11	-	-
Total	1,500,000							500,000	
30 June 2007									
Executives									
A Adams	500,000	20-Jun-07	0.0234	0.15	20-Jun-10	20-Jun-07	20-Jun-10	500,000	100
A Adams	500,000	20-Jun-07	0.0241	0.15	20-Jun-10	20-Jun-08	20-Jun-10	500,000	100
A Adams	500,000	20-Jun-07	0.0263	0.15	20-Jun-10	20-Jun-09	20-Jun-10	-	-
I Reid	150,000	1-Dec-06	0.0205	0.15	30-Nov-09	1-Dec-06	30-Nov-09	150,000	100
I Reid	150,000	1-Dec-06	0.0238	0.15	30-Nov-09	1-Dec-07	30-Nov-09	150,000	100
I Reid	150,000	1-Dec-06	0.0298	0.15	30-Nov-09	1-Dec-08	30-Nov-09	150,000	100
Total	1,950,000							1,450,000	

Table 4: Options granted as part of remuneration

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed, cancelled during the year $	Total value of options granted, exercised and lapsed during the year $	Remuneration consisting of options for the year %
A Adams	40,400	-	(6,350)	34,050	10.42%
I Reid	-	6,645	-	6,645	7.54%

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

No other directors or executives were granted options during the year.

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (continued)

Table 5: Shares issued on exercise of compensation options (Consolidated)

30 June 2008	Shares issued No.	Paid per share (note 26) $	Unpaid per share $
Executives			
ISA Reid	300,000	0.15	-
Total	300,000		

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.

No non-audit services were provided by the entity's auditor, Ernst & Young.

Signed in accordance with a resolution of the Directors.

Managing Director
Melbourne, 24 September 2008

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

In relation to our audit of the financial report of Bass Strait Oil Company Limited for the financial year ended 30 June 2008, 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

Brett Croft
Partner
Melbourne
24 September 2008

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 2008 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the directors' report comply with Accounting Standard AASB 124 "Related Party Disclosures" and the Corporations Regulations 2001.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2008.

On behalf of the Board

Managing Director
Melbourne, 24 September 2008.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Management services arising as operator of petroleum exploration joint ventures		392,385	451,063	392,385	451,063
Administrative services		608	4,798	608	4,798
Interest from banks		130,444	130,016	130,444	130,016
Total revenue		523,437	585,877	523,437	585,877
Other Income	4	2,221	386	2,221	386
Other expenses	5	(671,782)	(788,945)	(671,782)	(788,945)
Depreciation expense	6	(45,385)	(39,443)	(45,385)	(39,443)
Employee benefits expense	7	(650,669)	(480,966)	(650,669)	(480,966)
Exploration expenditure	8	(1,541)	(58,315)	(1,541)	(58,315)
Loss before income tax		(843,719)	(781,406)	(843,719)	(781,406)
Income tax expense	10	(160,369)	-	(160,369)	-
Net loss for the period		(1,004,088)	(781,406)	(1,004,088)	(781,406)
Basic (loss) earnings per share	24	($0.007)	($0.006)		
Diluted (loss) earnings per share	24	($0.007)	($0.006)		

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

BALANCE SHEET
AS AT 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
ASSETS					
Current Assets					
Cash and cash equivalents	11	3,324,309	1,665,879	3,324,308	1,665,878
Trade and other receivables	12	161,029	21,776	161,029	21,776
Other current assets	13	141,894	196,438	141,894	196,438
Total Current Assets		3,627,232	1,884,093	3,627,231	1,884,092
Non-current Assets					
Plant and equipment	14	126,849	44,401	126,849	44,401
Intangible assets	15	427,309	452,966	427,309	452,966
Exploration and evaluation expenditure	16	7,623,899	5,652,081	7,623,899	5,652,081
Investment in controlled entities	17	-	-	1	1
Total Non-current Assets		8,178,057	6,149,448	8,178,058	6,149,449
TOTAL ASSETS		11,805,289	8,033,541	11,805,289	8,033,541
LIABILITIES					
Current Liabilities					
Trade and other payables	18	1,597,827	139,880	1,597,827	139,880
Provisions	19	49,696	28,367	49,696	28,367
Total Current Liabilities		1,647,523	168,247	1,647,523	168,247
Non-current Liabilities					
Provisions	19	20,905	13,070	20,905	13,070
Total Non-current Liabilities		20,905	13,070	20,905	13,070
TOTAL LIABILITIES		1,668,428	181,317	1,668,428	181,317
NET ASSETS		10,136,861	7,852,224	10,136,861	7,852,224
EQUITY					
Contributed equity	21	23,141,633	19,872,732	23,141,633	19,872,732
Accumulated losses	22	(13,215,152)	(12,239,593)	(13,215,152)	(12,239,593)
Share based payment reserve	23	210,380	219,085	210,380	219,085
TOTAL EQUITY		10,136,861	7,852,224	10,136,861	7,852,224

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated & Parent			
		Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total $
Balance at 1 July 2006		19,872,732	(11,458,187)	155,686	8,570,231
Net loss for the period		-	(781,406)	-	(781,406)
Total income & expenses for the period		-	(781,406)	-	(781,406)
Share-based payments	23			63,399	63,399
Balance at 30 June 2007		19,872,732	(12,239,593)	219,085	7,852,224
Net loss for the period		-	(1,004,088)	-	(1,004,088)
Total income & expenses for the period		-	(1,004,088)	-	(1,004,088)
Issue of share capital	21	3,238,561	-	-	3,238,561
Exercise of share options	21	45,000	-	-	45,000
Transfer from share-based payments reserve	23	12,873		(12,873)	-
Share-based payments	23	-	-	32,697	32,697
Share issue costs	21	(187,902)	-	-	(187,902)
Income tax on items recognised directly in equity	10	160,369	-	-	160,369
Options cancelled	23	-	28,529	(28,529)	-
Balance at 30 June 2008		23,141,633	(13,215,152)	210,380	10,136,861

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Cash flows from operating activities					
Receipts from customers		416,819	564,703	416,819	564,703
Payments to suppliers and employees inclusive of GST		(1,184,644)	(1,214,706)	(1,184,644)	(1,214,706)
Interest received		118,433	114,643	118,433	114,643
Net cash used in operating activities	29	(649,392)	(535,360)	(649,392)	(535,360)
Cash flows from investing activities					
Petroleum exploration expenditure		(714,975)	(459,742)	(714,975)	(459,742)
Payments for plant and equipment		(72,862)	(8,890)	(72,862)	(8,890)
Net cash used in investing activities		(787,837)	(468,632)	(787,837)	(468,632)
Cash flows from financing activities					
Proceeds from issues of ordinary shares	21	3,283,561	-	3,283,561	-
Payment of share issue costs	21	(187,902)	-	(187,902)	-
Net cash from financing activities		3,095,659	-	3,095,659	-
Net increase(decrease) in cash assets		1,658,430	(1,003,992)	1,658,430	(1,003,992)
Cash assets at the beginning of the period		1,665,879	2,669,871	1,665,878	2,669,870
Cash assets at the end of the period	11	3,324,309	1,665,879	3,324,308	1,665,878

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 1. Corporate Information

The financial report of Bass Strait Oil Company Ltd (the Group) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 24 September 2008.

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

(a) Basis of Preparation

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

The financial report has also been prepared on a historical cost basis and under the going concern convention and the assumption that the Company and Group continue to be able to meet their expenditure commitments. The Company's and Group's expenditure commitments include minimum work requirements under exploration permits for petroleum as set out in Note 27.

In order to meet these expenditure commitments, the Company and Group will rely on:

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

The financial report is presented in Australian dollars.

(b) Statement of compliance

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

(c) New Accounting Standards and Interpretations

The relevant Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008 - 5 and 2008 - 6	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

*designates the beginning of the applicable annual reporting period unless otherwise stated

Other amendments are not expected to have a material impact on the Group.

Adoption of new accounting standard
The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bass Strait Oil Company Ltd and its subsidiary as at 30 June each year (the Group). The financial statements of subsidiaries are prepared, for the same reporting period as the parent company, using consistent accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

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

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

(e) Foreign currency translation

(i) Functional and presentation currency
Both the functional and presentation currency of Bass Strait Oil Company Ltd and it's subsidiary is Australian dollars ($).

(ii) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates applicable at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the date of the initial transaction.

(f) Cash and cash equivalents

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

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

(g) Trade and other receivables

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

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

(h)) Investments and other financial assets

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

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

Recognition and Derecognition
All regular way purchases and sales of financial assets are recognised on the trade date ie the date the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Interests in joint ventures

Jointly controlled assets
A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purposes of the joint venture, without the formation of a corporation, partnership or entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

The Group accounts for its share of the jointly controlled assets, and liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venturer's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

(j) Plant and equipment

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

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

Office furniture and equipment – over 3 to 10 years
Leasehold improvements – up to 3 years
The assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each financial year end.

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

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

(k) Leases

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

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

(l) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(m) Intangibles

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

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

(n) Exploration and evaluation expenditure

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

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

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

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

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

(o) Trade and other payables

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

(p) Provisions and employee benefits

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

Employee leave benefits
(i) Salaries, annual leave and sick leave
Liabilities for salaries, including non-monetary benefits, 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

(q) Share-based payment transactions

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

There is currently a Senior Executive and Officers Plan 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 25.

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

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

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:
(i) the grant date fair value of the award;
(ii) the current best estimate of the number of awards that will vest;
(iii) the expired portion of the vesting period

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 24).

(r) Contributed equity

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

(s) Revenue recognition

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

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

(t) Income tax and other taxes

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of Significant Accounting Policies (continued)

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 part of operating cash flows.

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

(u) Earnings per share

Basic earnings per share is calculated as net profit 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); the after tax effect of interest associated with dilutive potential ordinary shares that have been recognised as expenses; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares and adjusted for any bonus element.

(v) Significant accounting estimates and assumptions

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

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model, and using the assumptions detailed in Note 25.

Exploration and evaluation costs
At each reporting period, the Group assesses indicators of impairment. Exploration and evaluation costs are deferred until exploration and evaluation activities reach a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operation are continuing. Where ongoing committed activities cannot be funded by existing financial resources, the Group will either need to raise additional capital or meet its obligations by farmout or partial sale of the company's exploration interests, or subject to negotiation and approval, variation of the minimum work requirements.

The Group may raise capital by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or a further issue of shares to the public. Should these methods not be considered to be in the best interests of shareholders, then the company's would seek to meet its obligations by either partial sale of the company's interests or farmout.

Note 3. Financial Risk Management Objectives and Policies

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

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

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

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

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

The only financial liabilities are trade and other payables. At 30 June 2008, the Group had $1,597,827 (2007: $139,880) in Trade and other payables. Trade payables are non-interest bearing and have a contractual maturity of less than 30 days.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

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

Market risk

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

Foreign currency risk

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

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Liabilities				
Trade and other payables	1,245,943	-	1,245,943	-
	1,245,943	-	1,245,943	-

The following table demonstrates the estimated sensitivity to a 10% increase and decrease in the Australian dollar exchange rate against the US dollar exchange rate, where all other variables are held constant. The sensitivity is based on the foreign currency exposures in existence as at balance date.

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Judgements of reasonably possible movements				
Impact on post tax profit				
USD/AUD +10%	(113,286)	-	(113,286)	-
USD/AUD -10%	138,399	-	138,399	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

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

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash (refer to Note 11).

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Assets				
Cash and cash equivalents	3,324,309	1,665,879	3,324,308	1,665,878
	3,324,309	1,665,879	3,324,308	1,665,878

The following table demonstrates the estimated sensitivity to a 1% increase and decrease in the interest rate, where all other variables are held constant. The sensitivity is based on the interest rate exposures in existence as at balance date.

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Judgements of reasonably possible movements				
Impact on post tax profit				
+1% (100 basis points)	33,243	16,659	33,243	16,659
-1% (100 basis points)	(33,243)	(16,659)	(33,243)	(16,659)

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

Fair value of financial instruments

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

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

Capital management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 4. Other Income

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Net gains on disposal of plant and equipment	-	386	-	386
Exchange gains	2,221	-	2,221	-
	2,221	386	2,221	386

Note 5. Other Expenses

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Audit fees	9	66,000	50,000	66,000	50,000
Consultants fees other		110,480	241,620	110,480	241,620
Directors' remuneration		152,600	173,562	152,600	173,562
Insurance		23,864	5,053	23,864	5,053
Legal expenses		5,000	3,030	5,000	3,030
Write down value of assets disposed	14	4,630	188	4,630	188
Operating lease costs		94,905	132,753	94,905	132,753
Other expenses		129,420	95,415	129,420	95,415
Shareholder costs		76,831	74,086	76,831	74,086
Travel		8,052	13,238	8,052	13,238
		671,782	788,945	671,782	788,945

Note 6. Depreciation and Amortisation

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Depreciation	14	19,728	16,486	19,728	16,486
Amortisation of intangibles	15	25,657	22,957	25,657	22,957
		45,385	39,443	45,385	39,443

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

Note 7. Employee Expenses

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Wages and salaries		393,168	253,426	393,168	253,426
Superannuation		182,579	123,457	182,579	123,457
Workers compensation		3,893	7,290	3,893	7,290
Payroll tax		17,052	19,715	17,052	19,715
Provision for annual leave		15,782	12,759	15,782	12,759
Provision for long service leave		5,498	920	5,498	920
Share-based payments expense	25	32,697	63,399	32,697	63,399
		650,669	480,966	650,669	480,966

These Employee expenses are in the income statement. Additionally employee expenses of $229,478 (2007: $162,340) have been included in deferred exploration costs.

Note 8. Exploration Expenses

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Exploration expenditure written off	-	48,433	-	48,433
Exploration expenditure recovered	(14,465)	-	(14,465)	-
Other exploration expenditure	16,006	9,882	16,006	9,882
	1,541	58,315	1,541	58,315

Note 9. Auditors Remuneration

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

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Amounts received or due and receivable by Ernst & Young for:					
An audit or review of the financial report of the entity and any other entity in the consolidated group	5	66,000	50,000	66,000	50,000
		66,000	50,000	66,000	50,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

Note 10. Income Tax

The major components of income tax expense are:

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Income Statement				
Current income tax expense/(benefit)	(621,698)	(154,534)	(621,698)	(154,534)
Deferred income tax expense/(benefit)	782,067	154,534	782,067	154,534
Income tax expense/(benefit) reported in the income statement	160,369	-	160,369	-
Statement of changes in equity				
Share issue costs	(160,369)	-	(160,369)	-
Income tax benefit reported directly in Equity	(160,369)	-	(160,369)	-
Tax Reconciliation				
A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting loss before tax	(843,719)	(781,406)	(843,719)	(781,406)
At the Group's statutory income tax rate of 30% (2007: 30%)	(253,116)	(234,422)	(253,116)	(234,422)
Non-deductible expenditure	1,556	657	1,556	657
Share based payment expense	9,809	19,020	9,809	19,020
Other	24,864	(3,008)	24,864	(3,008)
Tax losses not brought to account	377,255	217,753	377,255	217,753
Income tax expense/(benefit) reported in the consolidated income statement	160,369	-	160,369	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 10. Income Tax (continued)

	Balance Sheet		Income Statement	
	2008	2007	2008	2007
	$	$	$	$
Deferred Income Tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED & PARENT				
Deferred tax liabilities				
Exploration and evaluation costs	(2,287,170)	(1,695,624)	591,546	101,915
Intangible asset	(128,193)	(135,890)	(7,697)	(6,887)
Accrued revenue	(59,594)	(41,823)	17,771	41,686
Prepayments	(7,893)	(17,108)	(9,215)	4,611
Accrued interest	(8,323)	(4,720)	3,603	17,108
Other	(2,205)	(1,275)	930	1,275
Gross deferred income tax liabilities	(2,493,378)	(1,896,440)		
Deferred tax assets				
Accruals	20,445	15,405	(5,040)	(6,457)
Provisions	21,180	12,432	(8,748)	(5,371)
Share issue costs	80,720	146,353	-	1,612
Other	2,162	45	(2,117)	5,040
Tax losses recognised to offset net deferred tax liability	2,368,871	1,722,205	(420,663)	(154,532)
Gross deferred income tax assets	2,493,378	1,896,440		
Net deferred tax asset / (liability)	-	-		
Deferred income tax (benefit)/expense			160,369	-

Tax losses

BAS has unrecognised gross income tax losses arising in Australia of $14,805,274 (2007: $11,964,350) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose other than to offset recognised deferred tax liabilities. The unused tax losses will not be recognised as deferred income tax assets until it is probable that taxable profits will be available to utilise those losses subject to continuing to meet statutory tests. In addition, BAS has unrecognised gross capital tax losses for which no deferred tax asset is recognised on the balance sheet of $774,000 (2007: $774,000) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet statutory tests.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 11. Cash and Cash Equivalents

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Cash at bank and in hand	1,623,600	265,879	1,623,599	265,878
Short-term deposits	1,700,709	1,400,000	1,700,709	1,400,000
	3,324,309	1,665,879	3,324,308	1,665,878

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

Short-term deposits are made for varying periods 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 $3,324,309 (2007: $1,665,879).

The Group has no undrawn borrowing facilities (2007: Nil).

Note 12. Trade and Other Receivables

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Trade receivables	-	5	-	5
Trade receivables – director related parties	-	57	-	57
Other receivables	27,743	15,731	27,743	15,731
Goods and services tax and withholding tax refunds	133,286	5,983	133,286	5,983
	161,029	21,776	161,029	21,776

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

Note 13. Other Current Assets

	2008	2007	2008	2007
	$	$	$	$
Prepayments	26,310	57,028	26,310	57,028
Accrued revenue	115,584	139,410	115,584	139,410
	141,894	196,438	141,894	196,438

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 14. Plant and Equipment

		Consolidated		Parent	
	Note	**2008**	**2007**	**2008**	**2007**
		$	**$**	**$**	**$**
Computer hardware and software					
Opening balance, net of accumulated depreciation and impairment		1,140	-	1,140	-
Additions		2,477	1,309	2,477	1,309
Depreciation charge for the year - income statement		(716)	(132)	(716)	(132)
Depreciation charge for the year - deferred exploration costs		(316)	(37)	(316)	(37)
Closing balance, net of accumulated depreciation and impairment		2,585	1,140	2,585	1,140
Cost		173,227	170,750	173,227	170,750
Accumulated depreciation and impairment		(170,642)	(169,610)	(170,642)	(169,610)
Net carrying amount		2,585	1,140	2,585	1,140
Office equipment, furniture and fittings					
Opening balance, net of accumulated depreciation and impairment		40,136	43,879	40,136	43,879
Additions		44,534	7,752	44,535	7,752
Written down value of assets disposed		(3,064)	(188)	(3,064)	(188)
Depreciation charge for the year - income statement		(11,615)	(8,852)	(11,615)	(8,852)
Depreciation charge for the year - deferred exploration costs		(5,109)	(2,455)	(5,109)	(2,455)
Closing balance, net of accumulated depreciation and impairment		64,882	40,136	64,882	40,136
Cost		121,098	81,090	121,098	81,090
Accumulated depreciation and impairment		(56,216)	(40,954)	(56,216)	(40,954)
Net carrying amount		64,882	40,136	64,882	40,136

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 14. Plant and Equipment (continued)

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Leasehold improvements					
Opening balance, net of accumulated depreciation and impairment		3,125	12,707	3,125	12,707
Additions		68,474	-	68,474	-
Written down value of assets disposed		(1,566)	-	(1,566)	-
Depreciation charge for the year - income statement		(7,397)	(7,501)	(7,397)	(7,501)
Depreciation charge for the year - deferred exploration costs		(3,254)	(2,081)	(3,254)	(2,081)
Closing balance, net of accumulated depreciation and impairment		59,382	3,125	59,382	3,125
Cost		68,475	23,130	68,475	23,130
Accumulated depreciation and impairment		(9,093)	(20,005)	(9,093)	(20,005)
Net carrying amount		59,382	3,125	59,382	3,125
Total					
Opening balance, net of accumulated depreciation and impairment		44,401	56,586	44,401	56,586
Additions		115,485	9,061	115,485	9,061
Written down value of assets disposed		(4,630)	(188)	(4,630)	(188)
Depreciation charge for the year - income statement	6	(19,728)	(16,486)	(19,728)	(16,486)
Depreciation charge for the year - deferred exploration costs		(8,679)	(4,572)	(8,679)	(4,572)
Closing balance, net of accumulated depreciation and impairment		126,849	44,401	126,849	44,401
Cost		362,800	274,969	362,800	274,969
Accumulated depreciation and impairment		(235,951)	(230,569)	(235,951)	(230,569)
Net carrying amount		126,849	44,401	126,849	44,401

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 15. Intangible Assets

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Yolla royalty				
Cost (gross carrying amount)	475,923	475,923	475,923	475,923
Accumulated amortisation and impairment	(48,614)	(22,957)	(48,614)	(22,957)
Net carrying amount	427,309	452,966	427,309	452,966

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 was based on the units of production method. The current owners commenced commercial production in early July 2006. The Company has received only minimal royalty amounts to date, and because the current owners are continuing to review the royalty agreement to determine the appropriate methodology for calculating payment sums.

Note 16. Exploration and Evaluation Costs

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Petroleum tenements in the exploration phase				
Cost (gross carrying amount)	21,677,986	19,706,168	21,677,986	19,706,168
Accumulated amortisation and impairment	(14,054,087)	(14,054,087)	(14,054,087)	(14,054,087)
Net carrying amount	7,623,899	5,652,081	7,623,899	5,652,081

Petroleum tenements in the exploration phase				
Balance at beginning of year	5,652,081	5,304,233	5,652,081	5,304,233
Cost capitalised for the year	1,971,818	426,720	1,971,818	426,720
Supplier refunds and cost recoupment	-	(30,500)	-	(30,500)
Write off of expenditure	-	(48,372)	-	(48,372)
Balance at end of year	7,623,899	5,652,081	7,623,899	5,652,081

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 17. Investments in Controlled Entities

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	$	$	$	$
Investment in controlled entity	-	-	1	1

Note 18. Trade and Other Payables

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	$	$	$	$
Trade payables	1,453,567	36,363	1,453,567	36,363
Other payables	140,945	103,517	140,945	103,517
Goods and services tax payable	3,315	-	3,315	-
	1,597,827	139,880	1,597,827	139,880

Note 19. Provisions

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	$	$	$	$
Current liability				
Provision for annual leave	49,696	28,367	49,696	28,367
Non - current liability				
Provision for long service leave	20,905	13,070	20,905	13,070

Note 20. Interest in Joint Venture Operations and Assets

The Company has an interest in the assets, liabilities and output of joint venture operations and assets for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 27. Details of the Company's interests in the joint ventures are:

	Interest 30/6/2007	Interest Acquired	Interest Disposed	Interest 30/6/2008
Vic/P41	45%	-	-	45%
Vic/P42	50%	-	30%	20%
Vic/P47	40%	-	-	40%
PEP 151	25%	-	-	0%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 21. Contributed Equity

			Consolidated & Parent	
	2008 Shares	2007 Shares	2008 $	2007 $
Issued and paid up capital				
Ordinary shares fully paid	155,450,953	129,242,468	23,141,633	19,872,732
Movements in ordinary shares on issue				
Ordinary shares on issue at beginning of period:	129,242,468	129,242,468	19,872,732	19,872,732
Ordinary shares issued during the period:				
Share placement on 13 March 2008	25,908,485	-	3,238,561	-
Exercise of 30 November 2009 options	300,000	-	57,873	-
Costs of share issue	-	-	(187,902)	-
Deferred Tax Asset on share issue costs	-	-	160,369	-
	155,450,953	129,242,468	23,141,633	19,872,732

(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) Senior Executives and Officers Option Plan
The Senior Executive and Officers Option Plan provides for the progressive vesting of 33% of the total number of options granted, during each year of the currency of the options.

At the beginning of the year, 2,000,000 options exercisable at a price of 25 cents on or before 30 September 2008 had been granted pursuant to the Plan. During the year 200,000 options were forfeited. At balance date 1,800,000 options were outstanding.

At the beginning of the year, 1,600,000 options exercisable on or before 30 June 2010, in tranches of 1,050,000, at an exercise price of 25 cents, and 550,000, at an exercise price of 30 cents were on issue and outstanding at the date of this report.

The Senior Executive and Officers Option Plan provides for the progressive vesting of 33.3% of the total number of options granted, during each year of the currency of the options.

On 1 December 2006, 600,000 options, expiring on 30 June 2009 and exercisable at a price of 15 cents, were granted to Senior Executives. During the year 300,000 options were exercised. At balance date, 300,000 options were outstanding.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 21. Contributed Equity (continued)

(iii) Other Remuneration Options
At the beginning of the year, 700,000 options, exercisable on or before 30 September 2008, at a exercise price of 25 cents had been granted to employees and consultants, and were not subject to the progressive vesting terms of the Plan. During the year 200,000 options were cancelled and at balance date, 500,000 options were outstanding.

500,000 options, expiring on 30 June 2008 and 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 cancelled at 3 June 2008.

On 20 June 2007, 1,500,000 options, expiring on 20 June 2010, vesting immediately, and exercisable at a price of 15 cents in three equal tranches of 500,000 at 20 June, 2007, 2008 and 2009, were granted to the Managing Director and were outstanding at the date of this report.

On 3 June 2008, 1,500,000 options, expiring on 3 June 2011, vesting immediately, and exercisable at a price of 15 cents in three equal tranches of 500,000 at 3 June, 2008, 2009 and 2010, were granted to the Managing Director and were outstanding at the date of this report.

Note 22. Accumulated (Losses)/Profits

			Consolidated		Parent
	Note	2008	2007	2008	2007
		$	$	$	$
Balance at beginning of period		(12,239,593)	(11,458,187)	(12,239,593)	(11,458,187)
Net (loss)		(1,004,088)	(781,406)	(1,004,088)	(781,406)
Share options cancelled	24	28,529	-	28,529	-
Balance at end of period		(13,215,152)	(12,239,593)	(13,215,152)	(12,239,593)

Note 23. Reserves

		Consolidated		Parent
	2008	2007	2008	2007
	$	$	$	$
Share-based payments reserve				
Balance at beginning of period	219,085	155,686	219,085	155,686
Share-based payments	32,697	63,399	32,697	63,399
Share options exercised by employees	(12,873)	-	(12,873)	-
Share options cancelled	(28,529)	-	(28,529)	-
Balance at end of period	210,380	219,085	210,380	219,085

The employee equity benefits reserve is used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to Note 25 for further details of these plans.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 24 Earnings per Share
The following reflects the income used in the basic and diluted earnings per share computations.

	2008 $	2007 $
Net Loss attributable to ordinary equity holders of the parent	(1,004,088)	(781,406)

Weighted average number of ordinary shares:

	2008 Number of shares	2007 Number of shares
Issued ordinary shares at 1 July	129,242,468	129,242,468
Effect of shares issued December	159,836	-
Effect of shares issued March	7,715,915	-
Weighted average number of ordinary shares at 30 June	137,118,219	129,242,468

Note 25. Share-based Payments

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

The exercise price of the options is set by the directors on the date of grant. Presently, two option plans exist whereby the options vest progressively, at the rate of either 20% or 33.3% 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 7.

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

	2008 Number	2008 WAEP	2007 Number	2007 WAEP
Outstanding at the beginning of year	6,900,000	0.216	5,800,000	0.263
Options granted	1,500,000	0.150	2,600,000	0.150
Options exercised	(300,000)	0.150	-	
Options forfeited	(200,000)	0.250	(1,000,000)	(0.275)
Options expired/cancelled	(700,000)	(0.179)	(500,000)	(0.300)
Outstanding at the end of the year	7,200,000	0.208	6,900,000	0.216
Exercisable at the end of the year	5,100,000	0.223	3,130,000	0.261

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

The outstanding balance as at 30 June 2008 is represented by:

- 2,300,000 options over ordinary shares with an exercise price of 25 cents each, and expiring at 30 September 2008;
- 550,000 options over ordinary shares with an exercise price of 30 cents each, and expiring at 30 June 2010;
- 1,050,000 options over ordinary shares with an exercise price of 25 cents each, and expiring at 30 June 2010;
- 300,000 options over ordinary shares with an exercise price of 15 cents each, and expiring at 30 November, 2009;
- 1,500,000 options over ordinary shares with an exercise price of 15 cents each and expiring at 20 June 2010;
- 1,500,000 options over ordinary shares with an exercise price of 15 cents each and expiring at 3 June 2011.

The remaining contractual life for the share options outstanding as at 30 June 2008 is between 1 and 3 years (2007: 1 and 3 years).

The range of exercise prices for options outstanding at the end of the year was $0.15-$0.30 (2007: $0.15-$0.30).

The weighted average fair value of options granted during the year was $0.0269 (2007: $0.0212).

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.

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. 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 material assumptions indicated below:

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

Options granted	26-Nov-03	20-Aug-04	30-Jun-05 (i)	30-Jun-05 (ii)	01-Dec-06	20-Jun-07	03-Jun-08
Dividend yeild (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	95	59	65	65	80	75	75
Risk free interest rate (%)	5.82	5.30	5.10	5.10	5.91	6.38	6.63
Expected life of option (years)	4.83	4.08	5.00	5.00	3.00	3.00	3.00
Expiry Date	30-Sep-08	30-Sep-08	30-Jun-10	30-Jun-10	30-Nov-09	20-Jun-10	03-Jun-11
Option exercise price ($)	0.25	0.25	0.25	0.30	0.15	0.15	0.15
Weighted average share price at measurement date ($)	0.20	0.20	0.15	0.15	0.08	0.08	0.08

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

Plan Options

Holders of options under the Senior Executives and Officers Option Plans are entitled to progressively exercise either 20% or 33.3% of the total number of options granted respectively 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. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 26. Key Management Personnel Disclosures

(a) Compensation for key management personnel

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	$	$	$	$
Short term employee benefits	580,726	538,933	580,726	538,932
Post-employment benefits	334,018	266,436	334,018	266,436
Share-based payments	49,156	66,168	49,156	66,168
	963,900	871,537	963,900	871,536

(b) Option holdings of key management personnel (consolidated)

	1 July 2007					30 June 2008
	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Cancelled or Forfeited	Balance at End of Period	Vested and Exercisable at 30 June 2008
2008						
Directors						
B Wheelahan	500,000	-	-	-	500,000	500,000
EG Albers	400,000	-	-	-	400,000	400,000
HJ Askin	500,000	-	-	-	500,000	500,000
AR Adams	2,700,000	1,500,000	-	(700,000)	3,500,000	1,900,000
Executives						
ISA Reid	1,950,000	-	(300,000)	-	1,650,000	1,300,000
	6,050,000	1,500,000	(300,000)	(700,000)	6,550,000	4,600,000

	1 July 2006					30 June 2007
	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Cancelled or Forfeited	Balance at End of Period	Vested and Exercisable at 30 June 2007
2007						
Directors						
B Wheelahan	680,000	-	-	(180,000)	500,000	400,000
EG Albers	2,323,056	-	-	(1,923,056)	400,000	300,000
HJ Askin	890,000	-	-	(390,000)	500,000	400,000
R Flew (a)	620,000	-	-	(620,000)	-	-
AR Adams	1,725,000	2,000,000	-	(1,025,000)	2,700,000	1,250,000
Executives						
DB Hill (b)	240,000	-	-	(40,000)	200,000	120,000
ISA Reid	1,850,000	450,000	-	(350,000)	1,950,000	1,250,000
	8,328,056	2,450,000	-	(4,528,056)	6,250,000	3,720,000

(a) Mr Flew retired on 22 December 2006.
(b) Mr Hill retired on 30 March 2007.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 26. Key Management Personnel Disclosures (continued)

(c) Shareholdings of key management personnel (consolidated)

Shares held in Bass Strait Oil Company Ltd (number)

	1 July 2007 Balance at Beginning of Period	Granted as Remuneration	On exercise of options	Net Change Other	30 June 2008 Balance at End of Period
2008					
Directors					
B Wheelahan	2,207,350	-	-	438,790	2,646,140
AR Adams	500,000	-	-	400,000	900,000
EG Albers	26,964,178	-	-	18,277,499	45,241,677
HJ Askin	1,505,000	-	-	1,000	1,506,000
Executives					
ISA Reid	1,090,000	-	300,000	-	1,390,000
	32,266,528	-	300,000	19,117,289	51,683,817

	1 July 2006 Balance at Beginning of Period	Granted as Remuneration	On exercise of options	Net Change Other	30 June 2007 Balance at End of Period
2007					
Directors					
B Wheelahan	2,207,350	-	-	-	2,207,350
AR Adams	300,000	-	-	200,000	500,000
EG Albers	24,168,283	-	-	2,795,895	26,964,178
HJ Askin	1,505,000	-	-	-	1,505,000
R Flew (a)	1,476,250	-	-	(1,476,250)	-
Executives					
DB Hill (b)	400,570	-	-	(400,570)	-
ISA Reid	1,355,000	-	-	(265,000)	1,090,000
	31,412,453	-	-	854,075	32,266,528

(a) Mr Flew retired on 22 December 2006.
(b) Mr Hill retired on 30 March 2007.

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

During the year the Company received fees as the operator of Vic/P47 of $245,839 (2007: $268,663) and Vic/P41 of $143,170 (2007: $176,190) in which Moby Oil & Gas Limited ("Moby") is a co-venturer. A Director, E.G. Albers, is both a Director and Chairman of Moby. The Company derived fees from Exoil Ltd of $nil (2007: $682), in which E.G. Albers is a Director. The fees were provided under normal commercial terms and conditions.

During the year the Company paid fees to Terra Firma Technology Pty Ltd $132,197 (2007: 297,796) a company of which Ian Reid is both a Director and shareholder. The fees were provided under normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 27. Commitments

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

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Within one year	670,000	937,500	670,000	937,500
After one year but not more than five years	2,600,000	2,100,000	2,600,000	2,100,000
More than five years	-	-	-	-
	3,270,000	3,037,500	3,270,000	3,037,500

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

Vic/P41
Year 3 commitment of 2D seismic survey has been completed.

Vic/P42
The renewal proposal for tenement for a further 5 years has been submitted. The Vic/P42 joint venture has met or exceeded all permit commitments during the first permit term. The permit is currently undergoing the renewal and relinquishment process prior to starting a new five year permit term in which the permit would be reduced to 50% of the original permit area. The joint venture expects that all prospective blocks within the original permit will be retained.

Vic/P47
Year 6 commitment has already been met. Vic/P47 will enter a renewal and relinquishment process towards the end of its first permit term on 27 December 2008. It is anticipated that this process will lead to a new five year permit term in which the permit would be reduced to 50% of the original permit area. The joint venture expects that all prospective blocks within the original permit area will be retained.

T/42P
Year 3 commitment of 2D seismic survey has been completed.

T/43P
Year 3 commitment of 2D seismic survey has been completed.

PEP 167
The permit was granted on 2 July 2007. The committed work program consists of geological and geophysical studies which were completed in Year 1 and a 2D seismic survey ($670,000) to be completed in Year 2, followed by a well in Year 3 ($2,600,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

Note 27. Commitments (continued)

Non-cancellable operating lease commitments
Future operating lease rentals are not provided for in the financial statements and payable:

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Within one year	69,735	42,930	69,735	42,930
After one year but not more than five years	246,193	-	246,193	-
More than five years	-	-	-	-
	315,928	42,930	315,928	42,930

Note 28. Segment Information

The Company operates in Australia in the petroleum exploration industry.

Note 29. Reconciliation of cash flows from operating activities

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

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

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Net loss	(1,004,088)	(781,406)	(1,004,088)	(781,406)
Adjustments for:				
Depreciation	19,728	16,486	19,728	16,486
Amortisation	25,657	22,957	25,657	22,957
Written down value of assets disposed	4,630	188	4,630	188
Net loss on foreign exchange	(2,221)	-	(2,221)	-
Deferred tax assets not brought to account	160,369	-	160,369	-
Share options expensed	32,697	63,399	32,697	63,399
	(763,228)	(678,376)	(763,228)	(678,376)
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables and other current assets	(112,109)	71,892	(112,109)	71,892
(Increase)/decrease in prepayments	30,718	(57,028)	30,718	(57,028)
(Decrease)/increase in trade and other payables	166,063	110,250	166,063	110,250
(Decrease)/increase in provisions	29,164	17,902	29,164	17,902
Net cash from/(used in) operating activities	(649,392)	(535,360)	(649,392)	(535,360)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 30. Contingent Liabilities

The Consolidated Entity has negotiated a number of bank guarantees in favour of various government authorities and service providers. The total nominal amount of these guarantees at balance date is $37,510 (2007:$Nil).

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

Report on the Financial Report

We have audited the accompanying financial report Bass Strait Oil Company Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

1. the financial report of Bass Strait Oil Company Limited is in accordance with 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 2008 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Bass Strait Oil Company Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Brett Croft
Partner
Melbourne
24 September 2008

CORPORATE GOVERNANCE STATEMENT

At the date of this report the Company generally complies with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations. Specific instances where the Company, during the year, followed alternative corporate governance practices and details of current practices are set out below.

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

Principle 1 - Lay Solid Foundations for Management and Oversight
The Board's primary role is the stewardship of shareholders' funds with the objective of creating long term shareholder value. In fulfilling this role, the Board accepts overall responsibility for corporate governance.

A Board Charter, setting the framework for its operation and of those functions delegated to management, has been adopted and is posted to the Company's website. The Directors are presently reviewing the Charter to embrace changes to the Principles of Good Corporate Governance and Best Practice Recommendations that come into effect from 1 January, 2008.

The Board did not conduct a performance appraisal of management during the financial year as key executive roles were filled during the year. An evaluation may be undertaken during the current year.

Principle 2 - Structure the Board to Add Value
At the date of this report, the Board comprises 3 non-executive Directors, 2 of whom are independent, and 1 executive director:

Mr B Wheelahan – Chairman, non-executive Director and independent
Mr A R Adams - Managing Director
Mr E G Albers - Non-executive Director
Mr H J Askin - Non-executive Director and independent

On 19 July 2006 Mr Adams was appointed Managing Director. Mr Albers remains a non-executive director who, as a substantial shareholder of the Company, is not independent.

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

The Board has established an audit committee but, given the Company's limited activities and limited resources, it has not established committees to address specific areas such as nomination, remuneration, risk management, health, safety and environment. Any issues from these areas are dealt with by the Board and any Director with a conflict of interest abstains from voting. The Board has not formalised procedures for the selection and appointment of new Directors.

The Board did not undertake an evaluation of its own performance during the financial year, but such an evaluation may be undertaken during the current year.

Principle 3 - Promote Ethical and Responsible Decision-making
The corporate goal of the Company is to build an energy business providing lasting growth in shareholder value while at the same time maintaining a reputation for integrity and fairness.

The Board has adopted and posted to the Company's website:

- Code of Conduct setting out the standards of ethical behaviour required of directors, officers and employees; and
- Share Trading Policy for directors, officers and employees trading in the Company's securities.

Principle 4 - Safeguard Integrity in Financial Reporting
An Audit Committee Charter has been adopted by the Board and posted on the Company's website.

The names, qualifications and Committee attendees are set out in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 5 - Timely and Balanced Disclosure
The Board has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

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

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

Principle 6 - Respect the Rights of Shareholders
The Board has established a process for communicating with shareholders by:

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

Principle 7 - Recognise and Manage Risk
The Board is responsible for overseeing the effectiveness of risk management so as to:

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

The inherent nature of petroleum exploration is high-risk with no certainty of success. However, the Company takes all prudent analytical and planning steps to control risk. Apart from the geological risk, material business risks include those of a financial, operational, environmental technological nature. Existing policies and procedures for risk oversight are considered by the Board to be adequate at this stage of the Company's development.

At each major milestone of exploration projects, specific risk oversight and management policies will be developed consistent with activities at that time.

The Board has received assurances from the Managing Director, Company Secretary and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control that, in all material respects, mitigates financial reporting risks.

Principle 8 - Remunerate Fairly and Responsibly
The Board has not appointed a remuneration committee and reviews the remuneration packages of Directors and Executive Officers on an annual basis. The Company's policy for determining the nature and amount of emoluments of Directors and senior executives is set out in the Remuneration Report.

Non-executive directors were granted options on 26 November, 2003 in accordance with the Senior Executives and Officers Option Plan. No further grants of options to non-executive directors have been implemented since that date.

SHAREHOLDER AND OTHER INFORMATION

Compiled as at 1 October 2008

DISTRIBUTION OF ORDINARY SHARES

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

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	192	84,026
1,001 – 5,000	461	1,380,575
5,001 – 10,000	413	3,529,842
10,001 – 100,000	949	33,067,555
100,001 and over	208	117,388,955
TOTAL ON ISSUE	2,223	155,450,953

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

SUBSTANTIAL SHAREHOLDER

As disclosed in notices given to the Company.

Name of Substantial Shareholder	Interest in Number of Shares *Beneficial and non-beneficial*	% of Shares
Ernest Geoffrey Albers	45,241,677	29.10

VOTING RIGHTS

At meetings of members or classes of members:

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

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

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

- (i) for each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;
- (ii) for each partly paid share, only the fraction of one vote which the amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited),

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

SHAREHOLDER AND OTHER INFORMATION (Cont)
Compiled as at 1 October 2008

THE 20 LARGEST HOLDERS OF ORDINARY SHARES

Holder	Ordinary Shares	% of Total Issued
Great Australia Corporation Pty Ltd	12,552,136	8.07
Cue Petroleum Pty Ltd	8,128,704	5.23
Great Australia Corporation Pty Ltd	7,559,367	4.86
David Davidson	3,750,000	2.41
Phillip Securities Pte Ltd	3,693,845	2.38
Australian Natural Gas Pty Ltd	2,871,444	1.85
USB Wealth Management Australia Nominees Pty Ltd	2,609,940	1.68
H J Jamison & C M Alcock	2,400,000	1.54
ANZ Nominees Ltd	2,175,044	1.40
Strata Resources N L	2,000,000	1.29
Octanex N L	2,000,000	1.29
Goldsbrough Energy Pty Ltd	2,000,000	1.29
Auralandia N L	2,000,000	1.29
Great Missenden Holdings Pty Ltd	1,609,777	1.04
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,556,250	1.00
R W Moses	1,500,000	0.96
Sacrosanct Pty Ltd	1,470,847	0.95
W Grove	1,391,200	0.89
Albers Custodian Company Pty Ltd	1,264,000	0.81
Emmett Enterprises Pty Ltd	1,250,000	0.80

The 20 largest shareholders hold 63,782,554 shares representing 41.03% of the issued share capital.

SHAREHOLDER AND OTHER INFORMATION (CONTINUED)
Compiled as at 1 October 2008

DISTRIBUTION OF 30 NOVEMBER 2009 OPTIONS (EXERCISE PRICE 15 CENTS)

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

	No. of Holders	No. of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	1	300,000
TOTAL ON ISSUE	1	300,000

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

DISTRIBUTION OF 20 JUNE 2010 OPTIONS (EXERCISE PRICE 15 CENTS)

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

	No. of Holders	No. of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	1	1,500,000
TOTAL ON ISSUE	1	1,500,000

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

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

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

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

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

SHAREHOLDER AND OTHER INFORMATION (CONTINUED)
Compiled as at 1 October 2008

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

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

	No. of Holders	No. of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	1	50,000
100,001 and over	1	500,000
TOTAL ON ISSUE	2	550,000

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

DISTRIBUTION OF 3 JUNE 2011 OPTIONS (EXERCISE PRICE 15 CENTS)

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

	No. of Holders	No. of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	1	1,500,000
TOTAL ON ISSUE	1	1,500,000

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

BASS STRAIT OIL

Oil for Australians

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