Tap Oil Limited
ABN 89 068 572 341

Level 1, 47 Colin Street
West Perth WA 6005
Australia

T: +61 8 9485 1000
F: +61 8 9485 1060
E: info@tapoil.com.au

www.tapoil.com.au

28 February 2011

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

APPENDIX 4E AND STATUTORY ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Herewith is Tap Oil Limited's 2010 Preliminary Final Report (Appendix 4E) and financial report (including directors' report and independent audit report) for the year ended 31 December 2010.

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

Enquiries to:	Troy Hayden	(Managing Director / CEO)
	Telephone:	+61 8 9485 1000
	Email:	info@tapoil.com.au
	Website:	www.tapoil.com.au

Tap Oil Limited

ABN 89 068 572 341

Appendix 4E

Preliminary Final Report

For the year ended 31 December 2010

This information should be read in conjunction with Tap Oil Limited's 2010 Financial Report which is attached.

Report for the year ended 31 December 2010
(comparative period is the year ended 31 December 2009)

Results for announcement to the market				A$ million
Revenue from ordinary activities	Up	31%	to	76.9
Loss from ordinary activities after tax attributable to members	Down	n/a*	to	61.4
Net loss for the period attributable to members	Down	n/a*	to	61.4
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.			
NTA backing	31 December 2010			31 December 2009
Net tangible asset backing per ordinary security *(Net assets excluding deferred exploration expenditure per share)*	$0.50			$0.76

Refer to the attached Directors' report and financial report for the financial year ended 31 December 2010 for the Statement of Comprehensive Income, 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.

* Down from a profit of $6.7 million in the comparative period

Tap Oil Limited

ABN 89 068 572 341

Financial report for the financial year ended 31 December 2010

Financial Report
for the financial year ended
31 December 2010

Page

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 2010, in order to comply with the provisions of the Corporations Act 2001.

1. Principal Activities

Tap'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.

2. Consolidated Results

The Consolidated Entity's revenue for 2010 was $76.9 million (2009: $58.9 million). The net loss before tax was $76.4 million (2009: profit of $8.0 million) and the net loss after tax was $61.4 million (2009: profit of $6.7 million). The Consolidated Entity generated $31.9 million of cash from operations (2009: $31.7 million).

3. Dividends

The directors of the Company 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.

4. Review of Operations

4.1 Strategic Overview

Tap is a diversified exploration and production company with cash reserves at 31 December 2010 of $99 million, no debt, ongoing oil and gas revenues, and a balanced exploration portfolio. Tap's strategic intent is to create value for shareholders through discovering, developing, acquiring, producing and selling oil and gas. Tap maintains an active business development and new ventures program in order to continually improve its asset portfolio.

Exploration and Appraisal

In 2010, Tap progressed its existing exploration strategy, focussing on opportunities with the risk-reward characteristics consistent with Tap's overall strategy. Tap added new exploration projects, exited some interests as set out below and advanced a number of projects including the acquisition of three seismic surveys and the drilling of five exploration and appraisal wells.

Offshore Thailand

On 14 October 2010, Tap acquired an effective 30% working interest in three concessions in the north and central Gulf of Thailand, being G1/48, G3/48 and G6/48. This was acquired via a purchase of 75% of the shares in Northern Gulf Petroleum Pte Ltd (NGP) which holds a 40% working interest in the concessions.

The G1/48 concession contains the Manora field which is currently estimated by Tap as a 24 mmbbl resource. The Manora discovery in late 2009 opened up a new oil play in the northern Gulf of Thailand. The G1/48 joint venture is targeting a Final Investment Decision (FID) for Manora in mid 2012 and first production in early 2014. Manora-1 tested at cumulative flow rates of over 9,000 barrels of oil per day (bopd) from three zones.

At the time of Tap's acquisition of NGP, the rig was on location to drill the Manora-4 well. Manora-4 was a stepout well which confirmed Tap's understanding of the reservoir and trap in the Manora field and also provided important information for the Manora field development plan. In particular, the information with regard to reservoir continuity observed from logs, pressure data and the core that was cut through the main reservoir interval will provide significant inputs to the development plan. The well results were in line with Tap's pre-drill expectations and hence the failure to encounter oil in Manora-4 had no impact on Tap's resource estimate of 24 mmbls.

The G6/48 concession contains the Rossukon discovery, also made in 2009.

In addition to the Manora and Rossukon discoveries, there are 17 exploration features with 200 mmbbls of cumulative unrisked potential across the 31,000 km^2 covered by the three concessions. There is an active exploration and appraisal program in place with up to four wells and a significant volume of seismic acquisition planned for 2011. As at year end, a 2D seismic acquisition was underway in G3/48.

Carnarvon Basin – Offshore Western Australia

In WA-351-P, the operator (BHP Billiton) completed a detailed assessment of the plays, prospects and leads in the permit in early 2010 including the 3D seismic acquired in 2008. Over 10 leads and prospects were defined in the Triassic Mungaroo Formation which Tap estimates have a combined estimated mean potential of 2-3 Tcf (gross recoverable) of natural gas. Tap considers that a number of these targets have an estimated probability of success of over 50%.

Additional leads have been identified in WA-351-P in the Jurassic and Early Cretaceous, both of which are productive elsewhere in the Carnarvon Basin. Current indications are that this shallower potential is larger but higher risk than the Triassic in this permit. Further work will be done on these objectives.

The high chance of success is reinforced by Hess reporting 13 gas discoveries from 16 exploration wells drilled to date in the adjacent WA-390-P permit, immediately north of WA-351-P. Hess has commenced an appraisal program in WA-390-P.

During the year, renewal of the permit for a five year period was approved by the regulator. Renewal included a relinquishment of 50% of the permit area. The retained area includes all of the high graded features in the permit. Under the terms of the exploration licence, an exploration well is required to be drilled before 5 June 2013.

In WA-290-P, Tap entered into an agreement with Apache Energy Limited (Apache) to farmout a 10% interest in WA-290-P in consideration for Apache paying a promoted share of the costs of the Zola-1 well. Tap retains a 10% interest in the permit. The Zola-1 well spudded on 1 December 2010 and as at the date of this report, the well was at a depth of 4,374 m in the Mungaroo Formation. Due to the approaching cyclone, limited wireline logs (MDT formation pressure and sampling) were run across the upper Mungaroo target. These logs supported the early interpretation (from mud log and LWD data) of a gas column in sandstones at the top of the Mungaroo Formation. The well is currently suspended down hole and the rig has been secured and de-manned for an approaching cyclone. Forward operations for when the rig is re-manned and operations recommence will be to drill ahead through the upper Mungaroo Formation and through the second target zone to final well TD as planned.

Elsewhere in the Carnarvon Basin, Santos have proposed the Finucane South (WA-191-P) well for drilling in 2011. Tap elected not to participate in three wells in TP/7 and TL/2. All three wells failed to find hydrocarbons. Tap also sold its interest in the R3 permit in 2010 and exited from WA-261-P.

Offshore Ghana

During 2010, Tap was a 36% participant in, and the operator of a joint venture that entered into a Petroleum Agreement to secure the Offshore Accra Contract Area. The Offshore Accra Contract Area covers an area of 2,000 km^2 and is located to the southeast of Accra, the capital of the Republic of Ghana, in water depths ranging from less than 50 m to greater than 2,500 m. Ghana ranks as one of the most financially and politically stable, countries in Africa.

The Offshore Accra Contract Area is located in an emerging oil province on the West Africa Transform Margin, along the northern Gulf of Guinea. A number of discoveries have been made in analogous geological settings along this Margin, including the Espoir and Baobab producing fields in neighbouring Cote d'Ivoire. In 2007, the Jubilee field was discovered by Kosmos Energy and Tullow Oil (one of the largest oil discoveries in the world in 2007), establishing a new deepwater play offshore Ghana. According to Tullow, recoverable oil reserves for the Jubilee field are estimated to be 1.2 billion barrels. Subsequent discoveries in Ghana (Tweneboa, Odum, Owo and Teak) and in the Liberian Basin (Venus) have further demonstrated the potential that exists along the whole margin.

During the year several moderate risk, but high reward structures have been identified on the existing 3D seismic data in shallow to moderate water depths in the Contract Area, each of which is considered to have potential to contain in excess of 100 mmbls of prospective resources. Deepwater leads similar to the recent Jubilee discovery have been identified on existing 2D seismic, and a new 3D seismic survey has been acquired since year end in order to confirm and mature these into prospects for drilling.

Other

In Block M onshore Brunei, two wells were drilled during 2010 and a second 3D seismic survey was acquired.

Mawar-1 encountered up to 25 m of gas in the primary objective Ridan Sandstone. A deeper secondary objective Rampayoh Series at Mawar-1 had indications of oil. Reservoir quality in the upper part of the Rampayoh Series is unclear and will only be confirmed with further analysis of the well data.

Markisa-1 encountered good oil shows while drilling through the Ridan Sands from approximately 1,070 m to 1,100 m (29 m true vertical thickness) with mud log and preliminary wireline logs indicating a possible oil column over this horizon.

Both wells have been cased and suspended in anticipation of future activity. Tap is currently undertaking a sale process for its interest in Block M.

In T/47P, Tap increased its interest during the year from 40% to 75% via a transaction whereby Tap assumed the 35% working interest of Singapore Petroleum Company in return for being compensated US$8.3 million for the increased share of the joint venture's drilling obligations.

Drilling commenced on the Craigow-1 well in T/47P on 24 December 2010. The well was plugged and abandoned and the rig released on 7 January 2011. The well evaluated all objectives as planned. Several high quality sands were intersected in the main Top Aroo Formation objective below thick sealing claystones as prognosed. However, analysis of wireline logs, cuttings samples, gas readings and other data indicated that the sands are not hydrocarbon bearing. The well was drilled under budget, with no safety or environmental issues. Data from the well will be fully evaluated and incorporated into Tap's geological and geophysical understanding of the Bass Basin over the coming few months. Tap will then consider its options for future exploration in T/47P.

In the onshore Rangkas block in Indonesia, the operator (Lundin) is currently acquiring a 2D seismic survey over prospective areas.

During the year Tap relinquished its interest in SC 41 (Phillipines).

Following the 2010 exploration results as set out above, the exploration impairment losses recorded as at 31 December 2010 were $70.5 million (2009: $2.2 million) as set out below:

Permit	2010 Impairment ($ million)
Block M, Brunei	28.7
SC 41, Philippines	20.3
T/47P, Bass Strait	12.9
Others	8.6
TOTAL	**70.5**

Production and Sales

	2010 '000 boe	2010 $'000	2009 '000 boe	2009 $'000
Production (net to Tap):				
Liquids - HJV	200		220	
Oil - Woollybutt	262		145	
Total liquids	462		365	
HJV Sales Gas – 4,134 TJ (2009: 3,670 TJ)	616		547	
Total production	1,078		912	
Sales (net to Tap):				
Liquids	472	40,335	419	30,957
HJV Gas Sales – 4,099 TJ (2009: 3,951 TJ)	610	6,066	589	5,838
Third Party Gas Sales – 3,940 TJ (2009: 2,599 TJ)	581	25,040	387	17,224
Tolling	-	2,168	-	3,999
Total sales	1,663	73,609	1,395	58,018
Average realised oil price		A$85.46/bbl		A$73.88/bbl

Oil production levels at the Harriet Joint Venture declined over the course of the year, but were still ahead of budget producing 200,000 bbls net to Tap for the year. Gas production rates are controlled in order to meet gas sales contracts, hence production fluctuated slightly during the year in line with demand.

The Woollybutt field recommenced production on 7 March 2010 having undergone a planned life extension work program. The field came back on line at approximately 8,000 bbls per day, but production declined at a rate faster than expected which has led to a reduction in reserves for the field to 1.43 mmbbls (0.21 mmbbls Tap share) at 31 December 2010.

In addition to selling its own oil and gas production from the Harriet Joint Venture and Woollybutt fields, Tap has contracts with third parties by which it buys gas from the John Brookes field and re-sells this gas to consumers. The resale arrangements are at CPI linked domestic prices and take advantage of Tap's contracted low purchase cost. These contracts are fixed in AUD and hence are not exposed to changes in either commodity prices or exchange rates.

During the year, Tap concluded a series of transactions involving the restructure of its third party gas arrangements and additional sales resulting in a substantial increase in value. This gas is now fully contracted and provides substantial stable, long-term cash flow.

Throughout 2010, several gas customers experienced operational issues, reducing their consumption of gas and deferring revenue to Tap of approximately $5.2 million. As gas is sold on a 'take-or-pay' basis, Tap still receives payment as if the gas had been delivered, but for accounting purposes the revenue is deferred and a corresponding liability to deliver this gas at a future date is recognised. Thus revenue from gas sales is lower than expected, even though the cash has been received for future gas sales.

4.2 Financial Summary

Tap's revenue for 2010 was $76.9 million (2009: $58.9 million). After exploration impairment losses of $70.5 million (2009: $2.2 million) and property, plant and equipment impairment losses of $9.1 million (2009: Nil), the net loss before tax was $76.4 million (2009: profit of $8.0 million) and the net loss after tax was $61.4 million (2009: profit of $6.7 million). Tap generated $31.9 million of cash from operations (2009: $31.7 million).

Revenue from liquids sales of $40.3 million was higher than 2009 revenue of $31.0 million due to a higher average realised price per barrel of $85.46 (2009: $73.88) and an increase in the volume of liquids sold from 419,000 barrels in 2009 to 472,000 barrels in 2010. No oil price hedges were in place for 2010 production, resulting in all production being sold at US dollar spot oil prices. No oil price or currency hedging has been put in place for subsequent years.

Revenues for gas sales were higher in 2010 mainly due to the higher sales volumes of third party gas. As mentioned above, several gas customers experienced operational issues, reducing their consumption of gas and deferring revenue to Tap of approximately $5.2 million.

Cash production (operating) costs at the Harriet Joint Venture were higher than the prior year due to overall general increases and additional costs incurred for the tolling of third party gas through the processing plant by Tap. Gas purchases from third parties, which were also higher during 2010, are also included in cost of sales.

At Woollybutt, production costs were higher in 2010 compared to 2009 due to the FPSO being back on station and producing for over nine months in 2010 compared to less than four months in 2009 due to the life extension work program. The Woollybutt oil field recommenced production on 7 March 2010.

In addition to the cash production costs discussed above, there was $27.8 million (2009: $22.3 million) in depreciation charged to cost of sales. Depreciation is charged on a unit of production basis and the increase is a reflection of the higher production volumes in 2010 and the Woollybutt reserves downgrade at 30 June 2010.

Tap's net administration costs were higher primarily due to the focus on business development and new ventures during the year. This involved a number of technical staff working on internal projects such as the Thailand acquisition for which there is no recovery of costs.

The exploration activities in 2010 are set out in the Strategic Overview in item 4.1 above. Following the 2010 exploration results, the exploration impairment losses recorded as at 31 December 2010 were $70.5 million (2009: $2.2 million).

The property, plant and equipment impairment losses in 2010 were $9.1 million (2009: Nil). $7.0 million of the impairment relates to a downgrade in the reserves at Woollybutt to 1.43 mmbbls (0.21 mmbbls Tap share) at 31 December 2010. The balance of $2.1 million relates to TL/2 and TP/7 development asset which is currently for sale.

Net cash generated by operations of $31.9 million (2009: $31.7 million) was similar to 2009. In addition, net proceeds from the capital raising in 2010 was $55.0 million.

5. Directors

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

Name	Committee Memberships	Experience
N F Taylor Non-executive Director and Chairman Appointed, 19 March 2002	Remuneration Committee (Chair) Nominations Committee (Chair) Reserves Committee	Neale Taylor has over 40 years of technical, operating and commercial experience in oil and gas exploration and production. Neale gained most of his experience with Esso in Australia. Neale is a member of the Society of Petroleum Engineers and a Fellow of the Australian Institute of Directors.
T J Hayden Managing Director/CEO Appointed, 1 December 2010	Nominations Committee	Troy Hayden joined Tap in December 2010 after a 12 year career at Woodside Petroleum. Troy brings a mix of leadership, financial and general management skills and expertise to the role, gained during 20 years experience in the resources and petroleum industries.
P B Lane Non-executive Director Appointed, 14 March 1995	Audit Committee Nominations Committee Reserves Committee (Chair)	Peter Lane is a petroleum geologist with more than 40 years experience in oil exploration and development in Australia, Canada and Papua New Guinea. Peter has managed a number of successful exploration and production companies including Vamgas NL, Reef Oil NL and Basin Oil NL. Prior to becoming a Director of Tap, Peter conducted his own consulting business for 19 years.
M J Sandy Non-executive Director Appointed, 22 June 2006	Audit Committee Nominations Committee Reserves Committee Remuneration Committee	Michael Sandy is a geologist with over 35 years experience in the resources industry with the past 30 years focused on oil and gas. Michael has worked for various oil and gas companies, including Oil Search and Novus Petroleum.
D W Bailey Non-executive Director Appointed, 11 November 2009	Remuneration Committee Nominations Committee Audit Committee (Chair)	Douglas Bailey was the Chief Financial Officer of Woodside Petroleum Ltd between 2002 and 2004 and previously, was an Executive Director of Ashton Mining Limited from 1990 to 2000, including the last 3 years as Chief Executive Officer. He was formerly a Non-executive Director of Aurora Gold Ltd.
P J Stickland Managing Director/CEO Appointed Managing Director on 11 February 2009 Resigned, 1 December 2010		Peter Stickland has over 20 years global experience in oil and gas exploration. Peter had a successful career with BHP Billiton including a range of technical and management roles. Peter became Chief Executive Officer of Tap on 1 January 2008. Peter is a member of the Board of Australian Petroleum Production and Exploration Association Limited.

Directorships of other Listed Companies

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

Name	Company	Position	Commenced	Ceased
N F Taylor	Elk Petroleum Limited	Director	September 2010	-
M J Sandy	Caspian Oil and Gas Limited	Director	September 2005	-
	Burleson Energy Limited	Director	May 2006	-
	Hot Rock Limited	Director	June 2007	-
D W Bailey	St Barbara Limited	Director	January 2006	-

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 of the Company was eligible to attend and the number of meetings attended by each director of the Company (while they were a director or committee member).

	Board of Directors		Audit Committee		Remuneration Committee		Reserves Committee		Nominations Committee	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
N F Taylor	13	13	-	3 (i)	2	2	2	2	1	1
P J Stickland	13	12	-	3 (i)	-	2 (i)	-	2 (i)	-	1 (i)
T J Hayden	1	1	-	-	-	1 (i)	-	1 (i)	1	1
P B Lane	13	12	3	3	-	2 (i)	2	2	1	1
M J Sandy	13	13	3	3	-	2 (i)	-	2 (i)	1	1
D W Bailey	13	13	3	3	2	2	-	2 (i)	1	1

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

Changes were made to the composition of the various board committees during the course of 2010. The composition of these committees is now as set out above.

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	219,726	-
P B Lane	958,602	-
M J Sandy	89,472	-
D W Bailey	145,650	-
T J Hayden	30,000	-

As at the date of this report, no directors of the Company have share rights.

Company Secretary

Matthew Worner LLB, B.Bus. – appointed 30 January 2008, resigned 8 October 2010. Mr Worner was 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 8 October 2010, resigned 9 February 2011. At the date of this report, Mr Neaves is the Company's Business Development 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.

Melanie Williams LLB, Grad Cert Corp Mgt – appointed 10 February 2011. Ms Williams also acts as the Company's General Counsel. She is admitted to practice as a barrister and solicitor in the Supreme Court of Western Australia. Most recently she was counsel with an international law firm, based in Singapore, specialising in oil and gas transactions, particularly in the Asian region.

6. 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.

7. Subsequent Events

Since the end of the financial year the directors of the Company are not aware of any other 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 other than:

(a) On 20 January 2011, the Consolidated Entity exercised its pre-emptive right to acquire an additional 20% interest in the WA-351-P exploration permit in Western Australia's Carnarvon Basin, for a cash consideration of US$15.750 million. The acquisition is subject to relevant government approval.

(b) The Consolidated Entity and Jubilant Energy Pty Ltd (holder of a 25% interest in the T/47P exploration permit) have entered into arbitration, due to Jubilant Energy Pty Ltd defaulting on cash calls payable to the T/47P Joint Venture. To date outstanding cash calls to the value of $3.506 million have been paid by the Consolidated Entity on behalf of Jubilant Energy Pty Ltd as required under the T/47P Joint Operating Agreement.

(c) Offers were received for the Consolidated Entity's assets classified as held for sale. Refer to note 7 for further disclosure in respect of these assets held for sale.

(d) The Zola-1 well spudded on 1 December 2010 and as at the date of this report, the well was at a depth of 4,374 m in the Mungaroo Formation. Due to the approaching cyclone, limited wireline logs (MDT formation pressure and sampling) were run across the upper Mungaroo target. These logs supported the early interpretation (from mud log and LWD data) of a gas column in sandstones at the top of the Mungaroo Formation. The well is currently suspended down hole and the rig has been secured and de-manned for an approaching cyclone. Forward operations for when the rig is re-manned and operations recommence will be to drill ahead through the upper Mungaroo Formation and through the second target zone to final well TD as planned.

8. 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 farm-in, permit application and/or acquisition within its existing operational focus areas and in other suitable 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.

9. 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.

The National Greenhouse and Energy Reporting Act 2007 requires certain companies to report their annual greenhouse gas emissions and energy use. As at the date of this report, the Company is not required to submit a report in relation to this matter.

10. Share Options and Rights

10.1 Share Options

The total number of share options on issue at the date of this report is 4,923,430 down from 6,199,554 at the date of the previous report.

Details of unissued ordinary shares under option at the reporting date are:

Issuing entity	Number of shares under option	Exercise price of option(i)	Share price at 31/12/10	In/(Out) of the money at 31/12/10	Expiry date of options
Tap Oil Limited	49,541	$ 1.73	$0.83	($0.90)	9-Apr-11
Tap Oil Limited	51,000	$ 1.66	$0.83	($0.83)	14-Jul-11
Tap Oil Limited	300,000	$ 1.32	$0.83	($0.49)	3-Sep-11
Tap Oil Limited	10,800	$ 1.20	$0.83	($0.37)	3-Sep-11
Tap Oil Limited	315,000	$ 1.60	$0.83	($0.77)	25-Sep-11
Tap Oil Limited	28,000	$ 0.56	$0.83	$0.27	25-Nov-11
Tap Oil Limited	300,000	$ 0.61	$0.83	$0.22	25-Nov-11
Tap Oil Limited	482,096	$ 0.78	$0.83	$0.05	23-Jan-12
Tap Oil Limited	2,007,793	$ 0.85	$0.83	($0.02)	23-Jan-12
Tap Oil Limited	375,000	$ 1.41	$0.83	($0.58)	6-Feb-12
Tap Oil Limited	133,200	$ 0.99	$0.83	($0.16)	7-Apr-12
Tap Oil Limited	536,000	$ 1.56	$0.83	($0.73)	29-Jan-13
Tap Oil Limited	335,000	$ 1.48	$0.83	($0.65)	15-Jul-13
	4,923,430				

(i) The exercise price of all options was adjusted for the 1 for 2 entitlement issue in accordance with the terms and conditions of the options.

No options were issued during the financial year or up to the date of this report. The holders of 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 or up to the date of this report as a result of exercise of options.

10.2 Share Rights

Details of issued share rights as at the date of this report are as follows. All rights vest after three years and expire after seven years.

Number	Expiry date of rights
Performance Rights	
1,632,398	01-Jan-17
2,706,151	01-Jan-18
4,338,549	
Retention Rights	
618,778	01-Jan-17
8,090	07-May-17
14,925	30-Aug-17
243,398	01-Jan-18
18,257	17-Jan-18
142,027	10-Feb-18
1,045,475	

11. Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a policy insuring the directors of the Company (as named above), the Company's secretaries 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.

12. Remuneration Report - Audited

12.1 Introduction

The directors of the Company have prepared this remuneration report to outline the overall remuneration strategy, policies and practices adopted by the Company in 2010. The report has been prepared in accordance with Section 300A of the Corporations Act 2001 and its regulations.

Prior to the 2010 Annual General Meeting, the Company completed a comprehensive review of its remuneration policies and practices. An independent consultant was engaged to assist with this review. The revised remuneration policy was set out in the notice of meeting for the Company's 2010 Annual General Meeting on 30 April 2010. At the 2010 Annual General Meeting, shareholders approved the proposed share rights plan, which forms an integral part of the revised remuneration policy. All remuneration in 2010 was administered under this remuneration policy as set out below.

Tap's remuneration policy is designed to ensure that the level and form of compensation achieves certain objectives, including:

(a) attraction and retention of staff and management to pursue the Company's strategy and goals;

(b) delivery of value-adding outcomes for the Company;

(c) fair and reasonable reward for past individual and Company performance; and

(d) incentive to deliver future individual and Company performance.

Remuneration consists of base salary, superannuation, short term incentives 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.

Remuneration arrangements for directors and executives are reviewed by the Remuneration Committee and recommended to the Board for approval. 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 of the Company. Performance of the directors of the company and Managing Director/Chief Executive Officer are evaluated by the Board assisted by the Remuneration Committee. The Managing Director/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.

12.2 Overview of Existing Remuneration Arrangements for Directors and Executives

An overview of the remuneration arrangements for directors and executives of the Company for the year ended 31 December 2010 is set out below.

12.2.1 Executive Remuneration Structure

The remuneration structure in place for 2010 applies to all staff and executives including executive directors of the Company. The Company's remuneration structure has five elements:

(a) fixed annual remuneration (FAR) or base salary;

(b) a short-term incentive (STI) award which provides a reward for performance in the past year against a set of key performance indicators (KPIs) for that year;

(c) a long-term incentive (LTI) award which provides an incentive to deliver future Company performance;

(d) retention incentives which encourage new employees to remain in employment for at least 3 years; and

(e) special awards which reward individuals for meritorious achievements or retain individuals who are involved in a critical task that will extend more than one year.

Each of the STI, LTI, retention incentives and special awards are at risk.

(a) Base Salary or Fixed Annual Remuneration

The first step to attracting and retaining talented, qualified and effective staff is paying base salaries which are competitive in the markets in which the Company operates. The Company compiles competitive salary information on companies of comparable size in the oil and gas industry from various sources. Information is obtained from surveys conducted by independent consultants and national and international publications.

FAR will be paid in cash and is not at risk other than by termination. Individual FAR is set each year based on job description, competitive salary information sourced by the Company and overall competence in fulfilling the requirements of the particular role.

(b) Short Term Incentive Awards

An STI award is assessed by a performance-based factor multiplied by a benchmark award for the individual's level in the Company multiplied by the individual's FAR. The award is to be made 100% in cash and the amount of the payment is calculated by the following formula:

Performance Factor x **STI Organisational Level Benchmark** x **Individual's FAR**

An individual employee's performance factor is assessed against both the individual's performance and the Company's performance over the preceding year. A rating for individual performance is determined on a scale of 1 to 5 based on how well the individual performs against the individual's annual goals. The Company's performance is assessed against a set of corporate goals, which are in the form of KPIs, which are set by the Board for a given year. In 2010, the KPIs included performance against budgeted earnings before interest, tax, depreciation, amortisation and exploration expenses (EBITDAX), performance against budgeted capital and exploration expenditure, reserves replacement, 12 month relative share price performance, HSE and asset and liability management. Each KPI is given a relative weighting and is assessed against threshold, good (target) and excellent benchmarks. The Board will vary KPIs each year to suit prevailing circumstances.

Any award will be subject to the Company exceeding one or more fundamental performance hurdles determined by the Board on an annual basis. While a positive STI award might be assessed under a previously prescribed set of KPIs, circumstances within the year might see a reduction in the Company's ability or desire to pay such an award due to an unexpected material reduction in the Company's cash flow. The Board, at its absolute discretion, reserves the right to withhold the making of any STI awards if it finds itself in such a position.

An individual's combined performance factor is determined from the assessment table below:

Performance Factors (%)

Annual Corporate KPI Performance	***Individual Performance Ranking***				
	5	4	3	2	1
< Threshold	0%	0%	0%	0%	0%
Threshold	0%	20%	50%	63%	75%
Good	0%	40%	100%	125%	150%
≥ Excellent	0%	60%	150%	188%	225%

Three STI organisational level benchmarks have been established as percentages of individual FARs. These three levels reflect the increased involvement at each level in the organisation's pursuit and achievement of the Company's goals. These benchmarks are set out below.

Organisational Level	**Managing Director**	**Management**	**Professional, Technical & Support**
STI Organisational Benchmarks	20%	15%	12.5%

(c) Long Term Incentive (LTI) Awards

The Company believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders.

LTI awards are made in the form of rights to shares which will have a vesting timeframe of three years. The number of rights that vest will be based on the Company's performance over the same three years.

An LTI award will be made by way of the grant of performance rights as soon as practicable after each year end. Grants of performance rights will be made each year with effect from 1 January.

The number of performance rights to be granted annually to each employee is calculated by the following formula:

LTI Organisational Level Benchmark x **Individual's FAR ÷ Share Price**

Three maximum LTI organisational benchmarks have been established as percentages of individual FARs. These three levels reflect the increased involvement of each level in pursuing and achieving the Company's goals. These benchmarks, which are set out in the following table, are subject to being reduced proportionately so that the total number of performance rights is within the Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year.

Organisational Level	Managing Director	Management	Professional, Technical & Support
LTI Organisational Level Benchmarks	120%	70%	30%

The calculation will use the 30-day volume-weighted average share price (VWAP) of the Company's shares preceding the first day of each measurement period.

The Board has established an initial guideline that the total number of performance rights to be issued in a single year will be capped at 1.5% of the fully paid issued capital of the Company as at the end of the prior year. In the event that the potential total number of performance rights exceeds the cap then all awardees receive a pro-rata reduced number of performance rights. This cap is at the discretion of the Board and may be altered depending on the prevailing context.

Vesting of up to 50% of the performance rights depends upon the Company's absolute total shareholder return (ATSR) over three years and up to 50% depends upon relative total shareholder return (RTSR). The ATSR and RTSR performance hurdles required to achieve increasing levels of vesting are set by the Board to apply from 1 January of the relevant year. For the 2010 grant of performance rights the Board set the following ATSR and RTSR performance hurdles:

Assess 50% of Rights Against ATSR		Assess 50% of Rights Against RTSR	
Average Annual ATSR over 3 years	% of Rights which will vest after 3 years	Relative TSR (Relative Percentile Ranking of TSR against peers over 3 years)	% of Rights which will vest after 3 years
<5%	0%	<P50%	0%
=5%	12.5%	=P50%	12.5%
=15%	25%	=P62.5	25%
≥25%	50%	≥P75%	50%

Note: For actual results between above benchmarks, the vesting of performance rights will be on a pro-rata basis.

The combination of ATSR and RSTR measures has been chosen to cover a range of outcomes which can deserve reward but may show up better under one measure but not under the other. The reward for strong absolute return is moderated in the event that there is a poorer relative return and the award for strong relative return is moderated in the event the absolute return is poorer. ATSR is used rather than earnings per share (EPS), as in the Board's view, EPS would shift the key focus away from the Company's long-term business which is currently exploration focused. However, the Company has and does use earnings as one of its short-term KPIs to ensure attention is paid to meeting forecast annual production and cost management targets.

Vesting characteristics of the performance rights are as follows:

(i) performance measurement period is three years, which is consistent with the typical time cycle for an exploration program and the Company's strategic emphasis on exploration;

(ii) performance is based on differences in ATSR and RTSR as measured from the end of one preceding period to the end of the current (three years) assessment period. The ATSR and RTSR uses the 30-day VWAP of the Company's shares preceding and including the last day of each measurement period; and

(iii) RTSR will be assessed against a peer group of like companies determined by the Board before the start of each assessment period or as soon as practical thereafter. In 2010, the Company used a group of approximately 30 petroleum industry companies which are listed on the ASX and whose market capitalisation ranges from approximately $15 million to $1,500 million.

(d) Retention Incentives

Retention rights are issued to staff pursuant to the terms of the share rights plan upon or as soon as practicable after commencement of employment. Such rights vest if the employee remains employed by the Company for three years. The number of retention rights to be issued to a new employee is set at one of three levels reflecting the organisational level appropriate for the employee's initial job grade. These levels are outlined in the following table.

Organisational Level	Managing Director	Management	Professional, Technical & Support
LTI Organisational Level Benchmarks	Subject to initial employment contract negotiations	35%	15%

(e) Special Awards

The Board has the discretion to make special awards each year. Special awards can be in the form of cash, and/or performance rights and/or retention rights. Special awards are granted to individual staff or executives who are judged by the Board to have made an extraordinary contribution to the current or future performance of the Company or who are expected to play a critical role in one of the Company's activities that could take two to three years to complete, and where retention of the individual's services is seen as an important determinant of the success to that activity.

12.2.2 Executive Directors' Remuneration

As at 31 December 2010, Mr Hayden was the only executive director on the Board. Mr Hayden commenced as Managing Director/Chief Executive Officer on 1 December 2010. Mr Hayden received or is entitled to the following initial remuneration:

- an initial FAR of $565,000, this FAR will apply until 31 December 2011;
- upon commencement of employment, Mr Hayden was paid a one-off cash award of $100,000;
- subject to shareholder approval, Mr Hayden is eligible, subject to the terms of the Company's remuneration policy and share rights plan, to receive a retention incentive of 383,360 (equivalent to 55% x FAR) retention rights. Refer to 12.2.1(d) above;
- subject to shareholder approval, Mr Hayden is eligible, subject to the terms of the Company's remuneration policy and share rights plan, to receive an LTI award of 906,123 (equivalent to 120% x FAR) performance rights. Mr Hayden will be eligible for another LTI award on 1 January 2012 (subject to shareholder approval). Refer to 12.2.1(c) above; and
- Mr Hayden may be eligible, subject to shareholder approval and the terms of the Company's remuneration policy and share rights plan, to receive, subject to Mr Hayden's contribution to any successful material transaction completed within the first 24 months of employment, a one-off award of three years retention rights up to the value of 50% x FAR, with the retention rights becoming exercisable if Mr Hayden remains employed three years from commencement.

Those elements of Mr Hayden's remuneration package that require shareholder approval will be placed before shareholders at the Company's Annual General Meeting to be held in May 2011.

Mr Peter Stickland, who was Managing Director/Chief Executive Officer up until 1 December 2010, received remuneration in accordance with the structure set out in 12.2.1 above. As part of changing Tap's remuneration policy, Mr Stickland also received a bonus payment of $150,000 to compensate for the value foregone under his executive employment agreement by changing the long term incentive structure from options and shares to rights.

12.2.3 Non-Executive Directors' Remuneration

In line with Corporate Governance principles, non-executive directors of the Company are remunerated solely by way of fees and statutory superannuation. The annual fee is set to reflect current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board. All directors of the Company are encouraged to apply a proportion of their fees to purchase shares in the Company. The maximum total pool of available fees is set by shareholders in general meeting and is currently $500,000.

Other than statutory superannuation, non-executive directors of the Company are not entitled to any retirement benefits upon their retirement from office.

12.3 Service Agreements

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

Non-Executive Directors

The Company has entered into terms of engagement with each of P B Lane, N F Taylor, M J Sandy and D W Bailey 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 of the Company (in this regard, the Constitution provides that all directors of the Company, 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 is discussed in detail below and shown in the relevant tables.

Executive Directors

At the date of this report, Mr T J Hayden, the Managing Director/Chief Executive Officer, is the only executive director.

Mr Hayden was appointed as Managing Director/Chief Executive Officer on 1 December 2010 under an executive employment agreement. The term of the executive employment agreement expires on 31 December 2013 and thereafter the term may be extended for periods of one year by mutual agreement. Mr Hayden's base package (FAR), with effect from 1 December 2010, is $565,000 per annum (inclusive of superannuation). This amount is reviewed annually at the Board's discretion, commencing on 31 December 2011 and cannot increase by less than CPI each year.

The executive director may terminate his executive employment agreement by giving six months notice in writing, or such shorter period as may be agreed. Except for the Company's right to terminate without notice in prescribed circumstances, the Company may terminate the executive director's employment as follows:

- in the first 12 months of employment, by giving Mr Hayden 18 months written notice (or payment in lieu);
- after the first 12 months of employment, by giving Mr Hayden the lesser of 12 months written notice or notice equal to the balance of the term (or payment in lieu); or
- by providing either 1 month's written notice, if by reason of any illness, injury or incapacity, Mr Hayden is unable to perform his duties for a total of three months in any period of 12 months.

A range of other terms and conditions apply to both Mr Hayden and the Company.

Mr P J Stickland was appointed as Managing Director/Chief Executive Officer under an executive employment agreement entered into on 11 February 2009. On 30 April 2010, the Company entered into a new executive employment agreement with Mr Stickland. On 28 May 2010, Mr Stickland gave notice to the Board that due to family reasons he did not intend to renew his employment agreement. On 30 November 2010, after agreement had been reached to appoint Mr Hayden, a deed of separation was executed with Mr Stickland. Under the Deed:

- Mr Stickland's employment finishes on 18 March 2011;
- from 1 December 2010, Mr Stickland's title became Advisor to the Board and to the Managing Director/Chief Executive Officer;
- all share rights and retention rights were cancelled immediately;
- any unexpired options do not expire on termination of employment; and
- Mr Stickland was eligible to, and did, receive an STI award for 2010 in accordance with the Company's remuneration policy.

There are no termination benefits and no payments to Mr Stickland that require shareholder approval.

Executives

A summary of the key terms and conditions of the service agreements with executives are as follows:

Remuneration

All service agreements now standardise the executive's entitlement to:

- fixed annual remuneration (FAR) (refer section 12.2.1(a) of this report);
- short-term incentives (STI) (refer to section 12.2.1(b) of this report);
- long-term performance incentives (LTI) (refer to section 12.2.1(c) of this report); and
- any other benefits that may be provided by the Company including special awards (refer section 12.2.1(e) of this report).

Termination

All service agreements may be terminated under the following circumstances:

- resignation on three months notice by the executive;
- termination on three months notice by the Company; or
- termination without notice by the Company for cause.

In the event of a redundancy or defined change in circumstances, the executive is entitled to severance pay of up to 16 weeks depending on length of service.

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

12.4 Elements of Remuneration related to Performance

The elements of remuneration shown in the columns labelled "Bonus" and "Share-based payment equity settled" in the tables below are related to Company and individual performance (except for a payment of $100,000 to Mr Hayden upon his commencement as Managing Director/Chief Executive Officer). 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 executives of the Company are explained in detail in the discussion on remuneration policy in this remuneration report. Except as noted above, the cash bonuses shown in the 2010 remuneration table below were awarded based on performance for the 2010 financial year. The value of options, shares and rights shown in the tables below are the accounting costs accrued in the financial year for grants 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 of the Company received fixed remuneration only.

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 provides a five year financial summary to 31 December 2010:

12 months ended	Dec 10	Dec 09	Dec 08	Dec 07	Dec 06
NPAT ($million)	(61.4)	6.7	(7.5)	(7.8)	0.8
EPS (cents) *Basic (note 1)*	(35.8)	4.3	(4.8)	(5.0)	0.5
EPS (cents) *Diluted (note 1)*	(35.8)	4.3	(4.8)	(5.0)	0.5
Year end share price ($)	0.83	1.17	0.77	2.05	1.52
Shares on Issue (million)	241.0	156.5	156.5	156.5	155.9
Market Capitalisation ($ million)	200.0	183.1	120.5	320.1	237.0

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

For the 2010 year, the Board determined a set of Company KPIs, reflecting the Company's strategies, business plan and budget. The KPIs included performance against budgeted earnings before interest, tax, depreciation or exploration (EBITDAX), performance against budgeted capital and exploration expenditure, reserves replacement, 12 month relative share price performance, HSE and asset and liability management.

Overall the Company performed at the Target (Good) level against this weighted group of indicators for 2010 with notably good performances against EBITDAX, capital expenditure and HSE in relation to the Brunei seismic survey, three operated wells in Brunei and Australia and the acquisition of a 75% interest in Northern Gulf Petroleum Pte Ltd.

Managing Director/Chief Executive Officer

The Company has entered into an executive employment agreement with Mr Hayden as set out in 12.3 above. Mr Hayden did not receive any performance related remuneration during 2010. The $100,000 shown in the "Bonus" column is a payment upon his commencement as Managing Director/Chief Executive Officer as per his contract.

As set out in 12.3 above, on 30 November 2010 the Company entered into a deed of separation with then Managing Director/Chief Executive Officer, Mr Stickland. Under the deed, all share rights and retention rights were cancelled immediately, any unexpired options do not expire on termination of employment and Mr Stickland was eligible to, and did, receive an STI award for 2010 in accordance with the Company's remuneration policy. Hence the table below reflects values relating to options and shares granted in previous periods and no value for rights that were issued and cancelled within 2010.

The Company has entered into a deed of indemnity, insurance and access with Mr Hayden and Mr Stickland whereby the Company will maintain an appropriate level of directors' and officers' indemnity 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 B Lane
- M J Sandy
- D W Bailey

Senior Executives

- T J Hayden (Chief Executive Officer/Managing Director from 1 December 2010)
- P J Stickland (Chief Executive Officer/Managing Director to 1 December 2010)
- D A Neaves (Commercial Manager, Company Secretary and Business Development Manager)
- B M Ulmer (Engineering and Development Manager)
- D J Rich (Chief Financial Officer)
- J P Scibiorski (Exploration Manager)
- R A Cassie (New Ventures Manager)

Elements of Director and Executive Remuneration

Remuneration packages contain the following key elements:

- Short term employee benefits – salary/fees, bonuses and non-monetary benefits, such as car parking.
- Post-employment benefits – including superannuation, prescribed retirement benefits and retirement gifts.
- Share-based payments equity settled – rights, options and shares granted by the Company. Performance rights are valued at the date of grant using a Monte Carlo Simulation model to determine the probability of the absolute return performance hurdles and the relative return performance hurdles being achieved. Retention rights and options are valued using the Black Scholes model at the date of grant. 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.

  The values of the rights, options and shares are then expensed in the profit and loss account over the vesting period. At 31 December 2010 the share price was $0.83. No options or shares were granted in 2010. No director or executive of the Company received a cash benefit from the rights or options having been received. No cash benefit is received by the director or executive of the Company until he sells the shares, which cannot be done until the shares have vested.

The remuneration of the directors and key management personnel of the Consolidated Entity and the Company is set out below:

2010	Short-term employee benefits			Post-employment		Share-based payment equity settled			Total
	Salary & fees	Bonus (v)	Non-monetary	Super-annuation	Other	Options (i)	Rights (ii)	Shares (iii)	
	$	$	$	$	$	$	$	$	$
Non-executive directors									
N F Taylor	155,963	-	-	14,037	-	-	-	-	170,000
P B Lane	39,355	-	-	45,645	-	-	-	-	85,000
M J Sandy	62,044	-	-	22,956	-	-	-	-	85,000
D W Bailey	77,982	-	-	7,018	-	-	-	-	85,000
Executives									
P J Stickland	505,000	282,500	4,249	25,000	-	12,608	-	11,447	840,804
T J Hayden	45,817	100,000	382	1,267		-	-	-	147,466
D A Neaves	335,360	93,793	4,893	14,830	-	31,568	81,325	2,708	564,477
B M Ulmer	410,183	93,801	4,643	36,757	-	22,244	24,445	2,234	594,307
D Rich	319,270	94,923	5,077	24,830	-	9,194	65,534	-	518,828
J Scibiorski	296,295	59,242	4,828	31,985	-	26,782	20,680	4,857	444,669
R A Cassie	305,050	83,229	4,893	50,000		16,950	21,673	258	482,053
	2,552,319	807,488	28,965	274,325	-	119,346	213,657	21,504	4,017,604

2009	Short-term employee benefits			Post-employment	Share-based payment equity settled			Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Options (i)	Rights (ii)	Shares (iii)	
	$	$	$	$	$		$	$
Non-executive directors								
N F Taylor	133,028	-	-	11,972	-	-	20,000	165,000
P B Lane	19,495	-	-	53,005	-	-	10,000	82,500
M J Sandy	66,514	-	-	5,986	-	-	10,000	82,500
D W Bailey	10,929	-	-	984	-	-	-	11,913
P W Underwood (iv)	30,295	-	-	2,727	141,532	-	5,000	179,554
Executives								
P J Stickland	459,945	160,150	2,354	32,844	87,094	-	130,880	873,267
D A Neaves	295,968	77,678	2,854	20,373	94,501	-	31,706	523,080
B M Ulmer	400,824	68,106	2,354	36,074	86,628	-	14,177	608,163
D J Rich	295,826	86,800	2,681	14,174	10,172	-	14,378	424,031
J P Scibiorski	286,119	49,088	2,354	25,751	37,268	-	13,053	413,633
R A Cassie	271,983	54,102	2,854	75,000	82,122	-	10,933	496,994
	2,270,926	495,924	15,451	278,890	539,317	-	260,127	3,860,635

(i) The options have been costed using the Black Scholes model. No options were granted in the year to 31 December 2010 or to the date of this report. The values shown in 2010 relate to options granted in previous years where the fair value is expensed over the vesting period. Further details of the Tap Employee Incentive Option Plan, Tap Executive Director Option Plan and Tap Oil Management Incentive Option Plan are contained in notes 21(a), (b) and (c).

(ii) Under the rights column, performance rights have been valued using a Monte Carlo Simulation model and retention rights have been costed using the Black Scholes model. Further details of the Tap Share Rights Plan is contained in note 21. This plan was not in place in 2009.

(iii) 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 21(d).

(iv) Mr Underwood was a Non-Executive Director until 21 June 2009.

(v) The bonus for 2010 includes the 2010 STI cash payment as set out in 12.2.1(b) and bonus payments compensating executives for the value forgone under their service agreements by changing the long term incentive structure from options and shares to rights except for the $100,000 paid to Mr Hayden upon his commencement as Managing Director/Chief Executive Officer.

Options and Rights over Equity Instruments Granted

No shares or options were granted in 2010 and no options or shares have been granted since the end of the financial year. Options are exercisable from the date of vesting and the details of vesting periods are set out in notes 21(a), (b) and (c). All options expire on the earlier of their expiry date or termination of the individual's employment. All shares granted expire on termination of the individual's employment.

The following performance rights and retention rights over ordinary shares were granted to key management personnel during the reporting period. These were granted as remuneration unless otherwise noted. The rights granted have no exercise price, are exercisable from the date of vesting and the details of vesting periods are set out in note 21. All rights expire on the earlier of their expiry date or termination of the individual's employment.

	Number of performance rights granted during 2010 (i)	Number of retention rights granted during 2010 (i)	Grant date	Fair value per performance right at grant date	Fair value per retention right at grant date	Value of rights granted during the year	Financial year in which rights vest	Expiry date	Number of rights vested during 2010 (ii)
Non-executive directors									
N F Taylor	-	-	-	-	-	-	-	-	-
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
D W Bailey	-	-	-	-	-	-	-	-	-
P W Underwood	-	-	-	-	-	-	-	-	-
Executives									
P J Stickland (iii)	526,706	50,000	30-Apr-10	0.15	1.06	132,006	2013	1-Jan-17	-
T J Hayden	-	-	-	-	-	-	-	-	-
D A Neaves	198,486	195,000	30-Apr-10	0.15	1.06	236,473	2013	1-Jan-17	-
B M Ulmer	265,391	30,000	30-Apr-10	0.15	1.06	71,609	2013	1-Jan-17	-
D J Rich	193,279	152,500	30-Apr-10	0.15	1.06	190,642	2013	1-Jan-17	-
J P Scibiorski	191,284	30,000	30-Apr-10	0.15	1.06	60,493	2013	1-Jan-17	-
R A Cassie	210,824	30,000	30-Apr-10	0.15	1.06	63,424	2013	1-Jan-17	-

(i) Each right entitles the holder to one share in the Company.
(ii) Relates to rights granted during the current reporting period.
(iii) The performance rights and retention rights issued to Mr Stickland in 2010 were forfeited during 2010 due to Mr Stickland's resignation.

	% of remuneration for the year consisting of options	% of remuneration for the year consisting of shares	% of remuneration for the year consisting of rights
Non-executive directors			
N F Taylor	-	-	-
P B Lane	-	-	-
M J Sandy	-	-	-
D W Bailey	-	-	-
Executives			
P J Stickland	1.5%	1.4%	-
T J Hayden	-	-	-
D A Neaves	5.6%	0.5%	14.4%
B M Ulmer	3.7%	0.4%	4.1%
D J Rich	1.8%	-	12.6%
J P Scibiorski	6.0%	1.1%	4.7%
R A Cassie	3.5%	0.1%	4.5%

Analysis of Movement in Options

There were no options granted to key management personnel during the year. 1,650,000 options lapsed during the year. The options were out of the money when they lapsed and hence had no value at the time of lapse. No options were exercised during the year.

Value of Options – Basis of Calculation

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 2010, the share price was $0.83 meaning that only 365,620 of the 3,337,813 options held by key management personnel outstanding at the date of this financial report were in the money. No director or executive of the Company received any cash benefit from the options having been received.

The fair value of options is set out in note 21 of the financial statements.

Analysis of Movement in Shares Granted

There were no shares granted to key management personnel during the year and no shares lapsed during the year.

Value of Shares Granted – Basis of Calculation

The value of a share grant is calculated as the share price on the date the shares are purchased to be held in trust until vesting or other conditions occur.

The fair value of shares is set out in note 21 of the financial statements.

Analysis of Movement in Rights

Performance rights and retention rights were issued to key management personnel during the year. Reference can be made to the above-mentioned table as a summary of the performance rights and retention rights granted. No rights were exercised or lapsed during the 2010 financial year.

Value of Rights – Basis of Calculation

The value of rights at the grant date is calculated as the fair value of the rights at grant date, using the Monte Carlo Simulation model, multiplied by the number of rights granted.

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

No adjustment is made to the value included in remuneration or the financial results where the right ultimately has a lesser or greater value than as at the date of grant. No director or executive of the Company received any cash benefit from the rights having been received.

The fair value of rights is set out in note 21 of the financial statements.

Discretionary Cap on Total Number of Rights

The Board maintains a discretionary guideline cap on the total number of all performance and retention rights on issue to staff and executives. Currently the Board has set this cap at 6% of the number of issued fully paid shares in the Company. This cap provides a margin to cover the issue of rights above the 4.5% maximum level of rights that may be issued over the three year vesting period of such rights at the guideline maximum rate of 1.5% per annum. The Board will inform shareholders of exceptions or changes to these guidelines should they occur.

Existing options (which decline in number until 2013 when the last of these options will expire if not exercised before that time) are not included in the calculation of this cap.

The Board is of the view that such a cap significantly reduces the potential for material dilutionary effects of issues of rights at low share prices.

2,306,001 performance rights were issued during the year following shareholders approval of the Company's revised remuneration policy on 30 April 2010. This number equalled 1.5% of shares on issue at the time and was in line with the policy guideline cap of 1.5%.

691,868 retention rights were issued during the year following shareholders approval of the Company's revised remuneration policy on 30 April 2010.

The total number of performance and retention rights on issue at 31 December 2010 was 2,295,245. This number equalled 1.0% of shares on issue at that time which is under the policy guideline cap of 6%.

A further annual grant of 2,737,794 performance rights was made under the Company's policy subsequent to year end representing 1.1% of shares on issue at the time and under the policy guideline cap of 1.5%.

The total number of rights on issue at the time of this report is 5,384,012 which equals 2.2% of shares on issue at the time of this report.

13. Non-Audit Services

The directors of the Company 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.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 24 to the financial statements.

14. Auditor's Independence Declaration

The auditor's independence declaration is included on page 20 of the financial report.

15. 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 of the Company made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors of the Company

Neale F. Taylor

N F Taylor
Chairman

West Perth, Western Australia
25 February 2011

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA Australia

DX: 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

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

25 February 2011

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 2010, 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

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA Australia

DX: 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

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 statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 23 to 73.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 of the financial report that gives a true and fair view, 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.

Auditor's Independence Declaration
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Tap Oil Limited, would be in the same terms if given to the directors as at the time of this audit report.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

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's and consolidated entity's financial position as at 31 December 2010 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 19 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Tap Oil Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants
Perth, 25 February 2011

Directors' Declaration

The directors of the Company 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;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and

(d) 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 of the Company

N F Taylor
Chairman

West Perth, Western Australia
25 February 2011

Statement of comprehensive income for the financial year ended 31 December 2010

		Consolidated	
	Note	2010 $'000	2009 $'000
Revenue	2(a)	73,609	58,018
Cost of sales	2(b)	(58,943)	(48,398)
Gross profit		14,666	9,620
Other revenue	2(a)	3,291	889
Other income	2(c)	-	23,654
Administration expenses	2(d)	(8,430)	(7,206)
Finance costs	2(e)	(1,335)	(825)
Exploration impairment losses/write-downs	2(f)	(70,526)	(2,184)
Property, plant and equipment impairment losses	2(f)	(9,102)	-
Other expenses	2(g)	(4,936)	(15,945)
(Loss)/Profit before tax		**(76,372)**	**8,003**
Income tax and PRRT benefit/(expense)	3(a)	14,962	(1,328)
(Loss)/Profit for the year		**(61,410)**	**6,675**
Other comprehensive income		-	-
Total comprehensive income for the year		**(61,410)**	**6,675**
Earnings per share:			
Basic (cents per share)	13	(35.8)	4.3
Diluted (cents per share)	13	(35.8)	4.3

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

Statement of financial position as at 31 December 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Current assets			
Cash and cash equivalents	19(a)	98,873	59,438
Trade and other receivables	4	10,302	9,885
Inventories	5	5,320	6,210
Other current assets	6	10,141	9,329
		124,636	84,862
Non-current assets classified as held for sale	7	13,444	-
Total current assets		138,080	84,862
Non-current assets			
Property, plant and equipment	8	77,446	117,451
Deferred exploration expenditure	9	109,596	113,911
Total non-current assets		187,042	231,362
Total assets		**325,122**	**316,224**
Current liabilities			
Trade and other payables	10	40,197	18,411
Current tax liability	3(b)	2,526	2,716
Provisions	11	551	318
		43,274	21,445
Liabilities directly associated with non-current assets classified as held for sale	7	3,857	-
Total current liabilities		47,131	21,445
Non-current liabilities			
Deferred tax liabilities	3(c)	23,805	45,231
Provisions	11	23,649	25,871
Total non-current liabilities		47,454	71,102
Total liabilities		**94,585**	**92,547**
Net assets		**230,537**	**223,677**
Equity			
Issued capital	12	157,530	89,758
Share options reserve		4,461	4,252
Share rights reserve		289	-
Retained earnings		68,257	129,667
Total equity		**230,537**	**223,677**

The statement of financial position is to be read in conjunction with the notes to the financial statements.

Statement of changes in equity for the financial year ended 31 December 2010

	Note	Issued capital $'000	Share options reserve (i) $'000	Share rights reserve (i) $'000	Retained earnings $'000	Total $'000
Consolidated						
Balance at 1 January 2009		**89,758**	**3,512**	**-**	**122,992**	**216,262**
Profit for the year		-	-	-	6,675	6,675
Total comprehensive income for the year		-	-	-	6,675	6,675
Recognition of share-based payments	2(d)	-	740	-	-	740
Balance at 31 December 2009		**89,758**	**4,252**	**-**	**129,667**	**223,677**
Loss for the year		-	-	-	(61,410)	(61,410)
Total comprehensive income for the year		-	-	-	(61,410)	(61,410)
Issue of shares	12	70,307	-	-	-	70,307
Share issue costs	12	(2,535)	-	-	-	(2,535)
Recognition of share-based payments	2(d)	-	209	289	-	498
Balance at 31 December 2010		**157,530**	**4,461**	**289**	**68,257**	**230,537**

(i) The share options reserve and the share rights reserve reflect the cost of option and share related share-based payments – refer note 1(s).

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Statement of cash flows
for the financial year ended 31 December 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Cash flows from operating activities			
Receipts from customers		77,656	57,474
Payments to suppliers and employees		(41,230)	(45,312)
Insurance receipts		-	19,295
Government royalties paid		(1,216)	(1,166)
Interest received		2,748	820
Income taxes (paid)/recovered		(6,056)	577
Net cash provided by operating activities	19(b)	31,902	31,688
Cash flows from investing activities			
Payments for property, plant and equipment		(2,156)	(558)
Payments for exploration expenditure		(44,103)	(19,966)
Payments for restoration expenditure		(24)	(113)
Proceeds from disposal of permit interests		375	70
Net cash used in investing activities		(45,908)	(20,567)
Cash flows from financing activities			
Proceeds from issues of shares		57,570	-
Payment for share issue costs		(2,535)	-
Net cash provided by financing activities		55,035	-
Net increase in cash and cash equivalents		41,029	11,121
Cash and cash equivalents at the beginning of the financial year		59,438	54,045
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,329)	(5,728)
Cash and cash equivalents at the end of the financial year	19(a)	**99,138**	**59,438**

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements for the financial year ended 31 December 2010

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 comprise the consolidated financial statements of the Consolidated Entity.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 25 February 2011.

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.

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.

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.

1. Summary of accounting policies (cont'd)

Adoption of new and revised Accounting Standards

In the current year the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The following Standards and Interpretations were adopted:

- AASB 3 Business Combinations (2008), AASB 127 Consolidated and Separate Financial Statements (2008), AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 and AASB 2008-11 Amendments to Australian Accounting Standard - Business Combinations Among Not-for-Profit Entities
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Process
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process
- AASB 2009-7 Amendments to Australian Accounting Standards
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions
- Interpretation 17 Distributions of Non-Cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-Cash Assets to Owners

The adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

The Consolidated Entity has not elected to early adopt any new standards or amendments.

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

New or revised requirement	Effective for annual reporting periods beginning on or after
AASB 124 Related Party Disclosures *(2009), AASB 2009-12* Amendments to Australian Accounting Standards	1 January 2011
AASB 9 Financial Instruments*, AASB 2009-11* Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues	1 February 2010
AASB 9 Financial Instruments (December 2010), *AASB 2010-7* Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011
AASB 2010-5 Amendments to Australian Accounting Standards	1 January 2011
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Interpretation 19 Extinguishing Liabilities with Equity Instruments	1 July 2010

1. Summary of accounting policies (cont'd)

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:

New or revised requirement	Effective for annual reporting periods beginning on or after
Amendments to IFRS 7 Financial Instruments: Disclosures	1 July 2011
IFRS 9 *Financial Instruments (October 2010)*	1 January 2013
Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012
Corporations Amendment (Corporate Reporting Reform) Act 2010 and Corporations Amendment Regulations 2010 (No. 6)	29 June 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 Consolidated Entity that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

Accounting Policies

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, demand deposits, the Consolidated Entity's share of joint venture bank balances and investments in money market instruments. Cash equivalents are short-term, and highly liquid investments.

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 Consolidated Entity may enter into a variety of derivative financial instruments to manage its exposure to oil price movements and foreign exchange rate risk. As at the end of the reporting period 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

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.

At 31 December 2010, there are no outstanding cash flow hedges (31 December 2009: Nil).

1. Summary of accounting policies (cont'd)

(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.

Contributions to 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.

<u>Trade Receivables and Loans</u>

Loans and receivables are recorded at the amortised cost amount using the effective interest rate method less impairment.

<u>Impairment of financial assets</u>

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 Consolidated Entity 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.

1. Summary of accounting policies (cont'd)

(h) Impairment of assets

At each reporting date, the Consolidated Entity 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 Consolidated Entity 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.

(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 Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity 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.

Included in other payables is income received in advance. This represents oil & gas sales for which payment has been received, but the oil & gas has not yet been delivered. The oil & gas revenue will be recognised in the profit/loss when the oil & gas is delivered to the customers in future periods.

(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.

(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.

1. Summary of accounting policies (cont'd)

(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.

(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 included in note 18 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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.

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Tap Oil Ltd and the presentation currency for the consolidated financial statements.

The functional currency of all the entities in the Consolidated Entity is Australian dollars.

1. Summary of accounting policies (cont'd)

(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:

• Office improvements, furniture & equipment	3 – 12 years
• Development expenditure	Unit of production
• Oil & gas facilities	Unit of production

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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

(r) Revenue recognition

<u>Sale of goods</u>

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.

<u>Tolling revenue</u>

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.

<u>Dividend and interest revenue</u>

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.

1. Summary of accounting policies (cont'd)

(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 for options and retention rights and the Monte Carlo Simulation Model for performance rights in circumstances where the value cannot be determined based on the service being delivered. 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 and shares that will eventually vest.

(t) Taxation

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.

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).

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 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.

1. Summary of accounting policies (cont'd)

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.

(u) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Consolidated Entity is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Consolidated Entity will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

1. Summary of accounting policies (cont'd)

(v) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Consolidated Entity'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.

Judgments made by management, in the application of the Consolidated Entity's accounting policies, 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.

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.

(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.

2. Loss/Profit for the year

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Revenue		
Sales of oil and gas	71,442	54,019
Other revenue – tolling fees	2,167	3,999
	73,609	58,018
Interest received	3,291	889
	76,900	58,907
(b) Cost of sales		
Depreciation of production facilities	3,726	3,037
Depreciation of capitalised development costs	24,029	19,233
Government royalties	1,216	1,166
Other production costs	29,972	24,962
	58,943	48,398
(c) Other Income		
Insurance proceeds (i)	-	23,241
Other	-	413
	-	23,654

(i) Included in the 2009 insurance proceeds is an amount of $21.687 million relating to the final net settlement of USD 20.07 million received in relation to the business interruption and property damage insurance claims stemming from the Varanus Island incident on 3 June 2008.

	Consolidated 2010 $'000	Consolidated 2009 $'000
(d) Administration expenses		
Profit/(loss) before income tax has been arrived at after charging the following:		
Employee benefit expenses:		
Post employment benefits:		
Superannuation contributions	671	630
Share-based payments:		
Equity settled share-based payments (i)	659	1,162
Other	7,910	6,270
	9,240	8,062
Depreciation of office fixed assets	348	408
Operating lease rental payments	661	636
Other expenses, net of recoveries (ii)	(1,819)	(1,900)
	8,430	7,206

(i) Of the total share-based payment expense for the 2010 financial year, $498,000 (2009: $712,000) relates to options, retention rights and performance rights issued and $161,000 (2009: $450,000) relates to prepaid shares allocated to employees. Refer to note 21 for the vesting terms of the options, performance rights and the prepaid shares.

(ii) The other expenses are shown net of recoveries. The recoveries represent costs, including time spent by the Consolidated Entity's employees on exploration and production interests, which get recharged to the applicable exploration and production interests.

2. Loss/Profit for the year (cont'd)

	Consolidated 2010 $'000	Consolidated 2009 $'000
(e) Finance costs		
Notional interest from unwinding discount on restoration provisions	1,335	825
(f) Impairment losses/write-downs		
Exploration impairment losses (i)	25,249	132
Exploration expenditure write-downs (i)	45,277	2,052
	70,526	2,184
Property, plant and equipment impairment losses (ii)	9,102	-

(i) Exploration impairment losses are provided when the carrying amount of the capitalised exploration expenditure exceeds the recoverable amount of the said exploration expenditure. Exploration expenditure is written off and any related impairment losses released when permits are relinquished or disposed. The following are the material items included in the exploration impairment losses/exploration expenditure write-downs:

Permit	Country/ Company	2010 $'000	Description
Block M	Borneo	28,758	Classified as held for sale; impaired to recoverable value.
SC 41	Philippines	20,344	Permit relinquised and therefore written off to $0.
T/47P	Shelfal	12,938	Craigow-1 well failed to encounter hydrocarbons.

The exploration impairment losses/exploration expenditure write-downs are included in the Oil & gas exploration segment.

(ii) An impairment loss of $7.005 million was recognised on the Woollybutt development asset, due to a reserves downgrade at 31 December 2010. A further impairment loss of $2.097 million was recognised on the Airlie Island development asset (TL/2 and TP/7 permits), which is classified as held for sale based on a purchase offer being received for the asset. Refer to note 7 for further information on the held for sale asset. The property, plant and equipment impairment losses are included in the Oil & gas production and development segment.

	Consolidated 2010 $'000	Consolidated 2009 $'000
(g) Other expenses		
Foreign exchange (gains)/losses	2,351	3,047
Varanus Island repairs (i)	(1,015)	5,657
Woollybutt FPSO life extension costs (ii)	-	6,628
Other	3,600	613
	4,936	15,945

(i) Relates to the repairs to the Varanus Island operating facilities which were damaged as a result of the incident on 3 June 2008. A credit on expenses incurred was received in the year ended 31 December 2010.

(ii) Relates to the Woollybutt FPSO dry-dock costs (inclusive of FPSO operating lease payments during the dry dock period). The Woollybutt FPSO was off-station from 28 April 2009 and for the remainder of the 2009 financial year there was no production.

(h) Depreciation

Depreciation charges are included above in cost of sales (b) and administration expenses (d). Total depreciation for the Consolidated Entity is $28.103 million (2009: $22.678 million).

3. Income taxes

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Current tax expense	6,068	3,771
Adjustments recognised in the current year in relation to the current tax of prior years	(203)	(1,055)
Deferred tax income relating to the origination and reversal of temporary differences	(13,263)	(1,049)
Deferred PRRT tax credit	(7,564)	(339)
Total tax (income)/expense	(14,962)	1,328
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	(76,372)	8,003
Income tax (income)/expense calculated at 30%	(22,912)	2,401
Expenses not deductible for tax purposes	312	223
Income not assessable for tax purposes	-	(161)
Unused tax losses, tax offsets and temporary differences not recognised as deferred tax assets	22,174	1,400
Foreign tax rate adjustment on unrecognised deferred tax assets	(7,260)	(213)
PRRT related tax credit	(7,564)	(339)
Other	491	(928)
	(14,759)	2,383
Adjustments recognised in the current year in relation to the current tax of prior years	(203)	(1,055)
Income tax (income)/expense	(14,962)	1,328

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.

	Consolidated 2010 $'000	Consolidated 2009 $'000
(b) Current tax assets and liabilities		
Current tax assets:		
Tax refund receivable	-	-
Current tax liabilities:		
Tax payable	2,526	2,716
(c) Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences – refer below	-	-
Deferred tax liabilities comprise:		
Continuing operations temporary differences – refer below	23,805	45,231
Classified as held for sale temporary differences – refer below	598	-
	24,403	45,231
(d) Franking account balance		
On a tax paid basis	60,290	54,234

3. Income taxes (cont'd)

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Exchange differences $'000	Change in tax rates $'000	Closing balance $'000
Consolidated							
2010							
Income tax losses carried forward	-	-	-	-	-	-	-
Property, plant & equipment	(18,308)	7,271	-	-	-	-	(11,037)
Deferred exploration	(35,396)	11,618	-	-	-	-	(23,778)
Restoration provisions	7,735	(50)	-	-	-	-	7,685
Others	738	1,989	-	-	-	-	2,727
	(45,231)	20,828	-	-	-	-	(24,403)
2009							
Income tax losses carried forward	867	(867)	-	-	-	-	-
Property, plant & equipment	(19,472)	1,164	-	-	-	-	(18,308)
Deferred exploration	(34,069)	(1,327)	-	-	-	-	(35,396)
Restoration provisions	6,349	1,386	-	-	-	-	7,735
Others	(294)	1,032	-	-	-	-	738
	(46,619)	1,388	-	-	-	-	(45,231)

	Consolidated 2010 $'000	Consolidated 2009 $'000
Unrecognised deferred tax balances		
The following deferred tax assets, relating to foreign operations, have not been brought to account as assets:		
Tax losses – revenue	8,032	8,111
Temporary differences	27,281	5,028
	35,313	13,139

The temporary differences of $27.281 million (2009: $5.028 million) relate mainly to differences between the tax value and accounting value of capitalised deferred exploration expenditure.

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 18.

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

	Consolidated 2010 $'000	Consolidated 2009 $'000
Trade receivables [(i)]	6,804	7,927
Allowance for doubtful debts	(663)	(124)
	6,141	7,803
Joint venture debtors	1,871	964
Other	2,290	1,118
	10,302	9,885
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	124	-
Doubtful debts charge for the year	539	124
Balance at the end of the year	663	124

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

An allowance for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired. The age of the receivable included in the allowance for doubtful debts is +120 days. There are no amounts included in the Consolidated Entity's trade receivable balance (2009: Nil) which are past due, but not considered impaired, at the reporting date. The Consolidated Entity does not hold any collateral over the accounts receivable balances.

5. Inventories

	Consolidated 2010 $'000	Consolidated 2009 $'000
Materials and consumables – at cost	4,815	4,639
Oil in storage – at cost	505	1,571
	5,320	6,210

6. Other current assets

	Consolidated 2010 $'000	Consolidated 2009 $'000
Prepayments	1,565	1,394
Prepaid gas	8,576	7,935
	10,141	9,329

7. Non-current assets classified as held for sale

The major classes of assets and liabilities held for sale at 31 December 2010 are as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Assets		
Property, plant and equipment	4,770	-
Deferred exploration expenditure	7,872	-
Cash and cash equivalents	265	-
Trade and other receivables	537	-
Assets classified as held for sale	13,444	-
Liabilities		
Provisions (non-current)	2,756	-
Deferred tax liabilities	598	-
Trade and other payables	503	-
Liabilities directly associated with assets classified as held for sale	3,857	-
	9,587	-

The assets held for sale represent the Consolidated Entity's working interest in the following exploration and development permits:

- Block M
- WA-8-L
- WA-246-P
- TL/2
- TP/7

Allocation of assets held for sale per operating segment:

	Assets $'000	Liabilities $'000
Oil & gas exploration	8,409	494
Oil & gas production and development	4,770	2,765
Unallocated	265	598
Assets classified as held for sale	13,444	3,857

These assets are classified as held for sale as a result of the Consolidated Entity's focus on its core assets and therefore the divestment of some non-core assets. The disposal proceeds are expected to be a mix of cash and shares. The transactions are expected to be concluded in the first half of 2011. The total exploration impairment losses recognised in respect of the assets held for sale in the current reporting period is $37.379 million and the total property, plant and equipment impairment losses recognised is $2.097 million

8. Property, plant and equipment

	Consolidated	
	2010 $'000	2009 $'000
Oil and gas facilities		
Gross carrying amount – at cost:		
Opening balance	42,477	41,968
Additions	254	509
Closing balance	42,731	42,477
Accumulated depreciation:		
Opening balance	28,941	25,904
Depreciation	3,726	3,037
Closing balance	32,667	28,941
Net book value	10,064	13,536
Development expenditures		
Gross carrying amount – at cost:		
Opening balance	300,980	296,615
Additions	963	3,756
Transfer from exploration expenditure	639	609
Classified as held for sale	(8,686)	-
Closing balance (i)	293,896	300,980
Accumulated depreciation:		
Opening balance	197,750	178,517
Depreciation	24,029	19,233
Impairment losses charged to profit	9,102	-
Classified as held for sale	(3,916)	-
Closing balance	226,965	197,750
Net book value	66,931	103,230
Office improvements, furniture & equipment		
Gross carrying amount – at cost:		
Opening balance	3,657	3,971
Additions	123	227
Asset write-offs	(118)	(541)
Closing balance	3,662	3,657
Accumulated depreciation:		
Opening balance	2,972	3,065
Asset write-offs	(109)	(501)
Depreciation	348	408
Closing balance	3,211	2,972
Net book value	451	685
Total – net book value	77,446	117,451

(i) The cost of development expenditures includes an amount of $18.913 million for abandonment assets (2009: $19.728 million).

9. Deferred exploration expenditure

	Consolidated 2010 $'000	Consolidated 2009 $'000
Exploration and/or evaluation phase		
At cost	134,120	150,565
Less: impairment provisions	(24,524)	(36,654)
Net carrying value	109,596	113,911
Reconciliation of movement:		
Opening balance	113,911	100,336
Current year exploration expenditure	75,096	16,368
Exploration expenditure write-downs	(45,277)	(2,052)
Exploration expenditure impairment	(25,249)	(132)
Transfer to development expenditures	(639)	(609)
Disposals	(374)	-
Classified as held for sale	(7,872)	-
Closing balance	109,596	113,911
Movement in the impairment provision:		
Balance at the beginning of the year	(36,654)	(36,522)
Increase in impairment provision	(25,249)	(132)
Classified as held for sale	37,379	-
Balance at the end of the year	(24,524)	(36,654)

Ultimate recoupment of this expenditure is dependent upon the continuance of the Consolidated Entity'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.

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

10. Trade and other payables

	Consolidated 2010 $'000	Consolidated 2009 $'000
Trade payables (i)	5,671	6,953
Share of joint venture payables (i)	21,231	4,753
Goods and services tax (GST) payable	38	644
Other payables	2,000	-
Income received in advance	11,257	6,061
	40,197	18,411

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

11. Provisions

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current		
Employee benefits	551	318
Non-current		
Employee benefits	127	89
Restoration costs	23,522	25,782
	23,649	25,871
Restoration costs provision		
Reconciliation of movement:		
Opening balance	25,782	21,164
(Reduction)/Increase resulting from re-measurement	(839)	3,793
Unwinding of discount	1,335	825
Classified as held for sale	(2,756)	-
Closing balance	23,522	25,782

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 the year 2022.

	Consolidated	
	2010 $'000	2009 $'000
12. Issued capital		
240,967,311 fully paid ordinary shares (2009: 156,485,921)	157,530	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.

	2010		2009	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	156,486	89,758	156,486	89,758
Shares issued	84,481	70,307	-	-
Share issue costs	-	(2,535)		
Balance at end of financial year	240,967	157,530	156,486	89,758

During the year 13.407 million shares to the value of $12.737 million was issued as part of the purchase consideration for the acquisition of 75% of the shares in Northern Gulf Petroleum Pte Ltd. The purchase consideration was based on an arms' length agreement.

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 former directors and employees had 5,675,000 (2009: 8,172,428) outstanding options over ordinary shares at 31 December 2010. A total of 3,034,141 (2009: 2,827,726) of the options had already vested at 31 December 2010 and 751,570 have since been forfeited, expired unexercised or lapsed resulting in an outstanding balance of 4,923,430 as at the date of this financial report. A further 1,054,341 options with an average exercise price of $1.21 have an expiry date in 2011.

A total of 245,066 (2009: 391,619) options were forfeited and 2,252,362 (2009: 835,000) options expired unexercised during the 2010 financial year.

The share options carry no rights to dividends and no voting rights. Further details of the share-based payment schemes are contained in note 21 to the financial statements.

Share performance and retention rights

In accordance with the provisions of the share-based payment schemes employees had 2,295,245 (2009: Nil) outstanding performance and retention rights over ordinary shares at 31 December 2010. None of the performance and retention rights had vested at 31 December 2010. A total of 21,054 (2009: Nil) of the performance and retention rights have since been forfeited resulting in an outstanding balance of 2,274,191 as at the date of this financial report.

A total of 717,549 (2009: Nil) performance and retention rights were forfeited during the 2010 financial year.

The performance and retention rights carry no rights to dividends and no voting rights. Further details of the share-based payment schemes are contained in note 21 to the financial statements.

13. Earnings per share

	Consolidated 2010 Cents per share	Consolidated 2009 Cents per share
Basic earnings per share	(35.8)	4.3
Diluted earnings per share	(35.8)	4.3

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:	2010 $'000	2009 $'000
Earnings (a)	(61,410)	6,675

	2010 No.'000	2009 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	171,397	156,486

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:	2010 $'000	2009 $'000
Earnings (a)	(61,410)	6,675

	2010 No.'000	2009 No.'000
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b)	171,627	156,896

	2010 $'000	2009 $'000
(a) Earnings used in the calculation of basic earnings per share and diluted earnings per share	(61,410)	6,675

(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:	2010 No.'000	2009 No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	171,397	156,486
Shares deemed to be issued for no consideration in respect of employee options	230	410
Weighted average number of ordinary shares used in the calculation of diluted EPS	171,627	156,896

Of the 5,675,000 options on issue at 31 December 2010 (2009: 8,172,428), there were 2,839,341 options (2009: 5,196,703) out of the money and hence not dilutive and these were therefore excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

14. Commitments for expenditure

(a) Capital expenditure commitments

	Consolidated	
	2010 $'000	**2009 $'000**
Committed expenditures that have not been provided for in the financial statements:		
<u>Property, plant and equipment</u>		
Not longer than 1 year	-	659
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	659
<u>Exploration expenditure</u>		
Not longer than 1 year	12,073	8,177
Longer than 1 year and not longer than 5 years	22,460	6,549
Longer than 5 years	-	-
	34,533	14,726

These commitments represent Tap's share of joint venture commitments. The commitments for exploration expenditure include 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. No amounts have been included for permits where an application for renewal has been made to the designated authority and is pending.

(b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 15 to the financial statements.

15. Leases

Operating leases

Leasing arrangements

The Consolidated Entity 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 to 5 May 2012 and can be renewed on a yearly basis.

	Consolidated	
	2010 $'000	**2009 $'000**
Non-cancellable operating lease commitments		
Not longer than 1 year	9,040	9,368
Longer than 1 year and not longer than 5 years	3,469	4,058
Longer than 5 years	-	-
	12,509	13,426

16. Segment information

The Consolidated Entity has adopted AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Consolidated Entity's reportable segments has changed. The accounting policies of the new reportable segments are the same as the Consolidated Entity's accounting policies.

The Consolidated Entity derives its revenue from the sale of oil & gas.

Information reported to the Consolidated Entity's chief operating decision maker for the purposes of resource allocation and assessment of performance is focussed on the separate divisions managed by each individual member of senior management. Based on this, the Consolidated Entity's reportable segments under AASB 8 are as follows:

- Oil & gas production and development
- Oil & gas exploration
- Third party gas

The oil & gas production and development segment includes the assets moved from the exploration phase to the development phase. This segment also includes the producing assets. Current production includes oil & gas. This segment is managed by the Engineering and Development Manager.

The oil & gas exploration segment includes all the areas of interest still in exploration phase. This segment primarily incurs the exploration expenditure in the Consolidated Entity. The segment is managed by the Exploration Manager.

The Third party gas segment includes the purchases and sale of gas. The gas purchases are based on contracted quantities and sales are done via agreements with customers or in certain instances via market sales. The segment is managed by the Commercial Manager.

16. Segment information (cont'd)

Segment revenues and results

The following is an analysis of the Consolidated Entity's revenue and results by reportable operating segment for the periods under review:

	Revenue		Segment profit	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Oil & gas production and development	47,130	39,634	(12,685)	8,562
Oil & gas exploration	-	-	(73,819)	(4,527)
Third party gas	26,479	18,384	12,530	7,496
	73,609	58,018	(73,974)	11,531
Interest revenue			3,291	889
Central administration costs			(3,338)	(1,783)
Foreign exchange loss			(2,351)	(3,047)
Other income			-	413
Profit before tax			(76,372)	8,003
Income tax benefit /(expense)			14,962	(1,328)
Profit for the year			(61,410)	6,675

Segment profit/(loss) represents the profit earned by each segment or loss made by each segment without the allocation of centralised administration expenses, recoveries of administration expenses recognised on a Consolidated Entity level, interest revenue, foreign exchange gains/losses and income tax expenses/benefits.

The revenue represents liquids and gas sales to external customers with no intersegment sales during the period. Included in revenues arising from direct sales of third party gas of $26.479 million (2009: $18.384 million) are revenues of $10.210 million (2009: $16.857 million) which arose from sales to the Consolidated Entity's largest third party gas customer.

Included in the Oil & gas production and development segment profit is a credit on prior year expenditures of $1.015 million (2009: expense of $5.657 million) for repairs to the Varanus Island operating facilities and no further expenses (2009: $5.476 million) relating to the Woollybutt FPSO life extension project.

Segment assets and liabilities

The following is an analysis of the Consolidated Entity's assets and liabilities by reportable operating segment for the periods under review:

	Assets		Liabilities	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Oil & gas production and development	80,236	128,132	28,347	36,630
Oil & gas exploration	105,152	117,017	20,306	1,684
Third party gas	11,585	9,466	10,511	3,650
Total segment assets and liabilities	196,973	254,615	59,164	41,964
Assets and liabilities classified as held for sale	13,444	-	3,857	-
Unallocated assets and liabilities	114,705	61,609	31,564	50,583
Consolidated total assets and liabilities	325,122	316,224	94,585	92,547

For the purpose of measuring segment performance and allocating resources between segments, the chief operating decision maker monitors the tangible, intangible and financial assets attributable to each segment. All assets and liabilities are allocated to reportable segments except for cash and cash equivalents and tax-related assets and liabilities.

16. Segment information (cont'd)

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Oil & gas production and development	27,754	22,270	1,217	4,265
Oil & gas exploration	-	-	75,096	16,368
Third party gas	-	-	-	-
Other	348	408	123	227
	28,102	22,678	76,436	20,860

In addition to the depreciation and amortisation expense reported above, exploration expenditure write-downs of $45.277 million (2009: $2.052 million) and impairment losses of $25.249 million (2009: $0.132 million) were recognised in respect of exploration assets and impairment losses of $9.102 million (2009: Nil) were recognised in respect of property, plant and equipment. The exploration asset write-downs and impairment losses were attributable to the Oil & gas exploration segment and the property, plant equipment impairment losses were attributable to the Oil & gas production and development segment. There were no other material non-cash expenses attributable to individual segments.

No Insurance proceeds (2009: $23.241 million) were received during the year. The proceeds received in 2009 were recognised as other income and were attributable to the Oil & gas production and development segment. Refer to note 2(c) for further detail.

Geographical information

The Consolidated Entity operates in three principal geographical areas – Australia, Asia and Africa.

	Revenue from external customers		Non-current assets	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Australia	73,609	58,018	127,551	189,577
Asia	-	-	57,092	41,785
Africa	-	-	2,399	-
	73,609	58,018	187,042	231,362

17. Interests in jointly controlled operations and assets

Name of operation	Principal activity	Output interest 2010	Output interest 2009
Producing permits			
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 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 Islamic Republic of Brunei, one licence in Indonesia, once licence in Ghana and three licences in Thailand. 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 2010 $'000	Consolidated 2009 $'000
Current assets		
Cash	9,202	4,565
Receivables	8,544	8,767
Inventories	5,320	6,209
Non-current assets classified as held for sale	13,444	-
Total current assets	36,510	19,541
Non-current assets		
Property, plant and equipment	76,995	116,766
Deferred exploration expenditure	109,596	113,911
Total non-current assets	186,591	230,677
Total assets	223,101	250,218
Current liabilities		
Trade and other payables	21,231	4,753
Liabilities directly associated with assets classified as held for sale	3,857	-
Total current liabilities	25,088	4,753
Non-current liabilities		
Provisions for restoration	23,522	25,782
Total non-current liabilities	23,522	25,782
Total liabilities	48,610	30,535
Net assets	174,491	219,683
Revenues	47,130	39,635
Cost of sales	(45,137)	(37,726)
Other income/(expenses) (i)	1,015	(12,285)
Profit/(loss) before income tax (ii)	3,008	(10,376)

(i) Relates to the Varanus Island repairs and the Woollybutt FPSO life extension project. Refer to note 2(g).

(ii) Profit/(loss) before income tax for 2009 does not include other income of $21.687 million that relates to the settlement of the Harriet Joint Venture Varanus Island insurance claim as this was a Company policy and therefore was not part of the jointly controlled operation. Refer to note 2(c) for more information.

Capital commitments and contingent liabilities

The capital commitments arising from the Consolidated Entity's interests in jointly controlled operations are disclosed in note 14. No contingent liabilities have been identified beyond those set out in note 25.

18. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2010 %	2009 %
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 Oil (Philippines) Pty Ltd	Australia	100	100
Tap Energy (Borneo) Pty Ltd	Australia	100	100
Tap (Ghana) Pty Ltd	Australia	100	100
Tap Oil (Ghana) Ltd (iii)	Ghana	100	100
Tap Energy (Rangkas) Pty Ltd (iv)	Australia	100	100
Tap Bass Pty Ltd (v)	Australia	100	-
Tap Energy (Thailand) Pty Ltd (vi)	Australia	100	-

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

(ii) All direct subsidiaries of Tap Oil Limited are members of the tax-consolidated group. Tap Oil (Ghana) Ltd is thus not part of the tax-consolidated group.

(iii) Tap Oil (Ghana) Ltd is a wholly owned subsidiary of Tap (Ghana) Pty Ltd.

(iv) Tap Energy (Rangkas) Pty Ltd was originally named Tap Energy (India) Pty Ltd. The name change occurred on 17 November 2009.

(v) Tap Bass Pty Ltd was originally named SPC Bass Pty Ltd. Name was changed to Tap Bass Pty Ltd after the acquisition by Tap (Shelfal) Pty Ltd.

(vi) Tap Energy (Thailand) Pty Ltd was incorporated on 8 October 2010.

19. 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	
	2010 $'000	**2009 $'000**
Cash and cash equivalents	98,873	59,438
Cash and cash equivalents classified as held for sale	265	-
	99,138	59,438

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

	Consolidated	
	2010 $'000	**2009 $'000**
(Loss)/profit for the year	(61,410)	6,675
Depreciation and amortisation of non-current assets	28,103	22,678
Foreign exchange loss	1,329	5,728
Equity settled share-based payment	498	712
Property, plant and equipment impairment losses	9,102	-
Exploration expenditure write-downs	45,277	2,052
Exploration impairment losses	25,249	132
Non-cash interest expense	1,335	825
Other non-cash expenses	9	40
Increase/(decrease) in current tax liability	(190)	3,293
Increase/(decrease) in deferred tax balances	(20,828)	(1,388)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Current receivables	142	(1,122)
Current inventories	653	2,416
Other current assets	(812)	(1,594)
Increase/(decrease) in liabilities:		
Current payables	(2,022)	(10,204)
Employee Provisions	271	2
Unearned Revenue	5,196	1,443
Net cash provided by operating activities	31,902	31,688

20. Financial instruments

(a) Capital risk management

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

The Consolidated Entity's overall strategy remains unchanged from 2009.

The Consolidated Entity has no external debt outstanding at 31 December 2010 (2009: Nil).

(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

	Consolidated	
	2010 $'000	**2009 $'000**
Financial assets		
Cash and cash equivalents	98,873	59,438
Trade and other receivables	10,302	9,885
Held for sale financial assets	802	-
Financial liabilities		
Trade & other payables	40,197	18,411
Held for sale financial liabilities	503	-

(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 may enter into a variety of derivative financial instruments to manage its exposure to crude oil price and foreign currency risk, including:

- forward oil price contracts; and
- 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 2010 no forward oil price contracts were entered into (2009: Nil).

20. Financial instruments (cont'd)

Oil Price sensitivity

The following table details the Consolidated Entity's sensitivity to a 10% and 20% increase and decrease in the oil price. Sensitivities to such possible movements are used when reporting oil price risk internally to key management personnel to represent management's near term assessment of the possible change in oil prices. The sensitivity analysis below includes current year sales levels varied by a 10% and 20% movement in the Consolidated Entity's average Australian dollar oil price. A positive number indicates an increase in profit where the oil price increases.

	Consolidated	
	Oil Price Impact	
	2010 $'000	2009 $'000
Profit or loss: 10%	4,034	3,096
Profit or loss: 20%	8,067	6,191

(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. The Consolidated Entity further pays its portion of the Asian and African Joint Venture expenses in US Dollars. 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 2010 no forward foreign exchange contracts were entered into (2009: Nil).

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

	Consolidated			
	Assets		Liabilities	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
US Dollars	20,101	20,274	10,334	2,191

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. Management considers foreign exchange sensitivity when reporting foreign currency risk internally to key management personnel. Management continually monitors exchange rate forecasts and assesses the impact of possible changes 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.

	Consolidated	
	US Dollar Impact	
	2010 $'000	2009 $'000
Profit or loss: 10%	977	1,808
Profit or loss: 20%	1,953	3,617

20. 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 analysis below has 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 profit or loss will be impacted as follows:

	Consolidated	
	Interest Rate Impact	
	2010 $'000	2009 $'000
Profit or loss: 50 basis points increase	448	296
Profit or loss: 50 basis points decrease	(448)	(296)

(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. Receivable balances are monitored on an ongoing basis with the result that the Consolidate Entity's exposure to bad debts is not significant.

The Consolidated Entity may at times have a high credit risk exposure to a single customer in relation to oil liftings or gas sales. The above-mentioned credit risk management procedures are followed in these instances. Of the total receivables balance of $10.302 million (2009: $9.885 million) in the Consolidated Entity at 31 December 2010, $3.462 million (2009: $5.291 million) relate to a single debtor based on an oil lifting. This outstanding receivable has been received after year-end and prior to the date of the financial report.

The credit risk on liquid funds and derivative financial instruments is limited as 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.

20. 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 Consolidated Entity can be required to pay. The following table details the Consolidated Entity's exposure to liquidity risk:

	Consolidated					
	Weighted average effective interest rate %	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1–5 years $'000	Total $'000
2010						
Financial Assets						
Non-interest bearing		20,310	-	-	-	20,310
Variable interest rate	2.30%	18,896	-	-	-	18,896
Fixed interest Rate	5.95%	44,367	26,000	142	262	70,771
		83,573	26,000	142	262	109,977
Financial Liabilities						
Non-interest bearing		40,700	-	-	-	40,700
2009						
Financial Assets						
Non-interest bearing		9,885	-	-	-	9,885
Variable interest rate	1.15%	11,984	-	-		11,984
Fixed interest Rate	3.91%	22,610	24,442	140	262	47,454
		44,479	24,442	140	262	69,323
Financial Liabilities						
Non-interest bearing		18,411	-	-	-	18,411

(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 table details the fair value of financial assets and financial liabilities:

	Consolidated			
	Carrying amount		Fair value	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Financial assets				
Cash and cash equivalents	98,873	59,438	98,873	59,438
Trade and other receivables	10,302	9,885	10,302	9,885
Held for sale financial assets	802	-	802	-
	109,977	69,323	109,977	69,323
Financial liabilities				
Trade and other payables	40,197	18,411	40,197	18,411
Held for sale financial liabilities	503	-	503	-
	40,700	18,411	40,700	18,411

21. Share-based Payments

Tap currently has the Tap Share Rights Plan as its share-based payment scheme. This plan has been effective since 30 April 2010.

Performance Rights

Long-term incentive awards are made in the form of rights to shares which will have a vesting timeframe of three years. The number of rights that vest will be based on the Consolidated Entity's performance over the same three years.

The long-term incentive awards are made by way of the grant of Performance Rights as soon as practicable after each year end. Grants of Performance Rights will be made each year with effect from 1 January.

Vesting of up to 50% of the Performance Rights will depend upon the Consolidated Entity's Absolute Total Shareholder Return (ATSR) over three years and up to 50% will depend upon Relative Total Shareholder Return (RTSR). The ATSR and RTSR performance hurdles required to achieve increasing levels of vesting will be set by the Board to apply from 1 January of the relevant year. For the Performance Rights granted in 2010 the Board has set the following ATSR and RTSR performance hurdles:

Assess 50% of Rights Against ATSR	
Average Annual ATSR over 3 years	**% of Rights which will vest after 3 years**
<5%	0%
=5%	12.5%
=15%	25%
≥25%	50%

Assess 50% of Rights Against RTSR	
Relative TSR (Relative Percentile Ranking of TSR against peers over 3 years)	**% of Rights which will vest after 3 years**
<P50%	0%
=P50%	12.5%
=P62.5	25%
≥P75%	50%

Vesting characteristics of the Performance Rights are as follows:

1. Performance measurement period is three years, which is consistent with the typical time cycle for an exploration program and the Consolidated Entity's strategic emphasis on exploration.
2. Performance is based on differences in ATSR and RTSR as measured from the end of one preceding period to the end of the 3-year assessment period. The ATSR and RTSR use the 30-day VWAP of the Consolidated Entity's shares preceding and including the last day of each measurement period.
3. RTSR is assessed against a peer group of like companies determined by the Board before the start of each assessment period or as soon as practical thereafter. In 2010, the Consolidated Entity used a group of approximately 30 petroleum industry companies which are listed on the ASX and whose market capitalisation ranges from approximately $15 million to $1,500 million.

Retention Rights

Retention Rights are issued to staff pursuant to the terms of the Share Rights Plan upon or as soon as practicable after commencement of employment. Such rights would vest if the employee remains employed by the Consolidated Entity for three years. Retention Rights are valued at 100% of the VWAP price of the Consolidated Entity's shares traded during the 30 calendar days preceding the date of grant.

The Board retains the discretion to make Special Awards each year. Special Awards can be in the form of Performance Rights and/or Retention Rights. Special Awards are granted to individual staff or Group Executives who are judged by the Board to have made an extraordinary contribution to the current or future performance of the Consolidated Entity or who are expected to play a critical role in one of the Consolidated Entity's activities that could take 2-3 years to complete and where retention of the individual's services is seen an important determinant of the success to that activity.

21. Share-based Payments (cont'd)

Grant date	Number	Expiry date	Exercise price	Fair value at grant date
			$	$
2010				
Performance Rights				
30/04/2010	2,306,001	1/01/2017	-	0.15
Retention Rights				
30/04/2010	683,778	1/01/2017	-	1.06
7/05/2010	8,090	7/05/2017	-	1.06
30/08/2010	14,925	30/08/2017	-	0.90

2009

There were no rights granted during 2009.

The volume weighted average fair value of the performance rights granted in 2010 is $0.15. Performance rights issued are valued using a Monte Carlo Simulation model. The Monte Carlo Simulation model is a computer based technique where a large sample of iterations is performed, based on random numbers and their associated probabilities determined by a specified probability distribution function. The Monte Carlo Simulation model is used to determine the probability of the absolute return performance hurdles and the relative return performance hurdles being achieved.

The performance rights have no exercise price and vesting occurs after three years. Expected volatility for the ATSR performance hurdle is based on the volatility of historical 3-year performance period returns using 30-day VWAP share price data. Expected volatility for the RTSR performance hurdle is based on the volatility of historical 3-year performance period returns using 30-day VWAP share price data of Tap Oil Ltd shares compared to its peer group.

The volume weighted average fair value of the retention rights granted in 2010 is $1.06. Retention rights are valued using the Black Scholes model with the life of the rights assumed to be three years, which is the same as the vesting period of the retention rights (based on employees remaining in the Consolidated Entity's employment for three years as the condition for rights vesting). The retention rights have no exercise price and no other performance conditions, except that the employees need to be in the Consolidated Entity's employment after a period of three years, resulting in the fair value of the retention rights being equal to the 30-day VWAP share price at the date of grant (the volatility and risk-free rate included as inputs to the Black Scholes model will be irrelevant). Expected volatility is based on the historical 30-day VWAP share price volatility over a 3-year performance period and the risk free interest rate based on the Reserve Bank of Australia's 3-year government bond rate, both as quoted on the date of grant of the retention rights.

	Inputs into the model Rights series (by expiry date)			
	1/01/2017	1/01/2017	7/05/2017	30/08/2017
	Performance Rights	Retention Rights	Retention Rights	Retention Rights
2010				
Grant date share price	$0.15	$1.06	$1.06	$0.90
Exercise price	$0.00	$0.00	$0.00	$0.00
Expected volatility	36%	51%	51%	51%
Life of rights	3yr	3yr	3yr	3yr
Dividend yield	-	-	-	-
Risk-free interest rate	N/A	5.27%	4.98%	4.45%

2009

There were no rights granted during 2009.

21. Share-based Payments (cont'd)

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

	2010		2009	
	Number of rights	Weighted average exercise price	Number of rights	Weighted average exercise price
		$		$
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year	3,012,794	-	-	-
Forfeited during the financial year	(717,549)	-	-	-
Exercised during the financial year [(i)]	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year [(ii)]	2,295,245	-	-	-
Exercisable at end of the financial year	-	-	-	-

(i) Exercised during the financial year

There were no performance rights or retention rights exercised during the 2010 or 2009 financial years.

(ii) Balance at end of the financial year

The performance rights and retention rights outstanding at the end of the financial year had no exercise prices and had a weighted average remaining contractual life of 2,195 days (2009: Nil).

The following share-based payment schemes were applicable for the year ended 31 December 2009:

(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 Consolidated Entity 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 Consolidated Entity's shares on the Australian Stock Exchange during the last ten trading days on which the Consolidated Entity's shares were traded immediately preceding the option grant date, plus ten 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 Consolidated Entity's fully paid ordinary shares. The Consolidated Entity 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 no options were issued under this Scheme.

21. Share-based Payments (cont'd)

(b) Tap Executive Director Option Plan

Under the provisions of the Tap Executive Director Option Plan ("Option Plan") the Consolidated Entity may 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 Consolidated Entity's shares on the Australian Stock Exchange during the last five trading days on which the Consolidated Entity'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 Consolidated Entity's fully paid ordinary shares. The Consolidated Entity 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 Consolidated Entity may 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.

Absolute Growth Hurdle	% of Management Options Vested
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 Consolidated Entity's shares on the Australian Stock Exchange during the last five trading days on which the Consolidated Entity'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 Consolidated Entity's fully paid ordinary shares. The Consolidated Entity will apply for quotation of all shares issued upon the exercise of options.

The first options were issued under this scheme in 2008.

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

Grant date	Number	Plan	Expiry date	Exercise price	Fair value at grant date
				$	$
2010					
No options granted during 2010.					
2009					
7/04/2009	133,200	(a)	7/04/2012	1.04	0.32
23/01/2009	731,551	(a)	23/01/2012	0.83	0.25
23/01/2009	2,007,793	(c)	23/01/2012	0.90	0.08

21. Share-based Payments (cont'd)

No options were granted during 2010. The exercise prices of options issued in prior years were adjusted downwards based on the share entitlement offer of 1 for 2 completed on 11 November 2010. There was no adjustment in the fair values of the options issued in prior years as a result of the decrease in the exercise prices.

The volume weighted average fair value of the share options granted in 2009 is $0.13. Options issued in 2009 were valued using the Black Scholes model with an option life of 2.5 years with vesting after two years. 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 is applied to the plan (c) options as they have hurdles that must be met as a condition of vesting.

2010	There were no options granted during 2010.

2009	**Inputs into the model**		
	Option series (by expiry date)		
	23/01/2012	**23/01/2012**	**07/04/2012**
Grant date share price	$0.75	$0.75	$0.95
Plan	(c)	(a)	(a)
Exercise price	$0.90	$0.83	$1.04
Expected volatility	56%	56%	56%
Option life	2.5yr	2.5yr	2.5yr
Dividend yield	-	-	-
Risk-free interest rate	3.34%	3.34%	3.21%

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

	2010		**2009**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at beginning of the financial year	8,172,428	1.41	6,526,503	1.74
Granted during the financial year	-	-	2,872,544	0.89
Forfeited during the financial year	(245,066)	1.19	(391,619)	1.43
Exercised during the financial year (i)	-	-	-	-
Expired during the financial year	(2,252,362)	1.76	(835,000)	2.22
Balance at end of the financial year (ii)	5,675,000	1.20	8,172,428	1.41
Exercisable at end of the financial year	3,034,141	1.51	2,827,762	1.71

(i) Exercised during the financial year

There were no options exercised during the 2010 or 2009 financial years.

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had adjusted exercise prices in the range $0.56 to $2.70 and a weighted average remaining contractual life of 389 days (2009: 598 days).

21. Share-based Payments (cont'd)

(d) Tap Employee and Director Share Plan

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

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 Consolidated Entity purchased shares on market under the Share Plan for non-executive directors in 2009 (no shares purchased in 2010), details of which are included in note 23 to the financial statements. Shares were also purchased on behalf of employees in 2009 (no shares purchased in 2010) in accordance with Tap's long term incentive program.

In 2009 there were 486,089 shares granted to employees as compensation under the share plan at a weighted average fair value of $0.82. Such grants have no vesting criteria apart from tenure and as such the fair value of a granted share is calculated as the share price on the date the shares are purchased by the Consolidated Entity.

22. Key management personnel compensation

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

Non-Executive Directors

- N F Taylor (Chairman)
- P B Lane
- M J Sandy
- D W Bailey

Senior Executives

- T J Hayden (Managing Director/CEO since 1 December 2010)
- P J Stickland (Managing Director /CEO, resigned effective 1 December 2010)
- D A Neaves (Commercial Manager, Company Secretary and Business Development Manager)
- B M Ulmer (Engineering and Development Manager)
- D J Rich (Chief Financial Officer)
- J Scibiorski (Exploration Manager)
- R A Cassie (New Ventures Manager)

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

	Consolidated	
	2010 **$**	**2009** **$**
Short-term employee benefits	3,388,771	2,782,301
Post-employment benefits	274,324	278,891
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	354,507	799,444
	4,017,602	3,860,636

23. 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 18 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 17 to the financial statements.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 22 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

2010	Balance at 1/1/10	Granted as remuneration	Received on exercise of options	Net other change (iii)	Balance held directly & indirectly at 31/12/10	Balance held nominally (indirectly) (iv)
	No.	No.	No.	No.	No.	No.
Non-executive Directors						
N F Taylor	131,484	-	-	88,242	219,726	-
P B Lane	1,008,602	-	-	(50,000)	958,602	-
M J Sandy	49,472	-	-	40,000	89,472	-
D W Bailey	-	-	-	145,650	145,650	-
Executives						
P J Stickland	244,424	-	-	83,000	327,424	-
T J Hayden	-	-	-	30,000	30,000	-
D A Neaves	53,821	-	-	12,000	65,821	-
B M Ulmer	46,178	-	-	-	46,178	-
D Rich	26,071	-	-	-	26,071	-
J P Scibiorski	17,394	-	-	-	17,394	-
R A Cassie	22,967	-	-	-	22,967	-
	1,600,413	-	-	348,892	1,949,305	-

2009	Balance at 1/1/09	Granted as remuneration (i)	Received on exercise of options	Net other change (iii)	Balance held directly & indirectly at 31/12/09	Balance held nominally (indirectly) (iv)
	No.	No.	No.	No.	No.	No.
Non-executive Directors						
N F Taylor	111,272	-	-	20,212	131,484	-
P B Lane	1,058,497	-	-	(49,895)	1,008,602	-
M J Sandy	39,367	-	-	10,105	49,472	-
D W Bailey	-	-	-	-	-	-
P W Underwood (ii)	2,018,442	-	-	(44,319)	1,974,123	-
Executives						
P J Stickland	174,595	56,289	-	13,540	244,424	-
D A Neaves	27,075	7,506	-	19,240	53,821	-
B M Ulmer	40,233	5,945	-	-	46,178	-
D J Rich	26,071	-	-	-	26,071	-
J P Scibiorski	14,712	2,682	-	-	17,394	-
R A Cassie	18,289	4,678	-	-	22,967	-
	3,528,553	77,100	-	(31,117)	3,574,536	-

(i) Shares were bought on-market for executives, pursuant to the Tap Employee and Director Share Plan, as part of their remuneration. Further details of this Share Plan are contained in note 21(d).
(ii) P W Underwood's share position is as at 21 June 2009 being the date of his resignation as a director.
(iii) Represents shares obtained through salary sacrifice, as well as shares sold and purchased on the market.
(iv) Nominally means 'in name only'. Disclosure of equity holdings held nominally means disclosure of the equity instruments held by the key management person (or their related entity) in his or her name for the benefit of someone outside their related entity group.

23. Related party transactions (cont'd)

Options in ordinary shares of Tap Oil Limited

2010	Balance at 1/1/10	Granted as remu-neration	Exercised	Net other changes	Balance at 31/12/10	Vested at 31/12/10	Vested but not exercise-able	Vested and exercise-able	Vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Non-executive Directors									
N F Taylor	-	-	-	-	-	-	-	-	-
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
D W Bailey	-	-	-	-	-	-		-	-
Executives									
P J Stickland	525,620	-	-	(100,000)	425,620	360,000	-	360,000	210,000
T J Hayden	-	-	-	-	-	-	-	-	-
D A Neaves	1,399,373	-	-	(500,000)	899,373	113,000	-	113,000	63,000
B M Ulmer	1,165,849	-	-	(500,000)	665,849	120,100	-	120,100	60,100
D Rich	300,000	-	-	-	300,000	300,000	-	300,000	300,000
J P Scibiorski	597,225	-	-	-	597,225	351,000	-	351,000	351,000
R A Cassie	999,746	-	-	(550,000)	449,746	20,300	-	20,300	20,300
	4,987,813	-	-	(1,650,000)	3,337,813	1,264,400	-	1,264,400	1,004,400

2009	Balance at 1/1/09	Granted as remu-neration	Exercised	Net other changes	Balance at 31/12/09	Vested at 31/12/09	Vested but not exercise-able	Vested and exercise-able	Vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Non-executive Directors									
N F Taylor	-	-	-	-	-	-	-	-	-
P W Underwood	1,585,400	-	-	-	1,585,400	1,585,400	-	1,585,400	871,000
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
D W Bailey	-	-	-	-	-	-	-	-	-
Executives									
P J Stickland	535,000	65,620	-	(75,000)	525,620	250,000	-	250,000	250,000
D A Neaves	688,000	786,373	-	(75,000)	1,399,373	150,000	-	150,000	150,000
B M Ulmer	695,100	545,749	-	(75,000)	1,165,849	160,000	-	160,000	160,000
D J Rich	300,000	-	-	-	300,000	-	-	-	-
J P Scibiorski	351,000	246,225	-	-	597,225	-	-	-	-
R A Cassie	570,300	429,446	-	-	999,746	150,000	-	150,000	150,000
	4,724,800	2,073,413	-	(225,000)	6,573,213	2,295,400	-	2,295,400	1,581,000

23. Related party transactions (cont'd)

Rights in ordinary shares of Tap Oil Limited

2010	Balance at 1/1/10	Granted as remun-eration	Exercised	Net other changes	Balance at 31/12/10	Vested at 31/12/10	Vested but not exercise-able	Vested and exercise-able	Vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Non-executive Directors									
N F Taylor	-	-	-	-	-	-	-	-	-
P B Lane	-	-	-	-	-	-	-	-	-
M J Sandy	-	-	-	-	-	-	-	-	-
D W Bailey	-	-	-	-	-	-	-	-	-
Executives									
P J Stickland	-	576,706	-	(576,706)	-	-	-	-	-
T J Hayden	-	-	-	-	-	-	-	-	-
D A Neaves	-	393,486	-	-	393,486	-	-	-	-
B M Ulmer	-	295,391	-	-	295,391	-	-	-	-
D Rich	-	345,779	-	-	345,779	-	-	-	-
J P Scibiorski	-	221,284	-	-	221,284	-	-	-	-
R A Cassie	-	240,824	-	-	240,824	-	-	-	-
	-	2,073,470	-	(576,706)	1,496,764	-	-	-	-

2009	
	There were no rights issued in 2009.

All performance and retention rights issued to key management personnel during the financial year were made in accordance with the provisions of the Tap Share Rights Plan referred to in note 21. No shares or options were issued in the financial year.

During the 2010 and 2009 financial years, no options or rights 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 21 to the financial statements.

(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 within the Tap Oil Ltd Group eliminates on consolidation. The outstanding balances related to jointly controlled operations and assets are disclosed in note 17 to the financial statements. All loans advanced to and payable to related parties are unsecured, have no fixed repayment dates and are interest-free.

24. Remuneration of auditors

	Consolidated 2010 $	Consolidated 2009 $
Audit services		
Auditor of the parent entity - Deloitte Touche Tohmatsu		
- Audit and review of financial reports	134,400	128,625
Overseas Deloitte Touche Tohmatsu firms		
- Audit of financial report	5,334	5,375
	139,734	134,000
Other auditors		
- Audit of financial report	9,840	-
	149,574	134,000

24. Remuneration of auditors (cont'd)

	Consolidated 2010 $	Consolidated 2009 $
Other services		
Auditor of the parent entity - Deloitte Touche Tohmatsu		
- Other assurance services	7,613	-
- Due diligence performed on the acquisition of Northern Gulf Petroleum	15,750	-
	23,363	-

25. Contingencies

Gas Sale Agreement with Burrup Fertilisers

On 28 December 2006, Tap (Harriet) Pty Ltd, together with the other Harriet Joint Venture (HJV) sellers, issued a notice of force majeure in relation to the gas reservation requirements of the HJV under the Gas Sales Agreement with Burrup Fertilisers Pty Ltd (Burrup Fertilisers) entered into in December 2001 (GSA). Tap has a 12.2229% interest in the HJV and a corresponding interest as a gas seller under the GSA. At present, the HJV has not identified sufficient proven reserves of gas in order to supply its contracted share of all of the requirements of Burrup Fertilisers for the remaining duration of the GSA (approximately 20 years). The events described in the notice of force majeure include the failure of exploration and development wells.

The HJV continues to supply gas in accordance with the terms of the GSA and anticipates being able to continue to supply its share of gas to Burrup Fertilisers under the GSA for a further period of approximately two years. The actual duration and extent of supply is subject to uncertainties such as field performance and ongoing exploration and development activities in the Harriet area.

Under the GSA 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 liability to perform obligations in circumstances of force majeure.

Tap has filed proceedings in the Supreme Court of Western Australia seeking a declaration to confirm that in the event it is determined that there was no force majeure event, any potential future liability for a shortfall in supply under the GSA is limited to the liquidated damages set out in that agreement. Burrup Fertilisers has filed a defence and counterclaim in relation to this matter disputing force majeure and for breach of contract seeking general damages in certain circumstances where there is a shortfall in gas supply.

The GSA contains a schedule which provides for annual liquidated damages in the event of a shortfall of gas supply. For illustrative purposes, a maximum amount of US$1.1 million to US$1.5 million per year of liquidated damages is payable in the event of a total shortfall in gas supply. Based on current reserves Tap's maximum liability for liquidated damages under the GSA would be approximately US$20 – 25 million in total, which would be spread over a period commencing around 2013-14 and ending 2030.

A preliminary trial dealing with certain core aspects of the dispute has been set down for June 2011. These issues relate to the proper construction of the GSA and include the way the liquidated damages regime under the GSA is to be applied. Determination of these issues will go a long way to providing the parties to the dispute with commercial certainty.

25. Contingencies (cont'd)

Varanus Island Incident

On 3 June 2008, a gas pipeline ruptured on Varanus Island causing an extended disruption to gas deliveries from the facilities. Each of the licensees in the HJV (including Tap) have been charged by the Department of Mines and Petroleum with failing to maintain the gas pipeline. Tap has pleaded not guilty to this charge, which carries a maximum individual penalty of $10,000. Tap plans to vigorously defend this charge.

Civil claims from third parties may arise from the incident. To date, Tap has not been notified of any such claims and as such, these matters cannot be quantified. Tap maintains third party liability insurance which may be relevant to any claims which may arise.

Success payments in respect of the Manora oil field development

The Consolidated Entity purchased 75% of the shares of Northern Gulf Petroleum Pte Ltd on 13 October 2010. As part of the purchase agreement the Consolidated Entity is liable to make future payments up to a maximum of US$37.5 million in aggregate, conditional on the following:

- a Final Investment Decision Bonus between $0 and US$18.750 million, based on the Manora oil field development size. Payment starts at a development size larger than 10mmbbl, increasing by $0.75/bbl up to a maximum of US$18.750 million at 35mmbbl.
- a 2P Reserves Bonus payable up to four years after first production. Payment starts at a development size larger than 10mmbbl, increasing by $1.50/bbl up to a maximum of US$37.5 million at 35mmbbl. Any payment already paid as a Final Investment Decision Bonus (refer above) is deducted from the 2P Reserves Bonus payable.

A Final Investment Decision had not been made at 31 December 2010.

26. Subsequent Events

Since the end of the financial year the Directors are not aware of any other 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 other than:

(a) On 20 January 2011 the Consolidated Entity exercised its pre-emptive right to acquire an additional 20% interest in the WA-351-P exploration permit in Western Australia's Carnarvon Basin for a cash consideration of US$15.750 million. The acquisition is subject to relevant government approval.

(b) The Consolidated Entity and Jubilant Energy Pty Ltd (holder of a 25% interest in the T/47P exploration permit) have entered into arbitration, due to Jubilant Energy Pty Ltd defaulting on cash calls payable to the T/47P Joint Venture. To date outstanding cash calls to the value of $3.506 million have been paid by the Consolidated Entity on behalf of Jubilant Energy Pty Ltd as required under the T/47P Joint Operating Agreement.

(c) Offers were received for the Consolidated Entity's assets classified as held for sale. Refer to note 7 for further disclosure in respect of these assets held for sale.

(d) The Zola-1 well spudded on 1 December 2010 and as at the date of this report, the well was at a depth of 4,374 m in the Mungaroo Formation. Due to the approaching cyclone, limited wireline logs (MDT formation pressure and sampling) were run across the upper Mungaroo target. These logs supported the early interpretation (from mud log and LWD data) of a gas column in sandstones at the top of the Mungaroo Formation. The well is currently suspended down hole and the rig has been secured and de-manned for an approaching cyclone. Forward operations for when the rig is re-manned and operations recommence will be to drill ahead through the upper Mungaroo Formation and through the second target zone to final well TD as planned.

27. Parent entity disclosures

Financial Position

	Parent Entity	
	2010 $'000	**2009 $'000**
Assets		
Current assets	138,392	79,934
Non-current assets	47,150	32,685
Total assets	185,542	112,619
Liabilities		
Current liabilities	38,210	23,683
Non-current liabilities	127	89
Total liabilities	38,337	23,772
Equity		
Issued capital	157,530	89,758
Retained earnings	(15,075)	(5,163)
Reserves		
Share option reserve	4,461	4,252
Share rights reserve	289	-
Total equity	147,205	88,847
Financial Performance		
Loss for the year	9,912	5,451
Other comprehensive income	-	-
Total comprehensive income	9,912	5,451

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Tap Oil Limited has guaranteed the due performance of all of the obligations, duties and undertakings of Tap Energy (Borneo) Pty Ltd in respect of the Block-M Joint Operating Agreement and in respect of Phase 1 and the Phase 1 obligation under and pursuant to the Block-M Production Sharing Agreement to the extent of Tap Energy (Borneo) Pty Ltd's participating interest in the Block-M Joint Operating Agreement.

Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2010.

Lease commitments of the Parent entity
Operating leases
Leasing arrangements

The Parent Entity has non-cancellable operating leases for office premises – the premises lease expires on 31 January 2013.

	Parent Entity	
	2010 $'000	**2009 $'000**
Non-cancellable operating lease commitments		
Not longer than 1 year	439	418
Longer than 1 year and not longer than 5 years	500	939
Longer than 5 years	-	-
	939	1,357

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	**Principal place of business**
Level 1, 47 Colin Street	Level 1, 47 Colin Street
West Perth WA 6005	West Perth WA 6005
Ph: +61 8 9485 1000	Ph: +61 8 9485 1000