



**Gippsland Offshore**  
PETROLEUM LIMITED

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Phil Harman , Chairman

## Chairman's Report

... exploration of petroleum over a large block of tenements immediately to the south west of Jamaica is an area with excellent potential for carbonate, reef style reservoirs, and where the exploration program proposed is ideally suited to the application of the airborne gravity gradiometry technology.

Dear Shareholder,

At the end of our first year of operation I am pleased to report significant progress as I write to you. Our first onshore hole near Marlo, known as Patrobus, is in progress and the Ocean Patriot drilling rig will be released to drill our offshore Gilbert-1 well over the next couple of days. During the year the company has been affected by the same frustrations as the industry as a whole, with a lack of availability of suitable drilling equipment. This has resulted in delays to the three well commitments detailed in our Prospectus.

You will recall that the basis of our program is the postulation that oil has migrated out of the Gippsland Basin to the north and that a number of structures interpreted from Falcon® airborne gravity gradiometer surveys flown during 2003, subsequently confirmed by the reprocessing of old seismic reflection data, had the potential to trap hydrocarbons. One positive that we have derived from the delay in our drilling campaign is that we have been able to put considerably more technical effort into optimising the location of our wells. In addition, recent analysis of satellite data has identified ocean surface oil slicks that give weight to our "migration path" model.

Early in the year we were pleased to welcome Ms Catherine Norman to the company as Chief Operating Officer. Cath is a geophysicist by profession and has had many years of experience in the application of potential field methods in the oil industry. Her energy in the face of the year's frustrations has been admirable and I am sure that she will make a substantial contribution to the growth of the company.

From the point of view of future growth the board has been looking ahead, beyond the current exploration program. A number of local proposals has been evaluated but rejected as not

in the best interest of the shareholders. In an important new initiative, as announced recently, in conjunction with Finder Exploration Pty Ltd, management is finalising negotiations with the Petroleum Corporation of Jamaica, regarding exploration for petroleum over a large block of tenements immediately to the south west of the island. This is an area where there is excellent potential for carbonate, reef style reservoirs, and where the exploration program proposed is ideally suited to the application of airborne gravity gradiometry technology.

There is a number of other new initiatives in the pipeline but at the current stage of negotiations, any announcement would be premature.

As a result of the delays to our proposed drilling program and by careful management of our cash resources, there has been very little draw down during the current period; however this situation will change once the drilling commences.

I would like to thank the management of the company for their perseverance during a frustrating year and also our principal joint venture partner (and operator) Lakes Oil. I would also like to thank my fellow directors for their contribution throughout the year.

Finally I thank you, the shareholder, for your continued patience and support.

I look forward to an exciting few months ahead for us all as the current round of drilling gets under way and we are able to bring our other business development opportunities to the market.

A handwritten signature in black ink, appearing to be 'P. Harman'.

Phil Harman, Chairman

Gilbert . . . has good potential as an economic oil or gas field with independent experts predicting a 60 percent chance of the mapped reservoir containing oil.





## Summary of corporate events

Cath Norman, Chief Operating Officer

Gippsland Offshore Petroleum Limited ("GOP") is an oil and gas exploration company with exploration interests in the major hydrocarbon bearing Gippsland Basin in Victoria and through its expertise in the use of niche technologies, GOP is expanding its new venture activities to exploration settings on a global basis.

GOP listed on the Australian Stock Exchange on January 10 this year after accepting an oversubscription to a capital raising. The exercise raised \$12m (from the issue of 60 million ordinary shares at \$0.20 per share and 30 million options (at no cost).

GOP has since been earning its interest through expenditure in three permits in the Gippsland Basin, the offshore VIC-P-47 (Gilbert Block), the coastal VIC-P-40(V) permit and the onshore PEP-155 (Marlo Block). The expenditure commitments initially involve the drilling of two onshore stratigraphic

wells and one offshore well. The high oil price and subsequent demand for drilling of exploration and appraisal wells has meant that the drilling timetable the company presented in its prospectus has suffered from many delays. Frustrations aside, at the time of writing, all contracts for the drilling of our three planned wells are in place and spud dates have been set.

The permits GOP is farming into are on the northern flank of the Gippsland Basin, an area poorly explored and consequently poorly mapped. Figure 1 shows the location of the permits relative to the oil and gas discoveries in the Gippsland Basin.

Many of the nearby gas fields have a residual oil column, indicating the historical presence of oil, most likely spilt from the fields. Due to pressure from the injection of gas, the oil has migrated along preferential pathways, mostly faults to the margins of the

Gippsland Basin. Evidence for this is the onshore Lakes Entrance oil field which is trapping these migrated oils.

BHP Billiton proprietary Falcon® airborne gravity gradiometry data, integrated with the available seismic data, has been an extremely cost effective method for mapping these faults and high grading prospects on this migration pathway. The first of these prospects – Gilbert in the VIC-P-47 (Gilbert Block) – is being drilled by GOP in October and has good potential as an economic oil or gas field with independent experts predicting a 60 percent chance of the mapped reservoir containing oil. GOP retains a 51 percent interest in the block after the drilling of Gilbert-1 and other promising prospects and leads in the block will be developed further.

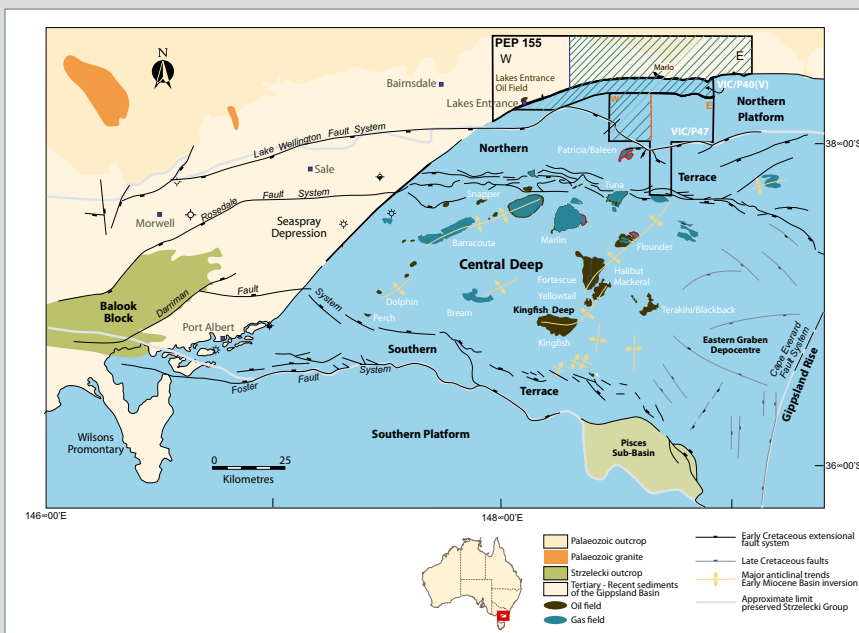
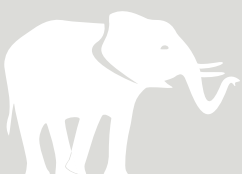


Figure 1



## Summary of corporate events (cont.)

GOP welcomes the opportunity to both consolidate its position as an explorer in the Gippsland Basin and to apply its expertise to expand its interests globally with airborne gravity technologies in the coming year.



Site preparation at Banjo

Falcon® technology has also been used to link the Gippsland Basin proper to its onshore extension where there is little or no seismic data. Falcon® identified the presence of a previously unmapped onshore extension of the Gippsland Basin. GOP is testing this basin by drilling a stratigraphic well into the onshore edge of the basin at Marlo in late September. The well will be used to map the existence and thickness of the Latrobe, which is the local reservoir sequence, and also to test for presence of hydrocarbons, proving the migration pathway onto the Northern Platform. A prospect, Banjo, in the onshore PEP-155 (Marlo Block), is also planned for drilling in the second half of 2005. It is mapped as a Lakes Entrance field "lookalike" and has potential to be commercial, given the current high oil price and proximity to the refinery and market.

GOP's success with the application of Falcon® technology and in-house expertise in its use for exploration has resulted in GOP expanding its new venture activities to areas where these airborne technologies can play an important role in understanding local geology. The company is pursuing projects in highly prospective areas where traditional exploration tools are challenged both in their own right and with strategic partners.

In July, GOP signed an agreement with Gas2Grid Limited to participate in an evaluation of exploration acreage outside Australia that has been identified as an ideal opportunity for airborne technology. The area is in a country where exploration has remained stagnant for about 20 years, but the basin houses reserves of 13TCF and 500mmbbl of oil in place. Here, airborne technology will be used to unlock further potential.

Continuing with the company's drive to not only develop opportunities in the Gippsland Basin, GOP has successfully bid with Finder Exploration Pty Ltd of Perth on acreage offshore of Jamaica. At the time of writing, final contracts are being negotiated with the Jamaican Government. Finder and GOP have the intention of building a knowledge base in the prospective Caribbean area springboarded by their exploration program in Jamaica. Airborne technology is again key to understanding the regional geology and details of the extensive carbonate reefs which are distorting the seismic data in the area. Final award of licences to the group is expected in early November.

GOP welcomes the opportunity to both consolidate its position as an explorer in the Gippsland Basin and to apply of its expertise to expand its interests globally with airborne gravity technologies in the coming year.

Throughout GOP's operations, all activities are carried out in a safe and professional manner in accordance with the Petroleum (Submerged Lands) Act, associated regulations and directions, as well as the Environment Protection and Biodiversity Conservation Act 1999. During the period, GOP has not knowingly contravened these Acts and there were no reported health, safety or environmental incidents.

# The Gippsland Basin :

Home to Gippsland Offshore Petroleum's flagship projects

The Gippsland Basin is a world class hydrocarbon province. According to the Victorian Department of Primary Industry, this petroliferous basin hosts discovered oil reserves of four billion barrels of oil and 10TCF of gas reserves. In the 2002/2003 year, the basin accounted for 21 percent of Australia's total gas sales and 17 percent of Australia's crude oil production proving that it is an important supplier to the Australian market. The opening up of the Eastern Gas Pipeline in 2000 to link the Patricia-Baleen gas to the main artery of gas pipelines supplying Melbourne and Sydney has stimulated interest in exploring for oil and gas on the prospective but largely ignored margins of the basin.

Gippsland Offshore Petroleum Limited (ASX code GOP) was formed in late 2004, primarily to explore these ignored margins of the Gippsland Basin which, by world standards, still leaves many opportunities. Recent drilling on the margin has resulted in the discovery of hydrocarbons (Moby-1 well in 2004).

GOP has farmed into three permits which straddle the East Gippsland Coast and the Northern Platform of the Gippsland Basin in Victoria. These are known as VIC-P-47 (Gilbert Block), VIC-P-40(V) and PEP-155 (Marlo Block) as shown in Figure 1.

The rationale for GOP farming into these blocks is based on:

- Many of the offshore oil and gas fields are known to be spilling oil off the East Gippsland Coast
- Most of the gas fields have oil legs
- Many residual oil columns are present
- Oil has reached the basin margin at Lakes Entrance.

GOP's exploration philosophy is driven by the "East Gippsland Oil Play". This play invokes the firmly established "Gussow Principle" in which oil is progressively pushed to the basin margin by incoming, later generated gas. It is well known that many of the offshore hydrocarbon fields are spilling oil as a consequence of this principle. Gas is less dense than oil or water and will accumulate on the top of the oil. Further, incoming gas will then push the oil lower in the structure until eventually the oil level is below the spill point, or lowest point of closure and entrapment. The oil then escapes from the trap and through flotation, rises towards the basin margin until it is entrapped again or escapes to the surface.

As shown in the cross section in Figure 2, there is good potential for the oil and gas to be migrating up-dip onto the Northern Platform and into potential traps.

Because the margin of the basin has been largely ignored in the past, there is sparse seismic data coverage towards the coast. This has meant that extending geological knowledge onshore from the basin has

been restricted and in the absence of more seismic data, other techniques need to be used. Lakes Oil NL pioneered the use of the BHP Billiton Falcon® airborne gravity gradiometer system in the coastal Gippsland Basin to define the structural framework of the region and in particular, the pathway along which oil spilt from offshore fields would be focused towards the Marlo area onshore.

The Falcon® data, airborne magnetic data and satellite slick mapping carried out in the area all correlate extremely well with the limited seismic data, especially north of the Gilbert Block. The Falcon® data was pivotal in defining a previously unmapped onshore extension of the Gippsland Basin (in PEP-155 (Marlo Block)) which will be tested with the drilling of Patrobus-1, a stratigraphic well, in late September 2005. Presence of hydrocarbons in this well will prove the migration pathway that charges the GOP prospects in the southern blocks.

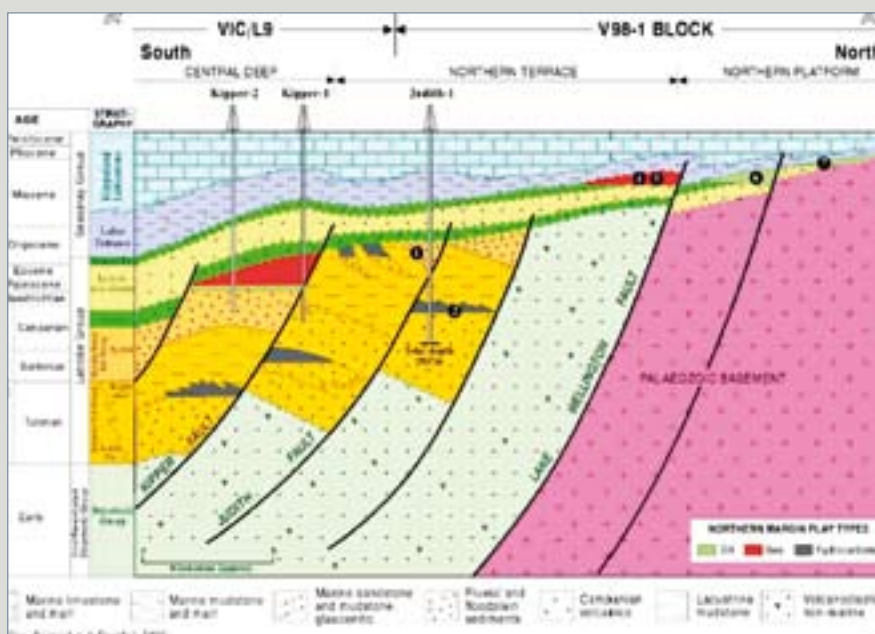
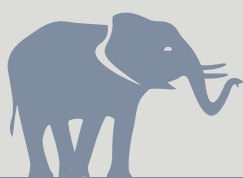


Figure 2



... this petroliferous basin hosts discovered oil reserves of four billion barrels of oil and 10TCF of gas reserves



## The Gippsland Basin (cont.)

In VIC-P-47 (Gilbert Block), the consortium led by Bass Strait Oil Company Limited declared the discovery of the Moby gas field by the Moby-1 well in October 2004. GOP's interest in this permit is NW of the Moby discovery in the Gilbert Block. The Gilbert Block contains the seismic and gravity defined Gilbert Prospect which will be drilled by GOP and Eagle Bay Resources NL in early October 2005. An independent evaluation of the Gilbert Prospect using conservative reservoir parameters estimates the possible oil in place ranging from 59mmbbl at 90 percent confidence level to 198mmbbl at 10 percent confidence level, with a median of 141mmbbl.

Following the drilling of Gilbert-1, GOP will have a 51 percent interest in the Gilbert Block which also houses the Foster Prospect and the Limb Lead.

Lakes Oil NL, the operators of VIC-P-40(V) and PEP-155 (Marlo Block) have identified potential traps on this migration pathway within these permits. The onshore Banjo Prospect will be tested with a stratigraphic well scheduled to be drilled in August 2005 and the offshore Foster Prospect and Harman Lead will be further explored by the joint venture in which GOP is a majority stakeholder (51 percent in each block).

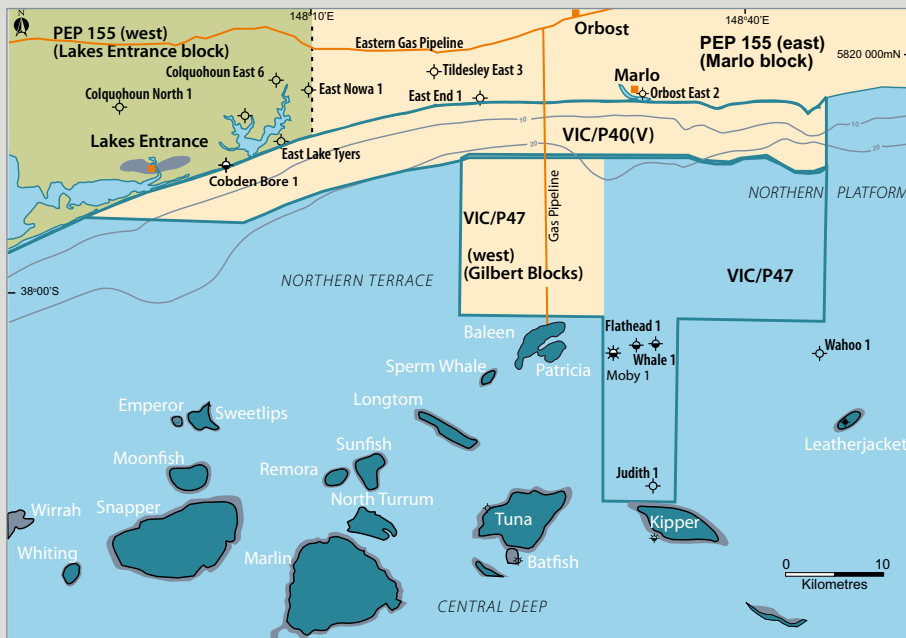
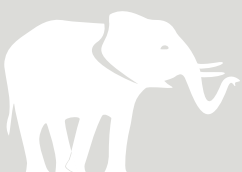


Figure 3 – Gippsland Offshore Petroleum blocks highlighted in yellow



# Exploration Permit

## VIC-P-155 (Marlo block)

Air photo, magnetics and Falcon® interpretation also support the presence of a structure.

This block is located on the northern platform in the eastern part of the permit (see figure 3) and is about 1,000 kilometres square. It is an analogue to the area around Lakes Entrance which hosts the undeveloped Lakes Entrance oil field which produced about 8,000 barrels of low API gravity, non waxy oil during sporadic production from the 1920s to the early 1950s.

The company holds a 51 percent equity in the Marlo Block. The company's joint venture partners are Petro Tech Pty Ltd (46 percent) and Rilo Explorations Pty Ltd (three percent). The block is currently operated by Lakes Oil NL.

### The Banjo Prospect

A prospect, Banjo, has been identified on the Snowy River flood plain. The river can be seen to wind around the lead which appears to be uplifted. Outcropping Gippsland limestone is present and is also shown on geological mapping conducted by the Geological Survey of Victoria. Air photo, magnetics and Falcon® interpretation also support the presence of a structure. A schematic drawing of the Banjo structure is shown in figure 4. An onshore stratigraphic well has been planned for 2005 to test this structure. It is expected to be drilled in late August.

The drilling of the Banjo-1 well completes the current work commitments on the Marlo Block which is under application for renewal for early 2006 as there have been a number of areas of interest interpreted from the Falcon® gravity data that warrant investigation.



Nose of Banjo anticline

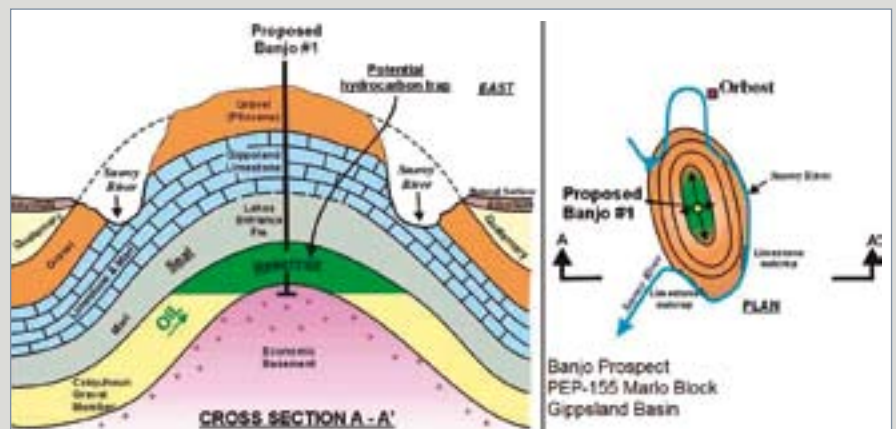


Figure 4



## Exploration Permit VIC-P-40(V)

This is a block of about 400 square kilometres in a coastal strip of Victorian territorial waters, extending offshore for nearly five kilometres (as shown in Figure 3). The lease is situated on the Northern Platform of the basin and abuts the onshore PEP-155 (Marlo Block) to the north and the VIC-P-47 (Gilbert Block) to the south.

The block contains a portion of the previously mentioned Foster Prospect, as well as the Harman Lead, a structural trap. Because of the coastal nature of the permit, there has been little historical seismic data acquired in the area. Identification and definition of the areas of interest in this block have been made possible by the interpolation of the structure mapped on the existing sparse seismic data using Falcon® airborne gravity gradiometer data. Importantly, this data has been crucial in unlocking the link between the off- and onshore data base.

### The Harman Lead

The Harman Lead is indicated on seismic line 82A-24 (Figure 5) in the zone between the two en-echelon fault-bounded highs, centred on SP1103 as shown in Figure 5. On this line, the Latrobe sequence is absent from that zone. However, the Falcon® gravity data (Figure 6) indicates the southwesterly of the two highs plunges to the northeast as the northeasterly high becomes dominant, and on this plunging nose the Latrobe will pinch out to the south, producing a combination of anticlinal pinch out.

The migration of hydrocarbons to this trap to date has been a problem with the Harman Lead, but a recently acquired

satellite slick mapping study has shown the sea surface presence of natural oil seeps that indicates the presence of hydrocarbons in the area. The migration of hydrocarbons along the faults that define the lead will be tested with the drilling of the onshore Patrobus-1 well in PEP-155 (Marlo Block).

Work to understand the hydrocarbon charge mechanism continues on the Harman Lead continues and seismic is planned over VIC-P-40(V) to better understand the structure in the area. The Harman Lead has the potential for a trap of two to four square kilometres and several million barrels of oil.

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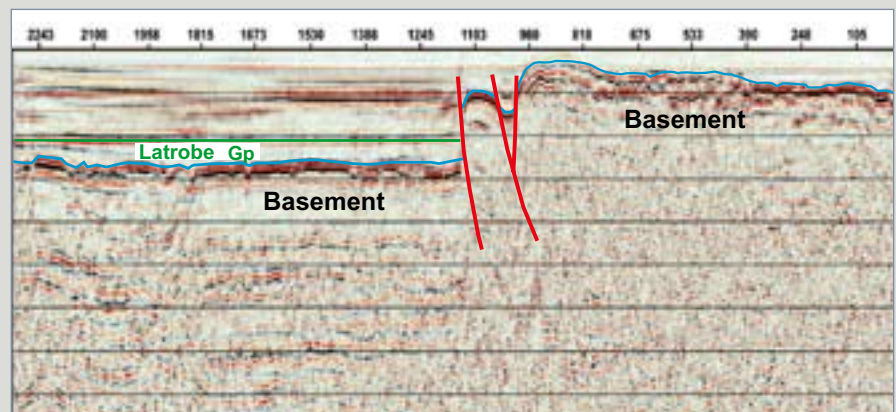


Figure 5 - Harman Lead

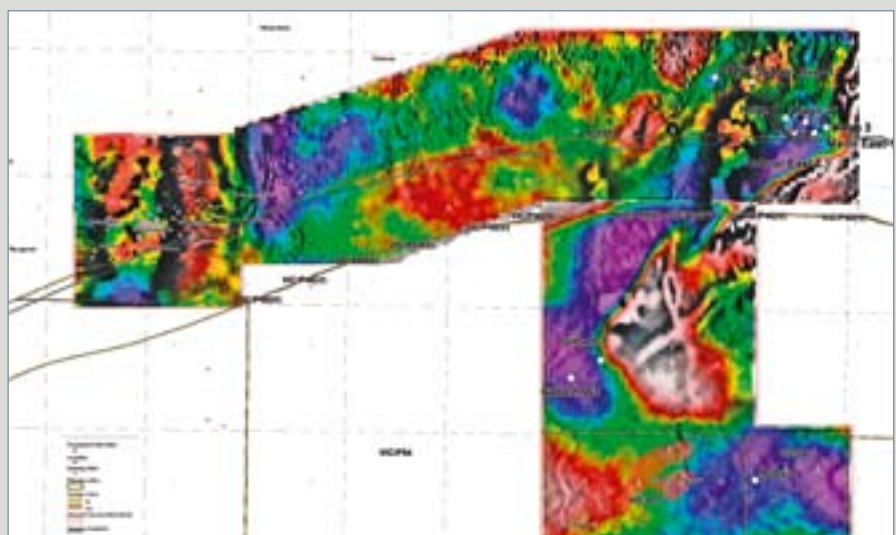
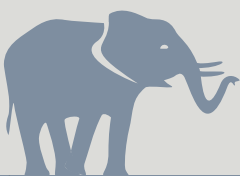


Figure 6 - Falcon™ gravity data



There are two possibilities: the underlying Strzlecki is likely to be in the oil maturity window, and the hydrocarbons generated in the Central Deep are potentially accumulating in the upper Latrobe Gurnard formation reservoir.





## Exploration Permit VIC-P-47 (Gilbert Block)

The Gilbert Block consists of four graticular blocks in the west of VIC-P-47 (Gilbert Block) of about 230 square kilometres (refer Figure 3).

This is located in the north of the Gippsland Basin over the Lake Wellington Fault system and the Northern or Lakes Entrance Platform. It is near the recently discovered Moby gas field and is five kilometres north of the Patricia Baleen gas field. The Gilbert Block is transected by the gas pipeline from that field to the main Eastern Gas Pipeline with which it connects. The pipeline services all markets in the eastern and southern states of Australia.

The company currently earns its interest in this block through the drilling of the Gilbert-1 well. The well is scheduled to be drilled in early October 2005. The drilling is under the management of the Bass Strait Oil Company which has executed two drilling options with the Ocean Patriot semi-submersible rig for Gilbert-1 and the Maclean-1 (for Bass Strait Oil Company).

Under the farm-in agreement for the Gilbert Block, the company is committed to 95 percent of the drilling costs of Gilbert-1, estimated at \$5.7m, with the other five percent of the costs being borne by Eagle Bay Resources NL.

On completion of the Gilbert-1 well, the company will have earned a 51 percent interest in the Gilbert Block which also houses the Foster Prospect and the Limb Lead.

### The Gilbert Prospect

The prospect is an anticlinal nose plunging southwest and cut by a northwest-southeast trending normal fault downthrown to the southwest. The fault juxtaposes the downthrown top Latrobe reservoir against basement on the upthrown side. As can be seen on seismic line GB79-136 (Figure 7) the Strzlecki Group is present on the downthrown side of the fault, which is a segment of the Lake Wellington Fault

system. As Figure 7 shows, the Latrobe section is absent on the upthrown side of the fault, and the throw on the fault must exceed the reservoir thickness to preclude cross-fault leakage. On any individual seismic line, this appears to be the case, and the overlying Lakes Entrance (Gippsland Limestone) seal should hence create an effective trap. There are two possibilities for the sourcing of an accumulation of hydrocarbons in the Gilbert Prospect. The underlying Strzlecki is likely to be in the oil maturity window, and the hydrocarbons generated in the Central Deep have probably migrated across the Northern Terrace and are potentially accumulating in the upper Latrobe Gurnard formation reservoir. The predicted stratigraphic column for the drilling of the Gilbert-1 well is shown in Figure 8 (overleaf).

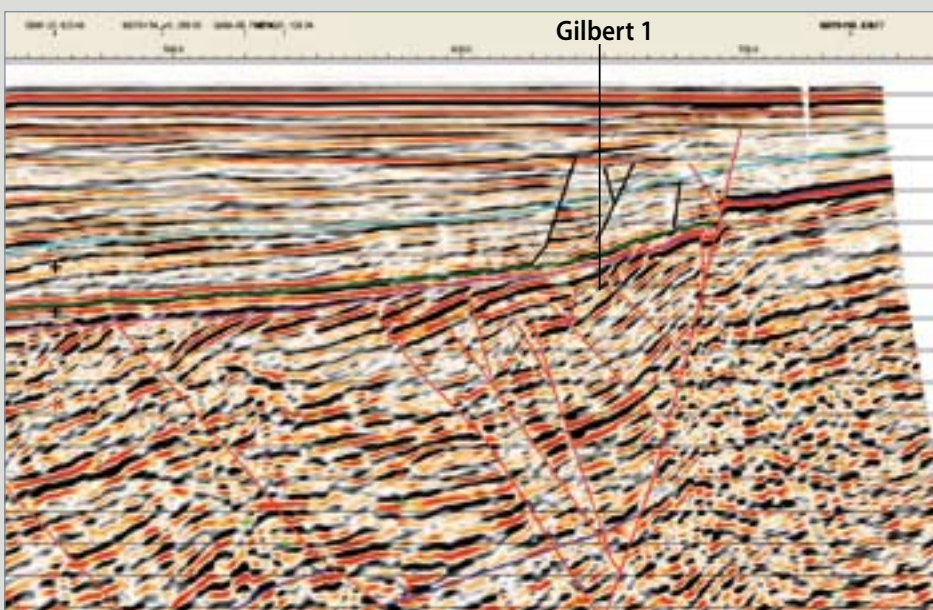


Figure 7



# Exploration Permit VIC-P-47 (Gilbert Block) (cont.)

The overall risk of 1 in 3.8 is low for exploration wells, and is well within the acceptable level for a possible oil accumulation of this size in an area close to the coast and infrastructure.

Displacement of oil from accumulations downdip of Gilbert by later gas charging is likely to have occurred. The Sperm Whale-1 well (Figure 3) has a 20m gas column overlying a 10m oil column. The recently released report on the Baleen-2 well, five kilometres to the south of Gilbert, documents residual oil saturations below its gas-water contact, and the large Tuna field, 15km south, has an oil leg underlying its gas column. The similarly located Kipper field has a 328m gas column underlain by a 14m oil leg and a 29m residual oil column. The Gilbert structure is on the migration pathway of displaced oil from any of these fields.

The vertical closure of the Gilbert Prospect is 10-20msec (12-25m) and the maximum areal closure at the 650msec TWT contour is 15.9km<sup>2</sup>. This closure encompasses a second culmination, Gilbert West, which is a subsidiary upthrown block with a four-way dip closure of about 0.7km<sup>2</sup>. The areal closure of the Gilbert Prospect at the 640msec TWT contour, which excludes the Gilbert West culmination is 13.05km<sup>2</sup>. The TWT map of Top Gurnard is shown in figure 9.

A Monte Carlo simulation has been performed to estimate the range of possible reserves should oil or gas be present in the

structure. The possible oil-in-place ranges from 59mmbbl (90 percent confidence) to 198mmbbl (10 percent confidence) with a median of 141mmbbl. If the accumulation is entirely gas, the analogous range of recoverable reserves is 17 to 63 bcf with a median of 43 bcf.

An assessment of risk has also been carried out by an independent evaluation. The largest risk has been assigned to the integrity of the trap, since there is a possibility of the reservoir being juxtaposed in part across the fault. The overall risk of 1 in 3.8 is low for exploration wells, and is well within the acceptable level for a possible oil accumulation of this size in an area close to the coast and infrastructure. It is considered that there is a 60/40 chance of oil rather than gas in the structure.

### The Foster Prospect

The Foster Prospect (refer Figure 10) is a seismically mapped onlap of the top Latrobe onto basement. The trap is formed by the morphology of the pinchout edge, which here occupies an embayment between two en-echelon basement highs from which the Latrobe is missing through erosion or non-deposition.

| Period                   | AGE                       | PREDICTED SECTION   |                         | Reservoir | Depth (mRT) |
|--------------------------|---------------------------|---------------------|-------------------------|-----------|-------------|
|                          |                           | FORMATION           | LITHOLOGY               |           |             |
| TERTIARY                 | MIOCENE/PLOCENE TO RECENT | 71.5m               | WD = 50M<br>RT-LAT=21.5 |           | 200m        |
|                          |                           | Gippsland limestone |                         |           |             |
|                          | 425m                      |                     |                         | 400m      |             |
|                          | Lakes Entrance            |                     |                         |           |             |
|                          | 616m                      |                     |                         | 600m      |             |
| MIDDLE EOCENE            | Gurnard                   |                     | ★                       |           |             |
|                          | 672m                      |                     |                         |           |             |
| PALEOCENE TO EARLY OCENE | Latrobe                   |                     |                         |           |             |
|                          | 795m                      |                     |                         | 800m      |             |
| EARLY CRETACEOUS         | ALBIAN                    | Strzelecki          |                         | ★         |             |
|                          |                           | TD 910m             |                         |           |             |
|                          |                           |                     |                         |           |             |

Figure 8

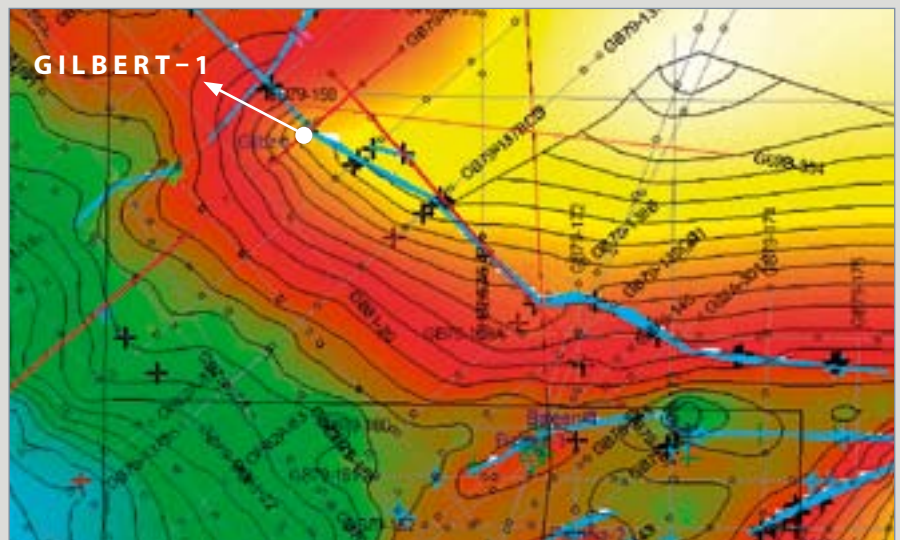
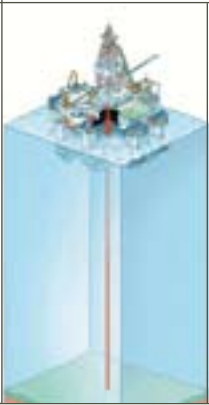


Figure 9 – TWT to top Gurnard showing proposed location of Gilbert-1 well.



The overlying Lakes Entrance formation overlaps the Latrobe edge and forms a seal on basement, resulting in both top seal and lateral seal to the top of the Latrobe reservoir. There is no underlying Strzlecki here. However, hydrocarbons generated in the Central Deep or Northern Terrace and not otherwise trapped would migrate updip along the base of the Lakes Entrance Formation, and along any sealed pinchout edge, preferentially displacing water from any sealed high pocket. In the case of the Foster Prospect, both the Flathead-1 and Whale-1 wells some 10km downdip to the south, intersected residual oil columns some 30m

thick in the Latrobe and Strzlecki Groups. The recently drilled Moby-1 well in the same area reported oil fluorescence as well as a 32m gas column. Additionally, any oil displaced from the Patricia-Baleen fields and not trapped in the Gilbert structure would continue to migrate along the pinchout to the Foster Prospect.

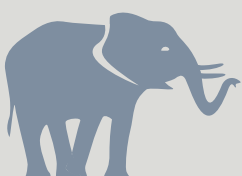
The reservoir, by the definition of a pinchout play, is likely to average less in thickness in the Foster Prospect than the Gilbert Prospect and an independent evaluation assumes reservoir thicknesses from 5 to 12m with a median of 10m.

A Monte Carlo simulation of the possible hydrocarbons in this structure (most likely encompassing 8.9km<sup>2</sup>) is 81mmbbl (90 percent confidence) to 105mmbbl (10 percent confidence) is 56mmbbl.

The major risk with this prospect to date is the lack of seismic data defining the pinchout of the Latrobe. The assessed risk will need to be lowered with the acquisition of additional seismic and further mapping. This work continues together with interpretation and integration of the Falcon<sup>®</sup> survey data.



Figure 10



## New Venture Activity

... an agreement to jointly apply expertise in the application of innovative technology to unlock potential hydrocarbon prospectivity offshore of Jamaica.

Agreement with Finder Exploration Pty Ltd to jointly explore offshore Jamaica

Gippsland Offshore Petroleum is particularly pleased to announce their association with Finder Exploration Pty Ltd of Perth, Australia. GOP and Finder have agreed to jointly apply their expertise in the application of innovative technology to unlock potential hydrocarbon prospectivity offshore of Jamaica.

Finder is an Australian independent oil company with particular expertise in the application of seismic technology, especially in state of the art reprocessing of data and acquisition and processing of long offset

seismic data which is key to successful exploration in the Walton Basin, offshore of Jamaica.

GOP and Finder have proposed a program of airborne gravity gradiometer and reprocessing and new acquisition of long offset seismic data over four blocks in the Walton Basin which is on the eastern flank of the oil and gas bearing Nicaraguan Rise. These four blocks cover an area of about 12,000km<sup>2</sup>, (Figure 11).

The Walton Basin has not been explored since the mid 1980s where the exploration was dictated by the poor quality seismic data available at the time. Reprocessing



Kingston, Jamaica

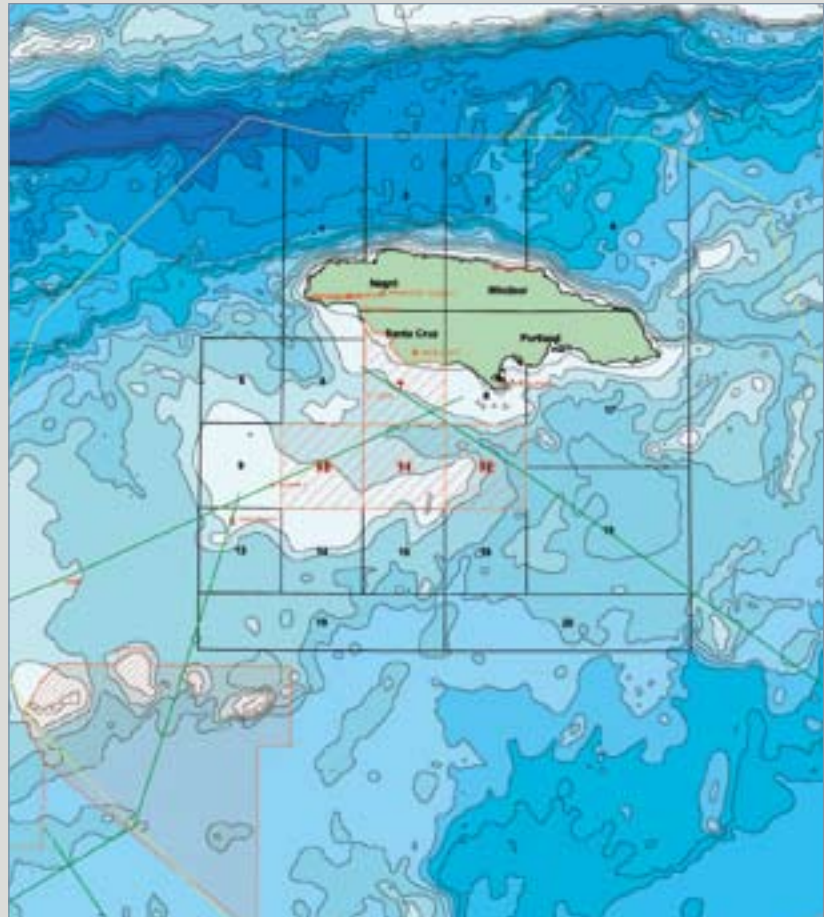
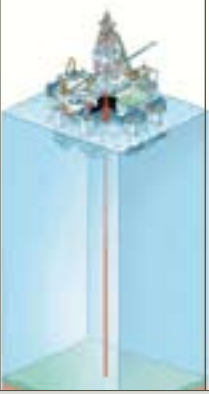


Figure 11



of this seismic data has opened up new play concepts for the area deeper in the basin and in the extensive reef system. Airborne gravity and gradiometry technology will also play a key role in mapping the thickness and distribution of the reefs and basin structure.

The area ranges in water depth from 100m to 1,000m and preliminary mapping of the 36 leads and their volumes indicates potential for a total of 3,230mmbbls of unrisks oil in place.

The Joint Venture being formed by Gippsland and Finder will have exploration commitments in the four blocks over a period of five years, including a well commitment per block. Both companies are currently negotiating final PSC (Production Sharing Contract) terms with the Petroleum Corporation of Jamaica with final contract signing expected for early November, 2005.

#### Agreement with Gas2Grid Limited to form a Study Goup

GOP and Gas2Grid announced in late July that they had formed a study group to pursue new venture opportunities in areas of proven hydrocarbon production, excellent tax regime and obvious commercialisation.

As a first basin, the group has selected an onshore basin in Europe where the total hydrocarbons in place found to date amount to 13TCF of gas and 500mmbbls of oil. The region contains major industrial and population centres and is well connected to hydrocarbon infrastructure.

Exploration in this area has stagnated for the past 20 years and GOP sees this area as another key opportunity for the application of airborne technologies. Near field exploration with airborne technologies has benefits in that the tool is non-invasive and airborne, so not interfering with local infrastructure. Coupled with this, it is an excellent tool for adding to and extrapolating geological knowledge around a known producing province.

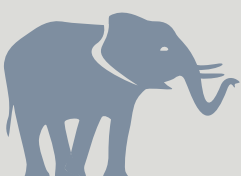
It will be a key tool for identifying new targets to be drilled where the acquisition of new seismic data will be logistically difficult. We are confident of identifying new oil and gas reserves in this area.

The study group expects to be finished their evaluation of this basin at the end of 2005.

#### Other New Venture activities

Gippsland Offshore Petroleum hired Peter Nicholls as Exploration Manager in July. Peter spent 25 years in senior exploration positions with BHP Petroleum and has extensive experience in the Gippsland Basin and global ventures.

We are assessing a number of new venture opportunities that fit GOP's strategies of applying new technologies, in particular airborne technologies, to unlock hydrocarbon reserves globally and consolidating its expertise in the Gippsland Basin margin.



The quest for energy requires energy. Our people and our partnerships blend youth and experience, enthusiasm and wisdom, but always with the future foremost in our minds.





## Outlook

Since Gippsland Offshore Petroleum listed on the Australian Stock Exchange in January 2005, the company has been cementing its place as a Gippsland Basin explorer with its principle joint venture partner, Lakes Oil. GOP's expertise with new technology in potential fields, combined with conventional exploration tools such as seismic, has allowed it to identify previously unmapped opportunities on the margin of this prolific oil and gas bearing basin. The company is currently drilling three wells on its permits in the basin. The most notable, Gilbert-1 offshore, will test the Gilbert Prospect where commercial quantities of oil and gas are expected to be discovered.

Current high oil prices, excellent potential for large oil and gas discoveries and close proximity to the major Australian market mean the Gippsland Basin is an attractive and key focus for continued exploration and possible development projects for GOP.

The company has undertaken evaluations of new venture projects, leading us to opportunities outside the Gippsland Basin. Through a joint venture with Finder Exploration Pty Ltd of Perth, GOP has successfully bid on four blocks offshore Jamaica where both companies believe the combination of their exploration strengths will unlock the hydrocarbon potential in the area.

GOP and Finder's bid, in the Walton Basin, offshore Jamaica, is on the eastern flank of the oil and gas bearing Nicaraguan Rise. The four blocks cover an area of about 10,000km<sup>2</sup>. The area ranges in water depth from 100m to 1,000m and preliminary

mapping of the 36 leads and their volumes indicate potential for a total of 3,230mmbbls of unrisks oil in place.

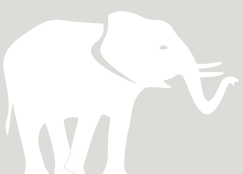
The area is particularly interesting to GOP and Finder as there are good quality source rocks and trapping mechanisms in the basin. Ten of the eleven wells drilled had oil shows and together with the presence of known natural oil seeps, prove there is a working hydrocarbon generating system in the region. However, the Walton Basin has not been explored since the mid 1980s when the exploration focus was blunted by the poor seismic data available at the time. Reprocessing of this seismic data has opened up new play concepts for deeper areas in the basin and in the extensive reef system, neither of which has been drilled. The airborne gravity gradiometry data will play a critical role in mapping the thickness and distribution of the reefs and basin architecture in this area.

GOP will build on its success and expertise with airborne magnetic and airborne gravity data (in particular gravity gradiometry data). They will solve structural and lithological problems whose clearance will be important for prospect mapping and ranking in highly prospective but technically challenged and thus ignored basins. GOP's skill in the use of these data allows it to form strategic

partnerships with other oil exploration companies to exploit opportunities in and outside Australia.

This strategy drives current new venture activity for the company.

In a time of a sustained high oil price, there is strong competition for exploration companies to secure good quality exploration acreage for the future. Gippsland Offshore Petroleum has an excellent portfolio in the Gippsland Basin and an innovative and proven approach to adding knowledge in a complex geological settings. This has opened and will continue to provide opportunities for GOP, resulting in good growth prospects for the company – both in exploration and development of oil and gas projects.



# Financial Report

FOR THE PERIOD 18 OCTOBER 2004 TO 30 JUNE 2005

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# Corporate Governance Statement

The Board of Directors of Gippsland Offshore Petroleum Limited has the ultimate responsibility to its shareholders for the strategy and performance of the entity.

The Board seeks, where appropriate, to adopt without modification the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations to the extent appropriate for the size and the nature of the company's business as described below.

### **Principle 1: Lay solid foundations for management and oversight**

The primary responsibility of the Board is to protect and advance the interest of shareholders. To fulfil this role, the Board has overall responsibility for the entity's overall business and for the corporate governance of the Company. This responsibility includes determination of strategic direction, setting of management goals and monitoring management performance against the set goals.

The Board has delegated responsibility for operation and administration of the Company to the Chief Operating Officer and executive management to manage the company in accordance with the direction of the Board.

### **Principle 2: Structure of the board to add value**

The Board presently consists of three independent non-executive directors. Details of the qualifications and experience of each Director is set out in the Director's Report section of the annual accounts. The composition of the Board is balanced with each Director bringing complementary and appropriate blend of skills and experience. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the establishment of separate board committees, such as audit, remuneration and nomination committees. Accordingly, all matters that may be capable of delegation to committees are dealt with by the full Board.

### **Principle 3: Promote ethical and responsible decision-making**

It is the policy of the Company for directors, officers and employees to observe high standards of conduct and ethical behaviour in

all of the Company's activities. This includes dealing with suppliers, business partners, public servants and the general communities within which it operates.

The Company is dedicated to delivering outstanding performances for investors, customers, consumers and employees. The Company aspires to be the leader in its field while operating openly, with honesty, integrity and responsibility and maintaining a strong sense of corporate social responsibility. In maintaining its corporate social responsibility the Company will conduct its business ethically and according to its values, encourage community initiatives, consider the environment and ensure a safe, equal and supportive workplace.

#### Share Trading Policy

Directors and employees must not trade in the Company's shares in the periods immediately prior to the issue of quarterly announcements, whilst any drilling is underway or at other time whilst in possession of unpublished price sensitive information. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have material effect on the price or value of the Company's securities.

#### Principle 4: Safeguard integrity of financial reporting

It is an established requirement that the appointed Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) provide a written statement to the Board that acknowledges that to the best of their knowledge the Company's financial reports presents a true fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

#### Principle 5: Make timely and balanced disclosure

The Board is responsible for monitoring compliance with ASX Listing Rule disclosure requirements and approval of any proposed ASX announcement prior to release. The Board has appointed the Company Secretary as the designated person responsible for liaising with ASX.

#### Principle 6: Respect the right of shareholders

It is the policy of the Company to communicate with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

#### Principle 7: Recognise and manage risk

The Board is responsible for overseeing of the Group's risk management and control framework. Management are required to ensure that assessed risks are managed with appropriate systems and controls. Effectiveness of risk management systems and controls are reviewed periodically by the Board. The Company's adopted policy framework seeks to identify and mitigate Company risks as much as practicable. Major assessed risk facing the Company centre on exploration and development, contractual and litigation and risks associated with exploration titles. The Chief Operating Officer and the Chief Financial Officer have ultimate responsibility to the Board for the risk management and control framework.

#### Principle 8: Encourage enhanced performance

The Board is responsible for undertaking performance evaluation each year. The performance evaluation covers all of the Board members and key executives of the Company. Evaluation findings are compiled into a series of recommendations with the ultimate objective of improving performance.

#### Principle 9: Remunerate fairly and responsibly

The Board, within the pre-approved shareholder guidelines, determines fees payable to individual non-executive directors. The remuneration levels of any executive director will be determined by the Chairman after taking into consideration those that apply to similar positions in comparable companies in Australia and Directors' possible participation in any equity-based remuneration scheme. The Chairman may use industry-wide data gathered by independent remuneration experts annually as his point of reference. Options or shares issued to Directors pursuant to any equity-based remuneration scheme

require approval by shareholders prior to their issue. Options or shares to senior executives who are not directors will be issued by resolution of the Board.

Details of Director and Executive remuneration are set out in the Directors Report and Notes to the Financial Statements.

#### Principle 10: Recognise the legitimate interest of shareholders

The Company's core objective is the effective management of its resources with a view to identifying, developing and operating sound projects that create wealth for shareholders.

#### Compliance with the Australian Stock Exchange Corporate Governance best practice recommendations

The ASX listing rules require listed entities to include in their annual report a statement disclosing the extent to which the entity has followed the ASX Corporate Governance Guidelines best practice recommendations during the reporting period, identifying the recommendations that have not been followed and provide reasons for any variance. If a recommendation has been followed for only part of the year the entity must state the period during which it has been followed.

During the reporting period, the Company has complied with each of ASX Corporate Governance best practice recommendations, other than in relation to the matters below:

#### Notification of Departure

#### Recommendation 2.4 The Board should establish a nomination committee

#### Recommendation 4.2 The Board should establish an audit committee

#### Recommendation 9.2 The Board should establish a remuneration committee

#### Explanation of Departure

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the establishment of separate board committee such as audit, remuneration and nomination committees. Accordingly, all matters that may be capable of delegation to the committees are dealt with by the full Board.

## Directors' Report

The directors presents their report together with the financial report of Gippsland Offshore Petroleum Limited, for the period ended 30 June 2005 and independent audit report thereon.

### Principal Activities

The principal activity of the entity during the period was petroleum exploration in the Gippsland Basin. There has been no significant change in the nature of these activities since the Company's listing on the ASX in January 2005.

### Results

The loss after income tax attributable to the members of Gippsland Offshore Petroleum Limited was \$58,507.

### Review of Operations

A review of the operations of the entity during the period and the results of those operations are as follows:

The Company was listed and commenced trading on the ASX on 10 January 2005 having successfully raised some \$12 million from the general public through the issue of 60 million shares and 30 million free options. It was formed as an oil and gas exploration company to primarily focus on the Gippsland basin. Net cash available to Gippsland Offshore Petroleum Limited on commencement of operations was \$11.4 million having outlaid some \$0.6 million in capital raising costs.

The original investment strategy envisaged the Company earning a 51% interest in VIC-P-47 (Gilbert Block), VIC-P-40(V) and PEP-155 (Marlo Block) by undertaking a pre-agreed exploration program including drilling two onshore and one offshore well. Unfortunately, due to the heightened worldwide exploration activity and rising petroleum prices securing drilling contractors and equipment has been extremely difficult. Current forecasts now envisage that the Company's will be able to meet its farm-in obligations and complete the planned drilling program by the fourth quarter of 2005. As outlined in the prospectus the company is also actively pursuing a number of other oil related opportunities.

As at 30 June 2005 the Company had cash reserves of \$5.4 million plus a further \$5.5 million in the form of drilling advances to cover costs of the proposed drilling program.

### Significant Changes in the State of Affairs

The Company was incorporated on 18 October 2004 and was listed on the ASX on 10 January 2005 after raising \$12 million from the general public.

### After Balance Date Events

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity in future financial years, other than the Company has commenced drilling on PEP-155 (Marlo Block) and VIC-P-47 (Gilbert Block)..

### Likely Developments

The company is actively pursuing a number of new ventures within the oil industry with the overall objective of enhancing shareholder value. In the opinion of the directors, disclosure of any additional information would be likely to result in unreasonable prejudice to the entity.

### Environmental Regulation

The economic entity's operations are subject to certain environmental regulation under various laws of the Commonwealth and the State. The entity is not aware of any significant breaches of environmental regulations during the period.

### Dividend Paid, Recommended and Declared

No dividends were paid, declared or recommended since the start of the financial year.

### Share Options

Options over unissued ordinary shares granted by Gippsland Offshore Petroleum Limited during or since the financial year to directors and executives who received the highest paid remuneration for the financial year:

| Directors     | Options granted |
|---------------|-----------------|
| P G Harman    | 2,000,000       |
| R J Annells   | 2,000,000       |
| N J Limb      | 2,000,000       |
| Executives    |                 |
| C M Norman    | 1,000,000       |
| B Michaelidis | 250,000         |

Further details regarding options granted as remuneration are provided in the Remuneration Report below.

### Shares Under Option

Unissued ordinary shares of Gippsland Offshore Petroleum Limited under option at the date of this report are as follows:

|                       | Number of unissued ordinary shares under option | Issue price of shares | Expiry date of the options |
|-----------------------|---|-----------------------|----------------------------|
| Shareholder Options   | 29,900,000                                      | \$0.20                | 30 November 2006           |
| Lakes Oil NL          | 13,333,333                                      | \$0.20                | 30 November 2009           |
| Rilo Explorations P/L | 6,666,667                                       | \$0.20                | 30 November 2009           |
| P G Harman            | 2,000,000                                       | \$0.20                | 30 November 2009           |
| R J Annells           | 2,000,000                                       | \$0.20                | 30 November 2009           |
| N J Limb              | 2,000,000                                       | \$0.20                | 30 November 2009           |
| C M Norman            | 1,000,000                                       | \$0.20                | 23 May 2010                |
| B Michaelidis         | 250,000   | \$0.20                | 23 May 2010                |



The Lakes Oil NL and Rilo Explorations Pty Ltd options entitle the holder on exercise to a further option to subscribe for ordinary shares at an exercise price of \$0.40 cents each expiring two years from the date of issue of those options.

#### Shares Issued On Exercise of Options

The following ordinary shares of Gippsland Offshore Petroleum Limited were issued during or since the end of the financial year as a result of the exercise of an option:

| Date               |             | Number of<br>ordinary<br>shares | Amount<br>paid per<br>share issued |
|--------------------|-------------|---------------------------------|------------------------------------|
| Shareholder Option | 23 Feb 2005 | 100,000                         | \$0.20                             |

There are no amounts unpaid on shares issued on exercise of options.

#### Indemnification and Insurance of Directors, Officers and Auditors

During the financial year, the entity has paid premiums amounting to \$32,390 insuring all the directors and the officers against legal costs in obtaining advise or defending an action for a liability incurred as a Director of the Company.

#### Proceedings on Behalf of the Entity

No person has applied for leave of Court to bring proceedings on behalf of the entity.

#### Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director of Gippsland Offshore Petroleum Limited at any time during or since the end of the financial year is provided below, together with details of the company secretary as at the year end.

##### Chairman

###### Phillip G Harman

BSc (Hons), MAusIMM

Appointed 10 November 2004

Mr Harman is a professional geophysicist who spent more than 30 years working for BHP Billiton in minerals exploration in a broad number of roles both technical and managerial, both in Australia and overseas. Mr. Harman was material in bringing BHP Billiton's proprietary Falcon® airborne gravity gradiometer technology to Gravity Capital Limited in 2001 which was the precursor to Gravity Diamonds Limited.

Directorships of other listed companies since 1 July 2002:

- Gravity Diamonds Limited – (Aug 2002 - Current)

##### Director

###### Robert J Annells

CPA, ASIA

Appointed 18 October 2004

Mr Annells is a former member of the ASX and has over 40 years experience in the securities industry and is a qualified accountant. His experience includes provision of corporate and investment advice to the business and resource industries.

Directorships of other listed companies since 1 July 2002:

- Lakes Oil NL – (Jan 1984 - Current)
- Minotaur Resources Limited – (Feb 2000 – Feb 2005)
- Resmex PLC – (Oct 2004 – Current)
- Minotaur Exploration Limited – (Jul 2004 – Current)

##### Director

###### Nicholas J Limb

BSc (Hons), MAusIMM, ASIA

Appointed 10 November 2004

Mr Limb is a professional geophysicist and also has extensive experience as a stockbroker and merchant banker.

Directorships of other listed companies since 1 July 2002:

- Mineral Deposits Limited – (Apr 1994 - Current)
- Gravity Diamonds Limited – (Dec 1995 - Current)
- Cockatoo Ridge Wines Limited – (Jan 2002 - Current)
- Stellar Resources Limited – (Dec 2004 – Apr 2004)

##### Director

###### Peter C Dunn

BE, FAusIMM, FSIA

Appointed 18 October 2004. Resigned 10 November 2004

Mr Dunn has had many years experience in the oil and gas related industries and in 1990 retired as a technical adviser with Westpac Banking Corporation in the areas of minerals and energy.

Mr Dunn did not hold any other listed company directorships in the preceding three years.

##### Director

###### Peter B Lawrence

BCom, MBA, FCPA

Appointed 18 October 2004 Resigned 10 November 2004

Mr Lawrence is a former member of the Australian Stock Exchange with over 30 years experience as a Stockbroker.

Mr Lawrence did not hold any other listed company directorships in the preceding three years.

##### Company Secretary/CFO

###### Bill Michaelidis

BBus, CPA

Appointed 10 November 2004

Mr Michaelidis was appointed Company Secretary and Chief Financial Officer in November 2004. He is a qualified accountant with over 30 years experience in the resource sector.

## Directors' Report

### Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

2005  
\$

|              | Board of Directors |          |
|--------------|--------------------|----------|
|              | Eligible to attend | Attended |
| P G Harman   | 7                  | 6        |
| R J Annells  | 10                 | 10       |
| N J Limb     | 7                  | 7        |
| P C Dunn     | 2                  | 2        |
| P B Lawrence | 2                  | 2        |

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor, for:

Investigating Accountants Report 8,700

### Remuneration Report

#### Remuneration Policies

The board policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole. The board may obtain professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

For executive directors and specified executives, the company provides a remuneration package that incorporates both cash-based and share-based remuneration. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Share-based remuneration is conditional upon continuing employment thereby aligning director and shareholder interests. The remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for directors by resolution. Further details regarding components of directors' and executive remuneration are provided in the notes to the financial statements.

The names and positions of each person who held the position of director at any time during the financial year are provided above. The named executives in the company who received the highest remuneration for the financial year are:

### Directors' Interests in Shares or Options

Directors' relevant interests in shares of Gippsland Offshore Petroleum Limited or options over shares in the company are detailed below.

| Directors' relevant interests in: | Gippsland Offshore Petroleum Limited |                |                  |
|-----------------------------------|--------------------------------------|----------------|------------------|
|                                   | Ordinary Shares                      | Listed Options | Unlisted Options |
| P G Harman                        |                                      |                |                  |
| Direct                            | 50,000                               | –              | 2,000,000        |
| Indirect                          | –                                    | –              | –                |
| R J Annells                       |                                      |                |                  |
| Direct                            | 48,750                               | 24,375         | 2,000,000        |
| Indirect                          | 20,000                               | 10,000         | –                |
| N J Limb                          |                                      |                |                  |
| Direct                            | 100,000                              | 25,000         | 2,000,000        |
| Indirect                          | –                                    | –              | –                |
| P C Dunn                          | –                                    | –              | –                |
| P B Lawrence                      | –                                    | –              | –                |
|                                   | <b>218,750</b>                       | <b>59,375</b>  | <b>6,000,000</b> |

### Directors' Interests in Contracts

Directors' interests in contracts are disclosed in note 20 to the financial statements.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

### Non-Audit Services

Non-audit services provided by the auditors of the entity during the year, Pitcher Partners, are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

### Executives

### Position

|                    |                         |
|--------------------|-------------------------|
| Catherine M Norman | Chief Operating Officer |
| Bill Michaelidis   | Company Secretary/CFO   |

The Company has no other employees that hold the position of executive.



*Directors' Remuneration:*

| 2005         | Salary fees<br>Bonus | Primary<br>Cash | Non-monetary | Superannuation | Post employment<br>Retirement<br>benefit | Equity<br>Options        | Total          |
|--------------|----------------------|-----------------|--------------|----------------|--|--------------------------|----------------|
| P G Harman   | 28,438               | -               | -            | 2,812          | -  | 21,525 <sup>(41%)*</sup> | 52,775         |
| R J Annells  | -                    | -               | -            | 31,250         | -  | 21,525 <sup>(41%)*</sup> | 52,775         |
| N J Limb     | -                    | -               | -            | 31,250         | -  | 21,525 <sup>(41%)*</sup> | 52,775         |
| P C Dunn     | -                    | -               | -            | -              | -  | -                        | -              |
| P B Lawrence | -                    | -               | -            | -              | -  | -                        | -              |
|              | <b>28,438</b>        | <b>-</b>        | <b>-</b>     | <b>65,312</b>  | <b>-</b>                                 | <b>64,575</b>            | <b>158,325</b> |

*Executives' Remuneration:*

| 2005          | Salary fees<br>Bonus | Primary<br>Cash | Non-monetary | Superannuation | Post employment<br>Retirement<br>benefit | Equity<br>Options | Total          |
|---------------|----------------------|-----------------|--------------|----------------|--|-------------------|----------------|
| C M Norman    | 56,250               | -               | -            | 6,250          | -  | 1020 (2%)*        | 63,520         |
| B Michaelidis | 22,000               | -               | -            | 28,000         | -  | 254 (1%)*         | 50,254         |
|               | <b>78,250</b>        | <b>-</b>        | <b>-</b>     | <b>34,250</b>  | <b>-</b>                                 | <b>1,274</b>      | <b>113,774</b> |

\* The percentage value of each person's remuneration that consists of options is shown in brackets.

In accordance with the remuneration policy described above, options granted as remuneration are subject to continuing service with the company. Options granted as remuneration are valued at grant date in accordance with AASB 2 Share-based Payments. No options previously granted as remuneration have lapsed during the year.

Options granted as remuneration that have been exercised or lapsed during the financial year

| Directors and Executives | 1 July 2004 | Value<br>Granted | Value<br>Exercised | Value<br>Lapsed | 30 June 2005   |
|--------------------------|-------------|------------------|--------------------|-----------------|----------------|
|                          | \$          | \$               | \$                 | \$              | \$             |
| P G Harman               | -           | 169,327          | -                  | -               | 169,327        |
| R J Annells              | -           | 169,327          | -                  | -               | 169,327        |
| N J Limb                 | -           | 169,327          | -                  | -               | 169,327        |
| P C Dunn                 | -           | -                | -                  | -               | -              |
| P B Lawrence             | -           | -                | -                  | -               | -              |
| C M Norman               | -           | 48,840           | -                  | -               | 48,840         |
| B Michaelidis            | -           | 12,210           | -                  | -               | 12,210         |
|                          | -           | <b>569,031</b>   | -                  | -               | <b>569,031</b> |

**Rounding of Amounts**

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



P G Harman  
Chairman

Melbourne  
29 September 2005

## Auditors' Independence Declaration



To the Directors of Gippsland Offshore Petroleum Limited

In relation to the independent audit for the period since incorporation, being 18 October 2004 to 30 June 2005, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the Corporations Act 2001.
- (ii) No contraventions of any applicable code of professional conduct.

Pitcher Partners

M W Pringle  
Partner

Melbourne  
29 September 2005



# Statement of Financial Performance

FOR THE PERIOD ENDED 30 JUNE 2005

|  | Notes | 2005<br>\$'000 |
|--|-------|----------------|
| Revenue from ordinary activities   | 2     | 299            |
| Occupancy expenses   |       | 15             |
| Administrative expenses  |       | 343            |
| Loss from ordinary activities before Income tax expense  | 3     | 59             |
| Income tax expense relating to ordinary activities   | 4     | –              |
| Loss from ordinary activities after income tax expense   |       | 59             |
| Net loss attributable to members of Gippsland Offshore Petroleum Limited   | 13    | 59             |
| Total revenues, expenses and valuation adjustments attributable to members of Gippsland Offshore Petroleum Limited and recognised directly in equity       |       | 59             |
| Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Gippsland Offshore Petroleum Limited |       | 59             |
| Basic earnings per share (cents per share)   | 16    | (0.13)         |
| Diluted earnings per share (cents per share)   | 16    | (0.13)         |

*The accompanying notes form part of these financial statements.*

# Statement of Financial Position

AS AT 30 JUNE 2005

|                                  | Notes | 2005<br>\$'000 |
|----------------------------------|-------|----------------|
| <b>CURRENT ASSETS</b>            |       |                |
| Cash assets                      | 5     | 5,397          |
| Receivables                      | 6     | 54             |
| Other                            | 7     | 5,538          |
| <b>TOTAL CURRENT ASSETS</b>      |       | <u>10,989</u>  |
| <b>NON-CURRENT ASSETS</b>        |       |                |
| Office equipment                 | 8     | 26             |
| Exploration expenditure          | 9     | 619            |
| <b>TOTAL NON-CURRENT ASSETS</b>  |       | <u>645</u>     |
| <b>TOTAL ASSETS</b>              |       | <u>11,634</u>  |
| <b>CURRENT LIABILITIES</b>       |       |                |
| Payables                         | 10    | 237            |
| Provisions                       | 11    | 14             |
| <b>TOTAL CURRENT LIABILITIES</b> |       | <u>251</u>     |
| <b>TOTAL LIABILITIES</b>         |       | <u>251</u>     |
| <b>NET ASSETS</b>                |       | <u>11,383</u>  |
| <b>EQUITY</b>                    |       |                |
| Contributed equity               | 12    | 11,442         |
| Accumulated losses               | 13    | (59)           |
| <b>TOTAL EQUITY</b>              |       | <u>11,383</u>  |

*The accompanying notes form part of these financial statements.*



# Statement of Cash Flows

FOR THE PERIOD ENDED 30 JUNE 2005

|   | Notes | 2005<br>\$'000      |
|---|-------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |       |                     |
| Receipts from customers                     |       | –                   |
| Payments to suppliers and employees         |       | (326)               |
| Interest received                           |       | 254                 |
| Other – Drilling Advance                    |       | (5,506)             |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | 14    | <u>(5,578)</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |       |                     |
| Payments for exploration expenditure        |       | (439)               |
| Purchase of property, plant and equipment   |       | (28)                |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES |       | <u>(467)</u>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |       |                     |
| Proceeds from issues of ordinary shares     |       | 12,020              |
| Capital Raising Cost                        |       | (578)               |
| NET CASH FLOWS FROM FINANCING ACTIVITIES    |       | <u>11,442</u>       |
| NET INCREASE IN CASH HELD                   |       | 5,397               |
| Add cash at the beginning of the period     |       | –                   |
| <b>CASH AT END OF YEAR</b>                  | 5     | <u><u>5,397</u></u> |

*The accompanying notes form part of these financial statements.*

# Notes to the Financial Statements

FOR THE PERIOD AT 30 JUNE 2005

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Gippsland Offshore Petroleum Limited as an individual entity. Gippsland Offshore Petroleum Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs, and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair value of consideration given in exchange for assets.

The following is a summary of material accounting policies adopted by the entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (b) Revenue Recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

### (c) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of bank overdrafts.

### (d) Exploration and Evaluation Expenditure

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

### (e) Office Equipment

#### COST

All items of office equipment are measured at cost.

The carrying amount of office equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

#### DEPRECIATION

The depreciable amount of all fixed assets are depreciated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

The useful lives for each class of assets are:

|                  |                |
|------------------|----------------|
| Office Equipment | 2.5 – 10 years |
|------------------|----------------|

### (f) Taxes

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

This accounting policy will be impacted on first-time adoption of AIFRS (refer to Note 24).

### (g) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions made by the economic entity to an employee's superannuation fund are charged as expenses when incurred.

### (h) Financial Instruments

#### FINANCIAL ASSETS

Trade receivables are carried at full amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full amount is no longer probable. Amounts receivable from other debtors are carried at full amounts due. Other debtors are normally settled on 30 days from month end unless there is a specific contract, which specifies an alternative date. Amounts receivable from related parties are carried at full amounts due.



**(i) Rounding Amounts**

The company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998, and in accordance with that Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**(j) Comparatives**

The Company was incorporated in 18 October 2004, and listed on the ASX on 10 January 2005. Accordingly there are no prior year

comparatives. The 2005 figures are for the period 18 October 2004 to 30 June 2005.

**(k) Drilling Advances**

Drilling advances are amounts provided to operators in accordance with Farm-in and Operating Agreements. These funds are to be used for the drilling of wells at sites in Eastern Gippsland Basin. The amounts carried at 30 June 2005 represents advances for exploration not commenced.

2005  
\$'000

**NOTE 2: REVENUE****Revenues from non-operating activities**

Interest – Other persons

299

**Total revenues from ordinary activities**

299

**NOTE 3: PROFIT FROM ORDINARY ACTIVITIES**

Profit from ordinary activities before income tax has been determined after:

**Expenses**

Depreciation of non-current assets

Office equipment

2

Movement in provision for employee entitlements

14

Occupancy Cost

15

**NOTE 4: INCOME TAX**

The prima facie tax, using tax rates applicable in the country of operation, on loss differs from the income tax provided in the financial statements as follows:

Prima facie tax on loss from ordinary activities at 30%

(18)

Tax effect of permanent differences and other differences:

Non allowable items

1

Future income tax benefit not brought to account

17

Income tax expense attributable to ordinary activities

–

**Future income tax benefits not brought to account:**

Future income tax benefits not recognised as an asset because recovery of tax losses is not virtually certain

Operating losses

190

190

**NOTE 5: CASH ASSETS****CURRENT**

Cash at bank

129

Term deposits

5,268

5,397

# Notes to the Financial Statements

FOR THE PERIOD AT 30 JUNE 2005

|  | 2005<br>\$'000 |
|--|----------------|
| <b>NOTE 6: RECEIVABLES</b>   |                |
| <b>CURRENT</b>   |                |
| Trade debtors  | 43             |
| GST receivable   | 11             |
|  | <u>54</u>      |
| <b>NOTE 7: OTHER ASSETS</b>  |                |
| <b>CURRENT</b>   |                |
| Prepayments  | 32             |
| Drilling Advance   | 5,506          |
|  | <u>5,538</u>   |
| <b>NOTE 8: OFFICE EQUIPMENT</b>  |                |
| Office Equipment   |                |
| At cost  | 28             |
| Accumulated depreciation   | (2)            |
|  | <u>26</u>      |
| <b>(a) Reconciliations</b>   |                |
| Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current financial period. |                |
| Office Equipment   |                |
| Carrying amount at beginning   | –              |
| Additions  | 28             |
| Depreciation expense   | (2)            |
|  | <u>26</u>      |
| <b>NOTE 9: EXPLORATION EXPENDITURE</b>   |                |
| Cost carried forward in respect of areas of interest   | –              |
| Expenditure Incurred during the period   | 619            |
| Expenditure Written off/recouped during the period   | –              |
| Total exploration expenditure  | <u>619</u>     |
| <b>NOTE 10: PAYABLES</b>   |                |
| <b>CURRENT</b>   |                |
| Trade creditors  | 194            |
| Other creditors  | 43             |
|  | <u>237</u>     |
| <b>NOTE 11: PROVISIONS</b>   |                |
| <b>CURRENT</b>   |                |
| Employee benefits  | 14             |
|  | <u>14</u>      |
| – Aggregate employee entitlements liability  | 14             |
| – Number of employees at year end  | 5              |



2005  
\$'000

## NOTE 12: CONTRIBUTED EQUITY

## (a) Issued and paid up capital

Ordinary shares fully paid

11,442

11,442

## (b) Movements in shares on issue

|   | No of shares | 2005<br>\$'000 |
|---|--------------|----------------|
| Beginning of the financial period           | –            | –              |
| Issued during the year                      |              |                |
| – Founder shares                            | 10           | –              |
| – Equity pursuant to prospectus             | 60,000,000   | 12,000         |
| – Option conversion                         | 100,000      | 20             |
| – Transaction costs relating to share issue | –            | (578)          |
| End of the financial period                 | 60,100,010   | 11,442         |

## (c) Share Options

Options over ordinary shares:

**Employee share option scheme**

The company through the employee share option plan offers employees participation in short and long-term incentive schemes as part of the remuneration packages for the employees of the companies.

On 11 November 2004 6,000,000 share options were granted to Directors of the company to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 30 November 2009. The options hold no dividend rights and will remain in escrow until 10 January 2007.

On 23 May 2005 1,250,000 share options were granted to executives of the company to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 23 May 2010. The options have no dividend rights and up to balance date none of the options had been exercised.

The market value of ordinary Gippsland Offshore Petroleum Limited shares closed at \$0.11 on 30 June 2005.

## NOTE 13: ACCUMULATED LOSSES

|  |      |
|--|------|
| Balance at the beginning of period   | –    |
| Accumulated Losses attributable to members of Gippsland Offshore Petroleum Limited | (59) |
| Total available for appropriation  | (59) |
| Dividends paid   | –    |
| Balance at end of period   | (59) |

# Notes to the Financial Statements

FOR THE PERIOD AT 30 JUNE 2005

2005  
\$'000

## NOTE 14: CASH FLOW INFORMATION

Reconciliation of the net profit after tax to the net cash flows from operations:

|  |         |
|--|---------|
| Net loss                                     | (59)    |
| <b>Non-Cash Items</b>                        |         |
| Depreciation and amortisation                | 2       |
| <b>Changes in assets and liabilities</b>     |         |
| (Increase)/decrease in trade receivables     | (43)    |
| (Increase)/decrease in drilling deposits     | (5,506) |
| (Increase)/decrease in other assets          | (43)    |
| Increase in trade and other creditors        | 57      |
| (Decrease)/increase in employee entitlements | 14      |
| Net cash flow from operating activities      | (5,578) |

The Company does not have any credit stand-by or unused loan facilities as at 30 June 2005

## NOTE 15: COMMITMENTS

Exploration expenditure commitments

|  |       |
|--|-------|
| – Not later than one year  | 6,540 |
| – Later than one year and not later than five years                | 1,704 |
| Aggregate exploration expenditure contracted for at reporting date | 8,244 |

## NOTE 16: EARNINGS PER SHARE

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

|   |      |
|---|------|
| Net loss  | (59) |
| <b>Adjustments:</b>   |      |
| Earnings used in calculating basic and diluted earnings per share | (59) |

2005  
No of shares

Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share

44,755,696

Effect of dilutive securities:

Weighted average number of potential ordinary shares included in the denominator in the calculation of diluted earnings per share

2,316,853



## NOTE 17: DIRECTORS' AND SPECIFIED EXECUTIVES' REMUNERATION

The names and positions of directors and specified executives in office at any time during the financial period are:

**Directors**

|              |  |
|--------------|--|
| P G Harman   | Chairman – Non-Executive                             |
| R J Annells  | Director – Non-Executive                             |
| N J Limb     | Director – Non-Executive                             |
| P C Dunn     | Director – Non-Executive (resigned 10 November 2004) |
| P B Lawrence | Director – Non-Executive (resigned 10 November 2004) |

**Specified Executives**

|               |   |
|---------------|---|
| C M Norman    | Chief Operating Officer                       |
| B Michaelidis | Company Secretary/CFO                         |
| R E Love      | Company Secretary (resigned 10 November 2004) |

## (a) Directors' Remuneration:

| 2005         | Salary fees | Primary<br>Cash Bonus | Non-<br>monetary | Post employment<br>Superannuation | Retirement<br>benefits | Equity<br>Options | TOTAL   |
|--------------|-------------|-----------------------|------------------|-----------------------------------|------------------------|-------------------|---------|
|              | \$          | \$                    | \$               | \$                                | \$                     | \$                | \$      |
| P G Harman   | 28,438      | –                     | –                | 2,812                             | –                      | 21,525            | 52,775  |
| R J Annells  | –           | –                     | –                | 31,250                            | –                      | 21,525            | 52,775  |
| N J Limb     | –           | –                     | –                | 31,250                            | –                      | 21,525            | 52,775  |
| P C Dunn     | –           | –                     | –                | –                                 | –                      | –                 | –       |
| P B Lawrence | –           | –                     | –                | –                                 | –                      | –                 | –       |
|              | 28,438      | –                     | –                | 65,312                            | –                      | 64,575            | 158,325 |

## (b) Specified Executives' Remuneration:

| 2005          | Primary<br>Salary fees | Cash Bonus | Post employment<br>Non-<br>monetary<br>Superannuation | Retirement<br>benefits | Equity<br>Options | TOTAL   |
|---------------|------------------------|------------|---|------------------------|-------------------|---------|
| \$            | \$                     | \$         | \$  | \$                     | \$                | \$      |
| C M Norman    | 56,250                 | –          | 6,250   | –                      | 1,020             | 63,520  |
| B Michaelidis | 22,000                 | –          | 28,000  | –                      | 254               | 50,254  |
| R E Love      | –                      | –          | –   | –                      | –                 | –       |
|               | 78,250                 | –          | 34,250  | –                      | 1,274             | 113,774 |

# Notes to the Financial Statements

FOR THE PERIOD AT 30 JUNE 2005 date

## NOTE 18: DIRECTORS' AND SPECIFIED EXECUTIVES' EQUITY HOLDINGS

### (a) Remuneration Options:

|                             | Vested Number | Granted Number | Grant Date | Value per option at grant | Terms and conditions for each grant |                      |                     |
|-----------------------------|---------------|----------------|------------|---------------------------|-------------------------------------|----------------------|---------------------|
|                             |               |                |            |                           | Excercise Price \$                  | First Excercise Date | Last Excercise Date |
| <b>Directors</b>            |               |                |            |                           |                                     |                      |                     |
| P G Harman                  | –             | 2,000,000      | 11/11/04   | \$0.08                    | \$0.20                              | 10/01/07             | 30/11/09            |
| R J Annells                 | –             | 2,000,000      | 11/11/04   | \$0.08                    | \$0.20                              | 10/01/07             | 30/11/09            |
| N J Limb                    | –             | 2,000,000      | 11/11/04   | \$0.08                    | \$0.20                              | 10/01/07             | 30/11/09            |
| P C Dunn                    | –             | –              | –          | –                         | –                                   | –                    | –                   |
| P B Lawrence                | –             | –              | –          | –                         | –                                   | –                    | –                   |
| <b>Specified executives</b> |               |                |            |                           |                                     |                      |                     |
| C M Norman                  | 1,000,000     | 1,000,000      | 23/05/05   | \$0.05                    | \$0.20                              | 23/05/05             | 23/05/10            |
| B Michaelidis               | 250,000       | 250,000        | 23/05/05   | \$0.05                    | \$0.20                              | 23/05/05             | 23/05/10            |
| R E Love                    | –             | –              | –          | –                         | –                                   | –                    | –                   |

All grants of options to Directors vest after a period of two years from listing date and expire on 30/11/2009, executive options vest immediately and expire five years after vesting.

The service and performance criteria, together with other details are described in Note 18(b) below.

### (b) Details concerning share-based remuneration of directors and specified executives

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Any options not exercised before or on the date of termination will lapse.

The objective of the share-based schemes is to both reinforce the short and long-term goals of the company and to provide a common interest between management and shareholders. Options were granted during the period to both specified directors and executives as outline in Note 18(a) above.

### (c) Number of options held by directors and specified executives:

|                             | Balance<br>1 July 2004 | Granted as<br>remuneration | Options<br>exercised | Net<br>change<br>other* | Balance<br>30 June 2005 | Total<br>vested<br>30/06/05 | Total<br>exercisable<br>30/06/05 | Total<br>exercisable<br>30/06/05 |
|-----------------------------|------------------------|----------------------------|----------------------|-------------------------|-------------------------|-----------------------------|----------------------------------|----------------------------------|
| <b>Directors</b>            |                        |                            |                      |                         |                         |                             |                                  |                                  |
| P G Harman                  | –                      | 2,000,000                  | –                    | –                       | 2,000,000               | –                           | –                                | 2,000,000                        |
| R J Annells                 | –                      | 2,000,000                  | –                    | 24,375                  | 2,024,375               | 24,375                      | 24,375                           | 2,000,000                        |
| N J Limb                    | –                      | 2,000,000                  | –                    | 25,000                  | 2,025,000               | 25,000                      | 25,000                           | 2,000,000                        |
| P C Dunn                    | –                      | –                          | –                    | –                       | –                       | –                           | –                                | –                                |
| P B Lawrence                | –                      | –                          | –                    | –                       | –                       | –                           | –                                | –                                |
| <b>Specified executives</b> |                        |                            |                      |                         |                         |                             |                                  |                                  |
| C M Norman                  | –                      | 1,000,000                  | –                    | 12,500                  | 1,012,500               | 1,012,500                   | 1,012,500                        | –                                |
| B Michaelidis               | –                      | 250,000                    | –                    | 50,000                  | 300,000                 | 300,000                     | 300,000                          | –                                |
| R E Love                    | –                      | –                          | –                    | –                       | –                       | –                           | –                                | –                                |
| <b>Total</b>                | –                      | 7,250,000                  | –                    | 111,875                 | 7,361,875               | 1,361,875                   | 1,361,875                        | 6,000,000                        |

\*Note: Net change includes options forfeit



## (d) Number of shares held by directors and specified executives:

|                             | Balance<br>1/07/04<br>No. | Received as<br>Remuneration<br>No. | Options<br>Exercised<br>No. | Net change<br>other<br>No. | Balance<br>30/06/05<br>No. |
|-----------------------------|---------------------------|------------------------------------|-----------------------------|----------------------------|----------------------------|
| <b>Directors</b>            |                           |                                    |                             |                            |                            |
| P G Harman                  | -                         | -                                  | -                           | -                          | -                          |
| R J Annells                 | -                         | -                                  | -                           | 48,750                     | 48,750                     |
| N J Limb                    | -                         | -                                  | -                           | 50,000                     | 50,000                     |
| P C Dunn                    | -                         | -                                  | -                           | -                          | -                          |
| P B Lawrence                | -                         | -                                  | -                           | -                          | -                          |
| <b>Specified Executives</b> |                           |                                    |                             |                            |                            |
| C M Norman                  | -                         | -                                  | -                           | 25,000                     | 25,000                     |
| B Michaelidis               | -                         | -                                  | -                           | 100,000                    | 100,000                    |
| R E Love                    | -                         | -                                  | -                           | -                          | -                          |
| <b>Total</b>                | -                         | -                                  | -                           | 223,750                    | 223,750                    |

2005  
\$'000

## NOTE 19: AUDITOR'S REMUNERATION

Amounts received or due and receivable by Pitcher Partners for:

|  |           |
|--|-----------|
| - An audit or review of the financial report of the entity | 10        |
| - Investigating Accountants Report                         | 9         |
|  | <u>19</u> |

## NOTE 20: RELATED PARTY DISCLOSURES

**Other transactions with director and/or specified executives and their personally-related entities**

During the period, administrative support, office accommodation and I.T. facilities were provided at commercial rates by a director related entity, Mineral Deposits Limited, of which Mr N J Limb was and continues to be a director. Mineral Deposits Limited charged \$12,500 in relation to the provision of these services to 30 June 2005.

Geophysical services were provided during the period at commercial rates by a director related entity Gravity Diamonds Limited, of which Mr P G Harman was and continues to be a director. Gravity Diamonds Limited charged \$487 for the provision of these services to 30 June 2005.

Geological and administrative support services were provided during the period at commercial rates by a director related entity Lakes Oil NL, of which Mr R J Annells was and continues to be a director. Lakes Oil NL charge \$534,624 for the provision of these services to 30 June 2005. In addition a drilling advance of \$400,000 was paid to Lakes Oil NL. during the period.

# Notes to the Financial Statements

FOR THE PERIOD AT 30 JUNE 2005

## NOTE 21: SEGMENT INFORMATION

The entity only operates within Australia and is involved in petroleum exploration in the Gippsland basin.

## NOTE 22: FINANCIAL INSTRUMENTS

### (a) Interest rate risk

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

| Financial Instruments              | Fixed interest rate maturing in: |                   |                   |                      | Total carrying amount as per the Statement of Financial Position interest rate | Weighted average effective |
|------------------------------------|----------------------------------|-------------------|-------------------|----------------------|--|----------------------------|
|                                    | 1 year or less                   | Over 1 to 5 years | More than 5 years | Non-interest bearing |  |                            |
|                                    | 2005<br>\$'000                   | 2005<br>\$'000    | 2005<br>\$'000    | 2005<br>\$'000       |  |                            |
| <i>(i) Financial assets</i>        |                                  |                   |                   |                      |  |                            |
| Cash                               | 5,397                            | –                 | –                 | –                    | 5,397  | 5.49                       |
| Trade and other receivables        | –                                | –                 | –                 | 54                   | 54   | –                          |
| Other                              | 5,106                            | –                 | –                 | 432                  | 5,538  | 4.4                        |
| <b>Total financial assets</b>      | <b>10,503</b>                    | <b>–</b>          | <b>–</b>          | <b>486</b>           | <b>10,989</b>  | <b>–</b>                   |
| <i>(ii) Financial liabilities</i>  |                                  |                   |                   |                      |  |                            |
| Trade and other creditors          | –                                | –                 | –                 | 237                  | 237  | –                          |
| <b>Total financial liabilities</b> | <b>–</b>                         | <b>–</b>          | <b>–</b>          | <b>237</b>           | <b>237</b>   | <b>–</b>                   |

### (b) Credit risk exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations.

The entity does have material credit risk exposure to both to the Westpac Banking Corporation in reference to term deposits and Bass Strait Oil Co. in reference to drilling deposits.

### (c) Net fair values

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

## NOTE 23: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2005 that has significantly affected or may significantly affect the Company, other than the Company has commenced drilling on PEP-155 (Marlo Block) and VIC-P-47 (Gilbert Block).

## NOTE 24: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

The entity has evaluated the key differences in accounting policies that are expected to arise from adopting AIFRSs and the key differences in accounting policies that are expected to arise from adopting AIFRS are detailed below. The transition date for first-time adoption of AIFRS is 1 July 2004. As the company was incorporated, after this date, there is no impact on opening balance, however, a reconciliation of estimated adjustments, together with restated results under AIFRSs for the financial period to 30 June 2005, is provided in Note 25.



**(i) Share based payments**

Under AASB 2 Share-based Payment, the company will be required to determine the fair value of equity settled transactions and to recognise an expense in the Statement of Financial Performance. Share-based payments to directors and other employees will also be expensed under AIFRS.

On first-time adoption of AIFRSs, reported results for the financial period to 30 June 2005 will be adjusted for all share-based payments granted after 7 November 2002, which do not vest prior to 1 January 2005. An estimate of the financial impact is provided in the reconciliation in Note 25 below.

**(ii) Income taxes**

Under AIFRS a balance sheet approach will be adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit. In addition, a future income tax benefit must be recognized for tax losses where their realization is considered probable. Under current Australian accounting standards tax losses may only be recognized where realization is considered to be virtually certain.

**NOTE 25: RECONCILIATION OF REPORTED AMOUNTS UNDER AUSTRALIAN ACCOUNTING STANDARDS TO AIFRS****(a) Reconciliation of Operating Profit after Tax for the period ended 30 June 2005**

|   |              |
|---|--------------|
| Operating profit/(loss) after tax for the financial period to 30 June 2005:                 | \$'000       |
| As reported under Australian Accounting Standards   | (59)         |
| Share-based payments earned during the period   | (65)         |
| <b>Operating profit after tax as restated under AIFRS for the period ended 30 June 2005</b> | <u>(124)</u> |

**(b) Reconciliation of Total Equity at 30 June 2005**

|  |               |
|--|---------------|
| Total equity at 30 June 2005   |               |
| As reported under Australian accounting standards                        | 11,383        |
| Adjustments to operating profit/(loss) for the period as described above | (65)          |
| Movement in equity (options reserve)                                     | 65            |
| <b>Total equity at 30 June 2005 as restated under AIFRS</b>              | <u>11,383</u> |

## Directors' Declaration

The directors declare that the financial statements and notes set out on pages 25 to 37 in accordance with the Corporations Act 2001:

- (a) Comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements;
- (b) Give a true and fair view of the financial position of the entity as at 30 June 2005 and of its performance as represented by the results of its operations and its cash flows, for the financial period ended on that date; and
- (c) That the directors have been given the declaration required under section 295A of the Corporations Act 2001.

In the directors' opinion there are reasonable grounds to believe that Gippsland Offshore Petroleum Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



P G Harman  
Chairman

Melbourne  
29 September 2005



# Independent Audit Report



## TO THE MEMBERS OF GIPPSLAND OFFSHORE INDEPENDENT PETROLEUM LIMITED

### Scope

We have audited the financial report of Gippsland Offshore Petroleum Ltd for the financial period ended 30 June 2005 comprising the Directors' Declaration, Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and notes to the financial statements.

The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial report of Gippsland Offshore Petroleum Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the financial period ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional requirements in Australia.

Pitcher Partners

M W Pringle  
Partner

Melbourne  
29 September 2005

## Additional Information for Listed Public Companies

The following additional information is required by Australian Stock Exchange Limited in respect of listed public companies.

### 1. SHAREHOLDING

The issued capital of the company was 60,100,010 ordinary shares fully paid as at 20 September 2005, all of which are listed on the Australian Stock Exchange. In addition, the company has on issue 1,250,000 and 6,000,000 unlisted employee and director options to acquire shares at an exercise of \$0.20 cents per share at any time up to 23 May 2010 and 30 November 2009 respectively. Also, there are 20,000,000 unlisted options issued to Rilo Explorations Pty Ltd and Lakes Oil NL exercisable at \$0.20 cents on or before 30 November 2009.

#### (a) Distribution

| Size of Holding  | Number of Shareholders | Units      | %      | Number of Optionholders | Units      | %      |
|------------------|------------------------|------------|--------|-------------------------|------------|--------|
| 1 – 1,000        | 5                      | 1,711      | 0.00   | -                       | -          | -      |
| 1,001 – 5,000    | 31                     | 128,490    | 0.22   | 423                     | 2,106,554  | 3.69   |
| 5,001 – 10,000   | 429                    | 4,237,174  | 7.05   | 160                     | 1,432,296  | 2.50   |
| 10,001 – 100,000 | 712                    | 28,598,183 | 47.58  | 472                     | 12,941,900 | 22.65  |
| 100,001 and over | 91                     | 27,134,452 | 45.15  | 52                      | 40,669,250 | 71.16  |
|                  | 1,268                  | 60,100,010 | 100.00 | 1,107                   | 57,150,000 | 100.00 |

There were 11 shareholders who held less than a marketable parcel (2,632 shares) based on the market price of 19 cents.

#### (c) 20 Largest Shareholders – Ordinary Shares

| Name  | Number of Shares Held | %     |
|---|-----------------------|-------|
| 1 Link Traders (Aust) Pty Ltd                             | 2,500,000             | 4.16  |
| 2 Kerlam Pty Ltd <The Lertesz Family A/C>                 | 1,890,000             | 3.14  |
| 3 Brooking Enterprises Ltd                                | 1,000,000             | 1.66  |
| 4 Kimbirki Nominees Pty Ltd                               | 1,000,000             | 1.66  |
| 5 Somnus Pty Ltd <Somnus Superannuation A/C>              | 1,000,000             | 1.66  |
| 6 Mr Desmond Kegan  | 900,000               | 1.50  |
| 7 Balpina Pty Ltd   | 750,000               | 1.25  |
| 8 Loch Securities Pty Ltd                                 | 700,000               | 1.16  |
| 9 Advance Publicity Pty Ltd <Izmar Family A/C>            | 500,000               | 0.83  |
| 10 Micallef Plumbing Industries Pty Ltd                   | 500,000               | 0.83  |
| 11 Mrs Michelle Louise Sharp                              | 500,000               | 0.83  |
| 12 Traders Macquarie Pty Ltd                              | 500,000               | 0.83  |
| 13 Mrs Karen Patricia Campbell                            | 400,000               | 0.67  |
| 14 Evergem Pty Ltd  | 400,000               | 0.67  |
| 15 Keo Projects Pty Ltd                                   | 395,000               | 0.66  |
| 16 Frontier Forge Pty Ltd                                 | 365,000               | 0.61  |
| 17 Campaspe Olive Oil Pty Ltd <The Carmody Baird S/F A/C> | 360,000               | 0.60  |
| 18 Drill Investments Pty Ltd <The Drill Family A/C>       | 350,000               | 0.58  |
| 19 PBL Investments Pty Ltd                                | 350,000               | 0.58  |
| 20 Mr Keith Shaw  | 350,000               | 0.58  |
|   | 14,710,000            | 24.48 |

#### (d) Voting Rights

Voting rights of members are governed by the company's Constitution. In summary, on the show of hands, every member present in person or by proxy shall have one vote and, upon a poll, every such attending member shall be entitled to one vote for every share held.



# Corporate Directory

## DIRECTORS

Phillip G Harman (Chairman)  
Robert J Annells (Non Executive)  
Nicholas J Limb (Non Executive)

## COMPANY SECRETARY

Bill Michaelidis

## CHIEF OPERATING OFFICER

Catherine M Norman

## REGISTERED OFFICE

Level 7, Exchange Tower  
530 Little Collins Street  
Melbourne VIC 3000

Telephone: (03) 9909 7609

Facsimile: (03) 9909 7621

E-Mail: [gopinfo@gop.com.au](mailto:gopinfo@gop.com.au)

Website: [www.gop.com.au](http://www.gop.com.au)

Registers of unlisted employee and other options held at this address

## SHARE REGISTRY

Computershare Investor Services Pty Ltd

Yarra Falls

452 Johnston Street

Abbotsford VIC 3067

Register of listed ordinary shares held at this address

## LEGAL ADVISERS

Baker & McKenzie  
Level 39, 525 Collins Street  
Melbourne VIC 3000

## AUDITOR

Pitcher Partners  
Level 19, 15 Williams Street  
Melbourne VIC 3000

## BANKERS

Westpac Banking Corporation  
Level 7, 360 Collins Street  
Melbourne VIC 3000

## PRINCIPAL STOCK EXCHANGE

Australian Stock Exchange Limited  
530 Collins Street  
Melbourne VIC 3000

ASX code for shares: GOP

ASX code for options: GOPO



**Gippsland Offshore**  
PETROLEUM LIMITED

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