

GIPPSLAND OFFSHORE PETROLEUM LIMITED

ABN 51 111 418 270

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED
30 JUNE 2008

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GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

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.

Gippsland Offshore Petroleum Limited has elected to early adopt the revised ASX Corporate Governance Principles and Recommendations issued in August 2007.

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 the board to add value

The Board consists of two non-executive board members at year end including the chairperson and one executive director. The role of chair and chief executive officer are not exercised by the same individual. 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 operate 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 business ethically and according to its values, encourage community initiatives, give due consideration to 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 announcement of half-yearly or annual results, or at other times 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 a 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 and 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 the 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. The Company extensively utilises its website to complement the official release of material information to the market.

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 risks 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. The Board is supplied with assurances annually from the Chief Executive Officer (or equivalent) and Chief Financial Officer in reference to compliance with recommendations 7.2 and 7.3.

Principle 8: 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. Option or share issues to senior executives who are not Directors will be issued by resolution of the Board. By utilising a blend of fixed and equity based remuneration the Company seeks to align the interests of shareholders and executives.

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

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 4.1 The Board should establish an audit committee

Recommendation 8.1 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 committees such as audit, remuneration and nomination committees. Accordingly, all matters that may be capable of delegation to such committees are dealt with by the full Board.

Recommendation 8.2 Guidelines for non-executive director remuneration

Explanation of Departure

Non-executive Directors were issued with options in the period prior to the Company's public listing. Since listing on the ASX no options have been issued to Non-executive Directors.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of Gippsland Offshore Petroleum Limited and the entities it controlled, for the financial year ended 30 June 2008 and auditors report thereon.

This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards. Compliance with Australian International Financial Reporting Standards ensures that the financial statements and notes of the company and the group comply with the International Financial Reporting Standards (IFRS).

Principal Activities

The principal activity of the consolidated entity during the financial year was petroleum exploration in Jamaica and Kenya. There has been no significant change in the nature of these activities during the financial year.

Results

The consolidated loss after income tax attributable to the members of Gippsland Offshore Petroleum Limited was \$1,586,350 (2007: \$1,242,764).

Review of Operations

During the financial year, the consolidated entity continued its exploration activities on its suite of exploration projects. The exploration activity focused on geological and geophysical studies on both the Jamaican and Kenyan acreage.

In addition, the entity together with its joint venture partner Gas2Grid Limited was officially awarded the Saint Griede exploration permit in the Aquitaine Basin in France.

As at 30 June 2008 the entity had cash reserves of \$2.784 million (2007: \$3.026 million). The directors believe the entity is adequately funded to undertake its outlined exploration activity.

Significant Changes in the State of Affairs

The following significant changes to the state of affairs of the entity occurred during the financial year:

- The company placed 15,000,000 fully paid ordinary shares at a price of 10 cents per share to professional and sophisticated investors.

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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

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 in the jurisdiction in which it operates. 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 the 5 highest paid executives as part of their remuneration were as follows:

Directors	Options granted
C M Norman	5,000,000

No other directors or executives received any options as remuneration.

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

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

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
Lakes Oil NL	13,333,333	\$0.20	30 November 2009
Rilo Explorations Pty Ltd	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
V Michaelidis	250,000	\$0.20	25 May 2010
P Nicholls	250,000	\$0.20	9 March 2011
C M Norman	1,000,000	\$0.15	16 March 2011
V Michaelidis	250,000	\$0.20	7 May 2012
N Gardiner	50,000	\$0.20	7 May 2012
T Huynh	50,000	\$0.20	7 May 2012
C M Norman	5,000,000	\$0.40	3 December 2012
R J Jason	150,000	\$0.20	20 May 2013

The Lakes Oil NL and Rilo Explorations Pty Ltd options entitle the holder on initial exercise to a further option to subscribe for ordinary shares at an exercisable price of \$0.40 cents each expiring 2 years from the date of issue of those options.

Shares Issued On Exercise of Options

No 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.

Indemnification and Insurance of Directors and Officers

During the financial year the consolidated entity has paid premium of \$13,320 in respect of Directors and Officers Liability insurance which indemnifies directors, officers and the company for any claims made against the Directors, Officers of the Company and the Company, subject to the conditions contained in the insurance policy. Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the contract.

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 thirty 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 2005:
Gravity Diamonds Limited – (2002 – 2008)

Director

Robert J Annells
CPA, F. Fin
Appointed 18 October 2004
Resigned 29 November 2007

Mr. Annells is a former member of the ASX and has over forty 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 2005:
Lakes Oil NL – (Jan 1984 – Current)
Minotaur Resources Limited – (Feb 2000 – Feb 2005)
Minotaur Exploration Limited – (Jul 2004 – Current)
Xtract Energy PLC – (Oct 2004 – Current)
Greenearth Energy Ltd – (Jul 2006 – Current)

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Rum Jungle Uranium Ltd – (Oct 2006 – Current)

Director

Nicholas J Limb
BSc (Hons), MAusIMM, F. Fin
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 2005:

Mineral Deposits Limited – (Apr 1994 – Current)
Gravity Diamonds Limited – (Dec 1995 – Aug 07)
Cockatoo Ridge Wines Limited – (Jan 2002 – Oct 2007)

Managing Director

Catherine M Norman
BSc
Appointed 17 July 2006

Ms. Norman is a professional geophysicist who has twenty years experience in the minerals and oil and gas exploration industry, with executive positions both in Australia and the UK and operating assignments in Europe, Africa, Middle East and Australia.

Company Secretary/CFO

Vassilios 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 resources sector.

Directors' Meetings

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

	Board of Directors	
	Eligible to attend	Attended
P G Harman	9	9
R J Annells (resigned 29 November 2007)	6	5
N J Limb	9	8
C M Norman	9	9

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:	Ordinary Shares	Gippsland Offshore Petroleum Limited Listed Options	Unlisted Options
P G Harman			
Direct	-	-	2,000,000
Indirect	150,000	-	-
R J Annells			
Direct	68,750	-	2,000,000
Indirect	-	-	13,333,333
N J Limb			
Direct	-	-	2,000,000
Indirect	7,548,142	-	-
C M Norman			
Direct	37,500	-	7,000,000
Indirect	-	-	-
	7,804,392	-	26,333,333

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in note 18 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.

DIRECTORS' REPORT

Non-Audit Services

There were no non-audit services provided by the auditors of the entity during the year.

Remuneration Report**Remuneration Policies**

The 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 executives, the company provides a remuneration package that incorporates both cash-based and share-based remuneration. The contracts for service between the company and 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 listed below, there are no other executives employed by the company.

Executives	Position
Vassilios Michaelidis	Company Secretary/CFO
Peter Nicholls	Exploration Manager

Directors' Remuneration:

2008	Primary			Post employment		Equity	Other benefits	TOTAL
	Salary/fees	Cash Bonus	Non-monetary	Super	Retirement benefits	Options		
P G Harman	-	-	-	50,000	-	-	-	50,000
R J Annells	-	-	-	20,833	50,000	-	-	70,833
N J Limb	-	-	-	50,000	-	-	-	50,000
C M Norman	200,800	-	-	19,200	-	62,563 (22%)*	-	282,563
	200,800	-	-	140,033	50,000	62,563	-	453,396

2007	Primary			Post employment		Equity	Other benefits	TOTAL
	Salary/fees	Cash Bonus	Non-monetary	Super	Retirement benefits	Options		
P G Harman	26,542	-	-	23,458	-	41,580 (45%)*	-	91,580
R J Annells	-	-	-	50,000	-	41,580 (45%)*	-	91,580
N J Limb	-	-	-	50,000	-	41,580 (45%)*	-	91,580
C M Norman	200,800	-	-	19,200	-	-	-	220,000
	227,342	-	-	142,658	-	124,740	-	494,740

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

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Executives' Remuneration:
2008

	Primary			Post employment		Equity	Other	TOTAL
	Salary/ fees	Cash Bonus	Non- monetary	Super	Retirement benefits	Options*	benefits	
P Nicholls	285,000	-	-	-	-	-	-	285,000
V Michaelidis	120,000	-	-	80,000	-	-	-	200,000
	<u>405,000</u>	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>485,000</u>

2007

	Primary			Post employment		Equity	Other	TOTAL
	Salary/ fees	Cash Bonus	Non- monetary	Super	Retirement benefits	Options*	benefits	
P Nicholls	270,000	-	-	-	-	-	-	270,000
V Michaelidis	46,333	-	-	71,167	-	42,675 (27%)*	-	160,175
	<u>316,333</u>	<u>-</u>	<u>-</u>	<u>71,167</u>	<u>-</u>	<u>42,675</u>	<u>-</u>	<u>430,175</u>

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

Consolidated Entity		Parent Entity	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

Directors and Executives

Compensation by Category

Short-term employment benefits	606	544	606	544
Post employment benefits	270	214	270	214
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	63	167	63	167
	<u>939</u>	<u>925</u>	<u>939</u>	<u>925</u>

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 2008	1 July 2007	Value Granted	Value Exercised	Value Lapsed	30 June 2008
P G Harman	169,327	-	-	-	169,327
R J Annells	169,327	-	-	-	169,327
N J Limb	169,327	-	-	-	169,327
C M Norman	106,636	284,775	-	-	391,411
V Michaelidis	54,885	-	-	-	54,885
P Nicholls	14,499	-	-	-	14,499
	<u>684,001</u>	<u>284,775</u>	<u>-</u>	<u>-</u>	<u>968,776</u>

DIRECTORS' REPORT

Options granted as remuneration that have been exercised or lapsed during the financial year (cont'd)

Directors and Executives 2007	1 July 2006	Value Granted	Value Exercised	Value Lapsed	30 June 2007
P G Harman	169,327	-	-	-	169,327
R J Annells	169,327	-	-	-	169,327
N J Limb	169,327	-	-	-	169,327
C M Norman	106,636	-	-	-	106,636
V Michaelidis	12,210	42,675	-	-	54,885
P Nicholls	14,499	-	-	-	14,499
	641,326	42,675	-	-	684,001

Compensation Options: Granted and vested during the year (consolidated)

2008	Vested Number	Granted Number	Grant Date	Value per option at grant date	Exercise Price \$	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
P G Harman	-	-	-	-	-	-	-	-
R J Annells	-	-	-	-	-	-	-	-
N J Limb	-	-	-	-	-	-	-	-
C M Norman	-	5,000,000	3/12/2007	\$0.057	\$0.40	3/12/2012	3/12/2008	3/12/2012
Executives								
P Nicholls	-	-	-	-	-	-	-	-
V Michaelidis	-	-	-	-	-	-	-	-
Total	-	5,000,000						
2007								
	Vested Number	Granted Number	Grant Date	Value per option at grant date	Exercise Price \$	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
P G Harman	-	-	-	-	-	-	-	-
R J Annells	-	-	-	-	-	-	-	-
N J Limb	-	-	-	-	-	-	-	-
C M Norman	-	-	-	-	-	-	-	-
Executives								
P Nicholls	-	-	-	-	-	-	-	-
V Michaelidis	250,000	250,000	7/05/2007	\$0.17	\$0.20	7/05/2012	7/05/2007	7/05/2012
Total	250,000	250,000						

All grants of options are exercisable within five years. Employee options generally vest immediately. Options issued to the managing director vest at a rate of 1,000,000 options on each anniversary from date granted.

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.

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.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Shares issued on exercise of compensation options (consolidated)

No shares were issued to Directors or executives on exercise of compensation options during the financial year.

Number of options held by key management personnel (consolidated):

2008	Balance 1/07/2007	Granted as remune- ration	Options exercised	Net change other*	Balance 30/06/2008	Total vested 30/06/2008	Total exercisable 30/06/2008	Total Un- exercisable 30/06/2008
Directors								
P G Harman	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
R J Annells	2,000,000	-	-	-	2,000,000 [^]	2,000,000 [^]	2,000,000 [^]	-
N J Limb	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
C M Norman	2,000,000	5,000,000	-	-	7,000,000	2,000,000	2,000,000	5,000,000
Executives								
P Nicholls	250,000	-	-	-	250,000	250,000	250,000	-
V Michaelidis	500,000	-	-	-	500,000	500,000	500,000	-
Total	8,750,000	5,000,000	-	-	13,750,000	8,750,000	8,750,000	5,000,000

*Note: Net change includes options forfeited

[^]On retirement date

2007	Balance 1/07/2006	Granted as remune- ration	Options exercised	Net change other*	Balance 30/06/2007	Total vested 30/06/2007	Total exercisable 30/06/2007	Total Un- exercisable 30/06/2007
Directors								
P G Harman	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
R J Annells	2,005,000	-	-	(5,000)	2,000,000	2,000,000	2,000,000	-
N J Limb	2,200,000	-	(200,000)	-	2,000,000	2,000,000	2,000,000	-
C M Norman	2,012,500	-	(12,500)	-	2,000,000	2,000,000	2,000,000	-
Executives								
P Nicholls	250,000	-	-	-	250,000	250,000	250,000	-
V Michaelidis	512,500	250,000	(120,000)	(142,500)	500,000	500,000	500,000	-
Total	8,980,000	250,000	(332,500)	(147,500)	8,750,000	8,750,000	8,750,000	-

*Note: Net change includes options forfeited

Number of shares held by key management personnel:

2008	Balance 1/07/2007	Received as Remuneration	Options Exercised	Net change other	Balance 30/06/2008
Directors					
P G Harman	150,000	-	-	-	150,000
R J Annells	68,750	-	-	-	68,750 [^]
N J Limb	2,600,000	-	-	4,948,142	7,548,142
C M Norman	37,500	-	-	-	37,500
Executives					
P Nicholls	450,000	-	-	-	450,000
V Michaelidis	1,525,000	-	-	-	1,525,000
Total	4,831,250	-	-	4,948,142	9,779,392

[^]On retirement date

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Number of shares held by key management personnel (cont'd):

2007	Balance 1/07/2006	Received as Remuneration	Options Exercised	Net change other	Balance 30/06/2007
Directors					
P G Harman	-	-	-	150,000	150,000
R J Annells	68,750	-	-	-	68,750
N J Limb	2,400,000	-	200,000	-	2,600,000
C M Norman	25,000	-	12,500	-	37,500
Executives					
P Nicholls	450,000	-	-	-	450,000
V Michaelidis	1,325,000	-	120,000	80,000	1,525,000
Total	4,268,750	-	332,500	230,000	4,831,250

Loans to key management personnel (consolidated)

There were no loans to key management personnel at anytime during current or prior financial year.

Rounding of Amounts

The amounts contained 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

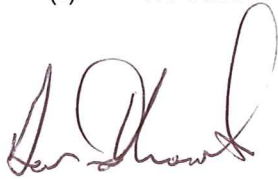
Melbourne
Date 2 September 2008

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Gippsland Offshore Petroleum Limited

In relation to the independent audit for the year ended 30 June 2008, 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.



D A KNOWLES
Partner



PITCHER PARTNERS
Melbourne

2 September 2008

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue					
Other income	2	172	392	172	392
		<u>172</u>	<u>392</u>	<u>172</u>	<u>392</u>
Occupancy expenses	3	48	24	48	24
Exploration expenditure written off	3	112	177	112	177
Employee benefits expense	3	865	622	865	622
Loan impairment	3	-	-	302	5,444
Administrative expenses		733	812	725	812
LOSS BEFORE INCOME TAX		<u>1,586</u>	<u>1,243</u>	<u>1,880</u>	<u>6,687</u>
INCOME TAX EXPENSE	4	-	-	-	-
LOSS FROM CONTINUING OPERATIONS		<u>1,586</u>	<u>1,243</u>	<u>1,880</u>	<u>6,687</u>
LOSS FOR THE YEAR	12(a)	<u>1,586</u>	<u>1,243</u>	<u>1,880</u>	<u>6,687</u>
LOSS ATTRIBUTABLE TO MEMBERS OF GIPPSLAND OFFSHORE PETROLEUM LIMITED		<u>1,586</u>	<u>1,243</u>	<u>1,880</u>	<u>6,687</u>
Basic earnings per share (cents per share)	15	(1.19)	(1.00)		
Diluted earnings per share (cents per share)	15	(1.19)	(1.00)		

The accompanying notes form part of these financial statements.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 CONSOLIDATED BALANCE SHEET
 AS AT 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CURRENT ASSETS					
Cash and cash equivalents	13(b)	2,784	3,026	2,774	3,026
Receivables	5	442	1,090	442	1,090
Other current assets	6	26	19	23	19
TOTAL CURRENT ASSETS		3,252	4,135	3,239	4,135
NON-CURRENT ASSETS					
Other financial assets	18(a)	-	-	1	1
Plant and equipment	7	44	59	44	59
Exploration Expenditure	8	8,881	7,819	3,153	2,375
TOTAL NON-CURRENT ASSETS		8,925	7,878	3,198	2,435
TOTAL ASSETS		12,177	12,013	6,437	6,570
CURRENT LIABILITIES					
Payables	9	423	319	421	320
Provisions	10	75	61	75	61
TOTAL CURRENT LIABILITIES		498	380	496	381
NON CURRENT LIABILITIES					
Provisions	10	49	-	49	-
TOTAL NON CURRENT LIABILITIES		49	-	49	-
TOTAL LIABILITIES		547	380	545	381
NET ASSETS		11,630	11,633	5,892	6,189
EQUITY					
Contributed equity	11	21,784	20,284	21,784	20,284
Reserves	12(b)	769	686	769	686
Accumulated losses	12(a)	(10,923)	(9,337)	(16,661)	(14,781)
TOTAL EQUITY		11,630	11,633	5,892	6,189

The accompanying notes form part of these financial statements.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
TOTAL EQUITY AT THE BEGINNING OF THE YEAR		11,633	9,770	6,189	9,770
Employee share options		83	169	83	169
Loss for the year		(1,586)	(1,243)	(1,880)	(6,687)
Total recognised income and expense for the period		(1,503)	(1,074)	(1,797)	(6,518)
Attributable to:					
Members of the parent		(1,503)	(1,074)	(1,797)	(6,518)
		(1,503)	(1,074)	(1,797)	(6,518)
Transactions with equity holders in their capacity as equity holders:					
Contributions	11	1,500	2,969	1,500	2,969
Capital raising cost	11	-	(32)	-	(32)
		1,500	2,937	1,500	2,937
TOTAL EQUITY AT THE END OF THE YEAR		11,630	11,633	5,892	6,189

The accompanying notes form part of these financial statements.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
GST receipts from Australian Taxation Office		49	94	49	94
Payments to suppliers and employees		(1,468)	(1,774)	(1,460)	(1,774)
Interest received		196	381	196	381
Other – Drilling Advance		1	69	1	69
NET CASH FLOWS USED IN OPERATING ACTIVITIES	13(a)	(1,222)	(1,230)	(1,214)	(1,230)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of office equipment		2	-	2	-
Payments for exploration expenditure		(493)	(7,297)	(209)	(4,168)
Amounts advanced to related entities		-	-	(302)	(3,129)
Plant and equipment		(29)	(46)	(29)	(46)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(520)	(7,343)	(538)	(7,343)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from share issue		1,500	2,969	1,500	2,969
Capital Raising Costs		-	(32)	-	(32)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		1,500	2,937	1,500	2,937
NET DECREASE IN CASH HELD		(242)	(5,636)	(252)	(5,636)
Add cash at the beginning of the year		3,026	8,662	3,026	8,662
CASH AT END OF YEAR	13(b)	2,784	3,026	2,774	3,026

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards 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 and Gippsland Offshore Petroleum Limited and controlled entities as a consolidated entity. Gippsland Offshore Petroleum Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the directors as at the date of the directors' report.

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

(a) Basis of Preparation of the Financial Report

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards. Compliance with Australian Equivalents to International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRSs).

Historical Cost Convention

The financial report has been prepared under the historical cost convention as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

(b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Gippsland Offshore Petroleum Limited controlled from time to time during the year and at the balance date. Details of the controlled entities are contained in Note 18(a).

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(c) 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).

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts.

(e) Exploration and Evaluation Expenditure

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

Exploration and evaluation expenditure carried forward is tested for impairment in accordance with AASB 136 "Impairment of Assets" when circumstances indicate the following:

- the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed,
- evaluation of the resources in the specific area have not led to the discovery of commercially viable quantities.

(f) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Office Equipment (cont'd)

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

(g) Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) 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 Consolidated Entity to an employee's superannuation fund are charged as expenses when incurred.

Share-based payments

The entity provides benefits to employees (including directors) of the entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). These benefits are currently provided under the Employee Option Plan.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. The fair value of options at grant date is determined using either the Black-Scholes option pricing model or Hull & White valuation model and is recognised as an employee expense over the period during which the employees become entitled to the option.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(i) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The group does not have any material exposure to interest rate risk, liquidity risk, credit risk, currency risk or equity price risk. The group manages its cash flows on a daily basis and reports to the board on a regular basis. The group also reports its cash flow to the ASX quarterly.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) 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.

Non-listed investments, for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Loans and Receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

(k) Comparatives

Where necessary comparative information has been reclassified and repositioned for consistency with current year disclosures.

(l) Rounding Amounts

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

(m) 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 amount carried represents advances for exploration outstanding.

(n) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that review of the carrying amount of the asset may be required.

Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

An impairment loss is recognised when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(o) Joint Ventures

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under their respective classification.

(p) New Accounting Standards and Interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors' have not yet assessed the impact of these standards and interpretations.

(q) Critical Accounting Estimates and Judgments

Estimates and judgments are based on management's experience.

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below.

Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Critical Accounting Estimates and Judgments (cont'd)

Share-based payments

Calculation of share-based payments requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends.

Deferred exploration expenditure

Exploration expenditure is carried forward when management expect that the expenditure can be recouped through successful development or sale or exploitation of the area of interest. In this scenario, management will consider impairment of deferred exploration expenditure in accordance with the factors outlined in Note 1(e). Where insufficient data exists to indicate successful development and there is an ongoing commitment to significant exploration in the area of interest, the exploration expenditure is carried forward.

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NOTE 2: REVENUE					
Interest		172	392	172	392
Total revenues from ordinary activities		172	392	172	392

NOTE 3: LOSS FROM CONTINUING OPERATIONS

Loss from continuing operations before income tax has been determined after the following specific expenses:

Depreciation of office equipment		43	39	43	39
Exploration expenditure written off		112	177	112	177
Movement in provision for employee entitlements		63	17	63	17
Occupancy Cost		48	24	48	24
Exchange loss		23	59	23	59
Loan impairment		-	-	302	5,444
Employee benefits expense:					
- Wages and salaries		496	376	496	376
- Superannuation costs		286	77	286	77
- Share-based payments	16	83	169	83	169
		865	622	865	622

NOTE 4: INCOME TAX

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

Prima facie tax on loss from ordinary activities at 30%		(476)	(373)	(564)	(2,006)
Tax effect of permanent differences and other differences:					
Loan impairment		-	-	91	1,633
Other non deductible expenses		33	-	30	-
Employee share options		25	51	25	51
Deferred tax expense/(income) relating to the origination and reversal of temporary differences		49	18	(31)	18
Benefit of tax losses not brought to account		369	304	449	304
Income tax expense attributable to ordinary activities		-	-	-	-

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
NOTE 4: INCOME TAX (cont'd)					
Deferred tax asset not brought to account:					
Deferred tax asset not recognised as an asset because recovery of tax losses is not probable or that future taxable amounts will be generated:					
Tax losses		3,003	2,585	3,003	2,585
Temporary differences		80	49	80	49
Amounts not deductible in Australia		694	694	-	-
		<u>3,777</u>	<u>3,328</u>	<u>3,083</u>	<u>2,634</u>

NOTE 5: RECEIVABLES

CURRENT

Security deposit	80	670*	80	670*
Sundry debtors	354	418	354	418
GST receivable	8	2	8	2
	<u>442</u>	<u>1,090</u>	<u>442</u>	<u>1,090</u>

* Term deposit with BankWest provided as security for exploration performance bond for Block L-6 Kenya, the Bond was encumbered until 31 October 2007

NOTE 6: OTHER ASSETS

CURRENT

Prepayments	24	16	21	16
Drilling Advance	2	3	2	3
	<u>26</u>	<u>19</u>	<u>23</u>	<u>19</u>

NOTE 7: OFFICE EQUIPMENT

Office Equipment

At cost	150	123	150	123
Accumulated depreciation	(106)	(64)	(106)	(64)
	<u>44</u>	<u>59</u>	<u>44</u>	<u>59</u>

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current financial year.

Office Equipment

Carrying amount at beginning	59	52	59	52
Additions	29	46	29	46
Disposals	(1)	-	(1)	-
Depreciation expense	(43)	(39)	(43)	(39)
	<u>44</u>	<u>59</u>	<u>44</u>	<u>59</u>

NOTE 8: EXPLORATION EXPENDITURE

Cost brought forward in respect of areas of interest	7,819	2,315	2,375	-
Expenditure Incurred during the period	1,174	5,681	890	2,552
Expenditure Written off during the period	(112)	(177)	(112)	(177)
Total exploration expenditure carried forward	<u>8,881</u>	<u>7,819</u>	<u>3,153</u>	<u>2,375</u>

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
NOTE 9: PAYABLES					
CURRENT					
Trade creditors		392	281	389	281
Other creditors		31	38	31	38
Related entities		-	-	1	1
		<u>423</u>	<u>319</u>	<u>421</u>	<u>320</u>

NOTE 10: PROVISIONS

CURRENT					
Employee benefits	10(a)	<u>75</u>	<u>61</u>	<u>75</u>	<u>61</u>
		<u>75</u>	<u>61</u>	<u>75</u>	<u>61</u>
NON CURRENT					
Employee benefits	10(1)	<u>49</u>	<u>-</u>	<u>49</u>	<u>-</u>
		<u>49</u>	<u>-</u>	<u>49</u>	<u>-</u>
(a) Aggregate employee entitlements liability		124	61	124	61
(b) Number of employees at year end		6	5	6	5

NOTE 11: CONTRIBUTED EQUITY

(a) Issued and paid up capital					
Ordinary shares fully paid	11(b)	<u>21,784</u>	<u>20,284</u>	<u>21,784</u>	<u>20,284</u>
		<u>21,784</u>	<u>20,284</u>	<u>21,784</u>	<u>20,284</u>
		2008		2007	
		No of shares	\$'000	No of shares	\$'000
(b) Movements in shares on issue					
Beginning of the financial year		129,982,380	20,284	115,135,010	17,347
Issued during the year					
- Shares issued		15,000,000	1,500	-	-
- Option conversion		-	-	14,847,370	2,969
- Transaction cost relating to share issue		-	-	-	(32)
End of the financial year		<u>144,982,380</u>	<u>21,784</u>	<u>129,982,380</u>	<u>20,284</u>

(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 up to balance date none of these options have been exercised.

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.

On 9 March 2006 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 3 March 2011. The options have no dividend rights and up to balance date none of the options had been exercised.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

NOTE 11: CONTRIBUTED EQUITY (cont'd)

(c) Share Options (cont'd)

On 16 March 2006 1,000,000 share options were granted to a Director of the company to take up ordinary shares at an exercise price of \$0.15. The options are exercisable on or before 16 March 2011. The options have no dividend rights and up to balance date none of the options had been exercised.

On 7 May 2007 300,000 share options were granted to executives and employees of the company to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 7 May 2012. The options have no dividend rights and up to a balance date none of the options had been exercised.

On 8 June 2007 50,000 share options were granted to an employee of the company to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 7 May 2012. The options have no dividend rights and up to balance date none of the options had been exercised.

On 3 December 2007 5,000,000 share options were granted to the Managing Director of the company to take up ordinary shares at an exercise price of \$0.40. The options are exercisable on or before 3 December 2012. The options have no dividend rights and up to balance date none of the options had been exercised.

On 28 May 2008 150,000 share options were granted to an employee of the company to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 20 May 2013. The options have no dividend rights and up to balance date none of the options had been exercised.

During the financial year, 5,150,000 (2007: 350,000) options have been granted. The market value of ordinary Gippsland Offshore Petroleum Limited shares closed at \$0.092 on 30 June 2008 (2007: \$0.27).

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NOTE 12: RESERVES AND ACCUMULATED LOSSES					
(a) Accumulated losses					
Balance at the beginning of year		(9,337)	(8,094)	(14,781)	(8,094)
Loss attributable to members of Gippsland Offshore Petroleum Limited		(1,586)	(1,243)	(1,880)	(6,687)
Total available for appropriation		(10,923)	(9,337)	(16,661)	(14,781)
Dividends paid		-	-	-	-
Balance at end of year		(10,923)	(9,337)	(16,661)	(14,781)

(b) Share-based payment reserve

(i) Nature and purpose of reserve

This reserve is used to record the value of equity benefit provided to employees and directors as part of their remuneration. Refer to Note 16 for details

(ii) Movements in reserve

Balance at the beginning of the year	686	517	686	517
Movement during the year	83	169	83	169
Balance at end of year	769	686	769	686

NOTE 13: CASH FLOW INFORMATION

(a) Reconciliation of the net loss after tax to the net cash flows from operations:

Net loss	(1,586)	(1,243)	(1,880)	(6,687)
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Non-Cash Items

Depreciation and amortisation	43	39	43	39
Employee equity-settled benefits	83	169	83	169
Exploration expenditure written off	112	177	112	177
Intercompany loan impairment	-	-	302	5,444

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NOTE 13: CASH FLOW INFORMATION (cont'd)					
Changes in assets and liabilities					
(Increase)/decrease in receivables		58	(364)	58	(364)
Decrease in drilling advances		1	69	1	69
(Increase)/decrease in other assets		(6)	20	(6)	20
Increase/(decrease) in trade and other creditors		10	(114)	10	(114)
Increase in employee benefits		63	17	63	17
Net cash flow from operating activities		(1,222)	(1,230)	(1,214)	(1,230)

(b) Reconciliation of cash

Cash balance comprises:

- Cash at bank		149	941	139	941
- Term Deposits		2,635	2,085	2,635	2,085
Closing cash balance		2,784	3,026	2,774	3,026

(c) Loan and credit standby facility

There are no loan or credit standby facility arrangements as at 30 June 2008 (2007: nil).

(d) Acquisition of entities

On 28 February 2008 Gippsland Offshore Petroleum Limited incorporated a new subsidiary Petrole Investment Group Pty Ltd for \$2. There have been no material transactions during the year.

NOTE 14: COMMITMENTS

Exploration expenditure commitments

- Not later than one year		600	600	500	600
- Later than one year and not later than five years		3,100	-	3,000	-
- Aggregate exploration expenditure contracted for at reporting date		3,700	600	3,500	600

NOTE 15: EARNINGS PER SHARE

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

Net loss		(1,586)	(1,243)
Adjustment – notional earnings on converting options		316	240
Earnings used in calculating basic and diluted earnings per share		(1,270)	(1,003)

	2008 No of shares	2007 No of shares
Effect of dilutive securities:		
Share options	31,390,274	28,547,527
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	163,989,044	152,306,215

Due to losses incurred all potential ordinary shares that could potentially dilute basic loss per share in the future were considered anti-dilutive and therefore not included in the calculations of diluted loss per share. Accordingly basic and diluted loss per share equate.

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16: DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS

(a) Share-based payments

Options are granted to directors, executives and other staff under the Gippsland Offshore Petroleum Limited Employee Options Plan or as approved by the Shareholders in General Meeting, as detailed in Note11(c).

The following share-based payment arrangements were in existence during the period.

Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Director options	6,000,000	11/11/2004	30/11/2009	20 cents	\$507,981
Employee options (i)	1,250,000	23/05/2005	23/05/2010	20 cents	\$61,050
Employee options (ii)	250,000	9/03/2006	9/03/2011	20 cents	\$14,499
Employee options (iii)	1,000,000	16/03/2006	16/03/2011	15 cents	\$57,796
Employee options (iv)	300,000	7/05/2007	7/05/2012	20 cents	\$51,210
Employee options (v)	50,000	8/06/2007	7/05/2012	20 cents	\$7,187
Employee options (vi)	150,000	28/05/2008	20/05/2013	20 cents	\$12,333
Director options (vii)	5,000,000	3/12/2007	3/12/2012	40 cents	\$284,775

(i)(ii)(iii)(vi) Options issued under the Gippsland Offshore Petroleum Limited employee option plan vesting on issue date.

(iv)(v) All options issued under Gippsland Offshore Petroleum Employee Option Plan vest immediately except for 100,000 which vest on 7 May 2009.

(vii) Issue of options approved at Annual General Meeting on 29 November 2007 and vesting at a rate of 1 million on each anniversary from date of grant.

All options above are valued using the Black-Scholes pricing model while options (vii) are valued using Hull & White valuation model using the following inputs:

Inputs into the model	2008		2007		2006		2005	
	Director options (vii)	Employee options (vi)	Employee options (iv)	Employee options (v)	Employee options (ii)	Employee options (iii)	Director options	Employee options (i)
Grant date share price	20.5 cents	13 cents	24 cents	21 cents	9 cents	9 cents	18 cents	13 cents
Exercise price	40 cents	20 cents	20 cents	20 cents	20 cents	15 cents	20 cents	20 cents
Volatility	65%	89.84%	79.59%	79.59%	97.26%	97.36%	49.94%	49.94%
Option life	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	6.305%	6.17%	6.02%	6.02%	5.27%	5.25%	5.35%	5.27%

The volatility is based on the historical and forecast share price volatility.

The following reconciles the outstanding options at the beginning and end of the financial year.

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise prices
Balance at the beginning of the financial year	8,850,000	19.2 cents	8,500,000	19.4 cents
Granted during the financial year	5,150,000	39.4 cents	350,000	16.6 cents
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	14,000,000	26.6 cents	8,850,000	19.2 cents
Exercisable at the end of the financial year	9,000,000	19.2 cents	8,850,000	19.2 cents

GIPPSLAND OFFSHORE PETROLEUM LIMITED AND CONTROLLED ENTITIES
 ABN 51 111 418 270
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 FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NOTE 17: AUDITOR'S REMUNERATION					
Amounts received or due and receivable by Pitcher Partners for:					
- An audit or review of the financial report of the entity and any other entity in the consolidated entity		31	31	31	31
- Other services		-	-	-	-
		<u>31</u>	<u>31</u>	<u>31</u>	<u>31</u>

NOTE 18: RELATED PARTY DISCLOSURES

(a) The consolidated financial statements include the financial statements of Gippsland Offshore Petroleum Limited and its controlled entities listed below:

	Country of Incorporation	Percentage Owned	
		2008	2007
Parent Entity:			
Gippsland Offshore Petroleum Limited	Australia		
Subsidiaries of Gippsland Offshore Petroleum Limited:			
Neptune Exploration Pty Ltd	Australia	100%	100%
Arawak Oil & Gas Limited	British Virgin Islands	100%	100%
Petrole Investment Group Pty Ltd	Mauritius	100%	-

(b) Controlled entities acquired

The following controlled entities were acquired during the period

	Date acquired	Purchase consideration	Percentage acquired
Petrole Investment Group Pty Ltd	28/02/2008	\$2	100%

(c) Transactions with director and/or executives and their personally-related entities

During the year, 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 is and continues to be a director. Mineral Deposits Limited charged \$85,060 (2007: \$99,632) in relation to the provision of these services.

Geophysical services were provided during the preceding year at commercial rates by a director related entity Gravity Diamonds Limited, of which Mr P G Harman was a director. Gravity Diamonds Limited charged \$17,507 for the year 2007 for the provision of these services.

(d) Joint Venture Interest

The entity has the following significant exploration joint venture interest:

Walton Basin Jamaica – Petroleum exploration with 50% participating interest.

Block L-6 Kenya – Petroleum exploration earning 60% participating interest

The consolidated entity's share of assets employed in the joint ventures at 30 June 2008 was \$8,875,955 (2007: \$7,819,042).

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ABN 51 111 418 270
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FOR THE YEAR ENDED 30 JUNE 2008

NOTE 19: SEGMENT INFORMATION

The consolidated entity is only involved in petroleum exploration. These activities are predominantly in Australia, Jamaica and Kenya.

The following table presents certain information regarding the Geographical segments.

	Revenue		Segment results		Segment assets		Segment liabilities	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Australia	172	392	(1,574)	(1,243)	3,297	4,194	243	168
Jamaica	-	-	-	-	5,728	5,444	206	114
Kenya	-	-	-	-	3,148	2,375	95	98
Other	-	-	(12)	-	4	-	3	-
Consolidated	172	392	(1,586)	(1,243)	12,177	12,013	547	380

NOTE 20: FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated 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:

Fixed interest rate maturing in:

Financial Instruments	1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 %	2007 %
(i) Financial assets												
Cash	2,776	3,026	-	-	-	-	8	-	2,784	3,026	7.56	5.84
Receivables	-	670	-	-	-	-	442	420	442	1,090	-	6.80
Other	-	-	-	-	-	-	26	19	26	19	-	-
Total financial assets	2,776	3,696	-	-	-	-	476	439	3,252	4,135		
(ii) Financial liabilities												
Total financial liabilities	-	-	-	-	-	-	423	319	423	319		

NOTE 20: FINANCIAL INSTRUMENTS (cont'd)

(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 Balance Sheet and Notes to the Financial Statements

The entity does have material credit risk exposure to both the Westpac Banking Corporation and BankWest in reference to term deposits.

(c) Net fair values

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

NOTE 21: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2008 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2008, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2008, of the consolidated entity.

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 12 to 27 are in accordance with the Corporations Act 2001:

- (a) Comply with Accounting Standards, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2008 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

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

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



P G Harman
Chairman

Melbourne
Date 2 September 2008

**GIPPSLAND OFFSHORE PETROLEUM LIMITED
ABN 51 111 418 270
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
GIPPSLAND OFFSHORE PETROLEUM LIMITED**

We have audited the accompanying financial report of Gippsland Offshore Petroleum Limited and controlled entities. The financial report comprises the Consolidated Balance Sheet as at 30 June 2008, and the Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**GIPPSLAND OFFSHORE PETROLEUM LIMITED
ABN 51 111 418 270
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
GIPPSLAND OFFSHORE PETROLEUM LIMITED**

Auditor's Opinion

In our opinion,

(a) the financial report of Gippsland Offshore Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the Directors' Report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Gippsland Offshore Petroleum Limited and controlled entities for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.



D A KNOWLES

Partner

2 September 2008



PITCHER PARTNERS

Melbourne

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 144,982,380 ordinary shares fully paid as at 29 August 2008, all of which are listed on the Australian Stock Exchange. In addition, the company has on issue 34,000,000 unlisted options to acquire shares at an exercise price between 15 cents and 40 cents each. The unlisted options expire between 30 November 2009 and 20 May 2013.

(a) Distribution

Size of Holding	Number of Shareholders	Units	%	Number of Optionholders	Units	%
1 – 1,000	16	6,964	0.01	-	-	-
1,001 – 5,000	161	604,873	0.42	-	-	-
5,001 – 10,000	381	3,500,696	2.41	-	-	-
10,001 – 100,000	935	35,447,963	24.45	2	100,000	0.28
100,001 and over	213	105,421,884	72.71	10	33,900,000	99.72
	1,706	144,982,380	100.00	12	34,000,000	100.00

There were 201 shareholders who held less than a marketable parcel (6,230 shares) based on the market price of 8 cents.

(b) Substantial shareholder as at 29 August 2008

Name	Number of Shares Held	%
1 Oliver Lennox-King	13,000,000	8.97
2 Fountain Oaks Pty Ltd <Limb Family Super Fund A/C>	7,548,142	5.21

(c) 20 Largest Shareholders – Ordinary Shares

Name	Number of Shares Held	%
1 Oliver Lennox-King	13,000,000	8.97
2 Fountain Oaks Pty Ltd <Limb Family Super Fund A/C>	7,548,142	5.21
3 AWJ Family Pty Ltd <A W Johnson Family A/C>	5,180,000	3.57
4 ANZ Nominees Limited <Cash Income A/C>	3,941,820	2.72
5 Mr Samuel Andrew Malin	2,500,000	1.72
6 Mr Warwick Lee Sharp	2,275,000	1.57
7 Kerlam Pty Ltd <The Kertesz Family A/C>	1,650,000	1.14
8 UBS Wealth Management Australia Nominees Pty Ltd	1,322,000	0.91
9 Roxburgh Development Pty Ltd	1,205,000	0.83
10 Mr Michael Andrew Whiting + Mrs Tracey Anne Whiting <Whiting Family S/F A/C>	1,125,000	0.78
11 Foresight Pty Ltd	1,100,000	0.76
12 Frontier Forge Pty Ltd	1,100,000	0.76
13 Greenslade Holdings Pty Ltd	1,100,000	0.76
14 HSBC Custody Nominees (Australia) Limited	1,100,000	0.76
15 Mousetrap Nominees Pty Ltd	1,075,000	0.74
16 Swiss Partners Pty Ltd	1,033,000	0.71
17 Dages Pty Ltd <Dages Discretionary A/C>	1,000,000	0.69
18 Mr Jay Goldman	1,000,000	0.69
19 Gilbert Roland Lennox King	1,000,000	0.69
20 Mr Craig Peter Ball + Mrs Suzanne Katherine Ball <CPB Super Fund A/C>	930,000	0.64
	50,184,962	34.62

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

(d) Optionholders

	Name	Number of Shares Held	%
1	Lakes Oil NL	13,333,333	39.22
2	C M Norman	7,000,000	20.59
3	Rilo Exploration Pty Ltd	6,666,667	19.61
4	P G Harman	2,000,000	5.88
5	N J Limb	2,000,000	5.88
6	R J Annells	2,000,000	5.88
7	P Nicholls	250,000	0.74
8	V Michaelidis	250,000	0.74
9	Fifteenth Thor Superannuation Fund	250,000	0.74
10	R J Jason	150,000	0.44
11	N Gardiner	50,000	0.14
12	T Huynh	50,000	0.14
		<u>34,000,000</u>	<u>100.00</u>

(e) 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.

2. TENEMENT SCHEDULE

Country	Tenement	Locality	Interest
Australia	Vic-P-47 (Gilbert block)	Gippsland basin	Earning 51%
Jamaica	Blocks 6, 7, 10, 11 and 12	Walton basin – offshore Jamaica	50% Equity interest
Kenya	Block L-6	Lamu basin – offshore Kenya	60% Joint Venture interest
France	Saint Griede	Aquitaine basin – onshore France	50 % Joint Venture interest

CORPORATE DIRECTORY

DIRECTORS

Phillip G Harman (Chairman)
Nicholas J Limb (Non-Executive)
Catherine M Norman (Managing Director)

COMPANY SECRETARY

Bill Michaelidis

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
Website: www.gop.com.au

Registers of unlisted employee 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 Securities Exchange Limited
530 Collins Street
Melbourne VIC 3000

ASX code for shares: GOP