BASS STRAIT Oil

Oil for Australians

2010 Annual Report

CORPORATE DIRECTORY

ABN 13 008 694 817

Directors
John L C McInnes, Chairman
Andrew R Adams, Managing Director
Henry J Askin
John G Tuohy

Company Secretary
Andrew R Adams

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Stock Exchange Listing
Australian Stock Exchange Ltd
525 Collins Street
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ASX Codes: BAS – Ordinary Shares

Web Site: www.bassoil.com.au

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FORWARD LOOKING STATEMENTS

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

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

CHAIRMAN'S LETTER

Dear Shareholder

During the first half of the 2010 financial year, your Company successfully completed a capital raising of $4 million and also finalized a farmout arrangement of our Windermere oil project in Western Victoria. These actions significantly strengthened the Company's position, enabling us to progress our exploration programme both onshore and offshore.

Since the last Annual General Meeting your Board has pursued a number of internal and external strategies.

Internally we have successfully completed a 3D seismic survey on 41 square kilometres of the Windermere PEP167 area and are currently doing the interpretation and mapping work on the 3D data. The fact that oil was recovered from the 1987 Winderemere-1 well greatly reduces project risk and, if we are successful in establishing production, we anticipate relatively low capital and operating costs leading to robust economics. Early results from interpretation of the 3D seismic broadly support a case for oil potential in this area. Potential resource estimates will be updated based on the new mapping, but success at Windermere could deliver a significant value impact for the Company. We look forward to a positive outcome from this work which could lead to new drilling at Windermere in 2011.

In the Gippsland Basin, a seismic inversion project is underway for both 3D and 2D data areas in the Vic/P41 area and a basin modelling project is currently in progress in permits Vic/P41 and Vic/P66. In addition to this important work, we have continued discussions with possible investment partners who recognize the value potential of these prospective areas in the Gippsland Basin. Your company is well positioned in the Gippsland Basin which is a proven world-class oil province and we strongly believe that there are more commercial discoveries to be made in this area.

More details of our work in our exploration areas and related activities can be found elsewhere in the Annual Report.

Externally we have continued to explore strategic opportunities to grow and achieve critical mass for the Company and also to expand our geographic spread of exploration prospects. While a number of opportunities have been explored, our low share price makes it difficult to achieve an accretion in overall value for our shareholders in any corporate action. The recent share price of around 2.5 cents capitalises the Company at only about $7 million. At this share price level, almost half of the market capitalisation of the Company is represented in cash, which ascribes a value of not much more than $3.5 million to our exploration interests. Accordingly I strongly believe that the market is significantly undervaluing the assets and potential of the company.

While new discoveries in our region, or further increases in oil prices could drive a favourable change in market sentiment, your Company is pursuing its goals and is making the most of its strengthened position with an active and promising exploration programme and with an eye to new horizons and corporate opportunities.

I want to express my appreciation of the participation and input of my fellow Directors. I also want to particularly thank the Managing Director, Andrew Adams, who, together with his small and very experienced staff, has continued to work so diligently in the interests of the Company.

In conclusion, I also want to express the appreciation of the Board for your continuing support.

Yours sincerely

John McInnes
Chairman
21 September 2010

REVIEW OF OPERATIONS

During the 2010 financial year, Bass Strait Oil Company Ltd ('BAS' or the 'Company') successfully concluded a number of important matters, including:

- a capital raising via an underwritten pro-rata rights issue and also a placement of shares;
- the funding of the Windermere 3D seismic survey via a farmout to an international exploration company making its first investment in Australia; and
- the renewal of two permits as well as the variation of commitments in three others.

A number of corporate opportunities were investigated during the year and the Company and its joint venturers also continued the marketing of farmout opportunities in various of the Company's permits.

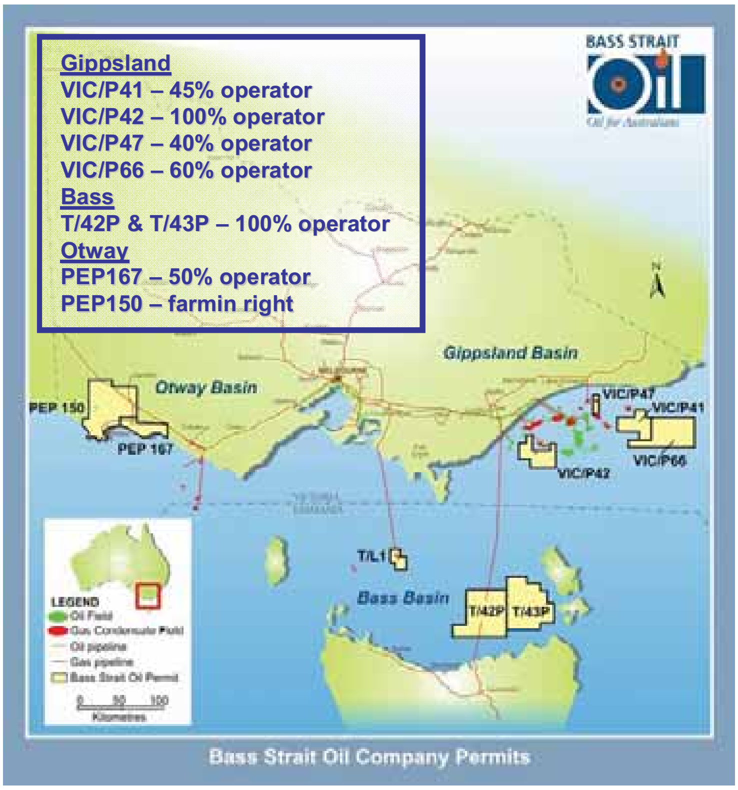
The Company's operational focus during the year was the recording of the new Windermere 3D survey in the PEP 167 permit in the onshore Otway Basin. Field operations for the survey were completed in April 2010 and data processing was finalised in August 2010. Interpretation and mapping of this survey is now underway.

Current projects include:

- Interpretation and mapping of the new Windermere 3D seismic data in PEP 167 is underway ahead of a potential drilling decision later this year.

- A seismic inversion project is underway for both 3D and 2D data areas in Gippsland permit Vic/P41. This project is aimed at further defining potential hydrocarbon anomalies in several major prospects in the permit.

- A basin modeling project is underway in Gippsland permits Vic/P41 and Vic/P66. This project complements the ongoing seismic inversion work and is designed to confirm the nature and timing of the hydrocarbon charge in to these areas.



Bass Strait Oil Company Permits

- The Company is continuing discussions in its efforts to attract drilling investment partners as well as reviewing new opportunities and strategies

A block-by-block review of the Company's 2010 exploration activities follows.

REVIEW OF OPERATIONS (CONTINUED)

Otway Basin onshore - PEP 167: BAS 50% and Operator

This area is located near Portland, in western Victoria and contains the undeveloped 1987 Windermere oil discovery. BAS completed the recording of a 41 sq km 3D seismic programme over Windermere in early April 2010. This survey is designed to define a possible drilling location to follow up the Windermere discovery.

The objectives of the Windermere 3D survey are, firstly, to better define the nature and extent of the Windermere oil accumulation where mapping has been a key uncertainty due to the poor quality of the existing 1980s 2D seismic. Secondly, the survey should allow for detailed well planning and optimisation, in anticipation of a follow-up drilling programme that could include horizontal drilling or other stimulation techniques that were not available at the time of the initial discovery. Thirdly, the 3D survey also addresses several surrounding leads that would make natural follow-up targets in the event of success.

PEP 167 Onshore Otway Basin
Location of Windemere 3D Seismic Survey Area

The survey was conducted under a $2 million farmout to Interra Resources (Australia) Pte Ltd. BAS retains a 50% interest in the permit and operatorship of the new PEP 167 joint venture.

Interpretation of this survey is continuing and early mapping results are encouraging both in terms of defining the Windermere accumulation and also for potential additional leads in the immediate vicinity.

Based on the new 3D seismic survey, a positive interpretation of the Windermere oil discovery could lead to follow-up drilling next year.

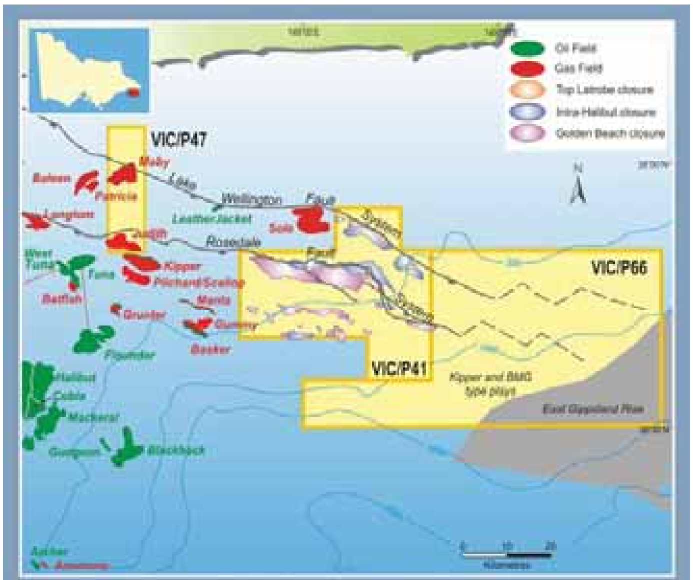
REVIEW OF OPERATIONS (CONTINUED)

Otway Basin onshore - PEP 150 (application area)

BAS can earn an interest in PEP 150 by contributing to the drilling of a well. This area contains the 1989 Lindon oil discovery, but the permit is yet to be granted subject to negotiation of Native Title. This status did not change during the year.

Gippsland Basin offshore

Eastern Gippsland: Vic/P41, BAS 45% and Operator plus Vic/P66, BAS 60% and operator



East Gippsland Play Map

Permits Vic/P41 and Vic/P66 are located adjacent to each other in the east of the offshore Gippsland Basin, approximately 40 km south of the Victorian coast. BAS maps extensions of two productive trends across its East Gippsland permits:

- the eastward extension Rosedale Fault system sets up prospects analogous to the Kipper oil and gas field (development drilling in the Kipper field is underway ahead of first production scheduled for 2011)
- further south, a second trend extension is analogous to the Basker / Manta / Gummy oil and gas fields (which have been in production since December 2006 for Roc Oil and partners) .

Vic/P41 contains a number of large prospects defined on modern 3D seismic, notably Kipling, Benchley and Oscar, whereas Vic/P66, while containing part of the 2D-defined 'Lead A' feature, is still at an early stage of exploration with clear potential to further extend the Rosedale trend in to new areas.

During the year, the ExxonMobil/BHP Billiton discovery at SE Remora-1 provided new impetus to exploration of these trends and the nearby investment in the Kipper development is directly relevant to the Kipling and Benchley prospects in Vic/P41.

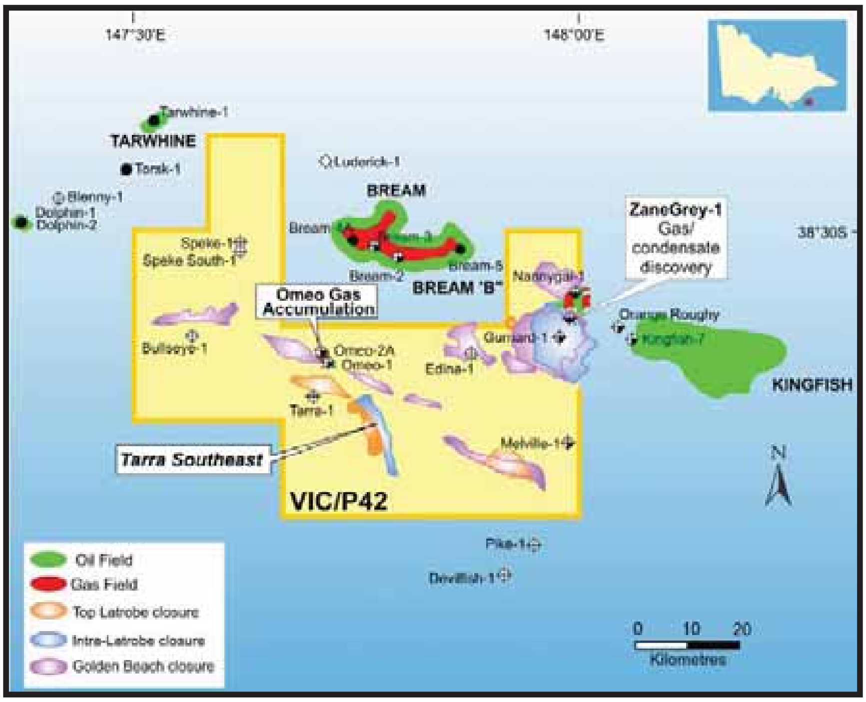
To further define and 'de-risk' these opportunities two new technical studies were initiated during the year. A seismic inversion project (Vic/P41) will analyse both 2D and 3D seismic over Rosedale trend prospects and leads (i.e. Kipper analogues) for indications of hydrocarbon anomalies and other factors. In addition, a basin modelling project (jointly funded by Vic/P41 and Vic/P66) is aimed at defining the nature of hydrocarbon charge in to the east Gippsland area. (i.e. existence of oil vs gas) as well as the timing and migration pathways of this charge.

REVIEW OF OPERATIONS (CONTINUED)

Subsequent to the end of the year, an application for variation to the permit commitments for Vic/P41 has been submitted to the authorities.

Vic/P42, BAS 100%

During the year Vic/P42 was renewed for a new five-year term. The renewed permit consists of 14 graticular blocks (939 sq km) and is located approximately 40 km offshore in moderate water depths of 50 to 80 metres. The permit is adjacent to Kingfish, Australia's largest oil field, as well as to Bream and other producing Exxon Mobil/BHP Billiton oil and gas fields. Existing non-producing gas and condensate discoveries within Vic/P42 at ZaneGrey and Omeo further underline the prospectivity of the area.

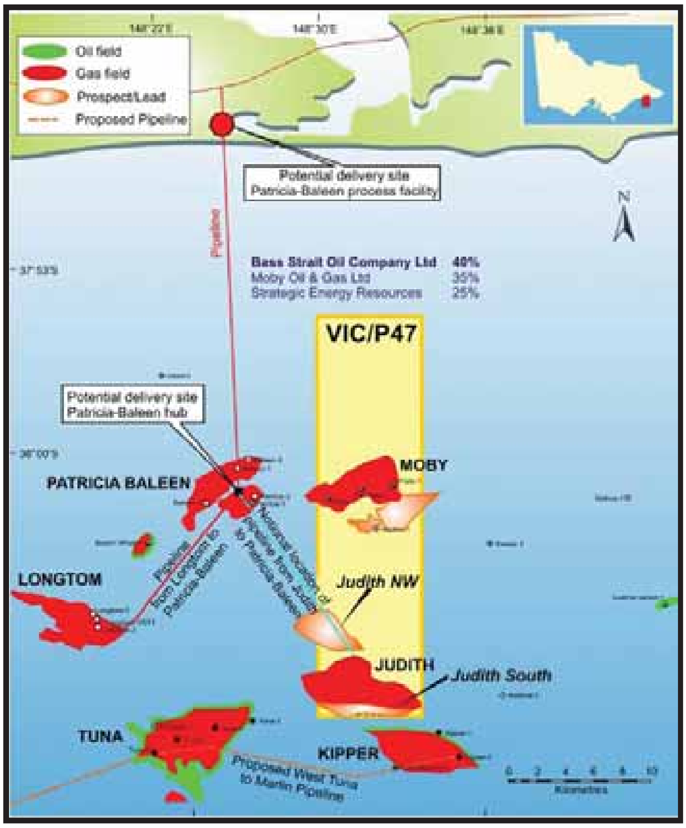


During the year BAS commenced a re-evaluation of known 3D-defined prospects such as Tarra Southeast, which was mapped as a low risk prospect by the previous operator. It is also planned to re-assess the full inventory of identified prospects and leads as well as investigate new plays in the permit.

REVIEW OF OPERATIONS (CONTINUED)

Vic/P47, BAS 40% and Operator

The Vic/P47 exploration permit is located in the offshore Gippsland Basin, 14 km from the coast and south of the Victorian town of Orbost, with water depths ranging up to 80 metres.



During the year Vic/P47 was renewed for a new five year term. The renewed permit consists of 3 graticular blocks (203 sq km) and contains the Judith and Moby gas discoveries. Judith contains certified gas resources (Gaffney Cline & Associates 2008) and both Judith and Moby are in close proximity to existing and planned infrastructure in adjacent licences. The Longtom Field, 22 km to the west of Vic/P47, has commenced gas production for Nexus Energy – the first production from the same geological unit as the Judith discovery. A short distance to the south of the Judith field, ExxonMobil is currently drilling Kipper field development wells with a target of first production of gas and liquids in 2011.

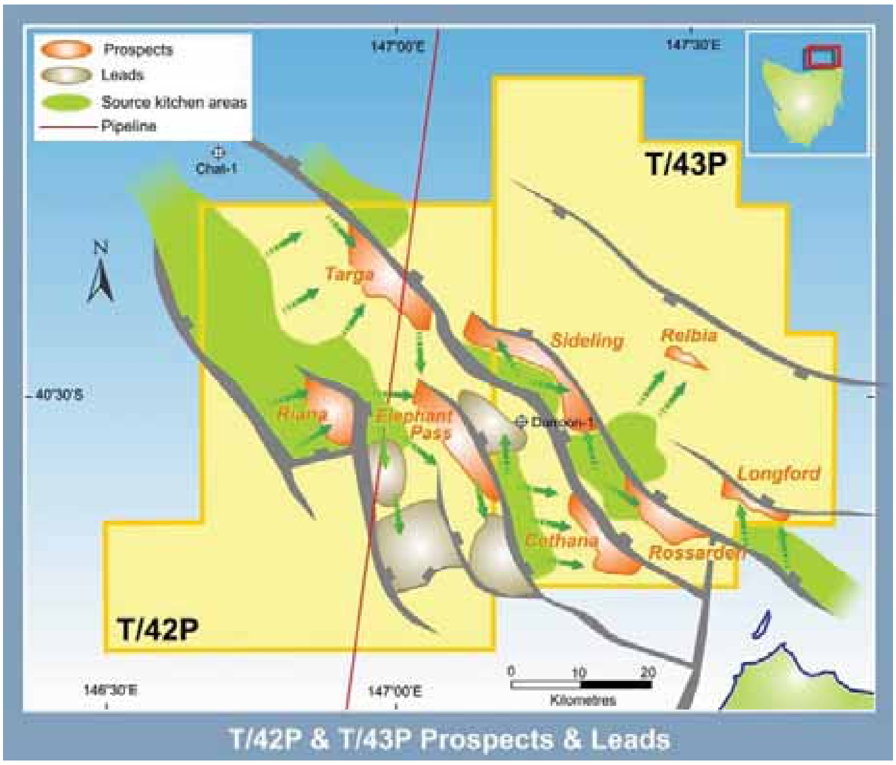
Discussions with potential Vic/P47 farminees are ongoing.

Bass Basin offshore Tasmania

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

These permits cover approximately 6120 sq km off the north coast of Tasmania, in an area of the Bass Basin known as the Durroon Sub-basin.

REVIEW OF OPERATIONS (CONTINUED)



The Company has conducted a comprehensive modern exploration programme including recording new seismic data in T/42P and T/43P. The resulting mapping has defined a number of prospects, each with the scope to contain several hundred million barrels of recoverable oil. Mapping has also confirmed that neither of the 2 existing wells in the area were valid tests. Basin modelling studies indicate a series of interpreted petroleum 'kitchen' areas with the potential to have generated large quantities of oil and gas.

Andrew Adams
Managing Director
Melbourne, 14 September 2010

DIRECTORS' REPORT

The directors present their report on the results of Bass Strait Oil Company Ltd ("BAS") for the year ended 30 June 2010.

DIRECTORS

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

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

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

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

Mr McInnes served on the audit committee during the year.

Andrew R Adams BSc 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.

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

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

Dr Askin is a life member of the Society of Exploration Geophysicists, an active member of the European Association of Geoscientists and Engineers, and a member of the Petroleum Exploration Society of Australia.

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

E Geoffrey Albers LLB FAICD - Non-executive director (Resigned 31/8/09)

Mr Albers acted as chief executive officer until 19 August 2005 and acted as a non-executive director from that date. He resigned as a non-executive director of the board on 31 August 2009.

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 was a member of the audit committee until his resignation.

DIRECTORS' REPORT (CONTINUED)

John G Tuohy BCA CA - Non-executive independent director (*Appointed 31/8/09*)

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

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

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

Mr Tuohy 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
J L C McInnes	366,667	-
A R Adams	1,500,000	1,500,000
H J Askin	1,840,000	-
J G Tuohy	-	-

COMPANY SECRETARY

Mr A R Adams is Company Secretary.

DIVIDENDS

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

PRINCIPAL ACTIVITY

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

OPERATING AND FINANCIAL REVIEW

Operating results for year

The Company's operating loss for the year ended 30 June 2010 after income tax was $534,294 (2009: ($1,083,716).
The Company was the operator of five exploration permits. Revenue amounted to $443,653 (2009: $202,844) during this financial year.

Review of Financial Condition

Liquidity
The Group's consolidated statement of cash flows for the year illustrates an increase of $2,994,865 (2009: decrease of $2,622,393) in cash and cash equivalents. The cash inflow was derived from operating receipts of $430,314 (2009: $312,829), other receipts of $115,573 (2009: $101,138) and capital raising net of transaction costs of $3,721,312 (2009: $nil), but cash outflows relating to operations of $1,043,845 (2009: $1,013,790) exceeded the operating inflows. There were also cash outflows in investing activities of petroleum expenditure and plant and equipment of $228,489 (2009: $2,022,570). Cash assets at 30 June 2010 were $3,696,781 (2009: $701,916).

DIRECTORS' REPORT (CONTINUED)

Share issues during the year
The Company raised $4,067,379 by issuing 135,579,297 ordinary shares at a price of $0.03 per share through a rights issue, less costs of $346,067.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to $12,330,307 from $9,104,251, an increase of $3,226,056. The movement was largely the result of the capital raising, less the operating loss for the year of $534,294.

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

On 10 September 2010, variations to the commitments in petroleum permit VIC/P41 were lodged with the Joint Authority.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 2,100,000 unissued ordinary shares under options (4,100,000 at 30 June 2009). 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.

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' MEETINGS

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

	Board Meetings		Audit Committee	
	Held	Attended	Held	Attended
A R Adams	10	10	-	-
E G Albers	2	1	-	-
H J Askin	10	9	2	2
J L C McInnes	10	10	2	2
J G Tuohy	8	8	2	2

Mr McInnes is Chairman of the audit committee. Mr Adams is not a member of the audit committee. All directors were eligible to attend all meetings held, except for E G Albers who was eligible to attend two directors' meetings and J G Tuohy who was eligible to attend eight directors' meetings.

REMUNERATION REPORT (AUDITED) (30 June 2010)

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

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

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2010) (continued)

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

(i) Directors

J L C McInnes	Chairman
A R Adams	Managing Director & Company Secretary
E G Albers	Director (Non-executive) (resigned 31 August 2009)
H J Askin	Director (Non-executive)
J G Tuohy	Director (Non-executive) (appointed 31 August 2009)

(ii) Executives

K S Jackson	Exploration Manager

Subsequent to the reporting date, Dr K S Jackson has resigned as of 13 September 2010. Dr S Mackie has been appointed Exploration Manager from 30 August 2010. There have been no other 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.

Remuneration Philosophy

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

To this end, the company embodies the following principles in its remuneration framework:
- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and
- 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 remuneration of non-executive directors for the period ending 30 June 2010 and 30 June 2009 is detailed in Table 1 and 2 respectively of this report.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2010) (continued)

Executive Remuneration

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

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

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

The 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.

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 8 cents and a lowest sale price of 2 cents. The share price at 30 June 2010 was 3 cents (2009: 3 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 2010) (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 $326,000 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

Dr Jackson was appointed Exploration Manager on 27 August 2007 and had a rolling contract. Dr Jackson has resigned as of 13 September 2010. Dr S Mackie has been appointed Exploration Manager from 30 August 2010 and has a rolling contract.

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2010

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

(a) Resigned 31 August 2009
(b) Appointed 31 August 2009
(c) Resigned 13 September 2010

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (30 June 2010) (continued)

Table 2: Remuneration for the year ended 30 June 2009

	Short-term benefits	Post Employment	Share-based payment	Long-term benefits		
	Salary & fees	Super-annuation	Options	Long service leave	Total	Performance related
	$	$	$	$	$	%
Non-executive Directors						
J L C McInnes (a)	42,391	3,815	-	-	46,206	0.00%
B Wheelahan (b)	23,000	2,070	-	-	25,070	0.00%
E G Albers	30,000	13,600	-	-	43,600	0.00%
H J Askin	10,000	33,600	-	-	43,600	0.00%
Sub-total non-executive directors	105,391	53,085	-	-	158,476	
Executive Director						
A R Adams	221,000	100,000	27,508	110,065	458,573	6.00%
Other key management personnel						
K S Jackson	175,000	100,000	3,104	1,051	279,155	1.11%
Sub-total executive KMP	396,000	200,000	30,612	111,116	737,728	
Totals	501,391	253,085	30,612	111,116	896,204	

(a) Appointed 1 October 2008
(b) Retired 18 November 2008

Equity Instruments

Table 3: Options awarded and vested during the year

	Terms and conditions for each Grant							Vested	
	Awarded No.	Award Date	Fair Value per option at grant date ($) (Note 23)	Exercise price per option ($) (Note 23)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
30 June 2010									
Executive Director									
A R Adams	-	-	-	-	-	-	-	500,000	-
Other key management personnel									
K S Jackson	-	-	-	-	-	-	-	200,000	-

DIRECTORS' REPORT (CONTINUED)

Table 4: Value of options awarded, exercised or lapsed during the year

	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed, cancelled during the year	Remunera-tion consisting of options for the year
	$	$	$	%
A R Adams	-	-	63,414	1.86%
K S Jackson	-	-	-	0.52%

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the declaration from the auditor of Bass Strait Oil Company Ltd attached at page 16.

The Group received some tax compliance services provided by the entity's auditor, Ernst & Young.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed in accordance with a resolution of the Directors

Managing Director
Melbourne, 14 September 2010

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

In relation to our audit of the financial report of Bass Strait Oil Company Ltd for the financial year ended 30 June 2010, 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
14 September 2010

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

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

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

(c) the financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

On behalf of the Board

Managing Director
Melbourne, 14 September 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	2009 $
Management services arising as operator of petroleum exploration joint ventures		443,653	202,844
Interest from banks		126,536	73,759
Royalties received		-	7,626
Revenue		570,189	284,229
Administrative expenses	4	(499,629)	(757,474)
Depreciation and amortisation	5	(33,816)	(41,027)
Employee benefits expense	6	(539,000)	(551,327)
Loss before income tax		(502,256)	(1,065,599)
Income tax expense	8	(32,038)	(18,117)
Net loss for the period		(534,294)	(1,083,716)
Total comprehensive income/(loss) for the period		(534,294)	(1,083,716)
Basic (loss) earnings per share	22	($0.002)	($0.007)
Diluted (loss) earnings per share	22	($0.002)	($0.007)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	Consolidated 2010 $	2009 $
ASSETS			
Current assets			
Cash and cash equivalents	9	3,696,781	701,916
Trade and other receivables	10	44,143	3,486
Other current assets	11	54,367	49,048
Total current assets		3,795,291	754,450
Non-current assets			
Plant and equipment	12	66,085	94,536
Intangible assets	13	159,106	176,000
Exploration and evaluation expenditure	14	8,653,146	8,427,280
Total non-current Assets		8,878,337	8,697,816
TOTAL ASSETS		12,673,628	9,452,266
LIABILITIES			
Current liabilities			
Trade and other payables	16	162,656	176,217
Provisions	17	179,665	171,798
Total current liabilities		342,321	348,015
NET ASSETS		12,331,307	9,104,251
EQUITY			
Contributed equity	19	26,913,100	23,159,750
Accumulated losses	20	(14,626,607)	(14,155,727)
Share-based payment reserve	21	44,814	100,228
TOTAL EQUITY		12,331,307	9,104,251

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Contributed equity $	Accumulated losses $	Share-based payments reserve $	Total $
		Consolidated			
At 1 July 2009		23,159,750	(14,155,727)	100,228	9,104,251
Net loss for the period		-	(534,294)	-	(534,294)
Total comprehensive income for the period		-	(534,294)	-	(534,294)
Transactions with owners in their capacity as owners:					
Shares issued	19	4,067,379	-	-	4,067,379
Transaction costs on share issue	19	(346,067)	-	-	(346,067)
Share-based payments	21	-	-	8,000	8,000
Income tax on items recognised directly in equity	8	32,038	-	-	32,038
Transfer to accumulated losses for lapsed options	20/21	-	63,414	(63,414)	-
At 30 June 2010		26,913,100	(14,626,607)	44,814	12,331,307
At 1 July 2008		23,141,633	(13,215,152)	210,380	10,136,861
Net loss for the period		-	(1,083,716)	-	(1,083,716)
Total comprehensive income for the period		-	(1,083,716)	-	(1,083,716)
Transactions with owners in their capacity as owners:					
Share-based payments	21	-	-	32,989	32,989
Income tax on items recognised directly in equity	8	18,117	-	-	18,117
Transfer to accumulated losses for lapsed options	20/21	-	143,141	(143,141)	-
At 30 June 2009		23,159,750	(14,155,727)	100,228	9,104,251

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 2010

	Note	Consolidated 2010 $	2009 $
Cash flows from operating activities			
Receipts from customers		430,314	312,829
Payments to suppliers and employees inclusive of GST		(1,043,845)	(1,013,790)
Interest received		115,573	101,138
Net cash flows used in operating activities	28	(497,958)	(599,823)
Cash flows from investing activities			
Petroleum exploration expenditure		(228,489)	(2,022,570)
Net cash flows used in investing activities		(228,489)	(2,022,570)
Cash flows from financing activities			
Proceeds from issue of shares	19	4,067,379	-
Transaction costs on issue of shares	19	(346,067)	-
Net cash flows from financing activities		3,721,312	-
Net increase/(decrease) in cash and cash equivalents		2,994,865	(2,622,393)
Cash and cash equivalents at the beginning of the period		701,916	3,324,309
Cash and cash equivalents at the end of the period	9	3,696,781	701,916

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 2010

Note 1. Corporate Information

The financial report of Bass Strait Oil Company Ltd (the Group, being the Company and its controlled entities) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 14 September 2010.

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

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

Note 2. Summary of Significant Accounting Policies

Basis of Preparation

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

The financial report is presented in Australian dollars.

(a) Compliance with IFRS

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

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures.
The accounting policies adopted are consistent with those of the previous financial year except as follows:

AASB 8 *Operating Segments*
AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. Therefore, segments are now being reported in a manner that is consistent with the internal reporting provided to the Board of Directors of the Group (the Chief Operating Decision Maker). As the basis of reporting to the Board of Directors is consistent with previous segment reporting, under AASB 114 Segment Reporting, there were no changes to the segments identified under the new accounting standard. AASB 8 disclosures are disclosed in Note 27.

AASB 101 *Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

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

Note 2. Summary of Significant Accounting Policies (continued)

There has been no impact on the financial statements or performance of the Group from adopting the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2009.

- AASB 3 (Revised) *Business Combinations* effective 1 July 2009
- AASB 123 *Borrowing Costs (revised 2007)* effective 1 January 2009
- AASB 127 (Revised) *Consolidated and Separate Financial Statements* effective 1 July 2009
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment Vesting Conditions and Cancellations (AASB 2)* effective 1 January 2009
- ASB 2008-3 *Amendments to Australian Accounting Standard arising from AASB 3 and AASB 127* effective 1 July 2009
- AASB 2008-5 *Amendments to Australian Accounting Standard arising from the Annual Improvements Project* effective 1 January 2009
- AASB 2008-6 *Further Amendments to Australian Accounting Standard arising from the Annual Improvements Project [AASB 1& AASB 5]* effective 1 July 2009
- AASB 2008-7 *Amendments to Australian Accounting Standard – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective 1 January 2009
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]* operative for Annual reporting periods beginning on or after 1 January 2009 that end after 30 June 2009
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]* effective 1 July 2009
- AASB 2009-7 *Amendments to Australian Accounting Standards [AASB 5, 7 107, 112 & 139 and Interpretation 17]* effective 1 July 2009

(ii) New Accounting Standards and Interpretations not yet adopted
The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They have been issued but are not yet effective and are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	1 January 2010	The adoption of these amendments will not have a material impact on the Group's financial statements.	1 July 2010

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

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)

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

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

Note 2. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: ► two categories for financial assets being amortised cost or fair value ► removal of the requirement to separate embedded derivatives in financial assets ► strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ► an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ► reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ► changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2013

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

Note 2. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Impact on the Group financial report	Application date for the Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	This standard may change the disclosures currently made in the Group's financial report but will have no impact on the amounts recognised in the financial statements.	1 July 2011

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

Note 2. Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations (continued)
Other amendments issued but not yet effective from the Annual Improvements Projects to the following Standards will have no impact on the accounting policies, financial position or performance of the Group:

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 117,118,136 and 139]
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions
AASB 2009-9 Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
AASB 2009-12 Amendments to Australian Accounting Standards [AASB 5,8,108,110,112,119,133,137,139, 1023 & 1031 and interpretations 2,4,16,1039 & 1052]
AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters
AASB 1053 Application of Tiers of Australian Accounting Standards
AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, 7, 121, 128, 131, 132 & 139]
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

(c) Going Concern

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

(d) Basis of consolidation

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(e) Foreign currency translation

(i) Functional and presentation currency
Both the functional and presentation currency of Bass Strait Oil Company Ltd and 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 date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(f) Cash and cash equivalents

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

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

(g) Trade and other receivables

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

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

(h) Investments and other financial assets

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

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

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

(i) Interests in jointly controlled operations

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(j) Plant and equipment

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

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

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

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

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

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

(k) Leases

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

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

(l) Intangibles

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(m) Exploration and evaluation expenditure

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

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

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

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

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

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

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

(n) Trade and other payables

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

(o) Provisions and employee benefits

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

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

(p) Share-based payment transactions

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

There is currently one plan in place to provide these benefits:
- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

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

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

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

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

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

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

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

(q) 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.

(r) Revenue recognition

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

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

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

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

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

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

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.

(s) Income tax and other taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

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

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

(t) Earnings per share

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

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

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

(u) Significant accounting estimates and assumptions

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

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

Exploration and evaluation costs
Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2010 exploration activities in each area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are planned and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. When ongoing committed activities cannot be funded by existing financial resources, the Group will either need to raise additional capital, or meet its obligations either by farm-out or partial sale of the company's exploration interests, or subject to negotiation and approval, vary the minimum work requirements. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

Note 3. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

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

The only financial liabilities are trade and other payables. At 30 June 2010, the Group had $162,656 (2009: $176,217) in trade and other payables. Trade payables are non-interest bearing and have a contractual maturity of less than 30 days.

Market risk

Market risk is that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of 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 $nil (2009: Trade and other payables $14,152).

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

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 9).

	Consolidated	
	2010	**2009**
	$	**$**
Assets		
Cash and cash equivalents	3,696,781	701,916
	3,696,781	701,916

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

	Consolidated	
	2010	**2009**
	$	**$**
Judgements of reasonably possible movements		
Impact on post tax profit		
+1% (100 basis points)	36,968	7,019
-1% (100 basis points)	(36,968)	(7,019)

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 2010

Note 4. Administrative expenses

	Note		Consolidated
		2010	2009
		$	$
Audit fees	7	62,000	65,600
Consultants fees other		40,365	45,648
Directors' remuneration		152,600	158,476
Exchange losses		515	462
Insurance		21,778	20,625
Legal expenses		8,479	7,800
Impairment of intangibles	13	-	227,815
Operating lease costs		67,739	72,577
Other expenses		64,179	88,221
Shareholder costs		75,752	66,171
Travel		6,222	4,079
		499,629	757,474

Note 5. Depreciation and amortisation

			Consolidated
	Note	2010	2009
		$	$
Depreciation	12	16,922	17,533
Amortisation of intangibles	13	16,894	23,494
		33,816	41,027

Note 6. Employee benefits expense

			Consolidated
	Note	2010	2009
		$	$
Wages and salaries		386,351	280,969
Superannuation		71,769	126,584
Workers compensation		2,370	3,647
Payroll tax		19,520	8,242
Provision for annual leave		39,711	30,657
Provision for long service leave		11,279	68,239
Share-based payments expense	21	8,000	32,989
		539,000	551,327

These Employee benefits are in the statement of comprehensive income. Additionally employee benefits of $342,630 (2009: $361,332) have been included in deferred exploration costs.

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

Note 7. Auditors Remuneration

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

	Note	Consolidated 2010 $	Consolidated 2009 $
Amounts received or due and receivable by Ernst & Young for:			
An audit or review of the financial report of the entity and any other entity in the consolidated group	4	62,000	65,600
Tax compliance services for the group		13,000	-
		75,000	65,600

Note 8. Income Tax

The major components of income tax expense are:

	Consolidated 2010 $	Consolidated 2009 $
Statement of Comprehensive Income		
Current income tax expense/(benefit)	(37,032)	(61,509)
Deferred income tax expense/(benefit)	69,070	79,626
Income tax expense/(benefit) reported in the statement of comprehensive income	32,038	18,117
Statement of Changes in Equity		
Share issue costs	(32,038)	(18,117)
Income tax benefit reported directly in Equity	(32,038)	(18,117)
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	(502,256)	(1,065,599)
At the Group's statutory income tax rate of 30% (2009: 30%)	(150,677)	(319,680)
Non-deductible expenditure	-	-
Share based payment expense	2,400	9,897
Other	(5,768)	(34,524)
Tax losses not brought to account	186,083	362,424
Income tax expense/(benefit) reported in the statement of comprehensive income	32,038	18,117

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

Note 8. Income Tax (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2010	2009	2010	2009
	$	$	$	$
Deferred Income Tax				
Deferred income tax at 30 June relates to the following:				
Consolidated				
Deferred tax liabilities				
Exploration and evaluation costs	(2,595,943)	(2,528,183)	67,760	241,013
Intangible asset	(49,290)	(52,800)	(3,510)	(75,393)
Accrued revenue	(8,120)	(3,968)	4,152	(55,626)
Prepayments	(8,191)	(10,747)	(2,556)	2,854
Accrued interest	(3,398)	(109)	3,289	(8,214)
Other	486	(1,157)	(1,643)	(1,048)
Gross deferred income tax liabilities	(2,664,456)	(2,596,964)		
Deferred tax assets				
Accruals	12,270	16,170	3,900	4,275
Provisions	53,900	51,539	(2,361)	(30,359)
Share issue costs	105,604	40,665	-	-
Other	-	38	38	2,124
Tax losses recognised to offset net deferred tax liability	2,492,682	2,488,552	(37,032)	(61,509)
Gross deferred income tax assets	2,664,456	2,596,964		
Net deferred tax asset /(liability)	-	-		
Deferred income tax (benefit)/expense			32,038	18,117

Tax losses
The Group has unrecognised gross income tax losses arising in Australia of $22,943,288 (2009: $22,416,035) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose other than to offset recognised deferred tax liabilities. The unused tax losses will not be recognised as deferred income tax assets until it is probable that taxable profits will be available to utilise those losses subject to continuing to meet statutory tests. In addition, the Group has unrecognised gross capital tax losses for which no deferred tax asset is recognised in the statement of financial position of $774,000 (2009: $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 2010

Note 9. Cash and Cash Equivalents

	Consolidated	
	2010	2009
	$	$
Cash at bank and in hand	229,148	171,916
Short-term deposits	3,467,633	530,000
	3,696,781	701,916

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 $3,696,781 (2009: $701,916).

The Group has no undrawn borrowing facilities (2009: Nil).

Note 10. Trade and Other Receivables

	Consolidated	
	2010	2009
	$	$
Other receivables	11,327	364
Goods and services tax and withholding tax refunds	32,816	3,122
	44,143	3,486

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

Note 11. Other Current Assets

	Consolidated	
	2010	2009
	$	$
Prepayments	27,302	35,823
Accrued revenue	27,065	13,225
	54,367	49,048

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

Note 12. Plant and Equipment

		Consolidated	
	Note	**2010**	**2009**
		$	**$**
Computer hardware and software			
Opening balance, net of accumulated depreciation and impairment		1,336	2,585
Depreciation charge for the year		(630)	(677)
Depreciation charge for the year - deferred exploration costs		(462)	(572)
Closing balance, net of accumulated depreciation and impairment		244	1,336
Cost		173,227	173,227
Accumulated depreciation and impairment		(172,983)	(171,891)
Net carrying amount		244	1,336
Office equipment, furniture and fittings			
Opening balance, net of accumulated depreciation and impairment		47,513	64,882
Depreciation charge for the year		(7,984)	(9,420)
Depreciation charge for the year - deferred exploration costs		(5,680)	(7,949)
Closing balance, net of accumulated depreciation and impairment		33,849	47,513
Cost		121,098	121,098
Accumulated depreciation and impairment		(87,249)	(73,585)
Net carrying amount		33,849	47,513
Leasehold improvements			
Opening balance, net of accumulated depreciation and impairment		45,687	59,382
Depreciation charge for the year		(8,308)	(7,436)
Depreciation charge for the year - deferred exploration costs		(5,387)	(6,259)
Closing balance, net of accumulated depreciation and impairment		31,992	45,687
Cost		68,475	68,475
Accumulated depreciation and impairment		(36,483)	(22,788)
Net carrying amount		31,992	45,687

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

Note 12. Plant and Equipment (continued)

	Note	Consolidated 2010 $	2009 $
Total			
Opening balance, net of accumulated depreciation and impairment		94,536	126,849
Depreciation charge for the year	5	(16,922)	(17,533)
Depreciation charge for the year - deferred exploration costs		(11,529)	(14,780)
Closing balance, net of accumulated depreciation and impairment		66,085	94,536
Cost		362,800	362,800
Accumulated depreciation and impairment		(296,715)	(268,264)
Net carrying amount		66,085	94,536

Note 13. Intangible Assets

	Yolla Royalty $	Consolidated Total $
Year ended 30 June 2010		
At 1 July 2009 net of accumulated amortisation and impairment	176,000	176,000
Amortisation	(16,894)	(16,894)
At 30 June 2010 net of accumulated amortisation and impairment	159,106	159,106
At 30 June 2010		
Cost (gross carrying amount)	475,923	475,923
Accumulated amortisation and impairment	(316,817)	(316,817)
Net carrying amount	159,106	159,106
Year ended 30 June 2009		
At 1 July 2008 net of accumulated amortisation and impairment	427,309	427,309
Impairment	(227,815)	(227,815)
Amortisation	(23,494)	(23,494)
At 30 June 2009 net of accumulated amortisation and impairment	176,000	176,000
At 30 June 2009		
Cost (gross carrying amount)	475,923	475,923
Accumulated amortisation and impairment	(299,923)	(299,923)
Net carrying amount	176,000	176,000

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

Note 13. Intangible Assets (continued)

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

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

The Directors are confident that the carrying value of the royalty at 30 June 2010 is supported by the minimum expected future economic benefits to be derived from the Yolla Royalty. The Directors continue to seek legal advice on the position adopted by the Group, and are actively taking steps to resolve the dispute through agreement with the owners regarding the calculation methodology to be adopted. Alternatively, the directors may pursue legal action to resolve the dispute. If the dispute is resolved in the favour of the Group, the impairment recognised in the year ended 30 June 2009 may be reversed.

Note 14. Exploration and Evaluation Costs

	Consolidated	
	2010	**2009**
	$	**$**
Petroleum tenements in the exploration phase		
Cost (gross carrying amount)	22,707,233	22,481,367
Impairment	(14,054,087)	(14,054,087)
Net carrying amount	8,653,146	8,427,280
Petroleum tenements in the exploration phase		
Balance at beginning of year	8,427,280	7,623,899
Cost capitalised for the year	225,866	803,381
Balance at end of year	8,653,146	8,427,280

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.

Note 15. Investments in Controlled Entities

BSOC Business Services Pty Ltd, is the subsidiary, which is 100% owned and incorporated in Australia.

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

Note 16. Trade and Other Payables

	Consolidated	
	2010	**2009**
	$	**$**
Trade payables	4,972	18,836
Other payables	157,684	157,381
	162,656	176,217

Note 17. Provisions

	Consolidated	
	2010	**2009**
	$	**$**
Current liability		
Provision for annual leave	30,088	41,449
Provision for long service leave	149,577	130,349
	179,665	171,798

Note 18. Interest in Joint Venture Operations and Assets

The Company has an interest in the assets, liabilities and output of joint venture operations and assets for the exploration and development of petroleum in Australia. The Company has taken up its share of joint venture transactions based on the Company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 25. Details of the Company's interests in the joint ventures are:

	Interest 30/6/2009	**Interest Acquired**	**Interest Disposed**	**Interest 30/6/2010**
Vic/P41	45%	-	-	45%
Vic/P42	20%	80%	-	100%
Vic/P47	40%	-	-	40%
Vic/P66	60%	-	-	60%
PEP 167	100%	-	50%	50%

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

Note 19. Contributed Equity

			Consolidated	
	2010 Shares	**2009 Shares**	**2010 $**	**2009 $**
Issued and paid up capital				
Ordinary shares fully paid	291,030,250	155,450,953	26,913,100	23,159,750
Movements in ordinary shares on issue				
Ordinary shares on issue at beginning of period:	155,450,953	155,450,953	23,159,750	23,141,633
Ordinary shares issued during the period:				
Share issue	135,579,297	-	4,067,379	-
Transaction costs	-	-	(346,067)	-
Deferred Tax Asset on share issue costs	-	-	32,038	18,117
	291,030,250	155,450,953	26,913,100	23,159,750

(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, 500,000 options exercisable on or before 30 June 2010 at an exercise price of 25 cents were on issue. During the year these options lapsed.

(iii) Other Remuneration Options
On 20 June 2007, 1,500,000 options, expiring on 20 June 2010, with progressive vesting, 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. During the year these options lapsed.

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

On 21 October 2008, 600,000 options, expiring on 21 October 2011, with progressive vesting, and exercisable at a price of 15 cents in three equal tranches of 200,000 at 21 October, 2008, 2009 and 2010, were granted to the Exploration Manager and have been cancelled on his resignation, 13 September 2010.

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

Note 20. Accumulated (Losses)/Profits

	Consolidated	
	2010	**2009**
	$	**$**
Balance at beginning of period	(14,155,727)	(13,215,152)
Net (loss)	(534,294)	(1,083,716)
Share options lapsed & forefeited	63,414	143,141
Balance at end of period	(14,626,607)	(14,155,727)

Note 21. Reserves

	Consolidated	
	2010	**2009**
	$	**$**
Share-based payments reserve		
Balance at beginning of period	100,228	210,380
Share-based payments	8,000	32,989
Share options exercised by employees	-	-
Share options lapsed & forefeited	(63,414)	(143,141)
Balance at end of period	44,814	100,228

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

Note 22 Earnings per Share

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

	Consolidated	
	2010	**2009**
	$	**$**
Net loss attributable to ordinary equity shareholders of the parent	(534,294)	(1,083,716)
Weighted average number of ordinary shares:		
	2010 Number	**2009 Number**
Issued ordinary shares at 1 July	51,958,949	155,450,953
Effect of shares issued October 2009	193,754,386	-
Weighted average number of ordinary shares at 30 June	245,713,335	155,450,953

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

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

Note 23. Share-based Payments

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

The exercise price of the options is set by the directors on the date of grant. Presently, one option plan exists whereby the options vest progressively, at the rate of 33.3% of the total number of options granted, during each year of the currency of the options.

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

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

	2010 Number	2010 WAEP	2009 Number	2009 WAEP
Outstanding at the beginning of year	4,100,000	0.162	7,200,000	0.208
Options granted	-	-	600,000	0.150
Options forfeited	-	-	(1,400,000)	(0.270)
Options lapsed	(2,000,000)	(0.175)	(2,300,000)	(0.250)
Outstanding at the end of the year	2,100,000	0.150	4,100,000	0.162
Exercisable at the end of the year	1,900,000	0.150	3,200,000	0.166

The outstanding balance as at 30 June 2010 is represented by:

- 1,500,000 options over ordinary shares with an exercise price of 15 cents each and expiring at 3 June 2011.
- 600,000 options over ordinary shares with an exercise price of 15 cents each and expiring at 21 October 2011.

The remaining contractual life for the share options outstanding as at 30 June 2010 is between 1 and 2 years (2009: 1 and 3 years).

The range of exercise prices for options outstanding at the end of the year was $0.15 (2009: $0.15-$0.25).

The weighted average fair value of options granted during the year was $nil (2009: $0.0078).

The options are over unissued ordinary shares in the capital of Bass Strait Oil Company Ltd. There are neither market nor 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	03-Jun-08	21-Oct-08
Dividend yield (%)	0.00	0.00
Expected volatility (%)	75	75
Risk free interest rate (%)	6.63	4.52
Expected life of option (years)	3.00	3.00
Expiry Date	03-Jun-11	21-Oct-11
Option exercise price ($)	0.15	0.15
Weighted average share price at measurement date ($)	0.08	0.04

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

Note 23. Share-based Payments continued

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 33.3% of the total number of options granted respectively during each year of currency of the options. On retrenchment or retirement from the Company the holder has 6 months in which to exercise the options, otherwise the options lapse on cessation of service.

Note 24. Key Management Personnel Disclosures

(a) Compensation for key management personnel

	Consolidated	
	2010	**2009**
	$	**$**
Short term employee benefits	575,244	501,391
Post-employment benefits	162,466	253,085
Share-based payments	8,000	30,612
Long term employee benefits	19,228	111,116
	764,938	896,204

(b) Option holdings of key management personnel

	1 July 2009 Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Lapsed or Forfeited	Balance at End of Period	**30 June 2010** Vested and Exercisable at 30 June 2010
2010						
Directors						
A R Adams	3,500,000	-	-	(2,000,000)	1,500,000	1,500,000
Executives						
K S Jackson	600,000	-	-	-	600,000	400,000
	4,100,000	-	-	(2,000,000)	2,100,000	1,900,000

	1 July 2008 Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Lapsed or Forfeited	Balance at End of Period	**30 June 2009** Vested and Exercisable at 30 June 2009
2009						
Directors						
B Wheelahan	500,000	-	-	(500,000)	-	-
E G Albers	400,000	-	-	(400,000)	-	-
H J Askin	500,000	-	-	(500,000)	-	-
A R Adams	3,500,000	-	-	-	3,500,000	3,000,000
Executives						
K S Jackson	-	600,000	-	-	600,000	200,000
	4,900,000	600,000	-	(1,400,000)	4,100,000	3,200,000

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

Note 24. Key Management Personnel Disclosures (continued)

(c) Shareholdings of key management personnel

Shares held in Bass Strait Oil Company Ltd (number)

	1 July 2009 Balance at Beginning of Period	Granted as Remuneration	On exercise of options	Net Change Other	**30 June 2010** Balance at End of Period
2010					
Directors					
J L C McInnes	100,000	-	-	266,667	366,667
A R Adams	900,000	-	-	600,000	1,500,000
E G Albers	45,241,677	-	-	-	45,241,677
H J Askin	1,506,000	-	-	334,000	1,840,000
Executives					
K S Jackson	48,000	-	-	32,000	80,000
	47,795,677	-	-	1,232,667	49,028,344

	1 July 2008 Balance at Beginning of Period	Granted as Remuneration	On exercise of options	Net Change Other	**30 June 2009** Balance at End of Period
2009					
Directors					
J L C McInnes	-	-	-	100,000	100,000
B Wheelahan	2,646,140	-	-	-	2,646,140
A R Adams	900,000	-	-	-	900,000
E G Albers	45,241,677	-	-	-	45,241,677
H J Askin	1,506,000	-	-	-	1,506,000
Executives					
K S Jackson	-	-	-	48,000	48,000
	50,293,817	-	-	148,000	50,441,817

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

During the year the Group received fees as the operator of Vic/P47 of $49,422 (2009: $86,604) and Vic/P41 of $72,069 (2009: $116,240) in which Moby Oil & Gas Limited ("Moby") is a co-venturer. A Director, J G Tuohy, is a Director of Moby. The fees were provided under normal commercial terms and conditions. No amounts were outstanding at balance date (2009: nil).

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

Note 25. Commitments

Permit work commitments

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

	Consolidated	
	2010	2009
	$	$
Within one year	993,000	2,020,000
After one year but not more than five years	2,362,000	3,510,000
	3,355,000	5,530,000

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

Vic/P41
The Year 4 commitment of geological and geophysical studies is being completed ($28,000). A variation in the work program for Year 5 has been submitted to relieve the Group of it's commitment to drill a well in this permit. The Vic P/41 joint venture has met all permit commitments to date.

Vic/P42
The Year 1 commitment of geological and geophysical studies is being completed ($25,000). The committed work program consists of geological and geophysical studies to be completed in Year 2 ($100,000) and 3D seismic reprocessing in Year 3 ($500,000).

Vic/P47
The Year 1 commitment of geological and geophysical studies is being completed ($25,000). The committed work program consists of 3D seismic reprocessing in Year 2 ($100,000) and geological and geophysical studies to be completed in Year 3 ($400,000).

Vic/P66
The Year 2 commitment of geological and geophysical studies is being completed ($52,000). The committed work program consists of a 2D seismic survey in Year 3 ($450,000).

T/42P
The Year 5 commitment of geological and geophysical studies is being completed ($125,000). All permit commitments to date have been met. The Group has a well commitment in Year 6 which the group will seek to vary.

T/43P
The Year 5 commitment of geological and geophysical studies is being completed ($125,000). All permit commitments to date have been met.

PEP 167
The Year 3 commitment of a 3D seismic survey has been completed. The committed work program consists of further geological and geophysical studies in Year 4 ($125,000) and a well in Year 5 ($1,300,000).

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

Note 25. Commitments (continued)

Non-cancellable operating lease commitments

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

	Consolidated	
	2010	**2009**
	$	**$**
Within one year	75,425	72,524
After one year but not more than five years	98,244	173,669
	173,669	246,193

Note 26. Parent Entity Disclosures

Information relating to Bass Strait Oil Company Ltd

	2010	**2009**
	$	**$**
Current assets	3,795,290	754,449
Total assets	12,673,628	9,452,266
Current liabilities	342,321	348,015
Total liabilities	342,321	348,015
Contributed equity	26,913,100	23,159,750
Accumulated losses	(14,626,607)	(14,155,727)
Share-based payment reserve	44,814	100,228
Total shareholders' equity	12,331,307	9,104,251
Loss of the parent entity	(534,294)	(1,083,716)
Total comprehensive income/(loss) of the parent entity	(534,294)	(1,083,716)

Note 27. Segment Information

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

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

Note 28. Reconciliation of Cash flows from Operating Activities

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

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

	Consolidated	
	2010	**2009**
	$	**$**
Net loss before tax	(502,256)	(1,065,599)
Adjustments for:		
Depreciation	16,922	17,533
Amortisation	16,894	23,494
Impairment of intangibles	-	227,815
Net loss on foreign exchange	-	462
Share options expensed	8,000	32,989
	(460,440)	(763,306)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables and other current assets	(54,496)	259,902
(Increase)/decrease in prepayments	8,521	(9,513)
(Decrease)/increase in trade and other payables	591	(188,103)
(Decrease)/increase in provisions	7,866	101,197
Net cash from/(used in) operating activities	(497,958)	(599,823)

Note 29. Contingent Liabilities

The Consolidated Entity has negotiated a number of bank guarantees in favour of various government authorities and service providers. The total nominal amount of these guarantees at balance date is $39,510 (2009: $37,510).

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Independent auditor's report to the members of Bass Strait Oil Company Ltd

Report on the Financial Report

We have audited the accompanying financial report of Bass Strait Oil Company Ltd, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including 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, 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Bass Strait Oil Company Ltd is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its 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 the directors' report for the year ended 30 June 2010. 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 Ltd for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Brett Croft
Partner
Melbourne
14 September 2010

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 formal performance appraisal of management during the financial year. A formal evaluation may be undertaken in the future.

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

Mr J L C McInnes - Chairman, non-executive Director and independent
Mr A R Adams - Managing Director
Mr H J Askin - Non-executive Director and independent
Mr J G Tuohy - Non-executive Director and independent

On 19 July 2006 Mr Adams was appointed Managing Director.

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 in the future.

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.

Mr J McInnes is Chairman of the Board and also Chair of the audit committee, which comprises the three non-executive directors of the Company. Given the size of Bass Strait Oil, the Board of Directors does not consider it appropriate that these roles are held by separate board members.

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; and
- 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.

Given the size of Bass Strait Oil, the Board of Directors does not consider it appropriate to have separate risk management and control systems designed by management which are reported to the Board of Directors.

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 15 September 2010

DISTRIBUTION OF ORDINARY SHARES

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

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	198	72,059
1,001 – 5,000	404	1,157,674
5,001 – 10,000	328	2,778,207
10,001 – 100,000	983	38,560,104
100,001 and over	375	248,462,206
TOTAL ON ISSUE	2,288	291,030,250

1,150 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	71,027,568	24.41

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 15 September 2010

THE 20 LARGEST HOLDERS OF ORDINARY SHARES

Holder	Ordinary Shares	% of Total Issued
Great Australia Corporation Pty Ltd	25,150,081	8.64
Cue Petroleum Pty Ltd	13,547,840	4.66
Share Direct Nominees Pty Ltd	8,024,928	2.76
D Davidson	5,750,000	1.98
Gascorp Australia Pty Ltd	5,326,194	1.83
Australian Natural Gas Pty Ltd	4,785,740	1.64
H J Jamison & C Alcock	4,000,000	1.37
J A & L Innes	3,850,000	1.32
Strata Resources Pty Ltd	3,333,334	1.15
Octanex NL	3,333,334	1.15
R W Moses	3,333,334	1.15
Auralandia NL	3,333,334	1.15
HSBC Custody Nominees (Australia) Ltd	3,287,378	1.13
Toltec Holdings Pty Ltd	3,200,000	1.10
B & H A Wheelahan	2,938,820	1.01
J P Morgan Nominees Australia Ltd	2,800,000	0.96
W Grove	2,718,667	0.93
Great Missenden Holdings Pty Ltd	2,682,962	0.92
Crescent Nominees Pty Ltd	2,633,256	0.90
A Condous	2,500,000	0.86

The 20 largest shareholders hold 106,530,202 shares representing 60.20% of the issued share capital.

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.

- Notes -

- Notes -

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