



**Tap Oil Limited**  
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27 February 2009

The Company Announcements Platform  
Australian Securities Exchange  
Exchange Centre  
20 Bond Street  
SYDNEY NSW 2000

## **RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008**

Herewith is Tap Oil Limited's Preliminary Final Report (Appendix 4E) and full audited financial report for the year ended 31 December 2008 along with a covering announcement discussing the results.

Copies of these documents are available at the ASX and can be viewed on the Company's website [www.tapoil.com.au](http://www.tapoil.com.au) under the heading "Investor Centre".

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**Tap Oil Limited**  
**ASX Announcement**  
**2008 Full Year Financial Results**

**HIGHLIGHTS**

- **Cash flow from oil and gas sales of \$71 million despite production shut ins and falling oil price**
- **Successful development of Woollybutt South boosts production to 11,000 barrels/day in Q4**
- **Harriet gas and oil production recommenced and ramping up**
- **Solid financial position: \$54 million cash and no debt**

Managing Director, Mr Peter Stickland:

“Tap Oil’s core strengths were demonstrated in 2008 as the Company ended the year in a robust financial position with EBITDAX (earnings before interest, tax, depreciation, amortisation and exploration impairment) for the year of \$32.6 million despite two of its producing assets being shut in for significant parts of the year and the global financial crisis slashing oil prices. The bottom line for Tap after exploration impairments, depreciation and other non-operating items was a loss after tax of \$7.5 million for 2008. Tap’s positive cash flow from operations of \$37.8 million is derived from its portfolio of producing oil and gas assets and long term third party gas contracts. The Woollybutt field recovered strongly to average 11,000 barrels per day in the fourth quarter after being offline for most of the first half. Production of oil and gas from the Harriet Joint Venture was suspended as a result of the Varanus Island incident on 3 June 2008. Production recommenced in October 2008 and the repair project is proceeding with costs under budget and is continuing to ramp up to full capacity. Tap’s strong sales of contracted gas from the nearby John Brookes field was also interrupted by the Varanus Island incident and resumed in August 2008. Tap has comprehensive insurance coverage for the Varanus Island incident and has already received interim payments totalling A\$10.4 million from its business interruption coverage.

Tap’s drilling programme in 2008 yielded five successful wells in the Carnarvon basin; the Simpson-9 and Simpson-10 oil development wells which are expected to increase production by approximately 4,000 barrels per day when they commence in 2009, the Lee-4 gas development well, Bambra-9 which appraised the southern flank of the Bambra field and Fletcher-3, which encountered a 20 metre oil column.

Tap continued to identify and mature quality prospects for future drilling by investing in modern seismic data. In the LNG-scale WA-351-P in Western Australia, the acquisition of a 3,500 km<sup>2</sup> 3D seismic survey was completed and interpretation is now underway. In our view, this block is both of LNG-scale potential and moderate to low risk. This opinion has been reinforced by Hess’ three gas discoveries in the adjacent permit. Elsewhere, Tap is progressing some exciting opportunities in Block M, onshore Brunei with seismic planning underway and drilling expected later in 2009.

Tap begins 2009 with more than \$54 million cash on hand. Together with strong production and cash flow from existing assets/contracts and a moderate exploration commitment for the year, Tap is in a robust position in the current business environment.”

## Financial Performance

Tap's financial performance in 2008 was down on expectation due to significant, but temporary disruptions to production at both the Woollybutt and Harriet joint ventures. Despite these events, Tap generated gross cash flow from sales of \$71 million and net operating cash flow of \$38 million.

The gross profit of \$17.5 million for the year includes a charge of \$9.0 million for repairs to Varanus Island to 31 December 2008. Administrative expenses increased due to the strategic focus on new ventures and operated activities requiring additional resources. The weakening of the Australian dollar against the USD generated a foreign exchange gain of \$8.2 million for the year. The insurance proceeds related to the Varanus Island incident have not been included in the income statement, but rather as a current liability to recognise the interim nature of payments that are subject to finalisation of the overall claim. Once the claims are accepted, the proceeds will be recorded as income.

An impairment charge of \$21.2 million was recorded against deferred exploration expenditure. Most of this charge related to the carrying value of the Lumba Lumba-1 well.

A summary of Tap's key financial indicators and prior year comparisons is attached to this announcement.

## Production/Sales

Tap benefits from generating cash from a range of both oil and gas assets. After being shut in for a significant portion of the first half of the year, the Woollybutt field production recommenced on 13 June 2008 with the southern lobe coming on line on 15 July 2008. The Woollybutt field performed strongly, consistent with expectations, for the remainder of 2008 with an average production rate of 11,000 barrels per day being achieved in the fourth quarter. Sales (liftings) from Woollybutt totalled \$28.3 million for the second half of the year, compared to nil in the first half. Conversely the Harriet joint venture performed well until interrupted by the Varanus Island incident on 3 June 2008. The Varanus Island reconstruction project has proceeded well and within budget. Oil production recommenced ahead of schedule in mid October 2008 at an initial rate of 2,500 bopd. Liquids production has now increased with gas production recommencing in mid December 2008. Sales from the Harriet joint venture (liftings and produced gas) were \$16.8 million in the first half of 2008 and \$2.9 million in the second half as production resumed late in the year. Provided the Varanus Island reconstruction project continues to proceed as scheduled, production is expected to increase in phases with full production expected in the coming months.

Tap has reached agreement with its insurers to receive interim payments in relation to the loss of production resulting from the Varanus Island incident. Total interim payments received to date amount to \$10.4 million. The interim payment agreement is subject to the finalisation of the overall claim and represents partial payment only of claims for business interruption compensation. Negotiations with insurers are continuing with further interim payments expected to be agreed to in relation to both business interruption and property damage.

In addition to selling its own oil and gas production from the Harriet and Woollybutt fields, Tap has contracts with third parties for the buying of gas from the John Brookes field which Tap then re-sells to gas consumers. The gas volumes available for resale are 95% contracted at CPI linked domestic rates and take advantage of Tap's contracted low purchase price. The net present value of after tax cash flows from these contracts is \$65 million. These contracts are fixed in AUD and hence are not exposed to changes in either commodity prices or exchange rates. Tap's gas sales from the resale of John Brookes gas was affected by the Varanus Island incident in June 2008, however this production recommenced in early August 2008 and sales for the second half were \$6.6 million, only slightly down on the first half sales of \$6.8 million.

### **Development**

Three successful development wells were drilled on the Harriet Joint Venture (Simpson-9 & 10 and Lee-4). These wells have been tied in and will commence production when facility capacity becomes available.

The development of the southern lobe of the Woollybutt field, via the tie in of the Woollybutt-4H well was completed without incident and within budget during the year and production commenced in July 2008.

### **Exploration and Appraisal**

During the year Tap participated in the drilling of seven exploration and appraisal wells. Three appraisal wells were drilled during the year with Bambra-9 and Fletcher-3 being successful and Fletcher-4 unsuccessful. Unfortunately, all of Tap's four exploration wells during the year were unsuccessful and were plugged and abandoned (Marley-2, Johnson-1, Lumba Lumba-1 and Dibbler-1).

Tap was also actively maturing quality prospects for future drilling by acquiring seismic and other geophysical data over its exploration blocks during the year. In T/47P, Tap acquired 517 km of 2D seismic. Tap also acquired airborne gravity and magnetic data over its onshore Brunei permit, Block M. In WA-351-P, a significant seismic survey of approximately 3,500 km<sup>2</sup> was undertaken. This block contains LNG Scale prospect potential, with the Joint Venture planning to drill attractive prospects in late 2009, subject to rig availability.

Tap reached agreement to divest its only New Zealand permit, PEP 38259, during the year.

### **Outlook**

Tap is well placed to survive and thrive in the current economic climate as it has a range of cash generating oil and gas assets, is in a strong financial position and has a flexible exploration portfolio with quality growth opportunities.

In particular, Tap expects strong production from the Harriet Joint Venture in 2009 as it ramps up to full production over the coming months. Woollybutt is also expected to produce strongly, but will be shut in during the year while the Woollybutt FPSO is subject to a vessel re-certification in mid 2009. The owner of the leased FPSO will take the FPSO into dry dock for upgrades to ensure the vessel can remain at Woollybutt until the end of the projected field life. The owner of the FPSO will meet the majority of the project costs.

Tap has a quality, but flexible, growth portfolio. In 2009 Tap will be focussed on appraising the Belait field in Brunei through the acquisition of a 3D seismic survey and the drilling of two appraisal wells.

The indicative forward Drilling Schedule is as follows:

Well	Permit	Timing	Tap Share %	Well type & estimated gross pre-drill size (recoverable)
Mawar-1 (Belait appraisal)	Brunei Block M	Mid '09	39	Oil/gas appraisal well (1-2 mmstb)
Mawar-2 (Belait appraisal)	Brunei Block M	Mid '09	39	Oil/gas appraisal well (1-2 mmstb)
Gas Exploration wells	WA-351-P	Late '09	25	Possible gas exploration wells (LNG scale)
Zola-1	WA-290-P	2010	20	Gas exploration well (1 TCF). May be deferred to allow for additional seismic studies

**Note** Tap's indicative exploration drilling programme is detailed in the above table. Timing is subject to rig availability, joint venture and regulatory approvals. Volume size ranges represent approximate pre-drill estimates within a range of outcomes. Estimated recoverable volumes may change as interpretations are progressed. Other prospects are also currently being considered for drilling in the near term. Please refer to Tap's website ([www.tapoil.com.au](http://www.tapoil.com.au)) for the latest information on the forward drilling programme.

## KEY FINANCIAL INDICATORS

12 Months Ended	<u>Dec-08</u>	<u>Dec-07</u>
<b>Profit &amp; Loss (\$ million)</b>		
Sales Revenue : Oil and Condensate	44.1	72.3
: Gas	17.0	12.3
: Tolling	0.2	0.1
Gross Profit	17.5	30.2
Gross Profit Margin (%)	29%	36%
EBITDAX	32.6	48.8
Exploration expenditure writedowns	(21.2)	(18.2)
EBITDA	11.4	30.6
NPAT	(7.5)	(7.8)
EPS (cents)	(4.8)	(5.0)
<b>Balance Sheet (\$ million)</b>		
Cash	54.0	96.8
Capitalised Exploration Expenditure	100.3	63.5
Property, Plant & Equipment	135.1	125.5
Total Assets	315.0	313.2
Debt	-	-
Total Liabilities	98.7	89.9
Net Assets	216.3	223.4
<b>Cashflow (\$ million)</b>		
Operations	37.8	52.6
Investing	(81.9)	(59.3)
Financing	(0.6)	1.1
<b>Volumes</b>		
<i>Production</i>		
Oil & Condensate (mmbbls): : HJV	0.1	0.4
: Woollybutt	0.2	0.4
Sales Gas (PJ): : HJV	2.6	4.6
Total (mmboe)	0.8	1.4
<i>Reserves (Proved and Probable)</i>		
Total (mmboe)	5.8	6.5
Sales of third party gas (PJ):	2.4	0.9
<b>Other</b>		
Oil Price – A\$ average realised/bbl	117	94
Shares on Issue	156.5	156.5
Share Price at period end (\$)	0.77	2.05

Some of the 2007 figures differ from the 2007 Annual Report due to a change in accounting policy for PRRT expenditure. See note 1(n) to the financial statements.

**Tap Oil Limited**

ABN 89 068 572 341

**Appendix 4E****Preliminary Final Report  
For the year ended 31 December 2008**

**This information should be read in conjunction with Tap Oil Limited's 2008 Financial Report which is attached.**

**Report for the year ended 31 December 2008**

(comparative period is the year ended 31 December 2007\*\*)

Results for announcement to the market				<u>A\$'000</u>
Revenue from ordinary activities	Down	28%	to	61,382
Profit (loss) from ordinary activities after tax attributable to members	Up*	3%	to	(7,546)
Net profit / (loss) for the period attributable to members	Up*	3%	to	(7,546)
Dividends, per share	No dividends have been declared or paid.			
Record date for determining entitlements to the dividend	N/A no dividends have been declared or paid.			
<b>NTA backing</b>	<u>31 December 2008</u>	<u>31 December 2007</u>		
Net tangible asset backing per ordinary security <i>(Net assets excluding deferred exploration expenditure per share)</i>	\$0.74	\$1.02		
Refer to the attached Directors' report and financial report for the financial year ended 31 December 2008 for the Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity, commentary on the results and all other significant information. The attached financial report is audited.				

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\* smaller loss than in the comparative period

\*\*Note that the comparative period differs from the 2007 Annual Report due to PRRT being included in income tax expense. See Note 1(n) to the Financial Statements attached.

# ***Tap Oil Limited***

*ABN 89 068 572 341*

Financial report for the financial year ended 31 December 2008



# Annual financial report for the financial year ended 31 December 2008

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# Directors' report

The directors of Tap Oil Limited ("Tap" or the "Consolidated Entity") submit herewith the annual financial report of the company for the financial year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

## 1. Directors

Name	Particulars
N F Taylor	Non-executive Director and Chairman. Director since 2002, member of the Audit Committee, Remuneration Committee, Nominations Committee and Reserves Review Committee.
P W Underwood	Non-executive Director, director since 1995, member of Nominations Committee. Managing Director and CEO from 1995 to 31 December 2007, executive director to 30 June 2008 and non-executive director from 1 July 2008.
P B Lane	Non-executive Director, director since 1995, member of the Audit Committee, Remuneration Committee, Nominations Committee and Reserves Review Committee.
M J Sandy	Non-executive Director, director since 2006, member of the Audit Committee, Remuneration Committee and Nominations Committee.
P J Stickland	Managing Director. Appointed 11 February 2009.

## Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Position	Commenced	Ceased
N F Taylor	Cambrian Oil & Gas plc*	Director	March 2005	-
M J Sandy	Pan Pacific Petroleum NL	Director	September 2004	June 2006
M J Sandy	Caspian Oil and Gas Limited	Director	September 2005	-
M J Sandy	Burleson Energy Limited	Director	May 2006	-
M J Sandy	Hot Rock Limited	Director	June 2007	-

\*Renamed Xtract International Limited and delisted April 2007

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of the board of directors of Tap Oil Limited) held during the financial year and which each director was eligible to attend and the number of meetings attended by each director (while they were a director or committee member). During the financial year, seven board meetings, three audit committee meetings, two remuneration committee meetings, one reserves review committee meeting and one nominations committee meeting were held. Mr Stickland was not a director during the financial year ended 31 December 2008.

Directors	Board of Directors		Audit Committee		Remuneration Committee		Reserves Review Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
N F Taylor	7	7	3	3	2	2	1	1	1	1
P W Underwood	7	7	-	1(i)	-	1(i)	-	-	1	1
P B Lane	7	7	3	3	2	2	1	1	1	1
M J Sandy	7	7	3	3	2	2	-	-	1	1

(i) Attended via invitation to all or part of meeting

## 1. Directors (Cont'd)

### Directors' shareholdings

The following table sets out each director's relevant interest in shares and options to acquire shares of the company or a related body corporate as at the date of this report:

Directors	Fully paid ordinary shares	Options
N F Taylor	111,272	-
P W Underwood	2,018,442	1,585,400
P B Lane	1,058,497	-
M J Sandy	39,367	-
P J Stickland	174,595	535,000

### Company Secretaries

Matthew Worner LLB, B.Bus. – appointed 30 January 2008. Mr Worner is the company's Legal Counsel. He is a barrister and solicitor of the Supreme Court of Western Australia and practiced as a corporate lawyer in Perth before joining Tap in August 2006.

Damon Neaves LLB, B.Comm, A.S.I.A. – appointed 28 October 2003, resigned 11 February 2009. Mr Neaves is the company's Commercial Manager. He is a barrister and solicitor of the Supreme Court of Western Australia and practiced as a corporate lawyer in Perth before joining Tap in March 2003.

## 2. Principal activities

The Consolidated Entity's principal activities in the course of the financial year were oil and gas exploration and production and gas marketing. No material change in the nature of these activities occurred during the financial year.

## 3. Review of operations

### 3.1 Strategic Overview

Over the past decade Tap has developed into a diversified exploration and production company with no debt, cash reserves of \$54 million, a tight capital base, ongoing oil and gas revenues and a balanced exploration portfolio. Tap's goal is to achieve growth through discovering, developing and acquiring significant oil and gas resources. To meet that goal Tap has built, and continues to build, an inventory of outstanding exploration prospects in the Australasian region.

Tap is well placed in the current economic climate as it has a range of cash generating oil and gas assets, is in a strong financial position and has a flexible exploration portfolio with quality growth opportunities and will act prudently in the current climate.

#### Exploration and Appraisal

During the year Tap participated in the drilling of seven exploration and appraisal wells. Three appraisal wells were drilled during the year with Bamba-9 and Fletcher-3 being successful and Fletcher-4 unsuccessful. Unfortunately, all of Tap's four exploration wells during the year were unsuccessful and were plugged and abandoned (Marley-2, Johnson-1, Lumba Lumba-1 and Dibbler-1). Tap will continue to seek to identify and drill opportunities with moderate risk and exposure that can materially change Tap's future value.

Tap was also active in acquiring seismic and other data over its exploration blocks during the year. In T/47P, Tap acquired 517 km of 2D seismic. Tap also acquired airborne gravity and magnetic data over its onshore Brunei permit, Block M. In WA-351-P, a significant seismic survey of approximately 3500 km<sup>2</sup> was undertaken. This block contains LNG Scale prospect potential, with the Joint Venture planning to drill attractive prospects in late 2009, subject to rig availability.

Tap divested its only New Zealand permit, PEP 38259, during the year.

#### Development

Three successful development wells were drilled on the Harriett Joint Venture (Simpson-9 and 10 and Lee-4). These wells have been tied in and will commence production when facility capacity becomes available.

The development of the southern lobe of the Woollybutt field, via the tie in of the Woollybutt-4H well was completed without incident and within budget during the year and production commenced in July 2008.

### 3. Review of operations (Cont'd)

#### Production and Sales

	2008 '000 boe	2008 \$'000	2007 '000 boe	2007 \$'000
<b>Production (net to Tap):</b>				
Liquids - HJV	140		400	
Oil - Woollybutt	240		361	
Total liquids	380		761	
Gas – 2,590 TJ (2007: 4,571 TJ)	370		674	
Total production	750		1,435	
<b>Sales (net to Tap):</b>				
Liquids	377	44,149	771	72,196
Gas (incl. third party gas)	708	17,002	812	12,270
Tolling	-	231	-	117
Total sales	1,085	61,382	1,583	84,583
Average realised oil price		A\$117.40/bbl		A\$93.67/bbl

The Woollybutt field was shut in for a significant portion of the first half of the year as the operator addressed some technical and compliance issues with the FPSO. Production recommenced on 13 June 2008 with the southern lobe coming on line on 15 July 2008. The Woollybutt field performed strongly, consistent with expectations, for the remainder of 2008.

The Harriet Joint Venture performed in line with expectations during the first half of the year until production of oil and gas was suspended on 3 June 2008 due to an incident on Varanus Island which damaged the gas export pipelines and the Harriet JV processing plant. Emergency response procedures were immediately activated and the island was evacuated without casualties.

The Varanus Island reconstruction project has proceeded well and within budget, with oil production recommencing ahead of schedule in mid October 2008 at an initial rate of 2,500 bopd. Liquids production has now increased with gas production recommencing in mid December 2008.

Provided the Varanus Island reconstruction project continues to proceed as scheduled, production is expected to increase in phases with full production expected in the coming months.

In addition to selling its own oil and gas production from the Harriet JV and Woollybutt fields, Tap has contracts with third parties for the buying of gas from the John Brookes field which Tap then re-sells to gas consumers. The gas volumes available for resale are 95% contracted at CPI linked domestic rates and take advantage of Tap's contracted low purchase price. The net present value of after tax cash flows from these contracts is \$65 million. These contracts are fixed in AUD and hence are not exposed to changes in either commodity prices or exchange rates. Tap's gas sales from the resale of John Brookes gas was affected by the Varanus Island incident in June 2008, however this production recommenced in early August 2008.

Tap has reached agreement with its insurers to receive interim payments in relation to the loss of production resulting from the Varanus Island incident. Total interim payments received up to the date of this report amount to \$10.4 million. The interim payment agreement is subject to the finalisation of the overall claim and represents partial payment only of claims for business interruption compensation. Negotiations with insurers are continuing with further interim payments expected to be agreed to in relation to both business interruption and property damage.

#### 3.2 Financial Summary

The Consolidated Entity's gross profit for 2008 was \$17.5 million (2007: \$30.2 million). After exploration write-down's of \$21.2 million (2007: \$18.2 million), the net loss before tax was \$4.5 million (2007: profit \$1.6 million), the net loss after tax was \$7.5 million (2007: \$7.8 million). The Consolidated Entity generated \$37.8 million of cash from operations (2007: \$52.6 million).

The average realised price per barrel of oil was higher than 2007 at \$117 per barrel. No oil price hedges were in place for 2008 production, resulting in all production being sold at the higher US Dollar spot oil prices. No oil price or currency hedging has been put in place for 2009 or subsequent years.

The Consolidated Entity's overall result has reduced as a consequence of lower production in 2008 by the Woollybutt JV and the temporary shut in of the Harriet JV resulting from the Varanus Island incident. Whilst some expenses fell, especially Petroleum Resource Rent Tax ("PRRT") and other royalties, cash operating costs were higher than the prior year due mainly to the repair cost from the Varanus Island incident. Administrative expenses increased due to the strategic focus on new ventures and operated activities requiring additional resources.

### **3. Review of operations (Cont'd)**

Overall cost of sales decreased by \$10.8 million (20%) due mainly to lower production levels leading to a decrease in depreciation charges (down 48% to \$16.8 million) and lower royalties expense, which decreased by \$1.9 million. PRRT is payable on Woollybutt JV oil revenues after deduction of eligible expenditures.

Depreciation charges were lower than the prior year as a result of reduced production levels. On a per unit of production basis, depreciation charges were comparable to prior year.

Cash generated by operations decreased 28% to \$37.8 million on lower revenues, higher cash payments to suppliers. Production taxes were down due to lower production and income tax payments fell due to receipt of a prior year refund.

The exploration write-down in 2008 of \$21.2 million (2007: \$18.2 million) is comparable to the prior year as Tap implements its strategy of focusing on high quality, moderate risk exploration permits.

Income tax payable for 2008 has benefited from the deduction of significant exploration expenditure arising from Tap's active exploration programme. The current tax expense for 2008 is lower than prior year at \$3.0 million (2007: \$9.4 million).

### **4. Changes in state of affairs**

During the financial year there was no significant change in the state of affairs of the Consolidated Entity other than as referred to in the financial statements or notes thereto.

### **5. Subsequent events**

Tap Oil Ltd signed a one year working capital facility agreement with BOS International (Australia) Limited on 17 October 2008 in order to ensure that it had access to additional funding in the event of any prolonged delays in the Varanus Island reconstruction project. On 12 February 2009 BOS International (Australia) Limited advised that the conditions precedent to the first draw down had been met. As at the date of this report there had been no drawdowns on the facility. The details of the facility are as follows:

Commitment: US\$25 million  
Interest rate: LIBOR plus 2.25%  
Termination date: 17 October 2009

Other than as noted above, and since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with within the financial report that has significantly 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 subsequent financial years.

### **6. Future developments**

The Consolidated Entity will continue to operate as an oil and gas exploration and production and gas marketing company. In accordance with its objectives, the Consolidated Entity intends to participate in a number of exploration and appraisal wells and new development projects, and will consider growing its exploration effort and production base by farmin, permit application and/or acquisition within its existing operational areas of Australia, South East Asia and in other countries or regions.

Disclosure of specific information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, such information has not been disclosed in this report.

### **7. Environmental regulations**

The Consolidated Entity's policy is to comply with, or exceed, its environmental obligations in each jurisdiction in which it operates. In Australia the environmental obligations are regulated under both State and Federal law. No known environmental breaches have occurred in relation to the Consolidated Entity's operations.

### **8. Dividends**

The directors do not recommend the paying of a dividend for the financial year.

Since the end of the previous financial year, no dividend has been paid or declared.

## 9. Share options

### Share options on issue as at the date of this report or exercised during the year

Details of unissued ordinary shares or interests under option are:

Issuing entity	Number of shares under option	Exercise price of option	Share price at 31/12/08	In/(Out) of the money at 31/12/08	Expiry date of options
Tap Oil Limited	110,000	\$2.46	\$0.77	(\$1.69)	31 March 2009
Tap Oil Limited	300,000	\$1.65	\$0.77	(\$0.88)	25 September 2009
Tap Oil Limited	125,000	\$1.58	\$0.77	(\$0.81)	22 December 2009
Tap Oil Limited	150,000	\$1.85	\$0.77	(\$1.08)	1 February 2010
Tap Oil Limited	662,500	\$1.61	\$0.77	(\$0.84)	6 February 2010
Tap Oil Limited	325,000	\$1.66	\$0.77	(\$0.89)	13 March 2010
Tap Oil Limited	150,000	\$2.20	\$0.77	(\$1.43)	30 July 2010
Tap Oil Limited	14,862	\$2.65	\$0.77	(\$1.88)	30 November 2010
Tap Oil Limited	1,200,000	\$1.86	\$0.77	(\$1.09)	1 January 2011
Tap Oil Limited	189,400	\$2.75	\$0.77	(\$1.98)	19 January 2011
Tap Oil Limited	650,000	\$1.77	\$0.77	(\$1.00)	29 January 2011
Tap Oil Limited	49,541	\$1.78	\$0.77	(\$1.01)	9 April 2011
Tap Oil Limited	90,800	\$1.71	\$0.77	(\$0.94)	14 July 2011
Tap Oil Limited	315,000	\$1.65	\$0.77	(\$0.88)	25 September 2011
Tap Oil Limited	10,800	\$1.25	\$0.77	(\$0.48)	3 September 2011
Tap Oil Limited	300,000	\$1.37	\$0.77	(\$0.60)	3 September 2011
Tap Oil Limited	37,600	\$0.61	\$0.77	\$0.16	25 November 2011
Tap Oil Limited	300,000	\$0.66	\$0.77	\$0.11	25 November 2011
Tap Oil Limited	731,551	\$0.83	\$0.77	(\$0.06)	23 January 2012
Tap Oil Limited	2,007,793	\$0.90	\$0.77	(\$0.13)	23 January 2012
Tap Oil Limited	375,000	\$1.46	\$0.77	(\$0.69)	6 February 2012
Tap Oil Limited	536,000	\$1.61	\$0.77	(\$0.84)	29 January 2013
Tap Oil Limited	335,000	\$1.53	\$0.77	(\$0.76)	15 July 2013
	8,965,847				

As shown in the table above, the bulk of employee and executive incentive options are well out of the money. Directors, executives and employees have seen a marked reduction in the potential financial benefit of their options in line with the movement in the Company's share price. The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

There were no shares or interests issued during the financial year as a result of exercise of options.

## 10. Indemnification of officers and auditors

During the financial year the company paid a premium in respect of a policy insuring the directors (as named above), the Company's Secretaries, Mr Damon Neaves and Mr Matthew Worner, and all executive officers of the company and any related body corporate against a liability incurred as such a director, secretary or officer to the extent permitted by the Corporations Act 2001. The policy of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

## 11. Remuneration report - Audited

An overview of the remuneration arrangements for directors and group executives is set out below.

Tap's remuneration policy is designed to attract high quality executives and to promote superior performance and long term commitment to the company. Remuneration consists of base salary, superannuation, short term and long term incentives. Remuneration is determined by reference to market conditions and performance. Performance is evaluated at an individual level as well as the performance of the company as a whole.

## 11. Remuneration report – Audited (Cont'd)

Remuneration arrangements for directors are recommended by the Remuneration Committee and management recommendations for group executives are reviewed and approved by the Remuneration Committee. The Remuneration Committee engages independent advisers where appropriate to establish market benchmarks.

Remuneration arrangements are determined in conjunction with the annual review of the performance of directors, executives and staff. Performances of the directors and Chief Executive Officer are evaluated by the Board assisted by the Remuneration Committee. The Chief Executive Officer reviews the performance of executives with the Remuneration Committee. These evaluations take into account criteria such as the achievement of the company's performance benchmarks and the achievement of individual performance objectives.

The Corporations Act requires disclosure of the company's remuneration policy to contain a discussion of the company's earnings and performance and the effect of the company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below shows the company's earnings in the reporting period and the previous four financial years as well as indicia of the Company's value over the corresponding period:

12 months ended	Dec 08	Dec 07	Dec 06	Dec 05	Dec 04
NPAT (\$millions)	(7.5)	(7.8)	0.8	22.8	45.7
EPS (cents) <i>Basic (note 1)</i>	(4.8)	(5.0)	0.5	14.5	29.1
EPS (cents) <i>Diluted (note 1)</i>	(4.8)	(5.0)	0.5	14.5	29.1
Year end share price (\$)	0.77	2.05	1.52	2.56	1.68
Shares on Issue (million)	156.5	156.5	155.9	157.9	158.3
Market Capitalisation (\$million)	120.5	320.1	237.0	404.2	265.9

1. No dividends were paid during any of the financial years.

An overview of the remuneration arrangements for directors and group executives is set out below.

### Executive directors

As at 31 December 2008, there were no executive directors on the Board. Mr Paul Underwood, formerly Managing Director, was an executive director for the first half of 2008 and became a non-executive director on 1 July 2008. Mr PJ Stickland was appointed as Managing Director as from 11 February 2009.

Executive directors receive a base salary, which reflects current market levels, plus short term and long term incentives. These incentives are designed to ensure that a significant component of the remuneration of executive directors is performance-based or "at risk", so as to align their interests with those of the company's shareholders.

The amount of the short term incentive ("STI") award earned will be determined by the achievement of performance objectives set each year. The performance objectives will be set by the Remuneration Committee to reflect the company's strategies, business plan and budget and to reflect the particular functions of each executive director. A weighting is applied to each of the performance objectives and the combined result determines the amount of the STI award. The performance objectives and their respective weightings may change from year to year. The performance objectives for the first half of 2008 as applied to Mr Underwood related to identifying major projects, building new corporate relationships and increased share price.

Subject to achieving the performance objectives, the actual amount of the STI award earned will be a percentage of the executive director's base remuneration package. The performance objectives will be measured at three levels, namely basic, target and outstanding. The percentage of the executive's base salary payable upon achieving performance at these levels is 10%, 40% and 60% respectively. If the actual performance falls between these levels then the amount of the STI award will be adjusted on a pro-rata basis, however in no circumstances will the STI award exceed 60% of the executive director's base remuneration package.

Half of the value of the STI award will be paid in the form of options under the Executive Director Option Plan. The number of options issued will be the value of options to be issued divided by the deemed issue price of those options (which shall be an amount equal to 15% of the current market price of the company's shares). The balance of the STI award will be paid in shares in the company (at the prevailing market price at that time) or as a cash payment, as determined by the Board.

## 11. Remuneration report – Audited (Cont'd)

The long term incentive ("LTI") award focuses on long term sustainable performance improvement. The LTI is based on the company's performance relative to a comparator group of companies ("Comparator Group"). The companies comprising the Comparator Group are determined by the Board and will primarily be companies within the energy sector. The companies comprising the Comparator Group for the measurement period ended 31 December 2008 are selected from listed Australian E & P companies on the basis of similarity to Tap's business. The company's performance relative to the companies in the Comparator Group is measured in terms of total shareholder return (share price growth and dividends assuming dividends are reinvested into the relevant company's shares) over a rolling three year period.

To calculate the award under the LTI, the total shareholder return of the company will be assessed over the measurement period relative to the total shareholder return of each of the companies comprising the Comparator Group. The company will then be ranked within the Comparator Group. If the company is ranked above the 50<sup>th</sup> percentile of the Comparator Group, the executive director will be entitled to receive shares and options in accordance with the terms of the LTI.

The value of shares and options to be awarded to executive directors shall be the percentage of the executive's base remuneration package set out in the table below:

Performance Level	Ranking	Percentage of Base Remuneration
Basic	50th percentile	20%
Target	65th percentile	40%
Outstanding	80th percentile	80%

If the performance level falls between the levels set out in the table above, then the percentage of base remuneration will be adjusted on a pro rata basis.

Unless otherwise determined by the Board, or at the request of the executive, the award will be paid to the executive director in the form of shares and options as follows:

- for outstanding performance 75% of the award will be in the form of shares and 25% of the award in the form of options;
- for basic to target levels of performance the award will be comprised of shares and options in equal proportions; and
- if the level of performance is between the target and outstanding levels, the value of options to be offered will be equivalent to the value offered at the target level and the remainder of the award shall be offered in the form of shares.

Any shares awarded under the LTI will be acquired on-market under the rules of the company's Employee and Director Share Plan. The options proposed to be issued under the LTI will be issued pursuant to the Executive Director Option Plan. The number of options issued will be the value of options determined in the manner specified above divided by the deemed issue price of those options (which shall be an amount equal to 15% of the current market price of the company's shares on the Australian Stock Exchange at the time the options are granted).

In addition, executive directors are eligible to participate in the Employee and Director Share Plan on a salary sacrifice basis.

### Non-executive directors

Non-executive directors receive an annual fee which reflects current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board. Non-executive directors are required to apply 25% of their fees to acquire shares in the company on-market pursuant to the terms of the Employee and Director Share Plan. The vesting of these shares is deferred until the earlier of the expiry of a 10 year period or ceasing to be a director. The purpose of ensuring that part of non-executive directors fees are applied to the acquisition of shares in the company is to align the interests of the non-executive directors with those of the shareholders of the company. The value of the Directors' holdings declined over 2008 in line with movements in share price.

In addition, non-executive directors are eligible to participate in the Employee and Director Share Plan on a salary sacrifice basis. However, non-executive directors are not eligible to receive options under any option incentive plan administered by the company. Other than statutory superannuation, non-executive directors are not entitled to any retirement benefits upon their retirement from office.



## 11. Remuneration report – Audited (Cont'd)

### Group executives and staff

Short term incentives based on individual and company performance in the form of cash payments are offered to group executives and all other staff out of a bonus pool which is based on company performance. Long term incentives are assessed and awarded solely on the individual's job performance and awards are made available through participation in the company's Employee Incentive Option Scheme, Management Option Plan and Employee and Director Share Plan. Participation in the company's share plan is also available on a salary sacrifice basis.

### 11.1 Elements of remuneration related to performance

The elements of remuneration shown in the columns labelled "Bonus" and "Share-based payments" in the tables below, as set out under the Elements of Director and Executive remuneration, are related to Company and individual performance. The elements of remuneration shown in the remaining columns are not performance related. The performance conditions used in the determination of performance-based remuneration for executive directors and group executives are explained in detail in the discussion on remuneration policy set out below. All cash bonuses in the tables below were earned in the financial year. The value of options shown in the tables below are the accounting costs accrued in the financial year for options granted in the financial year or in previous financial years. No cash bonus awards were forfeited because the person did not meet the relevant service or performance conditions. Non-executive directors received fixed remuneration only.

### 11.2 Service agreements

Remuneration and other terms of employment for the executive directors, non-executive directors, group executives and staff are formalised in service agreements. An overview of the service agreements for each of these persons is set out below.

#### Non-executive directors

The company has entered into terms of engagement with each of P B Lane, N F Taylor, P W Underwood and M J Sandy whereby those persons are appointed as non-executive directors of the company. The term of the appointment is determined in accordance with the company's constitution and is subject to the provisions of the constitution dealing with retirement, re-election and removal of directors (in this regard, the constitution provides that all directors, other than the Managing Director, are subject to re-election by shareholders by rotation within every three years during the term of their appointment).

The terms of engagement provide that the company will maintain an appropriate level of directors and officers insurance and provide access to company records in accordance with the terms of deeds of indemnity, insurance and access entered into between the company and each of the non-executive directors.

The remuneration payable by the company to non-executive directors under the terms of the engagement letters is discussed in detail below and shown in the relevant tables.

#### Executive Directors

At the date of this report, Mr Stickland, the Managing Director, is the only executive director. Mr Stickland was appointed on 11 February 2009. No Executive Director awards have been made to Mr Stickland as at the date of this report.

Mr Underwood, was the sole executive director on the Board during 2008. Mr Underwood was the Managing Director and Chief Executive Officer until 31 December 2007. As part of transitional arrangements for the appointment of Mr Peter Stickland as Chief Executive Officer on 1 January 2008, the company entered into an executive employment agreement with Mr Underwood on 22 June 2007. Under that agreement, Mr Underwood was appointed as Executive Director – Business Development with effect on 1 January 2008. Mr Underwood's executive employment expired on 30 June 2008 and he became a non-executive director from 1 July 2008.

## 11. Remuneration report – Audited (Cont'd)

Mr Underwood received a base salary of \$337,091 for the period 1 January 2008 to 30 June 2008. In January 2008, Mr Underwood received an STI Award of \$272,000 for the period to 31 December 2007. This award was paid \$71,000 in cash (recorded in the 2007 year), \$65,000 in shares and \$136,000 in options (the number of options granted was as defined by the Executive Director Option Plan and outlined above). Relative to Mr Underwood's 2007 remuneration this award was modest and reflected his achievements as Managing Director in the acquisition of new permit interests (including Brunei) in what was then a very competitive environment for new opportunities, advancing the SC 41 project in the Philippines, defence against undesired approaches from a group that sought to gain control of Tap at a zero premium and the Company's share price performance in the period. In July 2008, the Board awarded Mr Underwood an STI Award of \$152,900 for the 6 months period to 30 June 2008. This award was paid \$76,450 in cash (\$70,138 plus superannuation of \$6,312) and \$76,450 in options (the number of options granted was as defined by the Executive Director Option Plan and outlined above). Again this award was modest relative to his remuneration over the same period and reflected his achievements in positioning Tap for lodging an application to gain a major new project. The results are still pending. Mr Underwood received no LTI Awards for either 2007 or for 2008 since the Company's relative Total Shareholder Return did not reach the required threshold. As of 1 July 2008, Mr Underwood was remunerated on the same basis as the other non executive directors Messrs Lane and Sandy.

Mr Stickland was appointed as Managing Director under an executive employment agreement entered into on 11 February 2009. The term of the executive employment agreement expires on 31 December 2011 and thereafter the term may be extended for periods of two years by mutual agreement. The Board and Mr Stickland are to discuss the first extension in December 2010. Mr Stickland's base package, with effect from 1 January 2009, is \$492,790 per annum (inclusive of superannuation and other benefits).

The executive director may terminate his executive employment agreement by giving 12 months notice in writing, or such shorter period as may be agreed. Save for the company's right to terminate without notice in prescribed circumstances, the company may terminate the executive director's employment by giving 12 months notice in writing or, at the company's discretion, a payment of 12 months base package in lieu thereof. A range of other terms and conditions apply to both Mr Stickland and the Company.

From 1 January 2009 Mr Stickland's STI and LTI awards are as set out above for executive directors.

### Chief Executive Officer

On 14 June 2007, the company entered into an executive employment agreement with Mr Peter Stickland. Under that agreement, Mr Stickland was appointed as Deputy Chief Executive Officer for the period from 12 February 2007 to 31 December 2007 and then as Chief Executive Officer as and from 1 January 2008. The executive employment agreement was superseded by a new executive employment agreement entered into on 11 February 2009 as set out above.

The agreement in place during 2008 provided for a share bonus scheme to provide a short-term incentive based on a set of annual performance measures set by the Board. The STI award paid to Mr Stickland for the year ended 31 December 2008 was \$57,000 (in the form of cash and shares), of which \$45,600 was paid in the form of shares and the balance in cash. The Award is modest in relation to Mr Stickland's remuneration in the same period and reflects positive measures to varying degrees in the key performance areas of investor relations, joint venture outcomes and business development – in particular finalising agreements for Block M in Brunei and the acceleration of the third party (HOPs) gas contracts. Long-term incentives are provided by participation in the company's incentive option scheme based on a set of annual performance measures set by the Board. The LTI award paid to Mr Stickland for the year ended 31 December 2008 was \$16,625 and paid in the form of options. The 2008 awards of shares and options were issued in January 2009 and hence will be recorded in the financial results and executive remuneration tables for the year ended 2009. The STI shares and LTI options awarded to Mr Stickland for his 2007 performance are recorded in the 2008 financial results and executive remuneration tables as they were issued in 2008.

The company has entered into a deed of indemnity, insurance and access with Mr Stickland whereby the company will maintain an appropriate level of directors and officers insurance and provide access to company records.

## 11. Remuneration report – Audited (cont'd)

### Group executives

Short term incentives offered to Group Executives are awarded on the achievement of company targets and based on individual performance. The reward is split into a 70% cash bonus and 30% share issue. Long term incentives consist of a package of management options with vesting conditions dependant on pre-determined performance hurdles being met within defined time restrictions. Long and Short Term incentives are made available through participation in the company's Management Incentive Option Plan and Employee and Director Share Plan. Participation in the company's share plan is also available on a salary sacrifice basis.

The company has entered into a deeds of indemnity, insurance and access with D Neaves, M Worner and D Rich whereby the company will maintain an appropriate level of directors and officers insurance and provide access to company records.

### Director and executive details

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Consolidated Entity, including directors of the Company and other executives. Key management personnel and senior personnel include the five most highly remunerated S300A directors and executives for the Company and the Consolidated Entity.

After consideration of the nature of each employee's role within the Company, in the opinion of the board the Company had the following key management persons during the financial year:

### Non Executive Directors

- N F Taylor (Chairman)
- P W Underwood (formerly Managing Director to 31 December 2007, executive director effective to 30 June 2008, non-executive director from 1 July 2008)
- P B Lane
- M J Sandy

### Senior Executives

- P J Stickland (Deputy CEO), CEO effective 1 January 2008
- D A Neaves (Commercial Manager)
- B M Ulmer (Operations Manager)
- R J Aden (Group Finance Manager), resigned 29 August 2008
- D J Rich (Chief Financial Officer), appointed 18 November 2008
- R Hall (Exploration Manager), resigned 15 February 2008
- J Scibiorski (Exploration Manager), commenced employment on 19 May 2008 and appointed as Exploration Manager on 20 August 2008
- R A Cassie (New Ventures Manager)

### Elements of director and executive remuneration

Remuneration packages contain the following key elements:

- (a) Short term employee benefits – salary/fees, bonuses and non-monetary benefits, such as shares.
- (b) Post-employment benefits – including superannuation, prescribed retirement benefits and retirement gifts.
- (c) Share based payments – share options and shares granted under the incentive option and share plans administered by the company. Options are valued using the Black Scholes valuation method at the date of grant which is required to be expensed in the profit and loss account over the vesting period. At 31 December 2008 the share price was \$0.77 meaning that all of the options held by directors and executives were out of the money (ie. the exercise price was greater than the share price) except those issued to D J Rich on 25 November 2008 following his commencement with the Company on 18 November 2008. No director or executive received a cash benefit from the options having been received. Shares are valued at the closing market price on the date they are granted and no adjustment is made for subsequent movements in share price during any vesting period. No cash benefit is received by the director or executive until he sells the shares, which cannot be done until the shares have vested.

## 11. Remuneration report – Audited (cont'd)

The compensation of the Directors and key management personnel of the Consolidated Entity and the Company is set out below:

Consolidated and Company								
2008	Short-term employee benefits			Post-employment		Share-based payment equity settled		Total
	Salary & fees	Bonus (iii)	Non-monetary	Super-annuation	Other	Options (v)	Shares (vi)	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>								
N F Taylor	43,486	-	-	84,014	-	-	42,500	170,000
P W Underwood (i)	560,759	70,138	1,177	44,467	-	430,831	41,231	1,148,603
P B Lane	-	-	-	63,750	-	-	21,250	85,000
M J Sandy	58,486	-	-	5,264	-	-	21,250	85,000
<b>Executives</b>								
P J Stickland (ii)	417,872	11,400	2,071	37,880	-	107,510	158,345	735,078
D A Neaves (ii) & (iv)	274,576	14,189	2,571	24,711	-	108,318	29,455	453,820
B M Ulmer (ii) & (iv)	381,342	10,309	2,071	35,249	-	109,752	30,758	569,481
D J Rich (iv)	34,420	-	244	1,522	-	1,010	1,534	38,730
R J Aden (ii)	171,226	-	1,368	14,450	-	34,868	10,559	232,471
R Hall	51,097	-	255	3,811	-	4,977	2,461	62,601
J P Scibiorski (iv)	158,727	4,652	1,283	14,704	-	11,138	7,126	197,630
R A Cassie (ii) & (iv)	210,684	8,843	2,564	117,126	-	98,748	20,023	457,988
	2,362,675	119,531	13,604	446,948	-	907,152	386,492	4,236,402

(i) P Underwood was granted share options under the Tap Executive Director Option Plan on 29 January 2008 and 15 July 2008. The "Options" compensation in the above table consists of the accounting cost in 2008 for options granted in 2007 and 2008. The carry-over of earlier year options values is a function of the method of accounting for options over the period in which they vest. \$18,382 for options exercisable at \$1.46 relates to options granted in 2007 in relation to 2006 performance, \$311,911 for options exercisable at \$1.61 relates to options granted in January 2008 for the year 2007, \$100,538 for options exercisable at \$1.53 relates to options granted in July 2008 for the first half of 2008. The accounting values of these options are based on Black Scholes modelling, which differs from the values used under the Executive Director Option Plan and used to determine the number of options allocated under any Executive Director Award.

The \$560,759 shown as salary and fees is made up of base salary to 30 June 2008 (\$337,091), accrued annual and long service leave entitlements paid out on cessation of his executive employment agreement on 30 June 2008 (\$194,425) and directors fees for the period from 1 July 2008 to 31 December 2008 (\$29,243).

(ii) P Stickland, D Neaves, B Ulmer, R Aden and R Cassie were granted employee share options on 29 January 2008. The share options cost for these personnel relate to options exercisable at \$1.61 each.

(iii) The bonuses relate to 2008 performance and were paid in cash in January 2009, with the exception of P Underwood whose bonus for 2008 was cash and non-cash and was awarded in July in the form of cash and 335,000 share options under the Tap Executive Director Option Plan. Further details of this plan is contained in note 22 (b).

(iv) D Neaves, B Ulmer and R Cassie were granted 400,000 management options each on 14 July 2008. J Scibiorski was granted 300,000 management options on 3 September 2008 and D Rich was granted 300,000 management options on 25 November 2008.

(v) The options have been costed using the Black and Scholes model. Further details of the Tap Employee Incentive Option Plan, Tap Executive Director Option Plan and Tap Oil Management Incentive Option Plan are contained in note 22 (a), (b) and (c).

(vi) Shares are bought on market for key management personnel, pursuant to the Tap Employee and Director Share Plan, as part of their remuneration. Further details of this Share Plan are contained in note 22 (d).

Consolidated and Company								
2007	Short-term employee benefits			Post-employment		Share-based payment equity settled		Total
	Salary & fees	Bonus (iv)	Non-monetary	Super-annuation	Other	Options (vi)	Shares (v)	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>								
N F Taylor	87,729	-	-	39,771	-	-	42,500	170,000
P W Underwood (i)	627,462	71,000	-	26,000	-	175,348	65,000	964,810
P B Lane	58,486	-	-	5,264	-	-	21,250	85,000
M J Sandy	58,486	-	-	5,264	-	-	21,250	85,000
G J Jeffery (ii)	48,619	-	-	239,881	-	3,944	-	292,444
<b>Executives</b>								
P J Stickland (iii)	327,311	22,500	-	28,016	-	111,636	108,120	597,583
D A Neaves (iii)	247,339	43,935	-	17,920	-	42,043	16,800	368,037
B M Ulmer (iii)	303,764	49,111	-	27,338	-	65,442	21,560	467,215
B R Jones	60,194	-	-	30,949	-	22,183	-	113,326
R J Aden	126,206	20,167	-	11,358	-	27,335	9,900	194,966
R Hall	100,564	17,188	-	9,051	-	13,702	30,000	170,505
D S Ormerod	50,839	-	-	4,575	-	-	-	55,414
R A Cassie	85,892	16,615	-	31,223	-	15,652	25,000	174,382
G N Chapman	102,160	20,662	-	16,113	-	32,780	5,283	176,998
	2,285,051	261,178	-	492,723	-	510,065	366,663	3,915,680

## 11. Remuneration report – Audited (cont'd)

- (i) P Underwood was granted share options under the Tap Executive Director Share Option Plan on 6 February 2007. The "Options" compensation in the above table consists of the accounting cost in 2007 of \$7,966 for options exercisable at \$2.75 and \$167,382 for options exercisable at \$1.46 each.
- (ii) G Jeffery was granted employee share options on 1 February 2006. The "Options" compensation in the above table consists of the accounting cost in 2007, \$794 for options exercisable at \$1.85 and \$3,150 options exercisable at \$2.97 each. These options were cancelled following Mr Jeffrey's departure from the Company in 2007.
- (iii) D Neaves, P Stickland, and B Ulmer were granted employee share options on 6 February 2007. The share options cost for these personnel relate to options exercisable in the range \$1.61 to \$2.97 per share.
- (iv) The bonuses relate to 2007 performance and were paid in cash in February 2008, with the exception of P Underwood whose bonus for 2007 is cash and non-cash and was awarded in February in the form of 35,326 shares purchased on-market under the Tap Employee and Director Share Plan and 536,000 share options under the Tap Executive Director Option Plan. Further details of these plans are contained in notes 22 (b) and (d).
- (v) Shares are bought on-market for key management personnel, pursuant to the Tap Employee and Director Share Plan, as part of their remuneration. Further details of this Share Plan are contained in note 22(d).
- (vi) The options have been costed using the Black and Scholes model. Further details of the Tap Employee Incentive Option Plan and Tap Executive Director Option Plan are contained in notes 22 (a) and (b).

### Options and rights over equity instruments granted as compensation

The following options over ordinary shares in the Company were granted as compensation to key management personnel during and since the reporting period:

	Number of options granted during 2008 (i)	Grant date	Fair value per option at grant date	Exercise price per option (\$)	Share price at 31/12/08 (\$)	In/(Out) of the money (\$)	Expiry date	Number of options vested during 2008(ii)
<b>Directors</b>								
N F Taylor	-	-	-	-	-	-	-	-
P W Underwood	536,000	29/01/08	0.632	1.61	0.77	(0.84)	29/01/13	375,000
P W Underwood	335,000	15/07/08	0.646	1.53	0.77	(0.76)	15/07/13	-
P B Lane	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-
<b>Executives</b>								
P J Stickland	210,000	29/01/08	0.517	1.77	0.77	(1.00)	29/01/11	75,000
P J Stickland	65,620	23/01/09	0.253	0.83	0.77	(0.06)	23/01/12	-
D A Neaves	63,000	29/01/08	0.517	1.77	0.77	(1.00)	29/01/11	75,000
D A Neaves	400,000	14/07/08	0.148	1.86	0.77	(1.09)	01/01/11	-
D A Neaves	786,373	23/01/09	0.077	0.90	0.77	(0.13)	23/01/12	-
B M Ulmer	60,100	29/01/08	0.517	1.77	0.77	(1.00)	29/01/11	75,000
B M Ulmer	400,000	14/07/08	0.148	1.86	0.77	(1.09)	01/01/11	-
B M Ulmer	545,749	23/01/09	0.077	0.90	0.77	(0.13)	23/01/12	-
D J Rich	300,000	25/11/08	0.068	0.66	0.77	0.11	25/11/11	-
R J Aden	24,700	29/01/08	0.517	1.77	0.77	(1.00)	29/11/11	-
R Hall	-	-	-	-	-	-	-	-
J P Scibiorski	51,000	14/07/08	0.528	1.71	0.77	(0.94)	29/01/11	-
J P Scibiorski	300,000	03/09/08	0.100	1.37	0.77	(0.60)	15/07/11	-
J P Scibiorski	246,225	23/01/09	0.077	0.90	0.77	(0.13)	23/01/12	-
R A Cassie	20,300	29/01/08	0.517	1.77	0.77	(1.00)	29/01/11	-
R A Cassie	400,000	14/07/08	0.148	1.86	0.77	(1.09)	01/01/11	-
R A Cassie	429,446	23/01/09	0.077	0.90	0.77	(0.13)	23/01/12	-

(i) Each option entitles the holder to one share in the company.

(ii) Options granted in prior periods.

2,073,413 options have been granted since the end of the financial year. The options were provided at no cost to the recipient. Options are exercisable from the date of vesting and the details of vesting periods are set out in notes 22 (a), (b) and (c). All options expire on the earlier of their expiry date or termination of the individual's employment.

## 11. Remuneration report (cont'd) – Audited

### Analysis of options and rights over equity instruments granted as compensation

	Number of options granted during 2008		% Vested in year	% forfeited in year	Financial years in which grant vests
	Number	Date			
<b>Directors</b>					
N F Taylor	-	-	-	-	-
P W Underwood	536,000	29/01/08	-	-	2009
P W Underwood	335,000	15/07/08	-	-	2009
P B Lane	-	-	-	-	-
M J Sandy	-	-	-	-	-
<b>Executives</b>					
P J Stickland	210,000	29/01/08	-	-	2010
P J Stickland	65,620	23/01/09	-	-	2011
D A Neaves	63,000	29/01/08	-	-	2010
D A Neaves	400,000	14/07/08	-	-	2010
D A Neaves	786,373	23/01/09	-	-	2011
B M Ulmer	60,100	29/01/08	-	-	2010
B M Ulmer	400,000	14/07/08	-	-	2010
B M Ulmer	545,749	23/01/09	-	-	2011
D J Rich	300,000	25/11/08	-	-	2010
R J Aden	24,700	29/01/08	-	100	-
R Hall	-	-	-	-	-
J P Scibiorski	51,000	14/07/08	-	-	2010
J P Scibiorski	300,000	03/09/08	-	-	2010
J P Scibiorski	246,225	23/01/09	-	-	2011
R A Cassie	20,300	29/01/08	-	-	2010
R A Cassie	400,000	14/07/08	-	-	2010
R A Cassie	429,446	23/01/09	-	-	2011

### Analysis of movement in options

The movement during the year, by value, of options over ordinary shares in the Company held by each key management person is detailed below.

	Options Granted during the year \$	Options Exercised during the year \$	Options Lapsed Value at time of lapse \$	% of compensation for the year consisting of options
<b>Directors</b>				
N F Taylor	-	-	-	-
P W Underwood	555,310	-	-	38%
P B Lane	-	-	-	-
M J Sandy	-	-	-	-
<b>Executives</b>				
P J Stickland	108,492	-	201,500	15%
D A Neaves	91,746	-	18,081	24%
B M Ulmer	90,248	-	123,500	19%
D J Rich	20,400	-	-	3%
R J Aden	12,761	-	-	15%
R Hall	-	-	-	8%
J P Scibiorski	56,928	-	-	6%
R A Cassie	69,965	-	-	22%

No options were exercised during the year.

## 11. Remuneration report (cont'd) - Audited

### Value of options – basis of calculation

The employee and executive option valuations disclosed above have been calculated using the Black and Scholes Model for an option life of three years with vesting after two years (except where stated) and including volatility based on 365 day ASX share price volatility and risk free interest rate based on the Reserve Bank of Australia's 180 day bank bill rate, both as quoted on the date of issue of the options. An additional discount has been applied where vesting performance hurdles apply to certain executive options. The Executive Director option valuations disclosed above have been calculated as above but modelled for a 1 year vesting period and 5 year life.

The value of options at the grant date is calculated as the fair value of the options at grant date multiplied by the number of options granted in the year.

The value of options exercised is calculated as the difference between the share market value on the date of exercise less the exercise price multiplied by the number of options exercised. Any difference between this value and the value at the date of grant is not reflected in the financial results.

The value of options included in remuneration for the year is calculated in accordance with Australian Accounting Standards. This requires the value of options to be determined at grant date and then included in remuneration for the year based proportionately on the vesting period. Where the options vest fully in the year, the full value of the options is recognised in remuneration for that year.

No adjustment is made to the value included in remuneration or the financial results where the option ultimately has a lesser or greater value than as at the date of grant. At 31 December 2008 the share price was \$0.77 meaning that all of the options held by directors and executives were out of the money (ie. the exercise price was greater than the share price) except those issued to D J Rich on 25 November 2008. No director or executive received any cash benefit from the options having been received.

## 12. Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act. During the current period there were no non audit services provided.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 25 to the financial statements.

## 13. Auditor's independence declaration

The auditor's independence declaration is included on page 15 of the financial report. The directors are satisfied that the provision of non audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations act 2001.

## 14. Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors



N F Taylor  
Chairman

West Perth, Western Australia, 26 February 2009

The Board of Directors  
Tap Oil Limited  
Level 1, 47 Colin Street  
WEST PERTH WA 6005

26 February 2009

Dear Board Members

## AUDITOR'S INDEPENDENCE DECLARATION TO TAP OIL LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Tap Oil Limited.

As lead audit partner for the audit of the financial statements of Tap Oil Limited for the financial year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**Keith Jones**  
Partner  
Chartered Accountants



## Independent Auditor's Report to the members of Tap Oil Limited

We have audited the accompanying financial report of Tap Oil Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of changes in equity 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 as set out on pages 18 to 58.

### *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 opinion.

# Deloitte.

## *Auditor's Independence Declaration*

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

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Tap Oil Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company and consolidated entity's financial position as at 31 December 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 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 5 to 14 of the directors' report for the year ended 31 December 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 Tap Oil Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Keith Jones  
Partner  
Chartered Accountants  
Perth, 26 February 2009

## Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the Consolidated Entity; and
- (c) the directors have been given the declarations required by section 295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Neale F Taylor', written over a light blue circular stamp.

N F Taylor  
Chairman

West Perth, Western Australia, 26 February 2009

## Income statement for the financial year ended 31 December 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue	2(a)	61,382	84,788	-	-
Cost of sales	2(b)	(43,847)	(54,628)	-	-
<b>Gross profit</b>		<b>17,535</b>	<b>30,160</b>	<b>-</b>	<b>-</b>
Other revenue	2(a)	2,771	5,384	1,716	3,420
Other income	2(c)	678	26	-	36,755
Administration expenses	2(d)	(11,194)	(10,557)	(10,784)	(10,258)
Finance costs	2(e)	(1,325)	(823)	(548)	-
Other expenses	2(f)	(12,965)	(22,582)	1,780	(9,126)
<b>Profit/(Loss) before tax</b>		<b>(4,500)</b>	<b>1,608</b>	<b>(7,836)</b>	<b>20,791</b>
Income tax and PRRT (expense)/benefit	3(a)	(3,046)	(9,365)	2,477	412
<b>(Loss)/profit for the year</b>		<b>(7,546)</b>	<b>(7,757)</b>	<b>(5,359)</b>	<b>21,203</b>
<b>Earnings per share:</b>					
Basic (cents per share)	14	(4.8)	(5.0)		
Diluted (cents per share)	14	(4.8)	(5.0)		

The income statements are to be read in conjunction with the notes to the financial statements.

## Balance sheet as at 31 December 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current assets</b>					
Cash and cash equivalents		54,045	96,777	12,370	33,400
Trade and other receivables	4	8,763	12,260	548	1,006
Inventories	5	8,441	7,787	-	-
Current tax asset	3(b)	577	281	577	281
Other financial assets	7	-	-	50,771	53,399
Other	6	7,735	7,103	2,177	1,419
<b>Total current assets</b>		<b>79,561</b>	<b>124,208</b>	<b>66,443</b>	<b>89,505</b>
<b>Non-current assets</b>					
Other financial assets	7	-	-	31,753	31,753
Property, plant and equipment	8	135,068	125,491	878	1,159
Deferred exploration expenditure	9	100,336	63,532	-	-
Deferred tax assets	3(c)	-	-	886	180
<b>Total non-current assets</b>		<b>235,404</b>	<b>189,023</b>	<b>33,517</b>	<b>33,092</b>
<b>Total assets</b>		<b>314,965</b>	<b>313,231</b>	<b>99,960</b>	<b>122,597</b>
<b>Current liabilities</b>					
Trade and other payables	10	30,515	29,353	4,228	2,314
Provisions	12	340	312	340	312
Other financial liabilities	11	-	-	1,769	21,301
<b>Total current liabilities</b>		<b>30,855</b>	<b>29,665</b>	<b>6,337</b>	<b>23,927</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	3(c)	46,619	42,522	-	-
Provisions	12	21,229	17,683	65	200
<b>Total non-current liabilities</b>		<b>67,848</b>	<b>60,205</b>	<b>65</b>	<b>200</b>
<b>Total liabilities</b>		<b>98,703</b>	<b>89,870</b>	<b>6,402</b>	<b>24,127</b>
<b>Net assets</b>		<b>216,262</b>	<b>223,361</b>	<b>93,558</b>	<b>98,470</b>
<b>Equity</b>					
Issued capital	13	89,758	89,758	89,758	89,758
Share options reserve		3,512	3,065	3,512	3,065
Retained earnings		122,992	130,538	288	5,647
<b>Total equity</b>		<b>216,262</b>	<b>223,361</b>	<b>93,558</b>	<b>98,470</b>

The balance sheets are to be read in conjunction with the notes to the financial statements.

## Statement of changes in equity for the financial year ended 31 December 2008

	Note	Issued capital \$'000	Share options reserve (i) \$'000	Retained earnings \$'000	Total \$'000
<b><u>Consolidated</u></b>					
<b>Balance at 1 January 2007</b>		88,649	1,953	138,295	228,897
Loss for the year		-	-	(7,757)	(7,757)
Total recognised income and expense for the year		-	-	(7,757)	(7,757)
Share options exercised	13	1,109	-	-	1,109
Recognition of share-based payments	2(d)	-	1,112	-	1,112
<b>Balance at 31 December 2007</b>		89,758	3,065	130,538	223,361
Loss for the year				(7,546)	(7,546)
Total recognised income and expense for the year		-	-	(7,546)	(7,546)
Recognition of share-based payments	2(d)	-	447	-	447
<b>Balance at 31 December 2008</b>		89,758	3,512	122,992	216,262
<b><u>Company</u></b>					
<b>Balance at 1 January 2007</b>		88,649	1,953	(15,556)	75,046
Profit for the year		-	-	21,203	21,203
Total recognised income and expense for the year		-	-	21,203	21,203
Share options exercised	13	1,109	-	-	1,109
Recognition of share-based payments	2(d)	-	1,112	-	1,112
<b>Balance at 31 December 2007</b>		89,758	3,065	5,647	98,470
Loss for the year		-	-	(5,359)	(5,359)
Total recognised income and expense for the year		-	-	(5,359)	(5,359)
Recognition of share-based payments	2(d)	-	447	-	447
<b>Balance at 31 December 2008</b>		89,758	3,512	288	93,558

(i) The share options reserve reflects the cost of share-based payments – refer note 1(s)

The statement of changes in equities are to be read in conjunction with the notes to the financial statements.

## Cash flow statement for the financial year ended 31 December 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		71,222	85,279	2,281	-
Payments to suppliers and employees		(43,127)	(30,547)	(8,903)	(7,135)
Provisional insurance receipts		7,721	-	-	-
Government royalties paid		(1,499)	(3,735)	-	-
Interest received		2,771	5,461	1,725	3,493
Income taxes recovered/(paid)		754	(3,848)	1,474	2,696
Net cash provided by/(used in) operating activities	20(b)	37,842	52,610	(3,423)	(946)
<b>Cash flows from investing activities</b>					
Proceeds from disposal of property, plant and equipment		-	30	-	31
Payments for property, plant and equipment		(16,983)	(21,353)	(257)	(844)
Payments for exploration expenditure		(65,428)	(37,993)	-	(19)
Proceeds from disposal of permit interests		500	-	-	-
Net cash used in investing activities		(81,911)	(59,316)	(257)	(832)
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		-	1,109	-	1,109
Loans to subsidiaries		-	-	(16,904)	(35,763)
Payments for financing costs		(548)	-	(548)	-
Net cash provided by/(used in) financing activities		(548)	1,109	(17,452)	(34,654)
<b>Net decrease in cash and cash equivalents</b>		(44,617)	(5,597)	(21,132)	(36,432)
<b>Cash and cash equivalents at the beginning of the financial year</b>		96,777	105,231	33,400	69,864
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,885	(2,857)	102	(32)
<b>Cash and cash equivalents at the end of the financial year</b>	20(a)	<b>54,045</b>	<b>96,777</b>	<b>12,370</b>	<b>33,400</b>

The cash flow statements are to be read in conjunction with the notes to the financial statements.

## Notes to the financial statements for the financial year ended 31 December 2008

<u>Note</u>	<u>Contents</u>
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## 1. Summary of accounting policies

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statement of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the company and the Consolidated Entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 26 February 2009.

### Basis of preparation

The financial report has been prepared in Australian Dollars, unless otherwise noted, and on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 1(u) for a discussion of critical judgements in applying the entities policies and key sources of estimation uncertainty.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

In accordance with AASB Interpretation 1003, released during the year, which specifies that Australian Petroleum Rent Resource Tax ("PRRT") falls within the scope of Accounting Standard AASB112 Income Taxes, Tap has changed its accounting policy to be compliant with this interpretation. Historically Tap has accounted for PRRT as a cost of sale, however this has now changed to reflect an income tax. The revised accounting policy is set out in 1(n) below:

## 1. Summary of accounting policies (cont'd)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, the Consolidated Entity's share of joint venture bank balances and investments in money market instruments.

Any bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Comparative amounts

When the presentation or classification of items in the financial report is amended, comparative amounts are reclassified unless the reclassification is impracticable.

(c) Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to oil price movements and foreign exchange rate risk. As at 31 December there were no such instruments in place.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash flow hedge

At 31 December 2008, there are no outstanding cash flow hedges (31 December 2007: Nil).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(e) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans to related parties are recorded at the amortised cost amount, with no fixed due date, nor is interest charged on the outstanding balance.

## 1. Summary of accounting policies (cont'd)

### Trade Receivables and Loans

Loans to related parties are recorded at the amortised cost amount using the effective interest rate method less impairment. Interest is not charged on the outstanding balance of loans to related parties and they do not have a fixed term.

### Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indications of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

(f) Financial instruments issued by the company

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

(g) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect on the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(c)) are recognised in the hedge reserve.

(h) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

## 1. Summary of accounting policies (cont'd)

### Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to the asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Tap Oil Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements. Where the tax contribution amount is recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

#### (i) Trade payables and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition

#### (j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 1. Summary of accounting policies (cont'd)

(k) Joint ventures

Interests in jointly controlled assets and operations are reported in the financial statements by including the Consolidated Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

(l) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

(m) Petroleum exploration and evaluation expenditure

Exploration and evaluation expenditure is brought to account at cost and is classified as tangible assets.

Ongoing costs of acquisition, exploration and evaluation are capitalised in relation to each separate area of interest in which rights to tenure of the area of interest are current and in respect of which:

- i. such costs are expected to be recouped through successful development and exploitation of the area or alternatively by their sale, or
- ii. exploration and evaluation activities in the area have not yet reached the stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations are continuing.

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

All exploration permits are treated as separate areas of interest.

Once an area of interest enters a development phase, all capitalised acquisition, exploration and evaluation expenditure is transferred to development costs within property, plant and equipment.

(n) Petroleum Resources Rent Tax and Government royalties

PRRT is recognised as an income tax expense on an accruals basis when the corresponding sales are recognised and an amount calculated in accordance with government legislative requirements will be payable on those sales.

PRRT is accounted for in relation to the Consolidated Entity's sales from Woollybutt Joint Venture operations. PRRT is calculated at the rate of 40% of sales revenues less certain permitted deductions and is tax deductible for income tax purposes.

The change in accounting policy was recognised retrospectively in accordance with AASB108 Accounting policies, Changes in Accounting Estimates and Errors, and comparatives have been restated. The changes in the accounting policy impacted the 31 December 2007 balance sheet by increasing the deferred tax liability by \$12.323 million and decreasing retained earnings by a corresponding amount. The impact on the 31 December 2007 income statement is to decrease cost of sales by \$3.073 million and increasing income tax expense by \$3.955 million. The basic loss and diluted loss per share for December 2007 has increased to 5 cents per share.

The Consolidated Entity has \$13.630 million carry forward PRRT losses at 31 December 2008 (2007:\$18.447 million).

(o) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the company (the parent entity) and its subsidiaries. A list of subsidiaries is in note 19 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

## 1. Summary of accounting policies (cont'd)

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

### (p) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on property, plant and equipment, other than capitalised development costs and leasehold improvement costs, on a declining balance basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements 5 years
- Plant and equipment 3 – 12 years

Capitalised development costs are amortised from the commencement of production on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually. The recoverable reserves are estimates calculated from available production and reservoir data and are subject to change. A significant change in estimate could give rise to a material adjustment to the carrying amounts of assets and liabilities in the next annual reporting period.

### (q) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Restoration provisions have been based on external studies which estimated the cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of production wells. Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date. The unwinding of the discount implicit in the present value calculations is included in finance costs, refer note 2(e).

### (r) Revenue recognition

#### Sale of goods

Revenue from the sale of goods is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

## 1. Summary of accounting policies (cont'd)

### Tolling revenue

Tolling revenue, received based on the volume of third party usage of Harriet Joint Venture facilities and associated sales gas pipeline, is recognised as services are provided.

### Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### (s) Share-based payments

Equity-settled share-based payments are measured at fair value at the grant date. Fair value is measured under the Black and Scholes model. Further details are shown in note 22. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of the number of options that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005.

#### (t) Goods and services tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

#### (u) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and assumptions

- i. **Impairment of assets**  
In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.
- ii. **Restoration provisions**  
The Consolidated Entity estimates the future removal costs of oil and gas facilities at the time of installation of the asset. The removal of assets occurs many years into the future. This requires assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows.

## 1. Summary of accounting policies (cont'd)

### iii. Reserves estimates

Estimates of recoverable quantities of proven and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory.

### (v) Adoption of new and revised Accounting Standards

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	31 December 2009
AASB 101 (revised September 2007) 'Presentation of Financial Statements' and AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' and AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	31 December 2009
AASB 123 'Borrowing Costs' – revised standard and AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	31 December 2009
AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations.	1 January 2009	31 December 2009
AASB Interpretation 12 'Service Concession Arrangements' and Interpretation 4 'Determining whether an arrangement contains a lease' (revised), Interpretation 129 'Service Concession Arrangements: Disclosures' (revised) and AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	31 December 2008
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	31 December 2009
Interpretation 1003 'Australian Petroleum Resource Rent Tax'	Reporting periods ending 30 June 2008	31 December 2008

At the date of authorisation of the financial report, the following Standards and Interpretations issued by the IASB/IFRIC where an equivalent Australian Standard or Interpretation has not been made by the AASB, were in issue but not yet effective:

IFRS 3 'Business Combinations' (revised), IAS 27 'Consolidated and Separate Financial Statements' (revised)	1 July 2009	31 December 2010
Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation	1 July 2009	31 December 2010

The directors note that the impact of the initial application of the Standards and Interpretations is not yet known or is not reasonably estimable. These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning on or after the effective date of each pronouncement.



## 2. Profit for the year

### (a) Revenue

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales of oil and gas	61,151	84,576	-	-
Other revenue – tolling fees	231	117	-	-
Other	-	95	-	-
	61,382	84,788	-	-
Interest received	2,771	5,384	1,716	3,420
	<b>64,153</b>	<b>90,172</b>	<b>1,716</b>	<b>3,420</b>

### (b) Cost of sales

Depreciation of production facilities	1,862	3,859	-	-
Depreciation of capitalised development costs	14,987	28,969	-	-
Government royalties	1,499	3,382	-	-
Other production costs	25,499	18,418	-	-
	<b>43,847</b>	<b>54,628</b>	<b>-</b>	<b>-</b>
Being:				
Operating costs from operators (i)	25,499	18,418	-	-
Production based royalties to governments	1,499	3,382	-	-
Total cash costs	26,998	21,800	-	-
Non-cash costs for depreciation and amortisation	16,849	32,828	-	-
Total cost of sales	<b>43,847</b>	<b>54,628</b>	<b>-</b>	<b>-</b>

- (i) Included in 2008 operating costs is an amount of \$9.049 million for repairs thus far to the Varanus Island operating facilities.

## 2. Profit for the year (cont'd)

### (c) Other Income

Gain on sale of plant, property and equipment  
Intercompany debt forgiveness  
Other

Consolidated		Company	
2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
-	26	-	26
-	-	-	36,691
678	-	-	38
678	26	-	36,755

### (d) Administration expenses

(Loss)/Profit before income tax has been arrived at after charging the following:

Employee benefit expenses:

Post employment benefits:

Defined contribution plans

Share-based payments:

Equity settled share-based payments

Other

Depreciation of office fixed assets  
Depreciation of leasehold improvements  
Operating lease rental payments  
Other expenses, net of recoveries

787	824	787	824
447	1,112	447	1,112
6,310	5,748	6,305	5,740
7,544	7,684	7,539	7,676
525	572	525	572
12	152	12	152
807	479	805	459
2,306	1,670	1,903	1,399
11,194	10,557	10,784	10,258

### (e) Finance costs

Notional interest from unwinding discount on restoration provisions (notes 1(q) and 12)  
Other

777	823	-	-
548	-	548	-
1,325	823	548	-

### (f) Other expenses

Exploration impairment losses (note 9)  
Foreign exchange (gains)/losses  
Allowance for non-recovery of debt of subsidiary  
Other

21,174	18,183	-	19
(8,227)	4,234	(1,798)	66
-	-	-	8,742
18	165	18	299
12,965	22,582	(1,780)	9,126

### 3. Income taxes

#### (a) Income tax recognised in profit or loss

##### Tax expense (benefit) comprises:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Current tax expense/(income)	(867)	5,693	(720)	(851)
Adjustments recognised in the current year in relation to the current tax of prior years	(1,051)	462	(1,051)	462
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	3,657	(745)	(706)	(23)
Deferred PRRT tax expenses	1,307	3,955	-	-
Total tax expense/(income)	3,046	9,365	(2,477)	(412)

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

(Loss) / profit from operations	(4,500)	1,608	(7,836)	20,792
Income tax expense calculated at 30%	(1,350)	482	(2,351)	6,238
Expenses not deductible for tax purposes	977	3,888	917	3,887
Income not assessable for tax purposes	-	(24)	-	(11,014)
Effect of tax concessions – research and development	-	(504)	-	(3)
Unused tax losses and tax offsets not recognised as deferred tax assets	4,469	2,884	-	-
Foreign tax rate adjustment	(671)	(262)	-	-
PRRT related tax expense/(benefit)	1,307	3,955	-	-
Other	(635)	(595)	8	18
	4,097	9,824	(1,426)	(874)
Adjustments recognised in the current year in relation to the current tax of prior years	(1,051)	(459)	(1,051)	462
Income tax expense/(income)	3,046	9,365	(2,477)	(412)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

#### (b) Current tax assets and liabilities

##### Current tax assets:

Tax refund receivable	577	281	577	281
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#### (c) Deferred tax balances

##### Deferred tax assets comprise:

Temporary differences – refer below	-	-	886	180
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##### Deferred tax liabilities comprise:

Temporary differences – refer below	46,619	42,522	-	-
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#### (d) Franking account balance

On a tax paid basis	54,812	55,564	54,812	55,564
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### 3. Income taxes (cont'd)

#### Deferred tax balances

Deferred tax assets / (liabilities) arise from the following:

	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Acquisitions/ disposals \$'000	Exchange differences \$'000	Changes in tax rate \$'000	Closing balance \$'000
<b><u>Consolidated</u></b>							
<b><u>2008</u></b>							
Income tax losses carried forward	-	867	-	-	-	-	867
Property, plant & equipment	(13,758)	(5,714)	-	-	-	-	(19,472)
Deferred exploration	(33,566)	(503)	-	-	-	-	(34,069)
Restoration provisions	5,188	1,161	-	-	-	-	6,349
Others	(386)	92	-	-	-	-	(294)
	(42,522)	(4,097)	-	-	-	-	(46,619)
<b><u>2007</u></b>							
Property, plant & equipment	(18,630)	4,872	-	-	-	-	(13,758)
Deferred exploration	(26,072)	(7,494)	-	-	-	-	(33,566)
Restoration provisions	5,116	72	-	-	-	-	5,188
Others	274	(660)	-	-	-	-	(386)
	(39,312)	(3,210)	-	-	-	-	(42,522)
<b><u>Company</u></b>							
<b><u>2008</u></b>							
Income tax losses carried forward	-	867	-	-	-	-	867
Property, plant & equipment	(14)	(12)	-	-	-	-	(26)
Employee provisions	297	(144)	-	-	-	-	153
Others	(103)	(5)	-	-	-	-	(108)
	180	706	-	-	-	-	886
<b><u>2007</u></b>							
Property, plant & equipment	(59)	45	-	-	-	-	(14)
Deferred exploration	-	-	-	-	-	-	-
Employee provisions	126	171	-	-	-	-	297
Others	90	(193)	-	-	-	-	(103)
	157	23	-	-	-	-	180

#### **Unrecognised deferred tax balances**

The following deferred tax assets, relating to foreign operations, have not been brought to account as assets:

Tax losses – revenue

<b>Consolidated</b>		<b>Company</b>	
2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
7,983	9,190	-	-

#### **Tax consolidation**

##### **Relevance of tax consolidation to the Consolidated Entity**

The company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 January 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Tap Oil Limited. The members of the tax-consolidated group are identified at note 19.

##### **Nature of tax funding arrangements and tax sharing agreements**

Entities within the tax-consolidated group have entered into a tax funding and tax sharing arrangement with the head entity. Under the terms of the tax funding agreement, each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

#### 4. Trade and other receivables

Trade receivables (i)  
Joint venture debtors  
Other

Consolidated		Company	
2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
5,677	9,290	1	-
1,813	2,218	9	164
1,273	752	538	842
8,763	12,260	548	1,006

(i) Trade receivables relate to oil and gas sales on terms that include payment 30 days from delivery.

There are no amounts included in the Consolidated Entity's trade receivable balance (2007: \$696 thousand) which are past due at the reporting date. In the prior period the Consolidated Entity made no provision for bad debts as there was not a significant change in credit quality and all receivables were believed to be recoverable. The group does not hold any collateral over these balances. The average age of these receivables in the prior period was 82 days.

#### 5. Inventories

Materials and consumables – at cost  
Oil in storage – at cost

Consolidated		Company	
2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
3,153	4,584	-	-
5,288	3,203	-	-
8,441	7,787	-	-

#### 6. Other current assets

Prepayments

7,735	7,103	2,177	1,419
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#### 7. Other financial assets – current

Receivable from subsidiaries  
Allowance for non-recovery (i)

-	-	80,469	83,097
-	-	(29,698)	(29,698)
-	-	50,771	53,399

(i) Movement in allowance for non-recovery

Balance at beginning of year  
Increase in allowance recognised in profit or loss  
Balance at end of year

-	-	29,698	20,956
-	-	-	8,742
-	-	29,698	29,698

In determining the recoverability of an amount owing by subsidiary the company considers any change in the financial position of the subsidiary. Accordingly, the directors believe that there is no further provision required in excess of the allowance for non-recovery.

#### Other financial assets – non-current

Shares in subsidiaries – at cost

Consolidated		Company	
2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
-	-	31,753	31,753

**8. Property, plant and equipment****Oil and gas facilities**

Gross carrying amount – at cost:

	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	41,598	41,080	-	-
Additions	370	518	-	-
Closing balance	41,968	41,598	-	-

Accumulated depreciation:

Opening balance	24,042	20,183	-	-
Depreciation	1,862	3,859	-	-
Closing balance	25,904	24,042	-	-
<b>Net book value</b>	<b>16,064</b>	<b>17,556</b>	<b>-</b>	<b>-</b>

**Development expenditures**

Gross carrying amount – at cost:

Opening balance	270,306	229,588	-	-
Additions	12,483	27,431	-	-
Transfer from exploration expenditure	13,826	13,287	-	-
Disposals	-	-	-	-
Closing balance (i)	296,615	270,306	-	-

Accumulated depreciation:

Opening balance	163,530	134,561	-	-
Depreciation	14,987	28,969	-	-
Closing balance	178,517	163,530	-	-
<b>Net book value</b>	<b>118,098</b>	<b>106,776</b>	<b>-</b>	<b>-</b>

**Office improvements, furniture & equipment**

Gross carrying amount – at cost:

Opening balance	3,652	2,836	3,652	2,836
Additions	319	844	256	844
Disposals	-	(28)	-	(28)
Closing balance	3,971	3,652	3,908	3,652

Accumulated depreciation:

Opening balance	2,493	1,793	2,493	1,793
Disposals	-	(24)	-	(24)
Acquired	35	-	-	-
Depreciation	537	724	537	724
Closing balance	3,065	2,493	3,030	2,493
<b>Net book value</b>	<b>906</b>	<b>1,159</b>	<b>878</b>	<b>1,159</b>

**Total – net book value**

<b>135,068</b>	<b>125,491</b>	<b>878</b>	<b>1,159</b>
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(i) The cost of development expenditures includes an amount of \$14,923 thousand for abandonment assets (2007 : \$10,519 thousand).

## 9. Deferred exploration expenditure

### Exploration and/or evaluation phase

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At cost	136,858	79,536	-	-
Less: impairment provisions	(36,522)	(16,004)	-	-
Net carrying value	100,336	63,532	-	-
Reconciliation of movement:				
Opening balance	63,532	56,292	-	-
Current year exploration expenditure	71,804	38,710	-	19
Exploration expenditure impairment	(21,174)	(18,183)	-	(19)
Disposals	-	-	-	-
Transfer to development expenditures	(13,826)	(13,287)	-	-
Closing balance	100,336	63,532	-	-

Ultimate recoupment of this expenditure is dependent upon the continuance of the Group's right to tenure of the areas of interest and the discovery of commercially viable oil and gas reserves, their successful development and exploitation, or, alternatively, sale of the respective areas of interest at an amount at least equal to book value.

Impairment losses are provided when the carrying amount exceeds the recoverable amount, refer notes 1(h) and 1(m).

Exploration expenditure is written off and any related impairment losses released when permits are relinquished or disposed.

## 10. Trade and other payables

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade payables (i)	8,657	5,321	4,159	2,314
Share of joint venture payables (i)	8,566	17,597	-	-
Goods and services tax (GST) payable	820	1,815	-	-
Other payables	133	-	69	-
Refundable insurance proceeds (ii)	7,721	-	-	-
Income received in advance	4,618	4,620	-	-
	30,515	29,353	4,228	2,314

(i) The credit term period on purchases averages between 7 and 30 days. No interest is charged on trade payables. The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

(ii) Tap had received provisional payments of US\$5,143,498 (A\$7.721 million) from its insurers in regards to business interruption, however these amounts have been recognised under current liabilities as they are repayable to the insurers until such time as liability is formally accepted by the insurers

## 11. Other financial liabilities

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Borrowings from subsidiaries (i)	-	-	1,769	21,301

(i) The borrowings from subsidiaries are at call and bear no interest.

## 12. Provisions

### Current

Employee benefits

<b>Consolidated</b>		<b>Company</b>	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000
340	312	340	312
65	199	65	200
21,164	17,484	-	-
21,229	17,683	65	200
17,484	17,052	-	-
2,903	42	-	-
-	(433)	-	-
777	823	-	-
21,164	17,484	-	-

Restoration costs provision

Reconciliation of movement:

Opening balance

Additional provisions recognised

Reductions resulting from re-measurement or settlement without cost

Unwinding of discount (note 1(q))

Closing balance

The provision for restoration costs represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be required to remove plant and equipment and abandon producing and suspended wells. The unexpired terms used in the present value calculations are various periods up to year 2022.

## 13. Issued capital

156,485,921 fully paid ordinary shares  
(2007: 156,485,921)

<b>Consolidated</b>		<b>Company</b>	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000
89,758	89,758	89,758	89,758

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2008		2007	
	No. '000	\$'000	No. '000	\$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	156,486	89,758	155,883	88,649
Issue of shares under share-based payment schemes (note 22)	-	-	603	1,109
Balance at end of financial year	156,486	89,758	156,486	89,758

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### **Share options**

In accordance with the provisions of the share-based payment schemes, as at 31 December 2008, employees had options over 6,526,503 ordinary shares, in aggregate. 1,549,400 of those options were already vested and 300,000 have since expired unexercised. A further 835,000 options will expire during 2009 whilst the remainder are unvested and expire at varying dates through to 15 July 2003. Exercise prices range from \$0.61 to \$2.97.

As at 31 December 2007, employees had options over 4,558,473 ordinary shares, in aggregate. 760,000 of those options were already vested. A further 500,000 options were due to expire during 2008 whilst the remainder were unvested and were due to expire at varying dates through to 6 February 2012. Exercise prices ranged from \$1.46 to \$2.97.

The share options carry no rights to dividends and no voting rights. Further details of the share-based payment schemes are contained in note 22 to the financial statements.



## 14. Earnings per share

Basic earnings per share  
Diluted earnings per share

<b>Consolidated</b>	
<b>2008</b> <b>Cents per</b> <b>share</b>	<b>2007</b> <b>Cents per</b> <b>share</b>
(4.8)	(5.0)
(4.8)	(5.0)

### Basic earnings per share:

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Earnings (a)

<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
(7,546)	(7,757)

Weighted average number of ordinary shares for the purposes of basic earnings per share

<b>2008</b> <b>No.'000</b>	<b>2007</b> <b>No.'000</b>
156,520	156,063

### Diluted earnings per share:

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

Earnings (a)

<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
(7,546)	(7,757)

Weighted average number of ordinary shares for the purposes of diluted earnings per share (b)

<b>2008</b> <b>No.'000</b>	<b>2007</b> <b>No.'000</b>
156,520	156,063

(a) Earnings used in the calculation of basic earnings per share and diluted earnings per share

<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
(7,546)	(7,757)

(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic EPS

<b>2008</b> <b>No.'000</b>	<b>2007</b> <b>No.'000</b>
156,486	156,063

Shares deemed to be issued for no consideration in respect of employee options

34	-
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Weighted average number of ordinary shares used in the calculation of diluted EPS

156,520	156,063
---------	---------

## 15. Commitments for expenditure

### (a) Capital expenditure commitments

Committed expenditures in accordance with approved joint venture budgets that have not been provided for in the financial statements:

#### Property, plant and equipment

Not longer than 1 year  
Longer than 1 year and not longer than 5 years  
Longer than 5 years

<b>Consolidated</b>		<b>Company</b>	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000
7,221	15,700	-	-
607	-	-	-
-	-	-	-
7,828	15,700	-	-
22,805	26,000	-	-
21,584	400	-	-
-	-	-	-
44,389	26,400	-	-

The commitments for exploration expenditure includes the minimum expenditure requirements of various government regulatory bodies and joint ventures that the Consolidated Entity is required to meet in order to retain its present permit interests. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

### (b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 16 to the financial statements.

## 16. Leases

### Operating leases

#### Leasing arrangements

The Group has non-cancellable operating leases for the following:

- (i) Office premises – the premises lease expires on 31 January 2013.
- (ii) Woollybutt operations – the FPSO vessel lease contract is currently for two years to 31 May 2010 and can be renewed on a yearly basis after that date.

	<b>Consolidated</b>		<b>Company</b>	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>Non-cancellable operating lease commitments</b>				
Not longer than 1 year	9,416	11,167	404	489
Longer than 1 year and not longer than 5 years	10,497	5,306	1,229	1,746
Longer than 5 years	-	39	-	39
	19,913	16,512	1,633	2,274

## 17. Segment information

(a) Geographical segments

The Consolidated Entity operates in Australia, (predominantly Western Australia), New Zealand and Asia. Details of the Consolidated Entity's segment information appears below.

(b) Business segment

The Consolidated Entity operates solely in oil and gas exploration and production.

### Segment information – geographical basis

2008	Australia \$'000	New Zealand \$'000	Asia \$'000	Total \$'000
<b>Segment Revenue</b>				
Sales to external customers	61,382	-	-	61,382
Intersegment sales	-	-	-	-
Total sales revenue	61,382	-	-	61,382
Other revenue	-	-	-	-
<b>Total segment revenue</b>	<b>61,382</b>	<b>-</b>	<b>-</b>	<b>61,382</b>
Intersegment elimination				-
Interest Revenue				2,771
<b>Consolidated revenue</b>				<b>64,153</b>
<b>Segment result profit / (loss)</b>	<b>6,717</b>	<b>367</b>	<b>(13,033)</b>	<b>(5,949)</b>
Unallocated revenue less expense				1,449
Loss before income tax				(4,500)
Income tax expense				(3,046)
<b>Loss for the year</b>				<b>(7,546)</b>
<b>Segment assets and liabilities</b>				
<b>Segment assets</b>	<b>355,096</b>	<b>290</b>	<b>35,488</b>	<b>390,874</b>
Intersegment eliminations				(76,501)
Unallocated assets				592
<b>Total assets</b>				<b>314,965</b>
<b>Segment liabilities</b>	<b>50,444</b>	<b>29,619</b>	<b>48,435</b>	<b>128,498</b>
Intersegment eliminations				(76,501)
Unallocated liabilities				46,706
<b>Total liabilities</b>				<b>98,703</b>
<b>Other segment information</b>				
Acquisition of non-current assets	44,345	-	40,596	84,941
Depreciation and amortisation	17,386	-	-	17,386
Share based payments	447	-	-	447
Impairment expense	7,860	-	8,314	16,174
Provision for rehabilitation	777	-	-	777

## 17. Segment information (cont'd)

### Segment information – geographical basis

2007	Australia \$'000	New Zealand \$'000	Asia \$'000	Total \$'000
<b>Segment Revenue</b>				
Sales to external customers	84,693	-	-	84,693
Intersegment sales	-	-	-	-
Total sales revenue	84,693	-	-	84,693
Other revenue	95	-	-	95
<b>Total segment revenue</b>	<b>84,788</b>	<b>-</b>	<b>-</b>	<b>84,788</b>
Intersegment elimination				-
Interest Revenue				5,384
<b>Consolidated revenue</b>				<b>90,172</b>
<b>Segment result</b>	<b>5,550</b>	<b>(8,747)</b>	<b>71</b>	<b>(3,126)</b>
Unallocated revenue less expense				4,734
Loss before income tax				1,608
Income tax expense				(9,365)
<b>Loss for the year</b>				<b>(7,757)</b>
<b>Segment assets and liabilities</b>				
<b>Segment assets</b>	<b>341,801</b>	<b>672</b>	<b>5,581</b>	<b>348,054</b>
Intersegment eliminations				(35,369)
Unallocated assets				546
<b>Total assets</b>				<b>313,231</b>
<b>Segment liabilities</b>	<b>46,514</b>	<b>30,369</b>	<b>5,521</b>	<b>82,404</b>
Intersegment eliminations				(35,369)
Unallocated liabilities				42,835
<b>Total liabilities</b>				<b>89,870</b>
<b>Other segment information</b>				
Acquisition of non-current assets	61,651	1,030	4,825	67,506
Depreciation and amortisation	33,552	-	-	33,552
Share based payments	1,112	-	-	1,112
Impairment expense	9,616	8,567	-	18,183
Provision for rehabilitation	823	-	-	823

## 18. Interests in jointly controlled operations and assets

Name of operation	Principal activity	Output interest		
		2008	2007	
<b>Producing permits</b>				
TL/1,5,6,9 Harriet Joint Venture	Oil and gas exploration and production	12.22%	12.22%	
WA-25-L Woollybutt Joint Venture	Oil and gas exploration and production	15.00%	15.00%	

### Exploration permits

The Consolidated Entity has interests in numerous jointly controlled operations and assets in Australia, one licence in the Philippines and one licence in the Islamic Republic of Brunei. A full list of the licences and permits held by the Consolidated Entity is included in the annual report of Tap Oil Limited.

### Joint Venture net assets

The Consolidated Entity's share of assets and liabilities in jointly controlled operations is detailed below. The amounts are included in the consolidated financial statements in their respective categories:

	Consolidated	
	2008 \$'000	2007 \$'000
<b>Current assets</b>		
Cash	1,024	1,030
Receivables	4,469	2,184
Inventories	8,568	4,583
Total current assets	14,061	7,797
<b>Non-current assets</b>		
Property, plant and equipment	134,190	124,332
Deferred exploration expenditure	100,336	63,532
Total non-current assets	234,526	187,864
<b>Total assets</b>	248,587	195,661
<b>Current liabilities</b>		
Trade and other payables	8,531	17,597
Total current liabilities	8,531	17,597
<b>Non-current liabilities</b>		
Provisions for restoration	21,165	17,483
Total non-current liabilities	21,165	17,483
<b>Total liabilities</b>	29,696	35,080
<b>Net assets</b>	218,891	160,581
<b>Revenues</b>	61,153	80,265
<b>Expenses</b>	(43,616)	(54,478)
<b>Operating profit before income tax</b>	17,537	25,787

### Capital commitments and contingent liabilities

The capital commitments arising from the Consolidated Entity's interests in jointly controlled operations are disclosed in note 15. No contingent liabilities have been identified beyond those set out in note 26.

## 19. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
Parent entity			
Tap Oil Limited (i)	Australia		
Subsidiaries (ii)			
Tap (Harriet) Pty Ltd	Australia	100	100
Tap West Pty Ltd	Australia	100	100
Tap (Shelfal) Pty Ltd	Australia	100	100
Tap (New Zealand) Pty Ltd	Australia	100	100
Tap (Philippines) Pty Ltd	Australia	100	100
Tap Energy (Borneo) Pty Ltd (iii)	Australia	100	100
Tap (Ghana) Pty Ltd (iii)	Australia	100	-

(i) Tap Oil Limited is the head entity of the tax-consolidated group.

(ii) All subsidiaries are members of the tax-consolidated group.

(iii) Tap Energy (Borneo) Pty Ltd was incorporated on 25 September 2007 and Tap (Ghana) was incorporated on 11 February 2008.

## 20. Notes to the cash flow statement

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and cash held in joint ventures.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash and cash equivalents	54,045	96,777	12,370	33,400

### (b) Reconciliation of (loss)/profit for the period to net cash flows from operating activities

(Loss)/profit for the year	(7,546)	(7,757)	(5,359)	21,203
Loss on sale or disposal of non-current assets	-	(26)	-	(26)
Depreciation and amortisation of non-current assets	17,386	33,552	537	724
Foreign exchange loss	(1,885)	(22)	(102)	4
Equity settled share-based payment	447	1,112	447	1,112
Writedown of exploration expenditure	21,174	18,183	-	19
Non-cash interest expense	777	823	-	-
Forgiveness of debt to subsidiary	-	-	-	(36,691)
Finance costs paid	548	-	548	-
Allowance for non-recovery of debt of subsidiary	-	-	-	8,742
Other	-	(10)	-	(133)
Increase/(decrease) in current tax liability	(296)	2,307	(296)	2,307
Increase/(decrease) in deferred tax balances	4,097	3,210	(707)	(23)
Changes in net assets and liabilities:				
(Increase)/decrease in assets:				
Current receivables	3,498	305	584	627
Current inventories	(782)	(1,633)	-	-
Other current assets	(632)	(5,751)	(759)	(67)
Increase/(decrease) in liabilities:				
Current payables	1,161	6,555	1,789	1,134
Employee Provisions	(105)	122	(105)	122
Unearned Revenue	-	1,640	-	-
Net cash provided by/(used in) operating activities	37,842	52,610	(3,423)	(946)

## 21. Financial instruments

### a) Capital risk management

The company and Consolidated Entity manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company and Consolidated Entity consists of equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The company and Consolidated Entity's risk management committee reviews the capital structure on an annual basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee the company and the Consolidated Entity will balance its overall capital structure through the new share issues and share buy-backs as well as the issue of debt.

The company and Consolidated Entity's overall strategy remains unchanged from 2007

The company as and when required borrows from subsidiaries.

### b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### c) Categories of financial instruments

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Cash and cash equivalents	54,045	96,777	12,370	33,400
Loans and receivables (excluding cash and cash equivalents)	8,763	12,260	51,076	54,405
Other	-	-	31,753	31,753
<b>Financial liabilities</b>				
Trade & other payables	30,515	29,353	5,996	23,615
Other	-	-	1,769	21,301

### d) Financial risk management objectives

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

The Consolidated Entity's operations expose it primarily to the financial risks of changes in crude oil prices and foreign currency exchange rates. The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to crude oil price and foreign currency risk, including:

- forward oil price contracts,
- forward foreign exchange contracts.

### e) Oil price risk management

The Consolidated Entity's oil and condensate production is sold on spot crude oil markets and hence has exposure to crude oil price fluctuations. Oil price exposures are managed within approved policy parameters utilising forward oil price swap contracts and potentially other hedging instruments.

It is the policy of the Consolidated Entity not to enter into forward oil price contracts for more than 60% of forecast oil and condensate production. In 2008 no forward oil price contracts were entered into (2007 : Nil).

## 21. Financial instruments (cont'd)

### Oil Price sensitivity

The following table details the consolidated entities' sensitivity to a 10% and 20% increase and decrease in the oil price. This is the sensitivity rate used when reporting oil price risk internally to key management personnel and represents management's near term assessment of the possible change in oil prices. The sensitivity analysis includes current year sales levels varied by a 10% and 20% movement in the Company's average Australian dollar oil price. A positive number indicates an increase in profit where the oil price increases.

	Oil Price Impact			
	Consolidated		Company	
	2008 \$'000	2007 \$'000	2007 \$'000	2006 \$'000
Profit or loss – 10%	4,958	5,072	-	-
Profit or loss – 20%	9,916	10,144	-	-

### f) Foreign currency risk management

The Consolidated Entity sells all oil and condensate production and some gas in US Dollars and hence has exposure to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency swap agreements.

It is the policy of the Consolidated Entity not to enter into forward foreign exchange contracts for more than 60% of forecast free foreign exchange net inflows.

In 2008 no forward foreign exchange contracts were entered into (2007 : Nil).

The Consolidated Entity's exposure to foreign currency balances is contained in the table below:

Consolidated	Assets		Liabilities	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
US Dollars	32,350	66,721	9,534	920

Company	Assets		Liabilities	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
US Dollars	3,831	978	35	920

### Foreign currency sensitivity

The Consolidated Entity is mainly exposed to US dollars (USD).

The following table details the Consolidated Entity's sensitivity to a 10% and 20% increase and decrease in the Australian dollar against the US dollar. This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% and 20% change in foreign currency rates. A positive number indicates an increase in profit where the Australian Dollar weakens against the US Dollar.

	US Dollar Impact			
	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit or loss – 10%	2,944	5,035	498	5
Profit or loss – 20%	5,888	10,070	996	10



## 21. Financial instruments (cont'd)

### g) Interest rate risk management

The Consolidated Entity is subject to interest rate risk exposure through its cash and cash equivalents. The Consolidated Entity is currently not exposed to interest rate risk on borrowings as it has no borrowings.

### Interest rate sensitivity

The sensitivity analyses below have been determined based on exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Consolidated Entity's:

- net profit after tax would increase / decrease by \$0.339 million (2007 : \$0.355 million).

At the reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the company's:

- net profit after tax would increase / decrease by \$0.117 million (2007 : \$0.258 million).

### h) Credit risk management

Credit risk refers to the risk that a sales customer or counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy customers and counterparties.

Credit risk in relation to trade receivables is controlled through the entering of letter of credit terms for all oil and condensate receipts whilst the credit worthiness of gas customers is checked prior to entering gas contracts.

The Consolidated Entity may at times have a high credit risk exposure to a single customer in relation to oil liftings. The above-mentioned credit risk management procedures are followed in these instances. There are no such concentration of debtors as at 31 December 2008.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Consolidated Entity's maximum exposure to credit risk.

### i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who built an appropriate framework for the management of the Consolidated Entity's short, medium and long term funding and liquidity management requirements. The Consolidated Entity manages liquidity risk by monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

## 21. Financial instruments (cont'd)

### Maturity profile of financial instruments

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date the group can be required to pay. The following table details the Consolidated Entity's exposure to interest rate risk:

Consolidated	Weighted average effective interest rate	Less than 1 month			1 – 5 years	Total
			1-3 months	3 months to 1 year		
	%	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2008</b>						
<b>Financial Assets</b>						
Non-interest bearing		8,763	-	-	-	8,763
Variable interest rate	2.01%	13,015	-	-	262	13,277
Fixed interest Rate	1.63%	40,768	-	-	-	40,768
		62,546	-	-	262	62,808
<b>Financial Liabilities</b>						
Non-interest bearing		30,515	-	-	-	30,515
<b>2007</b>						
<b>Financial Assets</b>						
Non-interest bearing		12,339	-	-	-	12,339
Variable interest rate	4.2%	40,036	-	-	-	40,036
Fixed interest Rate	6.0%	56,662	-	-	-	56,662
		109,037	-	-	-	109,037
<b>Financial Liabilities</b>						
Non-interest bearing		29,353	-	-	-	29,353

Company	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1 – 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2008</b>						
<b>Financial Assets</b>						
Non-interest bearing		548	-	-	50,771	51,319
Variable interest rate	1.84%	6,796	-	-	-	6,796
Fixed interest Rate	1.63%	5,574	-	-	-	5,574
Other - Non-interest bearing	-	31,753	-	-	-	31,753
		44,671	-	-	50,771	95,442
<b>Financial Liabilities</b>						
Non-interest bearing		4,228	-	-	-	4,228
Other		1,769	-	-	-	1,769
		5,997	-	-	-	5,997
<b>2007</b>						
<b>Financial Assets</b>						
Non-interest bearing		1,006	-	-	53,399	54,405
Variable interest rate	5.1%	2,935	-	-	-	2,935
Fixed interest Rate	7.1%	30,465	-	-	-	30,465
		34,406	-	-	53,399	87,805
<b>Financial Liabilities</b>						
Non-interest bearing		23,615	-	-	-	23,615

## 21. Financial instruments (cont'd)

### j) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices.

The following tables detail the fair value of financial assets and financial liabilities:

Consolidated	Carrying amount		Fair value	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	54,045	96,777	54,045	96,777
Trade and other receivables	8,763	12,260	8,763	12,260
	62,808	109,037	62,808	109,037
<b>Financial liabilities</b>				
Trade and other payables	30,515	29,353	30,515	29,353

Company	Carrying amount		Fair value	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	12,370	33,400	12,370	33,400
Trade and other receivables	548	1,006	548	1,006
Other	31,753	31,753	31,753	31,753
	44,671	66,159	44,671	66,159
<b>Financial liabilities</b>				
Trade and other payables	4,227	23,615	4,227	23,615
Other	1,769	-	1,769	-
	5,996	23,615	5,996	23,615

## 22. Share-based Payments

Tap has the following share-based payment schemes:

- (a) Tap Employee Incentive Option Plan;
- (b) Tap Executive Director Option Plan;
- (c) Tap Oil Management Incentive Option Plan; and
- (d) Tap Employee and Director Share Plan.

### a) Tap Employee Incentive Option Plan

Under the provisions of the Tap Employee Incentive Option Plan ("Option Scheme") the directors may at such times as they determine issue invitations to employees (full-time or part-time) and non-executive directors of the company or its controlled entities ("Participants") to apply for options for no consideration. It is at the discretion of the directors which Participants will be issued invitations to apply for options pursuant to the Option Scheme and the number of options the subject of the invitation.

All options issued to employees vest two years after grant date and expire three years after grant date. Options held by an employee who ceases employment are automatically cancelled.

The exercise price of the options equals the average closing price of the company's shares on the Australian Stock Exchange during the last ten trading days on which the company's shares were traded immediately preceding the option grant date, plus ten percent, subject to a minimum exercise price of 50 cents.

## 22. Share-based Payments (Cont'd)

All shares issued on exercise of the options will rank equally in all respects with the company's fully paid ordinary shares. The company will apply for quotation of all shares issued upon the exercise of options.

No options under this scheme have been issued to non-executive directors since 2001.

During the reporting period options were issued under this Scheme as noted in the table below.

### **b) Tap Executive Director Option Plan**

Under the provisions of the Tap Executive Director Option Plan ("Option Plan") the company will issue options to executive directors as part of the long term incentive arrangements in accordance with certain terms and conditions.

All options issued vest one year after grant date and expire five years after grant date.

The exercise price of the options equals the average closing price of the company's shares on the Australian Stock Exchange during the last five trading days on which the company's shares were traded immediately preceding the option grant date.

All shares issued on exercise of the options will rank equally in all respects with the company's fully paid ordinary shares. The company will apply for quotation of all shares issued upon the exercise of options.

The first options were issued under this scheme in 2005.

### **c) Tap Oil Management Incentive Option Plan**

Under the provisions of the Tap Oil Management Incentive Option Plan ("Management Option Plan") the company will issue options to managers as part of the long term incentive arrangements in accordance with certain terms and conditions. The options expire three years after grant date.

Under the Management Option Plan, options issued vest in accordance with performance conditions set by the Board prior to the date of grant. Under current Board policy the number of options vesting on the expiry of a two year performance period shall be determined by the absolute share price growth over the two year period in accordance with the following vesting scale. All options currently on issue were granted under this Board policy.

<b>Absolute Growth Hurdle</b>	<b>% of Management Options Vested</b>
Less than 20% growth	0%
Greater than or equal to 20% and less than 60% growth	Pro-rata between 50-100%
Greater than or equal to 60% growth	100%

The exercise price of the options equals the average closing price of the company's shares on the Australian Stock Exchange during the last five trading days on which the company's shares were traded immediately preceding the option grant date plus twenty percent, subject to a minimum exercise price of 50 cents.

All shares issued on exercise of the options will rank equally in all respects with the company's fully paid ordinary shares. The company will apply for quotation of all shares issued upon the exercise of options.

The first options were issued under this scheme in 2008.

## 22. Share-based Payments (Cont'd)

The following options were granted during the current and prior periods and are included in share-based payments:

Grant date	Number	Plan	Expiry date	Exercise price \$	Fair value at grant date \$
<b>2008</b>					
25/11/2008	37,600	(a)	25/11/2011	0.61	0.22
25/11/2008	300,000	(c)	25/11/2011	0.66	0.07
3/09/2008	10,800	(a)	3/09/2011	1.25	0.34
3/09/2008	300,000	(c)	3/09/2011	1.37	0.10
14/07/2008	335,000	(b)	14/07/2013	1.53	0.65
14/07/2008	1,400,000	(c)	1/01/2011	1.86	0.15
14/07/2008	90,800	(a)	14/07/2011	1.71	0.53
9/04/2008	59,541	(a)	9/04/2011	1.78	0.59
29/01/2008	536,000	(b)	29/01/2013	1.61	0.63
29/01/2008	764,500	(a)	29/01/2011	1.77	0.52
<b>2007</b>					
30/11/2007	14,862	(a)	30/11/2010	2.65	0.71
13/11/2007	13,211	(a)	13/11/2010	2.70	0.68
30/08/2007	150,000	(a)	30/08/2010	1.97	0.54
30/07/2007	150,000	(a)	30/07/2010	2.20	0.49
24/07/2007	66,000	(a)	24/07/2010	2.33	0.45
31/05/2007	250,000	(a)	31/05/2010	1.79	0.46
13/03/2007	350,000	(a)	13/03/2010	1.66	0.41
6/02/2007	375,000	(b)	6/02/2012	1.46	0.50
6/02/2007	1,252,500	(a)	6/02/2010	1.61	0.39

The volume weighted average fair value of the share options granted during the financial year is \$0.34 (2007 \$0.43). Options were priced using the Black and Scholes model for an option life of either three years with vesting after two years (plans (a) and (c)) or five years with vesting after one year (plan (b)). Expected volatility is based on the historical share price volatility in the previous year and the risk free interest rate based on the Reserve Bank of Australia's 180 day Bank Bill rate, both as quoted on the date of issue of the options. An additional discount factor as applied to the plan (c) options as they have hurdles that must be met as a condition to vesting.

2008	Inputs into the model									
	Option series (by expiry date)									
	1/01/2011	29/01/2011	9/04/2011	14/07/2011	3/09/2011	3/09/2011	29/01/2013	14/07/2013	25/11/2011	25/11/2011
Grant date share price	\$1.53	\$1.62	\$1.68	\$1.53	\$1.08	\$1.08	\$1.62	\$1.53	\$0.60	\$0.60
Plan	(c)	(a)	(a)	(a)	(c)	(a)	(b)	(b)	(a)	(c)
Exercise price	\$1.86	\$1.77	\$1.78	\$1.71	\$1.37	\$1.25	\$1.61	\$1.53	\$0.61	\$0.66
Expected volatility	52%	46%	49%	52%	49%	49%	46%	52%	57%	57%
Option life	2.25yr	2.5yr	2.5yr	2.5yr	2.5yr	2.5yr	3.0yr	2.5yr	2.5yr	2.5yr
Dividend yield	-	-	-	-	-	-	-	-	-	-
Adjustment factor	33%	-	-	-	33%	-	-	-	-	33%
Risk-free interest rate	8.00%	7.42%	8.06%	8.00%	7.16%	7.16%	7.42%	8.00%	3.95%	3.95%

## 22. Share-based Payments (Cont'd)

2007	Inputs into the model								
	Option series (by expiry date)								
	6/2/2010	13/3/2010	31/5/2010	24/7/2010	30/7/2010	30/8/2010	13/11/2010	30/11/2010	6/2/2012
Grant date share price	\$1.44	\$1.51	\$1.72	\$2.01	\$1.99	\$1.86	\$2.47	\$2.48	\$1.44
Plan	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(b)
Exercise price	\$1.61	\$1.66	\$1.79	\$2.33	\$2.20	\$1.97	\$2.70	\$2.65	\$1.46
Expected volatility	41.40%	40.70%	35.80%	35.50%	35.80%	39.80%	39.20%	39.00%	41.40%
Option life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	5 yrs
Dividend yield	-	-	-	-	-	-	-	-	-
Risk-free interest rate	6.46%	6.44%	6.46%	6.57%	6.70%	6.89%	7.26%	7.36%	6.46%

The following reconciles the outstanding share options granted at the beginning and end of the financial year:

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	4,558,473	1.98	5,061,900	2.11
Granted during the financial year	3,834,241	1.63	2,621,573	1.70
Forfeited during the financial year	(1,306,211)	1.94	(2,072,500)	2.03
Exercised during the financial year (i)	-	-	(602,500)	1.84
Expired during the financial year	(560,000)	2.45	(450,000)	1.73
Balance at end of the financial year (ii)	6,526,503	1.74	4,558,473	1.98
Exercisable at end of the financial year	1,764,400	2.12	760,000	2.29

### i) Exercised during the financial year

There were no options exercised during the financial year.

The following share options were exercised during the prior financial year:

2007	Number exercised	Exercise date	Ave. share price at exercise date \$
Options series (by expiry date)			
6 August 2007	300,000	13 Jul – 2 Aug 2007	2.05
1 February 2008	302,500	25 Sep – 29 Nov 2007	2.33
	602,500		

### (ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had exercise prices in the range \$0.61 to \$2.97 and a weighted average remaining contractual life of 2 years 1 month.

### d) Tap Employee and Director Share Plan

Under the provisions of the Tap Employee and Director Share Plan ("Share Plan") the company may from time to time issue offers to permanent full-time employees and non-executive directors of the company ("Participants") to acquire fully paid ordinary shares in the company on market as a component of their remuneration.

Offers of shares to Participants may contain conditions as to the vesting of the shares or such other conditions that the company may determine.

## 22. Share-based Payments (Cont'd)

The three main purposes of the Share Plan are:

- (i) The Share Plan is available to all employees, executive directors and non-executive directors on a salary sacrifice basis;
- (ii) To facilitate short term and long term incentive payments of executive directors; and
- (iii) To facilitate non-executive director's remuneration in the form of shares vesting after ten years or on ceasing to be a director, whichever occurs first.

The company has purchased shares on market under the Share Plan for non-executive directors in 2008 and 2007, details of which are included in note 23 to the financial statements. Shares were also purchased on behalf of employees in accordance with Tap's long term incentive program.

## 23. Key management personnel compensation

After consideration of the nature of each employee's role within the Company, in the opinion of the board the Company had the following key management personnel during the financial year:

### Non Executive Directors

- N F Taylor (Chairman)
- P W Underwood (Managing Director and CEO from 1995 to 31 December 2007, Executive Director to 30 June 2008, Non-Executive Director from 1 July 2008)
- P B Lane
- M J Sandy

### Senior Executives

- P J Stickland (Deputy CEO), CEO effective 1 January 2008
- D A Neaves (Commercial Manager)
- B M Ulmer (Operations Manager)
- R J Aden (Group Finance Manager), resigned 29 August 2008
- D J Rich (Chief Financial Officer), appointed 18 November 2008
- R Hall (Exploration Manager), resigned 15 February 2008
- J Scibiorski (Exploration Manager), commenced employment on 19 May 2008 and appointed as Exploration Manager on 20 August 2008
- R A Cassie (New Ventures Manager)

There were no changes in appointments after the reporting date, except for PJ Stickland who was appointed Managing Director on 11 February 2009.

The aggregate compensation of the key management personnel of the Consolidated Entity and the company is set out below:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,495,810	2,546,229	2,495,810	2,546,229
Post-employment benefits	446,948	492,723	446,948	492,723
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	1,293,644	876,728	1,293,644	876,728
	<b>4,236,402</b>	<b>3,915,680</b>	<b>4,236,402</b>	<b>3,915,680</b>

## 24. Related party transactions

### (a) Equity interests in related parties

#### Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 19 to the financial statements.

#### Equity interests in jointly controlled operations and assets

Details of interests in jointly controlled operations and assets are disclosed in note 18 to the financial statements.

### (b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 23 to the financial statements and in the remuneration report disclosed in the Directors report.

### (c) Key management personnel equity holdings

#### Fully paid ordinary shares of Tap Oil Limited

2008	Balance @ 1/1/08	Granted as remuneration (i)	Received on exercise of options	Net other change	Balance held directly & indirectly @ 31/12/08	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
<b>Directors</b>						
N F Taylor	64,185	47,087	-	-	111,272	111,272
P W Underwood	2,069,017	49,425	-	(100,000)	2,018,442	1,622,525
P B Lane	1,204,963	23,534	-	(170,000)	1,058,497	1,038,496
M J Sandy	15,833	23,534	-	-	39,367	39,367
<b>Executives</b>						
P J Stickland	107,555	48,939	-	18,101	174,595	174,595
D A Neaves	8,750	18,325	-	-	27,075	27,075
B M Ulmer	22,753	17,480	-	-	40,233	40,233
D Rich	-	26,071	-	-	26,071	26,071
R J Aden	5,156	7,178	-	(12,334)	-	-
R Hall	32,001	-	-	(32,001)	-	-
J P Scibiorski	-	14,712	-	-	14,712	14,712
R A Cassie	12,376	5,913	-	-	18,289	18,289
	3,542,589	282,198	-	(296,234)	3,528,553	3,112,635

2007	Balance @ 1/1/07	Granted as remuneration (i)	Received on exercise of options	Net other change	Balance held directly & indirectly @ 31/12/07	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
<b>Directors</b>						
N F Taylor	46,736	17,449	-	-	64,185	-
P W Underwood	2,014,767	54,250	-	-	2,069,017	1,573,100
P B Lane	1,196,242	8,721	-	-	1,204,963	1,136,373
M J Sandy	7,112	8,721	-	-	15,833	-
G J Jeffery	-	-	-	-	-	-
<b>Executives</b>						
P J Stickland	2,000	100,000	-	5,555	107,555	102,000
D A Neaves	-	8,750	100,000	(100,000)	8,750	8,750
B M Ulmer	11,524	11,229	-	-	22,753	22,753
B R Jones	10,000	-	-	(10,000)	-	-
R J Aden	-	5,156	-	-	5,156	5,156
R Hall	-	16,043	-	15,958	32,001	32,001
D S Ormerod	-	-	-	-	-	-
R A Cassie	-	12,376	-	-	12,376	12,376
G N Chapman	-	2,752	25,000	(25,000)	2,752	2,752
	3,288,381	245,447	125,000	(113,487)	3,545,341	2,895,261

(i) Shares are bought on-market for non-executive directors and employees, pursuant to the Tap Employee and Director Share Plan, as part of their remuneration. Further details of this Share Plan are contained in note 22(d).



## 24. Related party transactions (cont'd)

### Options in ordinary shares of Tap Oil Limited

2008	Balance @ 1/1/08	Granted as remuneration	Exercised	Net other changes	Balance @ 31/12/08	Vested @ 31/12/08	Vested but not exercise-able	Vested and exercise-able	Vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>Directors</b>									
N F Taylor	-	-	-	-	-	-	-	-	-
P W Underwood	714,400	871,000	-	-	1,585,400	714,400	-	714,400	375,000
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
<b>Executives</b>									
P J Stickland	575,000	210,000	-	(250,000)	535,000	75,000	-	75,000	75,000
D A Neaves	275,000	463,000	-	(50,000)	688,000	75,000	-	75,000	75,000
B M Ulmer	485,000	460,100	-	(250,000)	695,100	75,000	-	75,000	75,000
D Rich	-	300,000	-	-	300,000	-	-	-	-
R J Aden	200,000	24,700	-	(224,700)	-	-	-	-	-
R Hall	150,000	-	-	(150,000)	-	-	-	-	-
J P Scibiorski	-	351,000	-	-	351,000	-	-	-	-
R A Cassie	150,000	420,300	-	-	570,300	-	-	-	-
	2,549,400	3,100,100	-	(924,700)	4,724,800	939,400	-	939,400	600,000

2007	Balance @ 1/1/07	Granted as remuneration	Exercised	Net other changes	Balance @ 31/12/07	Vested @ 31/12/07	Vested but not exercise-able	Vested and exercise-able	Vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>Directors</b>									
N F Taylor									
P W Underwood	339,400	375,000	-	-	714,400	339,400	-	339,400	189,400
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
G J Jeffery	450,000	-	-	(450,000)	-	-	-	-	-
<b>Executives</b>									
P J Stickland	475,000	100,000	-	-	575,000	-	-	-	-
D A Neaves	275,000	100,000	(100,000)	-	275,000	100,000	-	100,000	100,000
B M Ulmer	385,000	100,000	-	-	485,000	100,000	-	100,000	100,000
B R Jones	275,000	-	-	(275,000)	-	-	-	-	-
R J Aden	-	200,000	-	-	200,000	-	-	-	-
R Hall	-	150,000	-	-	150,000	-	-	-	-
D S Ormerod	250,000	100,000	-	(350,000)	-	-	-	-	-
R A Cassie	-	150,000	-	-	150,000	-	-	-	-
G N Chapman	100,000	50,000	(25,000)	-	125,000	-	-	-	-
	2,549,400	1,325,000	(125,000)	(1,075,000)	2,674,400	539,400	-	539,400	389,400

All shares and share options issued to key management personnel during the financial year were made in accordance with the provisions of the share-based payment schemes referred to in note 22.

During 2008, no (2007 : 125,000) options were exercised by key management personnel for ordinary shares in Tap Oil Limited.

Further details of the share-based payment schemes and of share options granted during the financial year are contained in note 22 to the financial statements.

## 24. Related party transactions (cont'd)

### (d) Transactions with other related parties

Other related parties include the parent entity, jointly controlled operations in which the entity is a venturer and subsidiaries.

Amounts receivable from and payable to these related parties are disclosed in notes 7 and 11 to the financial statements. All loans advanced to and payable to related parties are unsecured, have no fixed repayment dates and are interest-free.

#### Transactions involving the parent entity

During the financial year, Tap Oil Limited charged \$719,400 (2007: \$3,470,689) to its wholly-owned subsidiaries for their tax payable in relation to the tax funding agreement – refer note 3.

During the financial year, Tap Oil Limited provided management and personnel services to its subsidiaries and jointly controlled operations. The total cost of the services provided was \$6,161,320 (2007: \$5,031,524).

## 25. Remuneration of auditors

### Auditor of the parent entity

Audit or review of the financial report

Consolidated		Company	
2008	2008	2008	2007
\$	\$	\$	\$
130,800	105,000	130,800	105,000

The auditor of Tap Oil Limited is Deloitte Touche Tohmatsu.

## 26. Contingencies and commitments

### Force Majeure Declaration – Burrup Fertilisers Pty Ltd.

On 28 December 2006, Tap (Harriet) Pty Ltd, together with the other HJV sellers, issued a notice of force majeure, in relation to the gas reservation requirements for the Harriet Joint Venture under a gas sale and purchase agreement entered into in December 2001 with Burrup Fertilisers Pty Ltd. The event of force majeure described in the notice includes the failure of exploration and development wells. Tap (Harriet) Pty Ltd has a 12.2229% interest in the Harriet Joint Venture and a corresponding interest as a gas seller under the gas sale and purchase agreement. Prior to the Varanus Island incident on 3 June 2008, the Harriet Joint Venture continued to supply gas in accordance with the terms of the agreement and, following the resumption of gas supply, anticipates being able to supply under the agreement for some years to come. On 27 August 2008, Burrup Fertilisers Pty Ltd issued notice of default to each of the HJV sellers, including Tap (Harriet) Pty Ltd, in relation to the gas reservation requirements and the interruption of gas supply due to the Varanus Island pipeline incident on 3 June 2008. At the date of this financial statement, no legal proceedings have been commenced in relation to this matter.

Under the gas sale agreement, the effect of force majeure is to suspend the affected party's obligations under the agreement to the extent that party is unable to perform the same. A party affected by force majeure is not liable for any failure or inability to perform obligations in circumstances of force majeure. Accordingly, the allegations contained in the default notice issued by Burrup Fertilisers Pty Ltd are denied by Tap.

The likelihood of any claim in relation to matters surrounding the force majeure declaration and the quantum of any such claim depends on a number of future events including the success of future drilling programs and cannot be reliably ascertained.

### Varanus Island Incident.

On 3 June 2008, there was an incident at Varanus Island affecting the Harriet Joint Venture of which Tap is a 12.2229% participant. As a result production was suspended while repairs were undertaken with the Harriet Joint Venture facilities recommencing substantial, but not full operations, by 31 December 2008. Tap, along with the other Harriet Joint Venture sellers, has issued a notice of force majeure to its gas customers in relation to the interruption in gas supply resulting from this incident.

## 26. Contingencies and commitments (cont'd)

An investigation into the cause of the incident is currently being undertaken by the operator, Apache Energy. As at the date of this report, the cause of the incident is not known.

Repair work is substantially complete but is still ongoing and Tap is unable to quantify the cost of repairs which it will be responsible for at this time. As at 31 December 2008 a total of \$9.049 million had been expensed for Tap's share of work done up to 31 December 2008. Given the uncertainty around both the quantum and timing of this expenditure, Tap has not recognised any provision for future repairs.

Tap has comprehensive business interruption and physical damage insurance and is working closely with insurers to ensure that they are being provided with all relevant information regarding the incident. As at 31 December 2008, Tap had received provisional payments of US\$5,143,498 (A\$7.721 million) from its insurers in regards to business interruption. These amounts have been recognised under current liabilities as they are repayable to the insurers until such time as liability is formally accepted by the insurers. Thus, Tap has not recognised any insurance receivable as the amount cannot be reliably measured at this stage.

## 27. Subsequent Events

Tap Oil Ltd signed a one year working capital facility agreement with BOS International (Australia) Limited on 17 October 2008 in order to ensure that it had access to additional funding in the event of any prolonged delays in the Varanus Island reconstruction project. On 12 February 2009 BOS International (Australia) Limited advised that the conditions precedent to the first draw down had been met. As at the date of this report there had been no drawdowns on the facility. The details of the facility are as follows:

Commitment: US\$25 million  
Interest rate: LIBOR plus 2.25%  
Termination date: 17 October 2009

Other than as noted above and since the end of the financial year the Directors are not aware of any matter or circumstance not otherwise dealt with within the financial report that has significantly 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 subsequent financial years.

## 28. General information

Tap Oil Limited is a listed public company, incorporated in Australia.

Tap Oil Limited's registered office and its principal place of business are as follows;

**Registered office**

Level 1, 47 Colin Street  
West Perth, WA, 6005  
Ph: (08) 9485 1000

**Principal place of business**

Level 1, 47 Colin Street  
West Perth, WA, 6005  
Ph: (08) 9485 1000