Strike Energy Limited

ACN 078 012 745

Annual report for the financial year ended 30 June 2010

Strike Energy Limited

Annual Report
for financial year ending 30 June 2010

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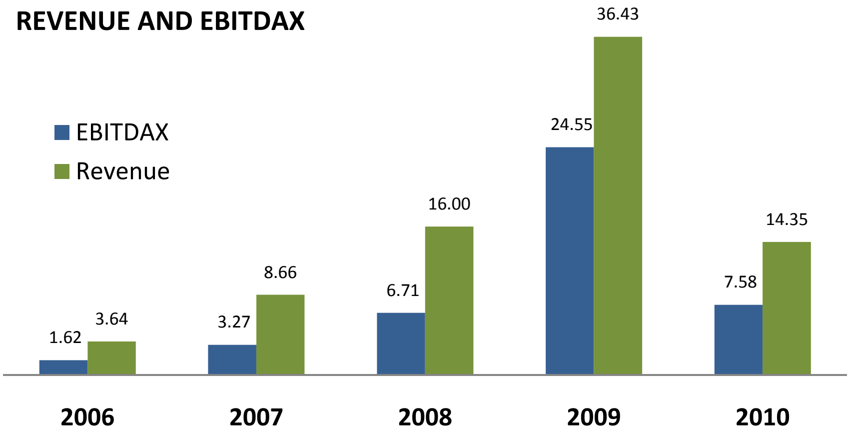
Annual General Meeting
To be held at 2.00pm (Perth time) on Wednesday, 17 November 2010, at the University Club, Hackett Drive, Crawley, Western Australia.

Year in Brief

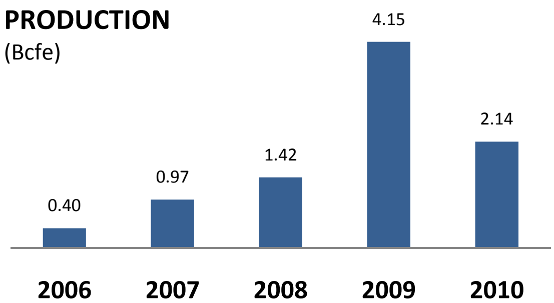
FINANCIAL

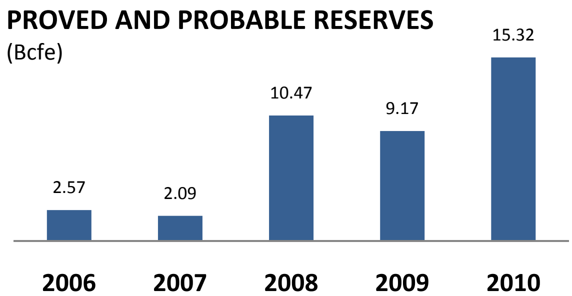
- Oil and gas sales of $14.4 million ($6.71/Mcfe), down 61% on 2009 due to a 6-week USA production curtailment, 24% lower production prices received and natural field declines;
- High operating margin of 69%;
- EBITDAX of $7.6 million ($3.54/Mcfe) – down 69% on 2009;
- Net loss of $6.1 million;
- Acquisition, exploration and development expenditure of $13 million;
- Cash on hand of $8.1 million; and
- Debt of $5.5 million.



OPERATIONS USA

- Production of 2.1 Bcfe, down 48% on 2009 due to 6-week production curtailment and field decline;
- Proved and probable (2P) reserves at 30 June 2010 of 15.3 Bcfe – up 67% on 2009;
- Louise discovery made in February 2010 and on production in May; and
- Drilling of the 200 Bcf potential Deerslayer prospect is underway.





OPERATIONS AUSTRALIA

- Substantially increased permit holdings in the Southern Cooper Basin;
- Exploration and evaluation of the Southern Cooper CSG project commenced with the drilling of the Forge 1 well;
- Forge 1 penetrated a total of 21 metres of Permian age gassy coals;
- Increase in working interest to 61.5% over the Baniyas oil prospect in the Carnarvon Basin, in Western Australia;
- Coal gasification trials (FuturGas Project) were completed, demonstrating the potential to produce a high quality syngas.

Chairman's Letter

Dear Shareholders

At last year's annual general meeting shareholders approved a change to the Company's name, to Strike Energy Limited. The change was made to more accurately reflect the Company's current operations and future direction.

During the year Strike Energy continued its exploration success on the US Gulf Coast with the Louise gas and condensate discovery maintaining a drilling "hit" rate well above industry averages.

Profitable gas and condensate production from 11 production wells in the Rayburn, Mesquite and Louise fields was achieved despite a period of depressed gas prices. Strike Energy's US production business has grown over the past 5 years to become a sustainable business based upon a strong portfolio of exploration and producing assets.

In Australia, Strike Energy reinforced its dominant position in the Southern Cooper Basin by securing further acreage and increasing its exposure to the vast unconventional gas play in this part of the Basin and the growing regional gas market.

Our activities in the Southern Cooper were frustrated, initially by prolonged wet weather and subsequently by operational issues once drilling commenced. The result has been below planned activity levels that, in a weakening stock market for the conventional oil and gas sector, has seen Strike Energy's share price underperform.

Initiatives are being put in train to ensure that Strike Energy implements increased but manageable activity levels across all of its Australian and US projects in the coming year.

Total gas and condensate production was down on the previous year's record levels, owing to a period of production curtailment between August and October and expected field decline. However, despite this, Strike Energy recorded revenues of $14.4 million, with EBITDAX of $7.6 million, for the year. The addition of production from Louise in May offset production decline at the other fields from that time. Accordingly, gross production is expected to be maintained at the current level from the Rayburn, Mesquite and Louise wells over the coming year.

The Louise discovery was brought on production at a rate of 5 million cubic feet of gas equivalent per day in May 2010, and there is no evidence of decline five months later. Louise is another high margin discovery and holds the potential to add further to our production base. Its financial return has been exceptional with all exploration and development costs fully recovered within 5 months of start up. The Louise field is anticipated to double Strike Energy's reserves.

Looking forward, the Company will continue to develop and evaluate opportunities with the potential to substantially lift shareholder value.

As I write, Strike Energy is a 30% participant in drilling the Deerslayer prospect on the Gulf Coast. If successful this target holds the potential to be one of the largest onshore gas discoveries in the Gulf Coast in the last 15 years.

The Deerslayer opportunity was not a high cost acquisition, as is often witnessed at this end of the market, but rather a target developed by our joint venture's technical team. The same team that has delivered above industry success rates (50%) in exploration drilling, using the same technical and business strategies, for the past 5 years. Even more encouraging, the team has developed a pipeline of targets of increasing quality that are in the process of being prepared for drill evaluation over the coming year.

The potential for growth in the US business is strong. In recognition of the importance of the US business for the Company, Mr Ben Thomas, a Houston based petroleum engineer with more than 40 years' experience in the oil and gas industry, much of which has been spent in asset acquisition and divestiture, was recently appointed to head up and manage our US activities.

In Australia the main focus will be upon executing a sustained evaluation and drilling program at the Southern Cooper Basin coal seam gas project. The potential that this project offers for the development of coal seam gas resources is vast. Success would provide enormous impetus to Strike Energy's growth objectives and for this reason the timely execution of drilling programmes has become the highest priority.

To strengthen Strike Energy's operating skills the Company employed Mr Derrick O'Keeffe in November 2009 as Chief Operating Officer. Mr O'Keeffe has more than 28 years' experience in local and international petroleum operations. In May he was appointed to the Board, bringing operating experience at a time when the Company's operations are set to expand.

Elsewhere in Australia, protracted negotiations to secure title to more of the Baniyas prospect in the shallow water Carnarvon Basin are nearing conclusion. If successful, Strike Energy will hold an interest covering the entire Baniyas structure. Currently the Company holds a 61.5% interest in a licence covering half the prospect. Baniyas is considered to be one of the best undrilled structures in this part of the Basin and holds potential for 47 million Boe. A discovery of this size would add substantially to Strike Energy's valuation and open another leg to the Company's production base.

Each of the Gulf Coast, Southern Cooper Basin and Carnarvon Basin programmes provide clear company-changing opportunities to Strike Energy in the coming year.

It is proposed that the FuturGas project, based upon the shallow open pittable coal resource near Kingston in south east South Australia, be progressed in conjunction with a funding party. Steps to secure a joint venture partner are underway.

In August 2010 Mr Jeff Schneider stepped down as Chairman. The Board wishes to thank him on behalf of shareholders for his stewardship of Strike Energy over the past 8 years and for the important part he played in building the Company during that period.

Directors also acknowledge with thanks the contribution of our employees and consultants during the past year.

Mr Tim Goyder joined the Board as a non-executive director in August 2010. Mr Goyder, a substantial shareholder, brings a wealth of resource industry and public company management experience to Strike Energy and his presence provides a valuable addition to the Board as the Company considers a range of options for growth over the coming year.

Strike Energy has an exciting programme for the coming year. Options for growth on a company-changing scale are present within both its US and Australian business units. Whilst executing on these opportunities our team will increase its efforts to optimise existing business, secure new business and investigate ways (including asset sales) of releasing to shareholders more of the clear value that Strike Energy's project portfolio holds.

On behalf of the Board I would like to thank shareholders for their interest and continuing support.

Yours sincerely

Tim Clifton
Chairman

Managing Director's Overview

In 2009/10 Strike Energy continued its successful exploration in the Gulf Coast Texas and increased its position in the Southern Cooper Basin to become the dominant land holder.

Production was down on the previous year's record levels owing to a period of production curtailment (due to scheduled pipeline maintenance and low prices) and expected field decline. As additional production from the new Louise discovery came online, the decline was turned around by the end of the year. Sustainable production revenues will continue for years to come and provide the foundation to push on with further, exciting, growth initiatives.

These initiatives include the continued drilling of the large, strategically located Southern Cooper coal seam gas project which has the potential, given its location adjacent to in-situ pipeline infrastructure and hence ease of access to the key eastern Australian gas markets, for fast track commercial development.

In the US, the Company will continue to expand its position and participate in ongoing onshore Gulf Coast exploration drilling with the Eaglewood Joint Venture partners. The large Deerslayer prospect of 200 Bcf is currently drilling and is a good example of the scale of opportunity provided by this activity.

With this in mind, I am pleased to provide this overview of Strike Energy's 2009/10 operations and future opportunities:

US Production

Strike Energy's production declined during the year as a result of natural field decline and a six week production curtailment period during August, September and October 2009.

Production	2010	2009	YoY change
Gas (MMcf)	1,782	3,335	-47%
Oil-condensate (bbl)	35,658	81,836	-56%

One new well was brought onto production during the year – the Gardner Duncan 1 discovery well at the Louise prospect – which brought Strike Energy's total well tally to 11 producing wells.

A summary history and initial production from Strike Energy's 11 producing wells is tabulated below.

Well name	STX WI	Initial Production Gas MMcf/day	Initial Production Condensate bbl/day	Date
Mesquite Prospect				
Shefcik 1	26%	6.2	135.0	Jan 2006
Webernick 1	26%	2.9	56.8	Feb 2006
Shefcik 3	26%	8.1	117.7	Apr 2006
Webernick 2	26%	3.5	97.0	Jul 2006
Rayburn Prospect				
Duncan 1	19%	10.2	263.0	Jan 2008
Duncan 2/ST1	19%	10.0	224.2	Apr 2008
Gilbert Freeman 1	23%	3.9	126.0	Apr 2008
Duncan 3	19%	10.3	234.0	Jul 2008
Gilbert Freeman 2	23%	9.2	245.0	Aug 2008
Gilbert Freeman 3	23%	1.6	80.0	Dec 2008
Louise Prospect				
Gardner Duncan 1	30%	3.7	111.0	May 2010

Total revenue from gas and oil-condensate sales for the year was $14.4 million, down from $36.4 million in the previous year and representing a 61% drop due to production declines, a period of six weeks production curtailment and lower gas and oil prices (on average down 24%).

Revenue	2010 $'000	2009 $'000	YoY change
Gas	11,309	29,003	-61%
Oil-condensate	3,044	7,431	-59%
Total	**14,353**	**36,434**	**-61%**

Strike Energy's net daily production at the end of the year was around 570 barrels of oil equivalent per day contributing $1.1 million per month of revenue (annualised $13 million).

US Reserves

Proved plus Probable (2P) reserves at the Company's producing properties – Rayburn, Mesquite and Louise, onshore Gulf Coast, Texas, USA – have increased to **13.22 Bcf of gas** and **0.21 million barrels of condensate** (1.53 million barrels of oil equivalent or 15.32 Bcf gas equivalent).

This represents a **77% increase** in gas reserves over the previously reported estimate as at 30 June 2009, reflecting the continued growth in Strike Energy's US production business. Over the past five years, the business has grown steadily providing a strong foundation for the Company's continued growth and diversification.

The reserves growth reflects another year of exploration success in the USA with the Louise gas/condensate discovery which was brought into production in May 2010 at a rate of 5 million cubic feet of gas equivalent per day.

Ongoing drilling has delivered a one in two success rate for Strike Energy in onshore Gulf Coast exploration. The addition of production from Louise is expected to offset declining production from the other fields, enabling gross production to be maintained at the current level for the 2011 financial year.

	30 June 2010		30 June 2009	
Reserves	**Gas (Bcf)**	**Condensate (MMbbl)**	**Gas (Bcf)**	**Condensate (MMbbl)**
Proved	12.11	0.20	7.47	0.17
Probable	1.11	0.01		
Total 2P	13.22	0.21	7.47	0.17
Total 2P: Boe[i]	1.53		0.92	
Total 2P: Bcfe[ii]	15.32		9.17	

[i] Barrels oil equivalent (boe) is based upon 10:1 value ratio
[ii] Gas equivalent is based upon 1:10 value ratio

No development or appraisal wells were drilled during the year.

Total Proved Gas Reserves (1P) increased by 62% and Proved and Probable Gas Reserves (2P) increased by 77% over the past 12 months.

The reserve figures represent the combined reserves at the Mesquite, Rayburn and Louise producing properties, net to Strike Energy's working interest. The increase in reserves is arrived at after taking into account production over the 12 month period. Reserve increases have occurred at Rayburn and Mesquite with the bulk of the increase contributed from the recent Louise discovery.

Production for the 2010 financial year was 1,782 MMcf of gas and 35,659 barrels of oil-condensate, underpinning revenues of $14.4 million and EBITDAX of $7.6 million for the year despite depressed gas prices and a period of six weeks when production was curtailed.

A third party assessment of reserves is underway. A reserve report is expected to be received in the December 2010 quarter.

US Exploration

A total of four exploration wells were drilled during the year. One was completed for production and one was suspended pending further evaluation. The Steindorf 1 well at the Deerslayer prospect commenced drilling on 16 September 2010.

Area	Well	Strike Energy Working Interest	Depth (metres)	Results
Exploration – Texas				
Louise Prospect				
	Gardner Duncan 1	30%	3,180	Wilcox gas condensate discovery
Pathfinder Prospect				
	Starnes 1	30%	3,972	Plugged and abandoned
Homestead Prospect				
	Muegge 1	30%	4,160	Suspended
Deerslayer Prospect				
	Steindorf 1	30%	-	Drilling ahead. Proposed depth: 4,420 metres
Exploration – Louisiana				
Bateman Lake				
	Driskill Land Co 1	12.6%	2,732	Plugged & abandoned

Three of the wells drilled were part of the successful Wilcox trend drilling where the Company has a 50% success rate associated with the Eaglewood Joint Venture. The Gardner Duncan well on the Louise prospect was a new field discovery and initial test rate of 3.7 million cubic feet and 111 barrels of condensate per day. This well has not declined since initial production rates recorded.

The Eaglewood Joint Venture has a very high exploration success rate, it produces high margin discoveries and has enabled Strike Energy to increase its reserves each year ahead of its production. These results demonstrate the quality of Strike Energy's US business.

Prospect generation and drilling is ongoing based upon continued improvements in technology and interpretation resulting in continued generation of low risk prospects.

Overall, the Gulf Coast interests of Strike Energy have undrilled prospects with pre-drill potential resources of 500 Bcfe in which Strike Energy's working interest is 30%.

Australian Coal Seam Gas

During the year Strike Energy added to its dominant Southern Cooper acreage position with the acquisition of interests in permits PEL 94 and PEL 95 and the offer of new permit PELA 515. These additions take Strike Energy's position to interests of gross 17,000 km^2.

The Company's Southern Cooper permit holdings are now as follows:

PELA 71	75% (Operator)
PEL 96	66.67% (Operator)
PEL 94	35%
PEL 95	50%
PELA 515	100% (Operator)

Specifically in PEL 96, where the most advanced coal seam gas evaluation has taken place, Strike Energy holds a 66.67% interest. Strike Energy is the operator of the project which features extensive thick coal seams and close proximity to Epic Energy's open access Moomba-to-Adelaide gas pipeline, providing direct access to the South Australian gas market as well as (through trading opportunities) the rest of the eastern Australian market.

The exploration licence area was previously the subject of petroleum drilling and seismic studies, which have confirmed the presence of thick, continuous coals over a very large area.

A prospective resource has been modelled at 7,000 to 19,000 petajoules (PJ) gas-in-place based on the existing data, of which Strike Energy's share would comprise 5,000 to 12,000 PJ, as summarised in the following table:

		Unit	Best Estimate	High Estimate
Total Joint Venture	Gas in Place	PJ	7,425	18,562
	Prospective Resources	PJ	3,712	9,281
Strike Energy's Share	Gas in Place	PJ	4,950	12,375
	Prospective Resources	PJ	2,475	6,188

This prospective resource estimate has been confirmed in an independent review conducted by MBA Petroleum Consultants, one of Australia's most experienced coal seam gas advisory groups.

Prospective coal seam gas resources are estimates of the unrisked potential in PEL 96. Prospective resources under the Society of Petroleum Engineers' Petroleum Resources Management System classification are as yet undiscovered and as such carry exploration risk.

Whilst previous petroleum drilling and interpretation of seismic surveys have confirmed the presence of thick and extensive coal seams, key attributes remain to be confirmed including gas content, gas composition and permeability, each of which are to be tested with new drilling.

An initial program was commenced in June 2010 with the spudding of the Forge 1 well. Due to operational problems the well was suspended at 1,351 metres prior to reaching its proposed total depth of 1,505 metres. Strike Energy is in the process of securing a new drilling rig which will lead to the rescheduling of the program.

The Forge 1 well, while incomplete, did penetrate a total of 21 metres of Permian age gassy coal just under the Jurassic (Eromanga Basin) unconformity including one 15 metre thick seam.

Australian Conventional Oil and Gas

During the year Strike Energy increased its interest in part of the Baniyas prospect from 40% to 61.5%. The Baniyas oil prospect located between Onslow and Thevenard Island, off the West Australian coast. The area sits adjacent to fields that have produced over 150 million barrels of oil to date. A portion of the prospect lies within an adjacent licence in which the Company has no equity. Negotiations to secure exploration rights over this portion were progressed during the year and are expected to be concluded soon.

The status of the development of the Rivoli gasfield did not change during the year. Strike Energy, as operator of the exploration permit, continued to look for a market for the gas.

Australian Coal Gasification

Technical studies associated with the Company's FuturGas project near Kingston, in South Australia, continued during the year.

Gasification trials conducted by the School of Chemical Engineering at the University of Adelaide on samples of Kingston coal continued to deliver very promising results and demonstrate that a very high quality syngas can be produced from the Kingston coal.

These trials are scheduled to be completed shortly. Once the trials are completed and the results documented, materials are to be prepared to be used for partner search.

Occupational Health and Safety

Strike Energy is committed to conducting its activities with the health and safety of its employees, contractors and third parties as a fundamental consideration.

The Company recorded approximately 31,000 worked man-hours during the year without recording any lost time injuries. This continues the excellent results obtained by Strike Energy and its contractors in recent years.

Environment

The Company completed another year without recording any reportable environmental incidents.

Conclusion

I look forward to Strike Energy commencing a new growth period and would like to thank all of our employees and partners for their hard work and determination to succeed in what was a very challenging year.

I would also like to thank former Chairman Jeff Schneider who left the board in August 2010, for his considerable support and guidance over many years.

And finally, thank you to our loyal shareholders. I believe we are very well placed to deliver real growth to you over the coming year.

Yours sincerely

Simon Ashton
Managing Director

Competent persons statement

Gas and Oil Reserves Estimation for the US Gulf Coast

The reported reserves as at 30 June 2010 are based on information compiled by Mr R J Weeden and Mr B A Thomas.

Mr Weeden holds a B.Sc in Geology. He is a member of the American Association of Petroleum Geologists, a member of the Australian Association of Exploration Geophysicists, a member of the Petroleum Exploration Society of Australia, a member of the Formation Evaluation Society of Australia and has worked in the petroleum industry as a practising geologist for over 25 years.

Mr Weeden is a full-time employee of Strike Energy Limited and has consented to the inclusion of the reserves information in this report.

Mr Thomas holds a B.Sc in Petroleum Engineering. He is a member of the Society of Petroleum Engineers and has worked in the petroleum industry as a practising reservoir engineer for over 40 years.

Mr Thomas is a consultant to Strike Energy Limited and has consented to the inclusion of the reserves information in this report.

JORC Compliance Statement – FuturGas Coal Resource

The FuturGas coal resources report in this report are located at Kingston South Australia and have been classified and reported in accordance with the JORC code.

The JORC resource estimate is comprised of 523.5 million tonnes of Measured Resources and 54.8 million tonnes of Indicated Resources; a total of 578.3 million tonnes.

The information in this presentation that relates to coal resources is based on information compiled by Mr Charles Parbury, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Parbury is a senior geologist with McElroy Bryan Geological Services Pty Ltd.

Mr Parbury has sufficient experience which is relevant to the style and mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves” (JORC code). This expertise has been acquired principally through exploration and evaluation assignments at operating coal mines and for coal exploration areas in Australia’s major coal basins.

Mr Parbury consents to the inclusion of this statement in the report of the matters based on his information in the form and context in which it appears.

Directors' report

The directors of Strike Energy Limited submit herewith the annual report of the Consolidated Entity consisting of Strike Energy Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

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

Name	Particulars
Mr T M Clifton	Chairman (non-executive), B.Sc (Hons); B.Juris; LLB; FAusIMM Mr Clifton joined the board in 2008 and was appointed Chairman on 19 August 2010. He has over 40 years' experience in the Australian resources industry.
Mr J W Schneider	Director (non-executive), B.Comm Mr Schneider joined the board in 2002 and was appointed Chairman in 2003; he resigned as Chairman and Director on 19 August 2010. He has over 35 years' experience in the Australian oil & gas industry.
Mr S M Ashton	Managing Director (executive), B.Sc (Hons); M.Sc; MBA Mr Ashton joined the board in 1997 and was a co-founder of Strike Energy Limited. He has over 35 years' experience in the Australian and international petroleum and resource industries.
Mr D C Wrench	Director (non-executive), B.Eng (Mining) (Hons) Mr Wrench joined the board in 1998. He has extensive experience in base and precious metal and energy markets in Australia and North America. Mr Wrench is the Managing Director of Eastern Nomad Buildings Pty Limited.
Mr D J O'Keeffe	Director (executive) and Chief Operating Officer, B.Sc (Chem Eng); MBA Mr O'Keeffe joined the Company on 23 November 2009 and was appointed to the board on 13 May 2010. He has over 28 years' upstream and downstream experience in the oil and gas and energy sectors in Australia, Asia, Africa, Europe and North America.
Mr T R B Goyder	Director (non-executive) Mr Goyder joined the board on 19 August 2010. He has over 30 years' experience in the resources industry in Australia.

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

Mr D J O'Keeffe	Appointed 13 May 2010
Mr J W Schneider	Resigned 19 August 2010
Mr T R B Goyder	Appointed 19 August 2010

Directorships of other listed companies

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

Director	Company	Period of Directorship
Mr J W Schneider	Comet Ridge Limited	Since August 2003
	Green Rock Energy Limtied	Since May 2010
Mr T M Clifton	Uranium Equities Limited	May 2006 to June 2010
	Chalice Gold Mines Limited	March 2009 to April 2009
Mr S M Ashton	Comet Ridge Limited	April 2004 to February 2008
Mr T R B Goyder	Uranium Equities Limited	Since March 2002
	Chalice Gold Mines Limited	Since October 2005
	Liontown Resources Limited	Since February 2006

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Number of fully paid ordinary shares	Number of share options
Mr J W Schneider	1,110,786	-
Mr T M Clifton	19,997,243	-
Mr S M Ashton	8,533,964	3,000,000
Mr D J O'Keeffe	30,000	4,000,000
Mr D C Wrench	29,666	-
Mr T R B Goyder	22,786,608	-

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the Remuneration Report of this Directors' Report, on pages 16 to 22.

Share options granted to directors and senior management

During the financial year a total of 7,600,000 share options were granted to the following directors and senior management of the Company as part of their remuneration:

Directors and senior management	Number of options granted	Issuing entity	Number of ordinary shares under option
Mr S M Ashton	1,500,000	Strike Energy Limited	1,500,000
Mr D J O'Keeffe	4,000,000	Strike Energy Limited	4,000,000
Mr D J Poynton	700,000	Strike Energy Limited	700,000
Mr R J Weeden	700,000	Strike Energy Limited	700,000
Mr A J Brazier	400,000	Strike Energy Limited	400,000
Mr A J Traicos	300,000	Strike Energy Limited	300,000

Company secretary

Mr A J Brazier, Chartered Accountant, held the position of Company Secretary of Strike Energy Limited during and at the end of the financial year. He joined Strike Energy Limited in December 2005. He is also a member of the Chartered Institute of Company Secretaries in Australia.

Review of operations

Refer to the Managing Director's Overview on page 6.

Financial review

During the year the Company generated production revenue of $14.4 million from production of 2.1 Bcfe, at an average gas equivalent sales price of $6.71/Mcfe. This represents a revenue decrease of 61% on the previous financial year revenue of $36.4 million (2009: Production of 4.2 Bcfe, with an average gas equivalent sales price of $8.78/Mcfe). The decrease was the result of production cutbacks initially to allow essential pipeline maintenance and extended in view of depressed gas prices.

Earnings before interest, income tax, depreciation, amortisation and exploration expense (EBITDAX) was $7.6 million, 69% less than the previous financial year, reflecting a 48% reduction in production and a 24% reduction in the average gas equivalent sales price received. Gross operating margin for the year was 69% (2009: 71%).

Strike Energy's cash position at 30 June 2010 was $8.1 million, down from $13.3 million at 30 June 2009.

Cash generated from operating activities of $6.8 million plus available cash was used to fund $13 million of exploration and development expenditure. The sale of the Company's investment in Comet Ridge Limited provided cash of $1.2 million. Debt repayments of $0.5 million were made following a repayments holiday. At 30 June 2010, the balance of the debt facility was $5.7 million.

Principal activities

The Consolidated Entity's principal activities in the course of the financial year were the evaluation, development and production of oil and gas and energy projects in Australia and the United States of America (USA).

Changes in state of affairs

There was no significant change in the state of affairs of the Consolidated Entity during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year not otherwise dealt with in this report or financial statements, that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Future developments

Disclosure of 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, this information has not been disclosed in this report.

Environmental regulations

The Consolidated Entity is subject to environmental regulations under State and Territory laws where it holds exploration permits and tenements. The Consolidated Entity is not aware of any breaches of these laws.

Dividends

In respect of the financial year ended 30 June 2009, no dividend was paid to the holders of fully paid ordinary shares.

In respect of the financial year ended 30 June 2010, the directors recommend no payment of a divided to the holders of fully paid ordinary shares.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Strike Energy Limited	2,305,000	Ordinary	30 cents	5 December 2010
Strike Energy Limited	400,000	Ordinary	30 cents	14 April 2011
Strike Energy Limited	1,500,000	Ordinary	30 cents	18 December 2011
Strike Energy Limited	3,610,000	Ordinary	20 cents	20 March 2012
Strike Energy Limited	3,300,000	Ordinary	35 cents	26 October 2012
Strike Energy Limited	1,500,000	Ordinary	40 cents	17 November 2012
Strike Energy Limited	4,000,000	Ordinary	40 cents	23 November 2012
	16,615,000			

The holders of these options do not have the right, by virtue of the options, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

There have been no shares issued during or since 30 June 2010 as a result of the exercise of options.

Indemnification of officers and auditors

During the financial year, the Company paid premiums in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company and of any related body corporate against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract 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 end of 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 an officer or auditor.

Directors' meetings

The following table sets out the number of directors' and audit committee meetings held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 13 board meetings and two audit committee meetings were held.

Director	Board of Directors		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr J W Schneider	13	13	2	2
Mr S M Ashton	13	13	2	2
Mr D C Wrench	13	13	2	2
Mr T M Clifton	13	12	2	2
Mr D J O'Keeffe	2	2	-	-

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the prior year by the auditor are outlined in note 30 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the prior year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence, based on advice received from the audit committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 23.

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.

Remuneration report (audited)

This remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of Strike Energy Limited's directors and its senior management ("key management personnel") for the financial year ended 30 June 2010.

For the purposes of this report, key management personnel of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the five executives in the Company and the Consolidated Entity receiving the highest remuneration.

Director and senior management details

The following persons acted as key management personnel of the Consolidated Entity. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Directors

Mr J W Schneider	Independent Chairman (non-executive) – resigned 19 August 2010
Mr T M Clifton	Independent Chairman (non-executive)
Mr S M Ashton	Managing Director (executive)
Mr D C Wrench	Independent Director (non-executive)
Mr T R B Goyder	Independent Director (non-executive) – appointed 19 August 2010
Mr D J O'Keeffe	Director (executive)and Chief Operating Officer – appointed 13 May 2010

Senior Management

Mr D J Poynton	Manager – Exploration and Environment
Mr R J Weeden	Manager – Geoscience
Mr A J Brazier	Chief Financial Officer and Company Secretary
Mr A J Traicos	Commercial Manager

Remuneration report (audited) (cont)

Remuneration policy

The compensation program for key management personnel of the Consolidated Entity is designed to ensure that the level and form of compensation achieves certain objectives including:

- attracting and retaining talented, qualified and effective key management personnel;
- motivating their short and long-term performance; and
- aligning their interests with those of the Company's shareholders.

The board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and senior management.

Generally, compensation is provided by the Company to its executive directors and senior management by way of base salary, short-term bonus and by the granting of employee options and superannuation. The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality, high performing director and senior management team.

Non-executive director remuneration

In line with corporate governance principles, non-executive directors are remunerated solely by way of fees and superannuation. Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

Given the evolving nature of the Consolidated Entity's business, the board of directors continues to review and redesign the overall compensation plan for directors so as to continue to address the remuneration philosophy objectives identified above.

The Company's constitution and ASX listing rules specify that the aggregate remuneration of the non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the 2003 annual general meeting when shareholders approved an aggregate remuneration of $250,000 per year.

On 1 September 2010 fees payable to each non-executive director were reviewed and set at $45,600 per annum, inclusive of superannuation obligations. An additional fee of $17,100 per annum is paid for the Chairman of the board and $9,120 is paid for the Chairman of the audit committee, inclusive of superannuation obligations. This fee structure is based on a review of other peer entities with a similar market capitalisation.

The remuneration of non-executive directors for the years ending 30 June 2010 and 30 June 2009 is detailed in Tables 1 and 2 respectively of this report.

Executive remuneration

The Consolidated Entity aims to reward senior management with a level and mix of remuneration commensurate with their position and responsibilities to ensure consistency with the remuneration philosophy objectives identified above.

The Consolidated Entity has entered into standard contracts of employment with its senior management. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration: being base salary, superannuation and other benefits (including non-monetary); and
- Variable remuneration: being short term incentive (STI); and long term incentive (LTI).

Fixed remuneration

Fixed remuneration is reviewed annually by the board of directors. The process consists of a review of Company and individual performance, relevant comparative remuneration information from a variety of sources including industry associations and where considered appropriate, external advice on policies and practices.

Variable remuneration – short term incentive (STI)

The objective of the STI program is to link the achievement of the Consolidated Entity's performance measures with the remuneration received by senior management charged with achieving those measures. The total potential STI available is set at a level so as: (i) to provide sufficient incentive for senior management to achieve the performance measures; and (ii) to ensure costs to the Consolidated Entity are reasonable.

Remuneration report (audited) (cont)

Variable remuneration – short term incentive (STI) (cont)

STI payments granted to senior management are dependent on the extent to which performance measures are met. These measures consist of a variety of criteria covering financial, non-financial, corporate and individual measures of performance. Typically included in performance measurement are the Consolidated Entity's production performance, project exploration and development performance, additional oil and gas reserves delineated, and financial performance. These measures were selected as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

On an annual basis, after consideration of the Consolidated Entity's performance against performance measures, the board of directors determine the amount, if any, of the STI to be paid to senior management. This process usually occurs within four months of balance date.

The aggregate of annual STI payments available for senior management in the Consolidated Entity is subject to the approval of the board of directors. Payments made are generally delivered as a cash bonus in the month following approval.

For the financial year, the board of directors has resolved no STI cash bonus will be paid (2009: Nil).

Variable remuneration – long term incentive (LTI)

The objective of the LTI program is to reward senior management in a manner that aligns remuneration with the creation of shareholder wealth. LTI grants to senior management are delivered in the form of share options under the Company's Employee Share Incentive Option Plan ("Plan").

Share options are granted at the discretion of the board of directors and typically vest over a two year period of continuous employment. Options granted have a contractual life of three years, with 50% of each new tranche exercisable after one year, and the balance exercisable after two years of grant date. Where a senior manager ceases employment prior to the vesting of their share options, the options are forfeited unless this is considered inappropriate by the board.

Options granted are not linked to performance conditions because the option price is set at a level above the current market price at the time the options are granted, which provides incentive for senior management to improve the Company's performance.

The board of directors determines the number of options offered to senior management by reference to their base package and the option value, using an appropriate valuation model with reference to the following formula:

$$\text{Number of Options} = \frac{\text{Base Package x Stretch LTI\%}^{(i)}}{\text{Option value (based on an appropriate valuation model)}}$$

(i) Stretch LTI% refers to the long-term incentive percentage of the Base Package that allows the maximum number of options to vest (ie: become able to be exercised) if the performance condition is satisfied to the maximum.

The resultant number of options may be adjusted, at the board's discretion, to deal with any special circumstances or other factors.

The Company's policy prohibits hedging of options granted under share option plans. Prohibited hedging practices include put/call arrangements over "in the money" options to hedge against a future drop in share price. The board considers such hedging to be against the spirit of a share option plan and inconsistent with shareholder objectives. There is no policy in place limiting the risk of exposure to the securities in respect of the recipient of options.

Further information on the Plan is set out under note 26.

Remuneration report (audited) (cont)

Relationship between the remuneration policy and company performance

The table below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 30 June 2010:

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Revenue	14,353	36,434	15,999	10,150	5,013
Net (loss)/profit before tax	(6,055)	10,224	389	(8,937)	(273)
Net (loss)/profit after tax	(6,055)	10,224	389	(8,937)	(273)
	2010	**2009**	**2008**	**2007**	**2006**
Share price at start of year	$0.19	$0.36	$0.27	$0.21	$0.14
Share price at end of year	$0.24	$0.19	$0.36	$0.27	$0.21
Basic (loss)/earnings per share (cents)	(1.84)	3.11	0.12	(3.71)	(0.15)
Diluted (loss)/earnings per share (cents)	(1.84)	3.10	0.12	(3.71)	(0.15)

Remuneration of directors and senior management

Table 1

2010	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Bonus $	Non-monetary $	Other $	Super-annuation $	Other long term employee benefits $	Termin-ation benefits $	Share-based payments $	Total $
Directors									
J W Schneider[i]	55,000	-	-	-	7,700	-	-	-	62,700
T M Clifton	35,000	-	-	-	1,225	-	-	-	36,225
S M Ashton	289,333	-	3,000	-	40,507	-	-	124,000	456,840
D J O'Keeffe[ii]	153,843	-	-	-	21,538	-	-	215,250	390,631
D C Wrench	43,000	-	-	-	6,020	-	-	-	49,020
T R B Goyder[iii]	-	-	-	-	-	-	-	-	-
Senior Management									
D J Poynton	206,666	-	-	-	28,933	-	-	64,238	299,837
R J Weeden	206,666	-	2,497	-	28,933	-	-	64,238	302,334
A J Brazier	184,450	-	3,000	-	25,823	-	-	32,389	245,662
A J Traicos	206,666	-	2,616	-	28,933	-	-	26,739	264,954

(i) Mr Schneider resigned from the board on 19 August 2010.
(ii) Mr O'Keeffe commenced employment with the Company on 23 November 2009 and was subsequently appointed as a director on 13 May 2010.
(iii) Mr Goyder was appointed to the board on 19 August 2010.

Remuneration report (audited) (cont)

Remuneration of directors and senior management (cont)

Table 2

2009	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Bonus $	Non-monetary $	Other $	Super-annuation $	Other long-term employee benefits $	Termin-ation benefits $	Share-based payments $	Total $
Directors									
J W Schneider	55,000	-	-	-	7,700	-	-	-	62,700
S M Ashton	280,000	-	3,000	1,562	39,200	-	-	61,250	385,012
J M Durrant(i)	209,620	-	-	-	16,940	70,544	140,940	-	438,044
D C Wrench	43,000	-	-	-	6,020	-	-	-	49,020
P L Gunzburg(ii)	18,438	-	-	-	2,581	-	-	-	21,019
T M Clifton	30,949	-	-	-	4,333	-	-	-	35,282
Senior Management									
D J Poynton	200,000	-	-	908	28,000	-	-	22,447	251,355
R J Weeden	198,462	-	2,644	3,093	28,000	1,538	-	22,447	256,184
A J Brazier	178,500	-	3,000	1,083	15,300	-	-	13,523	211,406
A J Traicos	200,000	-	-	2,473	28,000	-	-	29,108	259,581
B G Ford(iii)	220,661	-	-	3,798	18,750	-	136,250	7,140	386,599

(i) Mr Durrant resigned from the Company on 31 December 2008. The termination payment made to Mr Durrant consisted of six months base salary plus compensation for other non-monetary benefits, pursuant to his employment contract.
(ii) Mr Gunzburg resigned from the Company on 16 December 2008. No termination payment was made to Mr Gunzburg.
(iii) Mr Ford resigned from the Group on 30 April 2009. The termination payment made to Mr Ford consisted of six months base salary pursuant to his employment contract.

No director appointed during the 2010 financial year received a payment as part of his consideration for agreeing to hold the position (2009: Nil).

<u>Employee share option incentive plan</u>

Strike Energy Limited operates an ownership-based scheme for the employees of the Consolidated Entity. On 12 August 2004, the directors approved the Employee Share Incentive Option Plan (Plan). Under the Plan up to five percent of the Company's ordinary shares on issue can be offered at any one time to directors, employees and consultants directly engaged in corporate, project development, exploration and evaluation work for the Consolidated Entity.

Typically, options are issued under the following vesting conditions:

- 50% of each issue becomes exercisable on the first anniversary after the date of issue, and the balance is exercisable on the second anniversary after the date of issue. The exercise price of the options is determined by the directors at the time of issue.

The maximum term of the options is three years.

The options are convertible into fully paid ordinary shares of the Company on a one for one basis. Options are granted at no cost under the Plan and carry no dividend or voting rights.

Remuneration report (audited) (cont)

Remuneration of directors and senior management (cont)

At the end of the financial year, the following share-based payment arrangements were in existence:

Options series/ Grant date	Expiry date	Grant date fair value	Vesting date
Issued 5 December 2007	5 December 2010	$0.08	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 14 April 2008	14 April 2011	$0.11	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 18 December 2008	18 December 2011	$0.07	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 20 March 2009	20 March 2012	$0.04	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 26 October 2009	26 October 2012	$0.11	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 17 November 2009	17 November 2012	$0.11	50% at 12 months from date of grant, 50% at 24 months from date of grant
Issued 23 November 2009	23 November 2012	$0.12	50% at 12 months from date of grant, 50% at 24 months from date of grant

The following grants of share-based payment compensation to directors and senior management relate to the current financial year:

Name	Option series/ Grant date	Number granted	Number vested	% of grant vested	% of grant forfeited	% of compen-sation for the year consisting of options
Mr S M Ashton	17 November 2009	1,500,000	-	-	-	27.14%
Mr D J O'Keeffe	23 November 2009	4,000,000	-	-	-	55.10%
Mr D J Poynton	26 October 2009	700,000	-	-	-	21.42%
Mr R J Weeden	26 October 2009	700,000	-	-	-	21.25%
Mr A J Brazier	26 October 2009	400,000	-	-	-	13.18%
Mr A J Traicos	26 October 2009	300,000	-	-	-	10.09%

The following table summarises the value of options granted, exercised or lapsed during the financial year to directors and senior management:

Name	Value of options granted at the grant date(i) $	Value of options exercised at the exercise date $	Value of options lapsed at the date of lapse(ii) $
Mr S M Ashton	160,500	-	-
Mr D J O'Keeffe	492,000	-	-
Mr D J Poynton	79,100	-	14,960
Mr R J Weeden	79,100	-	14,960
Mr A J Brazier	45,200	-	9,724
Mr A J Traicos	33,900	-	78,700

(i) The value of share options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.
(ii) The value of share options lapsed during the period due to the failure to satisfy a vesting condition is determined assuming the vesting condition had been satisfied.

Remuneration report (audited) (cont)

Remuneration of directors and senior management (cont)

Key terms of employment contracts

S M Ashton, Managing Director
Term of agreement – contract on rolling three month basis from 1 July 2010.
Base salary, inclusive of superannuation, of $335,160 at 30 June 2010.
Notice period – three months
No termination benefit is specified in the agreement.

D J O'Keeffe, Chief Operating Officer
Term of agreement – no fixed term.
Base salary, inclusive of superannuation, of $299,250 at 30 June 2010.
Notice period – three months
No termination benefit is specified in the agreement.

D J Poynton, Manager – Exploration and Environment
Term of agreement – no fixed term.
Base salary, inclusive of superannuation, of $239,400 as at 30 June 2010.
Notice period – one month
No termination benefit is specified in the agreement.

R J Weeden, Manager – Geoscience
Term of agreement – no fixed term.
Base salary, inclusive of superannuation, of $239,400, as at 30 June 2010.
Notice period – one month
No termination benefit is specified in the agreement.

A J Brazier, Chief Financial Officer and Company Secretary
Term of agreement – no fixed term.
Base salary, inclusive of superannuation, of $239,400, as at 30 June 2010.
Notice period – one month
No termination benefit is specified in the agreement.

A J Traicos, Commercial Manager
Term of agreement – no fixed term.
Base salary, inclusive of superannuation, of $239,400, as at 30 June 2010.
Notice period – one month
No termination benefit is specified in the agreement.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

S M Ashton
Managing Director
Perth, Western Australia

28 September 2010

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Strike Energy Limited
Level 9, Wesfarmers House,
40 The Esplanande,
Perth, WA, 6000

28 September 2010

Dear Sirs

Strike Energy 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 Strike Energy Limited.

As lead audit partner for the audit of the financial statements of Strike Energy Limited for the financial year ended 30 June 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

Peter Rupp
Partner
Chartered Accountants
Perth

Liability limited by a scheme approved under Professional Standards Legislation.

Independent auditor's report

Deloitte.

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

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Independent Auditor's Report to the members of Strike Energy Limited

We have audited the accompanying financial report of Strike Energy Limited, which comprises the statement of financial position as at 30 June 2010, and 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 26 to 77.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of Strike Energy Limited is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 16 to 22 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Strike Energy Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants
Perth, 28 September 2010

Directors' declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity;
c) in the directors' opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 2; and
d) the directors have been given the declarations required by s.295A of the Corporations Act.

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

On behalf of the directors

S M Ashton
Managing Director
Perth, Western Australia

28 September 2010

Index to the financial report

Consolidated income statement
for the financial year ended 30 June 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Revenue from oil and gas sales	4(a)	14,353	36,434
Cost of sales	4(b)	(4,502)	(10,511)
Gross profit		**9,851**	**25,923**
Other revenue	4(c)	3,154	3,333
Other income	4(d)	100	-
Exploration and evaluation expenditure	4(e)	(7,568)	(7,246)
Gain on disposal of oil and gas production assets	4(f)	-	39
Gain on disposal of available-for-sale assets	4(g)	246	1,923
Corporate expenses		(765)	(530)
Amortisation and depreciation	4(h)	(5,628)	(6,078)
Employee benefits expense		(3,542)	(4,623)
Finance costs	4(i)	(438)	(1,000)
Impairment of other financial assets	4(j)	(164)	-
Other expenses		(1,301)	(1,517)
(Loss)/profit before income tax		**(6,055)**	**10,224**
Income tax expense	5	-	-
(Loss)/profit for the year		**(6,055)**	**10,224**
(Loss)/profit for the year attributable to the owners of the Company		**(6,055)**	**10,224**
Earnings per share			
- basic (cents per share)	18	(1.84)	3.11
- diluted (cents per share)	19	(1.84)	3.10

Notes to the financial statements are included on pages 33 to 77.

Consolidated statement of comprehensive income
for the financial year ended 30 June 2010

	Consolidated	
	2010 $'000	**2009 $'000**
(Loss)/profit for the year	(6,055)	10,224
Other comprehensive income		
Exchange differences on translation of foreign operations	(2,414)	4,715
Available-for-sale financial assets		
- Net (loss)/ gain on revaluation of available-for-sale financial assets arising during the year	(72)	107
- Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	(24)	-
Cash flow hedges		
- Unrealised losses arising during the year	(189)	-
Income tax relating to components of other comprehensive income	21	(32)
Total comprehensive income for the year	**(8,733)**	**15,014**
Total comprehensive income attributable to the owners of the Company	**(8,733)**	**15,014**

Notes to the financial statements are included on pages 33 to 77.

Consolidated statement of financial position
as at 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	8,125	13,337
Trade and other receivables	7	3,252	3,921
Other financial assets	8	5,492	1,818
Derivatives	9	77	-
Inventories		-	3
Total current assets		**16,946**	**19,079**
Non-current assets			
Trade and other receivables	7	-	349
Other financial assets	8	163	1,147
Exploration and evaluation expenditure	10	18,065	14,712
Oil and gas production assets	11	20,147	25,960
Property, plant and equipment	12	290	422
Total non-current assets		**38,665**	**42,590**
TOTAL ASSETS		**55,611**	**61,669**
LIABILITIES			
Current liabilities			
Trade and other payables	13	4,045	1,570
Provisions	14	220	236
Borrowings	15	3,081	2,786
Total current liabilities		**7,346**	**4,592**
Non-current liabilities			
Provisions	14	347	325
Borrowings	15	2,403	3,358
Derivatives	9	266	-
Deferred tax liabilities	5	25	57
Total non-current liabilities		**3,041**	**3,740**
TOTAL LIABILITIES		**10,387**	**8,332**
NET ASSETS		**45,224**	**53,337**
EQUITY			
Issued capital	16	58,894	58,894
Reserves	17	(998)	1,060
Accumulated losses		(12,672)	(6,617)
TOTAL EQUITY		**45,224**	**53,337**

Notes to the financial statements are included on pages 33 to 77.

Consolidated statement of changes in equity
for the financial year ended 30 June 2010

	Fully paid ordinary shares $'000	Asset revaluation reserve $'000	Investment revaluation reserve $'000	Share-based payments reserve $'000	Foreign currency translation reserve $'000	Hedge reserve $'000	Total reserves $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2008	**58,894**	**58**	**-**	**1,242**	**(5,231)**	**-**	**(3,931)**	**(16,841)**	**38,122**
Profit for the year	-	-	-	-	-	-	-	10,224	**10,224**
Other comprehensive income for the year	-	-	75	-	4,715	-	4,790	-	**4,790**
Total comprehensive income for the year	**-**	**-**	**75**	**-**	**4,715**	**-**	**4,790**	**10,224**	**15,014**
Recognition of share-based payments (note 17)	-	-	-	201	-	-	201	-	**201**
Balance at 30 June 2009	**58,894**	**58**	**75**	**1,443**	**(516)**	**-**	**1,060**	**(6,617)**	**53,337**
Balance at 1 July 2009	**58,894**	**58**	**75**	**1,443**	**(516)**	**-**	**1,060**	**(6,617)**	**53,337**
Loss for the year	-	-	-	-	-	-	-	(6,055)	**(6,055)**
Other comprehensive income for the year	-	-	(75)	-	(2,414)	(189)	(2,678)	-	**(2,678)**
Total comprehensive income for the year	**-**	**-**	**(75)**	**-**	**(2,414)**	**(189)**	**(2,678)**	**(6,055)**	**(8,733)**
Recognition of share-based payments (note 17)	-	-	-	620	-	-	620	-	**620**
Balance at 30 June 2010	**58,894**	**58**	**-**	**2,063**	**(2,930)**	**(189)**	**(998)**	**(12,672)**	**45,224**

Notes to the financial statements are included on pages 33 to 77.

Consolidated cash flow statement
for the financial year ended 30 June 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Cash flows from operating activities			
Receipts from sales of oil and gas		14,878	41,760
Receipts from joint venture recoveries		632	260
Interest received		80	207
Payments to suppliers and employees		(8,534)	(19,194)
Interest and other costs of finance paid		(218)	(698)
Net cash provided by operating activities	24(a)	**6,838**	**22,335**
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(11,845)	(9,358)
Payments for oil and gas production assets		(1,109)	(9,082)
Proceeds from disposal of US oil and gas production assets		661	346
Payments for property, plant & equipment		(27)	(100)
Proceeds from disposal of available-for-sale assets		1,182	2,589
Payments for available-for-sale assets		-	(162)
Payments for other financial assets		(164)	-
(Payments for)/proceeds from security bonds		(60)	22
Net cash (used in) investing activities		**(11,362)**	**(15,745)**
Cash flows from financing activities			
Proceeds from borrowings		-	3,829
Repayment of borrowings		(536)	(6,002)
Payments for transaction costs on borrowings		(24)	(46)
Net cash used in financing activities		**(560)**	**(2,219)**
Net (decrease)/increase in cash and cash equivalents		**(5,084)**	**4,371**
Cash and cash equivalents at the beginning of the financial year		13,337	8,399
Effects of exchange rate changes on the balance of cash held in foreign currencies		(128)	567
Cash and cash equivalents at the end of the financial year	6	**8,125**	**13,337**

Notes to the financial statements are included on pages 33 to 77.

Notes to the financial statements

1. General information

Strike Energy Limited is a public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange with additional listings on the Frankfurt and Munich stock exchanges in Germany.

The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report, on pages 12 to 22.

2. Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, accounting standards and interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

Accounting standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 28 September 2010.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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 statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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 other factors that are considered to be relevant. 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.

The critical accounting judgements and other key sources of estimation uncertainty at statement of financial position date that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities at statement of financial position date or within the next financial year are as follows:

<u>Impairment of exploration and evaluation expenditure and oil and gas production assets</u>
The Consolidated Entity reviews the carrying value of exploration and evaluation expenditure and oil and gas production assets at least on a bi-annual basis. This requires judgement as to the status of the individual projects and their future economic value as generally assets cannot be carried at an amount greater than their *Fair Value* or *Value-In-Use.*

(i) Fair Value: the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(ii) Value-in-Use: involves estimating the future cash inflows and outflows that will be derived from the use of the asset and from its ultimate disposal, and discounting them at an appropriate rate.

2. Significant accounting policies (cont)

Impairment of property, plant and equipment
The Consolidated Entity determines whether property, plant and equipment are impaired at least on a bi-annual basis. This requires an estimation of the recoverable amount of cash-generating units to which the property, plant and equipment are allocated, where applicable.

Oil and gas reserves
The Consolidated Entity amortises oil and gas production assets using the units-of-production accounting method based on the ratio of actual production to remaining proved reserves as estimated by independent certification agencies and/or internal Company estimates. The ratio is also used to determine the appropriate period to discount site restoration provisions.

On 23 September 2010 the Company announced an increase in oil and gas reserves as at 30 June 2010. Total proved gas reserves (1P) have increased 62%, to 12.11 Bcf, and total proved oil reserves (1P) have increased 24%, to 0.21 MMbbl.

Site restoration provision
The Consolidated Entity reviews the carrying value of the site restoration provision at least on a bi-annual basis. The value of the provision represents the discounted value of the present obligation to dismantle and restore existing oil and gas production facilities, based on estimates made by the operator of the Texas based joint venture in which the Consolidated Entity participates.

The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate. A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision.

Available-for-sale financial assets
The Consolidated Entity measures the fair value of available-for-sale financial assets by reference to the market bid prices quoted on the Australian Securities Exchange on the date on which they are valued.

Deferred tax assets and liabilities
The Consolidated Entity is subject to income taxes in Australia and USA. Judgement is required in determining deferred tax assets and liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Share-based payment transactions
The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a valuation model using assumptions detailed in note 26.

Employee entitlements
Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:
- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

2. Significant accounting policies (cont)

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 (the AASB) that are relevant to operations and effective for the current annual reporting period. When required by the new and revised standards, comparative figures have been adjusted to conform to the changes in the presentation for the current financial year.

The following new and revised standards have affected presentation and disclosure.

Standard	
AASB 101: *Presentation of Financial Statements* (as revised in September 2007), AASB 2007-8: *Amendments to Australian Accounting Standards arising from AASB 101* and AASB 2007-10: *Further Amendments to Australian Accounting Standards arising from AASB 101*	AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
AASB 2009-2: *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

The adoption of these new and revised standards and interpretations has not resulted in changes to the Consolidated Entity's accounting policies and has not affected the amounts reported for the current or prior years.

The following new and revised standards and interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	
AASB 2008-7: *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting AIFRS for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
AASB 2008-1: *Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations*	The amendments clarify the definition of vesting conditions for the purposes of AASB 2, introduce the concept of "non-vesting" conditions, and clarify the accounting treatment for cancellations.
AASB 123: *Borrowing Costs* (as revised in 2007) and AASB 2007- 6: *Amendments to Australian Accounting Standards arising from AASB 123*	The principal change to AASB 123 was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.
AASB 2008-8: *Amendments to Australian Accounting Standards– Eligible Hedged Items*	The amendments provide clarification on two aspects of hedge accounting: (i) identifying inflation as a hedged risk or portion; (ii) and hedging with options.
Interpretation 16: *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

2. Significant accounting policies (cont)

Standards and interpretations issued not yet effective

At the date of authorisation of the financial report, the standards and interpretations listed below were in issue but not yet effective.

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5: *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 January 2010	30 June 2011

Initial application of the following standards and interpretations is not expected to have any material impact on the financial report of the Consolidated Entity and the Company:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-8: *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions*	1 January 2010	30 June 2011
AASB 2009-10: *Amendments to Australian Accounting Standards – Classification of Rights Issues*	1 February 2010	30 June 2011
AASB 124: *Related Party Disclosures* (revised December 2009), AASB 2009-12: *Amendments to Australian Accounting Standards*	1 January 2011	30 June 2012
AASB 9: *Financial Instruments*, AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9*	1 January 2013	30 June 2014
AASB 2009-14: *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*	1 January 2011	30 June 2012
Interpretation 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010	30 June 2011

2. Significant accounting policies (cont)

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries), referred to as the "Group" or "Consolidated Entity" in these financial statements.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and generally includes a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ("common control transactions") are generally accounted for by reference to the existing (consolidated) book value of the items.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (ie: the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112: *Income Taxes* and AASB 119: *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2: *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5: *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2. Significant accounting policies (cont)

(b) Business combinations (cont)

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(c) Joint venture arrangements

<u>Jointly controlled assets</u>
Interests in jointly controlled assets in which the Group is a venturer and has joint control are included in the financial statements by recognising the Group's share of jointly controlled assets (classified according to their nature), the share of liabilities incurred (including those incurred jointly with other venturers) and the Group's share of expenses incurred by or in respect of each joint venture. The Group also recognises income from the sale or use of output from the joint venture in accordance with the revenue policy in note 2(f).

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature.

<u>Jointly controlled operations</u>
Where the Group is a venturer and so has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that is incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

The operation of joint ventures characterised as "jointly controlled operations" involve the use of goods or services by the joint venture.

<u>Jointly controlled entities</u>
Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Investments in jointly controlled entities where the Group is an investor but does not have joint control over that entity are accounted for as an available-for-sale financial asset or, if the Group has significant influence, by using the equity method.

(d) Foreign currency

The individual financial records of each Group entity are maintained in its functional currency, being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Strike Energy Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the Consolidated Entity's presentation currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

2. Significant accounting policies (cont)

(d) Foreign currency (cont)

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to AIFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to AIFRS is treated as an Australian dollar denominated asset.

Hybrid Energy Australia Pty Limited is a material operating subsidiary that has an Australian dollar functional currency.

The following material operating subsidiaries have a US dollar functional currency:
- Texas Strike Oil LP
- Strike Oil Corp
- Colorado Strike Corp

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount 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 Australian Taxation Office 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 within operating cash flows.

(f) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances paid. Revenue is recognised for the major business activities as follows:

(i) Oil and gas sales

Revenue from the sale of oil and gas is recognised when the product passes from the Group, when selling prices are known or can be reasonably estimated and when the product is in a form that requires no further treatment by the Group.

(ii) Interest revenue
Interest revenue from investments in cash is recognised in the income statement in the period in which it is earned, as this represents the pattern of legal benefit to the Group.

(iii) Joint venture revenue
The Group recognises revenue from recoveries received from joint venture partners and the Group's projects in respect of reimbursements for operating expenses incurred in relation to the operations of the joint ventures.

(g) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Generally, fair value is measured by use of the Black-Scholes model. The expected life assumptions used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 26.

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 Group's estimate of equity instruments that will eventually vest.

2. Significant accounting policies (cont)

(g) Share-based payments (cont)

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled shared-based payments.

(h) Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date.

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 that 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(i) Tax consolidation

Australian tax legislation prescribes that the Group's US assets are exempt from the Australian taxation system. Similarly, the Group's Australian operations are quarantined from US taxation.

The Group's Australian subsidiaries have not been consolidated for Australian taxation purposes.

The Group's US subsidiaries have been consolidated for US taxation purposes.

(j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value and have a maturity of three months or less at the date of acquisition.

2. Significant accounting policies (cont)

(k) Investments and other financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

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: "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.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

<u>Available-for-sale financial assets</u>
Certain shares held by the Group are classified as being available-for-sale and are stated at fair value.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

<u>Loans and receivables</u>
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

<u>Impairment of financial assets</u>
Financial assets are assessed for indicators 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.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2. Significant accounting policies (cont)

(k) Investments and other financial assets (cont)

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Financial instruments issued by the Company

Fair value of derivatives and other financial instruments
Management uses their judgement in selecting an appropriate, generally accepted valuation technique for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the end results of sensitivity analyses regarding these assumptions are provided in note 25.

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

Financial liabilities
Financial liabilities are classified as either: (i) financial liabilities at fair value through profit or loss; or (ii) other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method (refer note 2(k)), with interest expense recognised on an effective yield basis.

(m) Derivative financial instruments

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Movements in the hedging reserve in equity are also detailed in the Statement of Changes in Equity.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

2. Significant accounting policies (cont)

(m) Derivative financial instruments (cont)

<u>Cash flow hedge</u>
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 as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires, 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.

<u>Hedges of net investments in foreign operations</u>
Hedges of net investments in foreign operations are accounted for similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss and included in the “other expenses” or “other income” line of the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss when the foreign operation is disposed of.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(o) Exploration and evaluation expenditure

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred over separate areas of interest for which rights of tenure are current and where:

(i) Such costs are expected to be recouped through successful development and exploitation, or alternatively, by the sale of the area of interest; or
(ii) Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment or evaluation of the existence of economically recoverable hydrocarbon reserves.

Exploration and evaluation expenditure is impaired through the income statement under the successful efforts method of accounting, in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable hydrocarbon reserves or when the decision to abandon an area of interest is made.

The recoverability of exploration and evaluation expenditure is contingent upon successful development and commercial exploitation, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and upon meeting commitments under the terms of permits granted and joint venture agreements.

Upon technical feasibility and commercial viability of an area of interest, capitalised exploration and evaluation expenditure for that area of interest is transferred from exploration and evaluation expenditure to oil and gas production assets.

(p) Oil and gas production assets

Oil and gas production assets capitalised represents the accumulation of all exploration and evaluation expenditure incurred by the Consolidated Entity in relation to areas of interest in which oil and gas production has commenced. Amounts are carried at cost including construction and installation of infrastructure, such as roads. Repairs and maintenance are charged to the income statement during the financial period in which they are recognised.

2. Significant accounting policies (cont)

(p) Oil and gas production assets (cont)

Expenditure on oil and gas production areas of interest and any future expenditure necessary to develop proven and probable reserves to meet current commitments under sales contracts, are amortised using the units of production method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment in accordance with note 2(s).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest and the economically recoverable reserves.

(q) Provision for site restoration and rehabilitation

A provision for site restoration and rehabilitation is recognised when there is an obligation as a result of production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites/wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal and other requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to development and production facilities is capitalised into the cost of the related asset and amortised on the same basis as the related asset. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(r) Property, plant and equipment

Property, plant and equipment are carried in the balance sheet at fair value, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value is determined on the basis of an independent valuation prepared by external valuation experts. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of property, plant and equipment is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing basis so as to write off the net cost or other revalued amount 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, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

- Leasehold improvements 2 - 5 years
- Furniture and fittings 5 - 15 years
- Plant and equipment 5 - 15 years
- Computer equipment 2 - 5 years

2. Significant accounting policies (cont)

(s) Impairment of long-lived assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its 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. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use (refer note 2). 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 immediately in profit or loss, unless the relevant asset is carried at revalued amount, 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 immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase (refer note 2(r)).

(t) Trade and other payables

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

(u) Borrowings

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method (refer note 2(k)).

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing Costs
Borrowing costs are recognised as an expense when incurred. The Group does not currently hold qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, but if it did, the borrowing costs directly associated with the asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

2. Significant accounting policies (cont)

(v) Leases

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

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

<u>Lease incentives</u>
In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(w) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick 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 Group in respect of services provided by employees up to reporting date.

<u>Defined contribution plans</u>
Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

(x) Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for site restoration and rehabilitation are described in note 2(q).

(y) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

2. Significant accounting policies (cont)

(z) Earnings per share

<u>Basic earnings per share</u>
Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

<u>Diluted earnings per share</u>
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(aa) Comparative amounts

Where required by the accounting standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

3. Segment information

The Group adopted AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards* arising from AASB 8 with effect from 1 July 2008. At 30 June 2009 the segment information reported was analysed on the basis of business activity, being exploration or production. During the period to 30 June 2010, the Group's management reporting has been expanded to report performance by both business activity and geographical location. The reportable segments at 30 June 2010 are as follows:

- Australia – Exploration
- Australia – Production
- USA – Exploration
- USA – Production

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the current period's segment information. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Revenue and results

	Australia Exploration $'000		Australia Production $'000		USA Exploration $'000		USA Production $'000		Group $'000	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Segment revenue										
Revenue from oil & gas sales	-	-	66	-	-	-	14,287	36,434	14,353	36,434
Cost of sales	-	-	(94)	-	-	-	(4,408)	(10,511)	(4,502)	(10,511)
Gross profit	-	-	(28)	-	-	-	9,879	25,923	9,851	25,923
Amortisation	-	-	-	-	-	-	(5,484)	(5,894)	(5,484)	(5,894)
Exploration and evaluation expenditure	(1,660)	(5,960)	-	-	(5,908)	(1,286)	-	-	(7,568)	(7,246)
Segment result	(1,660)	(5,960)	(28)	-	(5,908)	(1,286)	4,395	20,029	(3,201)	12,783
Other income									3,254	3,333
Gain on disposal production assets									-	39
Gain on disposal available-for-sale assets									246	1,923
Corporate expenses									(765)	(530)
Depreciation									(144)	(184)
Employment benefits expense									(3,542)	(4,623)
Finance costs									(438)	(1,000)
Impairment of other financial assets									(164)	-
Other expenses									(1,301)	(1,517)
(Loss)/profit before income tax									**(6,055)**	**10,224**

The revenue reported above represents revenue generated from external customers. There were no intersegment revenues during the period (2009: Nil). The segment result represents profits/losses recorded by each segment without allocation of corporate expenses, depreciation, employment benefits expense, finance costs and other expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

3. Segment information (cont)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	Assets		Liabilities	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Australia – Exploration	10,436	5,281	892	165
Australia – Production	126	-	-	-
USA – Exploration	13,126	12,285	2,039	465
USA – Production	22,934	29,066	673	721
	46,622	46,632	3,604	1,351
Unallocated assets and liabilities	8,989	15,037	6,783	6,981
	55,611	61,669	10,387	8,332

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investments in associates, other financial assets derivatives and tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than other financial liabilities, current and deferred tax liabilities, and other liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

	Amortisation		Additions to non-current assets	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Australia – Exploration	-	-	6,576	2,875
Australia – Production	-	-	126	-
USA – Exploration	-	-	4,882	7,190
USA – Production	5,484	5,894	1,109	16,879
	5,484	5,894	12,693	26,944

Information about major customers

Included in revenue from oil and gas sales of $14,353,000 (2009: $36,434,000) are revenues of approximately $12,192,000 (2009: $33,766,000) which arose from sales to the Group's largest customer.

4. Revenue and expenses

	Consolidated	
	2010 $'000	2009 $'000
(a) Revenue		
Gas sales	11,309	29,003
Oil sales	3,044	7,431
	14,353	**36,434**
(b) Cost of sales		
Production costs	754	1,082
Royalties and taxes	3,748	9,429
	4,502	**10,511**
(c) Other revenue		
Interest income from non-related parties	81	207
Joint venture recoveries	3,073	3,126
	3,154	**3,333**
(d) Other income		
Miscellaneous	**100**	**-**
(e) Exploration and evaluation expenditure		
Exploration and evaluation expenditure	**7,568**	**7,246**
(f) Gain on disposal of oil and gas production assets		
Production facility pipeline	**-**	**39**
(g) Gain on disposal of available-for-sale assets		
Ordinary shares in Comet Ridge Limited	**246**	**1,923**
(h) Amortisation and depreciation		
Amortisation – oil and gas production assets	5,484	5,894
Depreciation – property, plant and equipment	144	184
	5,628	**6,078**
(i) Finance costs		
Interest on bank loan	218	594
Commitment fees	-	20
Transaction cost amortisation	220	386
	438	**1,000**
(j) Impairment of other financial assets		
US natural gas price hedging instruments	**164**	**-**
(k) Miscellaneous expenses		
Minimum rental payments – operating leases	434	253
Net foreign exchange loss	-	41
Superannuation – defined contribution plan	359	662
Termination benefits	-	259
Equity-settled share-based payments	620	201

5. Income taxes

Income tax recognised in the income statement

	Consolidated 2010 $'000	Consolidated 2009 $'000
Tax expense/(income) comprises:		
Current tax expense/(income) in respect of the current year	(2,141)	(1,242)
Benefit arising from previously unrecognised tax losses, tax credits or temporary difference of a prior period that is used to reduce current tax expense	-	-
	(2,141)	(1,242)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(14)	3,523
Effect of tax losses	2,155	(2,281)
	2,141	1,242
Total tax expense/(income)	-	-

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:

	Consolidated 2010 $'000	Consolidated 2009 $'000
(Loss)/profit from operations	(6,055)	10,224
Income tax (benefit)/expense calculated at 30%	(1,816)	3,067
Effect of expenses that are not deductible in determining taxable profit	3,525	7,190
Effect of tax concessions (research and development and other allowances)	(3,959)	(7,048)
Effect of different tax rate on US subsidiaries	95	(928)
Effect of tax losses not bought to account	2,155	(2,281)
	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
	-	-

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.

5. Income taxes (cont)

Income tax recognised directly in equity

The following current and deferred amounts were charged/(credited) directly to equity during the period:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current tax	-	-
Deferred tax		
Arising on income and expenses taken directly to equity:		
Revaluation of available-for-sale assets	**32**	**(32)**

Current tax assets and liabilities

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current tax assets	-	-
Current tax liabilities	-	-

Deferred tax balances

Deferred tax liabilities arising from the following:

2010	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Recycled from equity to income $'000	Acquisitions $'000	Closing balance $'000
Temporary differences						
Revaluation of property, plant and equipment	(25)	-	-	-	-	(25)
Revaluation of available-for-sale assets	(32)	-	32	-	-	-
	(57)	**-**	**32**	**-**	**-**	**(25)**

2009	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Recycled from equity to income $'000	Acquisitions $'000	Closing balance $'000
Temporary differences						
Revaluation of property, plant and equipment	(25)	-	-	-	-	(25)
Revaluation of available-for-sale assets	-	-	(32)	-	-	(32)
	(25)	**-**	**(32)**	**-**	**-**	**(57)**

5. Income taxes (cont)

Unrecognised deferred tax assets

The following deferred tax assets have not been brought to account as assets:

	Consolidated	
	2010 $'000	2009 $'000
Tax losses – revenue	12,930	10,405
Temporary differences	400	301
	13,330	**10,706**

Unrecognised deferred tax liabilities

The following deferred tax liabilities have not been brought to account as liabilities:

	Consolidated	
	2010 $'000	2009 $'000
Temporary differences	**8,350**	**4,670**

6. Cash and cash equivalents

	Consolidated	
	2010 $'000	2009 $'000
Cash and cash equivalents(i)	1,600	2,447
Short-term deposits(ii)	6,525	10,890
	8,125	**13,337**

(i) Cash at bank earns interest at floating rates based on daily deposit rates.
(ii) Short-term deposits are at call and earn interest at prevailing short term deposit rates.

7. Trade and other receivables

	Consolidated	
	2010 $'000	2009 $'000
Current		
Trade receivables(i)	2,841	3,823
GST receivable	109	37
Other receivables	302	61
	3,252	**3,921**
Non-current		
Trade receivables	-	349
	-	**349**

(i) The average credit period on current trade receivables is 60 days (2009: 60 days). All amounts were collected within the average credit period. An allowance is made when there is objective evidence that a trade receivable is impaired. There was no evidence that impairment existed at balance date (2009: Nil).

8. Other financial assets

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current		
Advances[(i)]	5,322	1,593
Prepayments	170	225
	5,492	**1,818**
Non-current		
Available-for-sale assets carried at fair value[(ii)]	-	1,044
Security bond	163	103
	163	**1,147**

(i) Advances

Advances represent payments made to operator corporations of USA joint ventures, in which the Group participates, for unused exploration and evaluation expenditure at 30 June 2010.

(ii) Available-for-sale financial assets

The Group previously held an equity investment in Comet Ridge Limited. During the year all shares held were sold and at 30 June 2010 the holding was Nil (2009: 3,600,000).

9. Derivatives

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current Assets		
Forward commodity contracts	77	-
Non-current liabilities		
Forward commodity contracts	266	-

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in commodity prices.

Forward Commodity Contracts

The Group has entered into forward commodity contracts relating to natural gas sales which are hedges of the Group's future gas production. At balance date, the details of outstanding contracts are:

	Nominal Volume (MMBtu)	Expiry Date	Fair Value 2010 $'000	Fair Value 2009 $'000
Sell US natural gas	669,556	30 June 2011	77	-
	324,218	30 June 2012	(159)	-
	144,057	30 June 2013	(107)	-
			(189)	**-**

10. Exploration and evaluation expenditure

The following table details the consolidated expenditures on interests in exploration and evaluation properties by area of interest for the year ended 30 June 2010:

Area of interest	Texas USA $'000	Louisiana USA $'000	Carnarvon Basin Australia $'000	FuturGas Project Australia $'000	Cooper-Eromanga Basin Australia $'000	Other $'000	Total $'000
Balance at 30 June 2009	**9,493**	**-**	**1,708**	**2,910**	**601**	**-**	**14,712**
Additions	4,330	552	231	546	3,703	2,222	11,584
	13,823	552	1,939	3,456	4,304	2,222	26,296
Exploration expenditure expensed – note 4(e)	(5,721)	(187)	(54)	(29)	(7)	(1,570)	(7,568)
Total exploration and evaluation expenditure	8,102	365	1,885	3,427	4,297	652	18,728
Foreign exchange movements	(656)	(7)	-	-	-	-	(663)
Balance at 30 June 2010	**7,446**	**358**	**1,885**	**3,427**	**4,297**	**652**	**18,065**

The following table details the consolidated expenditures on interests in exploration and evaluation properties by area of interest for the year ended 30 June 2009:

Area of interest	Texas USA $'000	Carnarvon Basin Australia $'000	FuturGas Project Australia $'000	Cooper-Eromanga Basin Australia $'000	Other Australia $'000	Total $'000
Balance at 30 June 2008	**4,818**	**4,729**	**1,737**	**1,253**	**585**	**13,122**
Additions	7,190	385	1,173	429	888	10,065
Costs transferred to oil and gas production assets	(1,555)	-	-	-	-	(1,555)
	10,453	5,114	2,910	1,682	1,473	21,632
Exploration expenditure expensed – note 4(e)	(1,286)	(3,406)	-	(1,081)	(1,473)	(7,246)
Total exploration and evaluation expenditure	9,167	1,708	2,910	601	-	14,386
Foreign exchange movements	326	-	-	-	-	326
Balance at 30 June 2009	**9,493**	**1,708**	**2,910**	**601**	**-**	**14,712**

11. Oil and gas production assets

The following table details the consolidated expenditure on oil and gas production assets by area of interest for the years ended 30 June 2010 and 2009:

Area of interest	**Texas, USA**	
	2010 $'000	**2009 $'000**
Balance at 1 July	**25,960**	**12,493**
Additions	1,109	16,879
Costs transferred from exploration and evaluation expenditure	-	1,555
Disposals – Production facility pipeline	-	(1,351)
	27,069	29,576
Oil and gas production amortisation – note 4(h)	(5,484)	(5,894)
Oil and gas production assets expenditure movement	21,585	23,682
Foreign exchange movements	(1,438)	2,278
Balance at 30 June	**20,147**	**25,960**

12. Property, plant and equipment

	Leasehold improvements at fair value $'000	Plant and equipment at fair value $'000	Furniture and fittings at fair value $'000	Computer equipment at fair value $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2008	133	52	83	510	**778**
Additions	-	-	3	132	**135**
Disposals	-	(3)	(22)	(77)	**(102)**
Balance at 1 July 2009	**133**	**49**	**64**	**565**	**811**
Additions	-	1	-	12	**13**
Disposals	-	-	(2)	-	**(2)**
Balance at 30 June 2010	**133**	**50**	**62**	**577**	**822**
Accumulated depreciation					
Balance at 1 July 2008	(50)	(16)	(13)	(179)	**(258)**
Disposals	-	1	7	45	**53**
Depreciation expense	(26)	(7)	(14)	(137)	**(184)**
Balance at 1 July 2009	**(76)**	**(22)**	**(20)**	**(271)**	**(389)**
Disposals	-	-	1	-	**1**
Depreciation expense	(26)	(5)	(7)	(106)	**(144)**
Balance at 30 June 2010	**(102)**	**(27)**	**(26)**	**(377)**	**(532)**
Net book value					
As at 30 June 2009	**57**	**27**	**44**	**294**	**422**
As at 30 June 2010	**31**	**23**	**36**	**200**	**290**

There was no depreciation during the period that was capitalised as part of the cost of other assets.

Property, plant and equipment carried at fair value

An independent valuation of the Group's property, plant and equipment was performed by Mr K Haslem of Australian Valuation Partners to determine the fair value of property, plant and equipment. The valuation conformed to Australian Valuation Standards. The effective date of the valuation was 1 July 2006. After allowing for accumulated depreciation, the directors are of the view that there were no significant changes to the fair value at 30 June 2010.

Had the Group's property, plant and equipment been measured on a historical cost basis, their carrying amount would have been as follows:

	Leasehold improvements $'000	Plant and equipment $'000	Furniture and fittings $'000	Computer equipment $'000	Total $'000
Cost	169	19	18	430	636
Less accumulated depreciation	(139)	(19)	(18)	(430)	(606)
	30	**-**	**-**	**-**	**30**

13. Trade and other payables

	Consolidated 2010 $'000	Consolidated 2009 $'000
Trade and other payables	3,756	1,239
Sundry payables and accrued expenses	289	331
	4,045	**1,570**

Trade payables are non-interest bearing and normally settled within 30 days (2009: 30 days).

14. Provisions

	Consolidated 2010 $'000	Consolidated 2009 $'000
Current		
Employee benefits	**220**	**236**
Non-current		
Employee benefits	278	255
Site restoration	69	70
	347	**325**

A provision for site restoration has been recorded in relation to the Mesquite, Rayburn and Louise production facilities for the costs of dismantling and demolition of infrastructure and the remediation of disturbed areas specific to the infrastructure to a state acceptable to various regulatory authorities. The provision is based on the estimated cost of restoring the production facilities. Final site restoration is not expected until the cessation of operations, currently estimated to be beyond 2020.

Movements in site restoration provision

	Consolidated 2010 $'000	Consolidated 2009 $'000
Balance at 1 July	70	46
Additional provision recognised	1	18
Foreign exchange movements	(2)	6
Balance at 30 June	**69**	**70**

15. Borrowings

	Consolidated 2010 $'000	Consolidated 2009 $'000
Secured - at amortised cost		
Current		
Bank loans	3,208	2,981
Transaction costs	(127)	(195)
	3,081	**2,786**
Non-current		
Bank loans	2,448	3,531
Transaction costs	(45)	(173)
	2,403	**3,358**

On 28 April 2008 the Company entered into a US dollar denominated borrowing base debt facility (Facility) with the Commonwealth Bank of Australia Limited. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a 3.25% margin. The Facility is secured by charges over the production revenues generated by the project and by mortgages over US property leases held by the Group.

Following a renewal of the Facility in August 2009, the Company elected a repayments holiday over drawdown of the additional capacity. On 30 June 2010 a principal repayment totalling $0.54 million (USD.0.46 million) was made. The balance of the Facility at 30 June 2010 was $5.66 million (USD 4.82 million) (2009: $6.52 million/USD 5.28 million).

16. Issued capital

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.

	Number of shares		Issued capital	
	2010 No.'000	2009 No.'000	2010 $'000	2009 $'000
Balance at beginning of financial year	328,558	328,558	58,894	58,894
Balance at end of financial year	**328,558**	**328,558**	**58,894**	**58,894**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The total fully paid ordinary shares on issue at 30 June 2010 were 328,558,430 (2009: 328,558,430).

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 26 to the financial statements.

17. Reserves

	Consolidated 2010 $'000	Consolidated 2009 $'000
Asset revaluation reserve	58	58
Investment revaluation reserve	-	75
Share-based payments reserve	2,063	1,443
Foreign currency translation reserve	(2,930)	(516)
Hedge reserve	(189)	-
	(998)	**1,060**

Asset revaluation reserve

The asset revaluation reserve arises on the revaluation of property, plant and equipment – refer note 12.

	Consolidated 2010 $'000	Consolidated 2009 $'000
Asset revaluation reserve		
Balance at beginning of financial year	58	58
Balance at end of financial year	**58**	**58**

Investments revaluation reserve

The investments revaluation reserve arises on the revaluation of available-for-sale financial assets – refer note 2(k). Where a revalued financial asset is sold, that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss.

	Consolidated 2010 $'000	Consolidated 2009 $'000
Investment revaluation reserve		
Balance at beginning of financial year	75	-
Valuation (loss)/gain recognised	(72)	107
Related income tax recognised in equity	21	(32)
Realised gain reclassified to income statement on disposal	(24)	-
Balance at end of financial year	**-**	**75**

Gains and losses transferred from equity into the income statement during the period are included in the following line items:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Gain on disposal of available-for-sale assets – Note 4(g)	**246**	**1,923**

17. Reserves (cont)

Share-based payments reserve

The share-based payments reserve arises on the grant of share options to directors, senior management and employees under the Group's employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 26 to the financial statements.

	Consolidated	
	2010 $'000	2009 $'000
Share-based payments reserve		
Balance at beginning of financial year	1,443	1,242
Share-based payments	620	201
Balance at end of financial year	**2,063**	**1,443**

Foreign currency translation reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

	Consolidated	
	2010 $'000	2009 $'000
Foreign currency translation reserve		
Balance at beginning of financial year	(516)	(5,231)
Translation of foreign operations	(2,414)	4,715
Balance at end of financial year	**(2,930)**	**(516)**

Hedge reserve

The hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss.

	Consolidated	
	2010 $'000	2009 $'000
Hedge reserve		
Balance at beginning of financial year	-	-
(Loss) recognised on commodity cashflow hedges	(189)	-
Balance at end of financial year	**(189)**	**-**

18. Basic earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Consolidated	
	2010 $'000	**2009 $'000**
Net (loss)/profit used in the calculation of basic earnings per share	(6,055)	10,224
	2010 No.'000	**2009 No.'000**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	328,558	328,558
	2010 Cents per share	**2009 Cents per share**
Total basic earnings per share	(1.84)	3.11

19. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	2010 $'000	**2009 $'000**
Net (loss)/profit used in the calculation of diluted earnings per share	(6,055)	10,224
	2010 No.'000	**2009 No.'000**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	328,558	328,558
Shares deemed to be issued for no consideration in respect of employee options	490	1,625
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	329,048	330,183
	2010 Cents per share	**2009 Cents per share**
Total diluted earnings per share	(1.84)	3.10

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2010 No. '000	**2009 No. '000**
Employee options	16,125	10,490

20. Parent entity disclosures

	Consolidated 2010 $'000	Consolidated 2009 $'000
Assets		
Current assets	7,925	11,121
Non-current assets	35,169	34,666
Total assets	**43,094**	**45,787**
Liabilities		
Current liabilities	4,567	3,401
Non-current liabilities	2,783	3,670
Total liabilities	**7,350**	**7,071**
Net Assets	**35,744**	**38,716**
Issued capital	**58,894**	**58,894**
Asset revaluation reserve	58	58
Investment revaluation reserve	-	75
Share based payments reserve	2,063	1,443
Accumulated losses	(25,271)	(21,754)
	35,744	**38,716**
Loss for the year	(3,517)	(8,379)
Other comprehensive (loss)/income	(75)	75
Total comprehensive loss	**(3,592)**	**(8,304)**

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries and there exist neither contingent liabilities nor commitments for the acquisition of property, plant and equipment.

Investment in controlled entities

All investments comprise ordinary shares and all shares held are unquoted.

Name	Country of incorporation	Percentage interest held 2010 %	Percentage interest held 2009 %	Cost of Company's interest 2010 $	Cost of Company's interest 2009 $
Strike Oil Corp	USA	100	100	13,374,430	13,374,430
Strike E&P Corp	USA	100	100	-	-
Texas Strike Oil Management LLC	USA	100	100	-	-
Strike Delaware LLC	USA	100	100	-	-
Texas Strike Oil LP	USA	100	100	-	-
Colorado Strike Corp	USA	100	100	-	-
Hybrid Energy Australia Pty Ltd[(i)]	Australia	100	100	1	1
Streamline E&P Pty Ltd[(i)]	Australia	100	100	100	100
Streamline Offshore Services Pty Ltd[(i)]	Australia	100	100	100	100
Sequester Pty Ltd[(i)]	Australia	100	100	1	1
Natural Gas Pty Ltd[(i)]	Australia	100	-	1	-
Total investments in controlled entities				**13,374,633**	**13,374,632**

(i) These entities are not required to prepare or lodge audited accounts in Australia

21. Commitments for expenditure

	Consolidated	
	2010 $'000	**2009 $'000**
Commitments for permits and property leases contracted for at reporting date but not recognised as liabilities.		
Payable:		
Within one year	4,120	4,800
Total permit and lease commitments	**4,120**	**4,800**

These include commitments relating to permits and minimum expenditure requirements of the Western Australian, South Australian and Queensland regulatory authorities and property lease rentals attached to exploration and production properties in USA that are subject to re-negotiation upon expiry.

These are necessary in order to maintain the permits and leases in which the Group and other parties are involved. All parties are committed to meet the conditions under which the permits and leases were granted in accordance with the relevant legislation in Australia and USA.

22. Leases

Operating leases

<u>Leasing arrangements</u>
The Company has a commercial property lease relating to the rental of its head office accommodation in Perth.

The non-cancellable lease has a remaining term of nine months. The lease includes a clause with the option to renew for a further term by giving notice to the Landlord no later than six months before the expiry date. At reporting date the Company is in this renewal period and are actively considering whether to exercise the option.

The Company has provided a security bond of $102,500 (2009: $102,500) to the lessor. The bond is refundable upon the expiry of the lease and vacation from the premises. Interest is earned on the balance at the standard term deposit rate of National Australia Bank (NAB) (2009: standard term deposit rate of NAB) and is credited to the income statement. The average rate earned in 2010 was 4.53% (2009: 8.20%).

The Company has several operating leases for office equipment. The leases have remaining terms of between one and three years and the rental payments are fixed for the life of each agreement. There is no option to purchase the leased assets at the end of each lease.

The Company had a commercial property lease for the rental of a serviced office in Adelaide, South Australia. The lease will conclude on 31 August 2010. No security bond was payable and there are no rental revision clauses included in the agreement.

The Company's wholly-owned subsidiary, Hybrid Energy Australia Pty Limited (Hybrid Energy) continued an office equipment lease during the year. The lease has a remaining term of eighteen months and the rental payments are fixed for the term of the agreement.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Payable:		
Within one year	347	427
Later than one year but no later than five years	35	353
Total lease commitments	**382**	**780**

23. Jointly controlled operations and assets

(a) The Group is a participant in the following petroleum permits and mineral tenements and properties as at 30 June 2010:

Permit	Interest	Operator
Australia		
Carnarvon Basin		
EP 110	61.54%	Strike Energy Limited
EP 325	44.5%	Strike Energy Limited
EP 424	61.54%	Strike Energy Limited
WA 261P	19.94%	Apache Energy Limited
Cooper-Eromanga Basin		
PELA 71	75%	Strike Energy Limited
PELA 515	100%	Strike Energy Limited
PEL 94	35%	Beach Energy Limited
PEL 95	50%	Beach Energy Limited
PEL 96	66.67%	Strike Energy Limited
ATP 549P - Cypress Block	5%	Australian Gasfields Limited
GEL 526	100%	Strike Energy Limited
GEL 527	100%	Strike Energy Limited
Otway Basin		
PEL 127	100%	Hybrid Energy Australia Pty Ltd
EL3385	100%	Hybrid Energy Australia Pty Ltd
USA		
Texas		
Eaglewood agreement	30%	Cypress E&P Corporation
Mesquite project area	26.25%	Cypress E&P Corporation
Rayburn project area	22.8%	Cypress E&P Corporation
Louise project area	30%	Cypress E&P Corporation
West Bernard project area	10.62%	Apache Corporation
Louisiana		
Bateman Lake agreement	15%	Texana Resource Partners, Ltd

(b) Interests in joint venture assets

The Group's interests in assets are detailed below. The assets are included in the consolidated financial report in their respective asset classes:

	Consolidated	
	2010 $'000	**2009 $'000**
Current assets		
Cash	39	2,382
Receivables	367	5,903
Inventories	-	3
	406	**8,288**
Non-current assets		
Exploration and evaluation expenditure	14,007	13,930
Oil and gas production assets	37,608	38,339
Less accumulated amortisation	(21,600)	(12,379)
	30,015	**39,890**
Share of total assets of joint venture	**30,421**	**48,178**

23. Jointly controlled operations and assets (cont)

Capital commitments and contingent liabilities

Capital commitments arising from the Group's interests in joint ventures are disclosed in note 21. No other commitments or contingencies remained outstanding at 30 June 2010.

24. Notes to the cash flow statement

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

	Consolidated	
	2010 $'000	**2009 $'000**
(Loss)/profit for year	(6,055)	10,224
Adjustments for:		
Amortisation and depreciation	5,628	6,078
Exploration and evaluation expenditure	7,568	7,246
Share-based payments expense	620	201
Loss on sale of property, plant and equipment	1	29
Gain on disposal of oil and gas production asset	-	(39)
Non-cash related cost recoveries	(1,956)	(1,972)
Gain on disposal of available-for-sale assets	(246)	(1,923)
Foreign exchange losses	-	107
Impairment of other financial assets	164	-
Interest and other finance costs	219	302
Changes in the net assets and liabilities:		
Decrease in trade and other receivables	158	5,308
Decrease in inventories	3	-
Increase/(decrease) in trade and other payables	727	(2,900)
Increase/(decrease) in provisions	7	(326)
Net cash from operating activities	**6,838**	**22,335**

(b) Financing facilities

The Group's policy is to borrow centrally using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

The Group has access to financing facilities at reporting date as indicated below. Refer note 15 for further details.

	Consolidated	
	2010 $'000	**2009 $'000**
Secured bank loan facility with maturity date to 30 June 2013 and which may be extended by mutual agreement:		
• amount used	5,656	6,512
• amount unused	-	-
	5,656	6,512

25. Financial instruments

(a) Capital risk management

The Group manages its capital to ensure that entities within the Group 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 Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 15, cash and cash equivalents disclosed in note 6 and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as per the statement of changes in equity.

Operating cash flows are used to maintain and expand the Group's hydrocarbon exploration and production assets, as well as to make repayments of maturing debt.

The Group's overall strategy remains unchanged from 2009.

Gearing ratio

The gearing ratio is determined as the proportion of net debt to equity.

The gearing ratio at balance date was as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Debt less transaction costs(i)	5,484	6,144
Cash and cash equivalents	(8,125)	(13,337)
Net debt/(assets)	(2,641)	(7,193)
Equity(ii)	45,224	53,337
Net debt to equity ratio	-	-

(i) Debt is defined as long and short-term borrowings, as detailed in note 15.
(ii) Equity includes all capital and reserves

(b) Financial risk management objectives

The Group's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk, price and commodity risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using board-approved directives which underpin treasury's practices and policies which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the audit committee on an ongoing basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate treasury function reports to the Group's audit committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

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 2.

25. Financial instruments (cont)

(c) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 2(d)) and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters which may include forward foreign exchange contracts against specific obligations denominated in foreign currency. No forward foreign currency contracts were entered into during the year.

The financial instruments exposed to movements in the Australian/US dollar are as follows:

	Consolidated	
	2010 US$'000	2009 US$'000
Financial assets		
Cash and cash equivalents	6,024	7,919
Loans and receivables	6,854	4,783
Financial liabilities		
Loans and other payables	1,845	964
Borrowings	4,820	5,284

Foreign currency sensitivity analysis

The Group is exposed to US dollar currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and reflects management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the US dollar there would be an equal and opposite impact on the profit and other equity.

	Consolidated Post tax profits		Consolidated Other comprehensive income	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
10% increase				
Monetary items	(812)	(209)	(1,246)	(1,265)
Derivatives	-	-	17	-
10% decrease				
Monetary items	993	255	1,523	1,546
Derivatives	-	-	(21)	-

(e) Commodity price risk management

The Group's revenue is exposed to commodity price fluctuations, in particular US natural gas prices.

The Group measures exposure to commodity risk by monitoring and testing the Group's forecast financial position to periods of low gas prices.

The Group's gas commodity economic hedging program utilises financial instruments based on the New York Mercantile Exchange (NYMEX) Natural Gas Henry Hub index. Refer to note 9 for details of the programme.

25. Financial instruments (cont)

Commodity price sensitivity

The following table details the Group's sensitivity to the fair value of financial instruments held at the balance sheet date to movements in the commodity spot price, with all other variables held constant. The sensitivity is based on reasonably possible changes, over a financial year, using observed changes in historical prices for the preceding year.

	Consolidated Post tax profits		Consolidated Other comprehensive income	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
35% increase Gas forward price	-	-	(2,449)	-
35% decrease Gas forward price	-	-	2,449	-

If the average of commodity prices during the year had increased/decreased by 10%, the Group's net profit after tax and before hedging would increase/decrease by $1,060,000 (2009: $2,700,000). 10% is the sensitivity rate used when reporting commodity price risk internally to key management personnel.

(f) Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates and also earns interest at floating rates from its cash and cash equivalents in US dollar denominated amounts. Currently the Group does not engage in any hedging or derivate transactions to manage interest rate risk.

The financial instruments exposed to movements in interest rates are as follows:

	Weighted average effective interest rate	Consolidated 2010 $'000	Consolidated 2009 $'000
Financial Assets			
Cash and cash equivalents	2.41%	8,125	13,243
Financial Liabilities			
Borrowings	3.59%	5,656	6,512

Interest rate sensitivity

The following table summarises the sensitivity of the fair value of financial instruments held at balance date, following a movement to LIBOR, with all other variables held constant. The sensitivity analysis below is based on a 2% (200 basis points) increase and decrease in the average interest rate during the year. 2% is the sensitivity rate used when reporting interest rate risk internally to key management personnel. The analysis shows the impact on profit/(loss) for interest received and paid on US dollar denominated cash held and borrowings payable respectively.

	Consolidated 2010 $'000	Consolidated 2009 $'000
LIBOR +2% (200 basis points)	(2)	(6)
LIBOR -2% (200 basis points)	2	6

25. Financial instruments (cont)

(g) Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

During the year the Group disposed of its equity investment in Comet Ridge Limited (refer note 8) at an average price of $0.33. The Group acquired no Comet Ridge Limited shares during the year.

The financial assets exposed to movements in market value are as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Financial assets		
Other financial assets	-	1,044

The following table summarises the sensitivity on net profit/(loss) of financial assets held at balance date to movements in the market price of available-for-sale financial assets with all other variables held constant.

	Consolidated	
	2010 $'000	**2009 $'000**
Net profit/(loss) after income tax expense:		
Market bid price +10%	-	-
Market bid price -10%	-	(253)
Equity:		
Market bid price +10%	-	140
Market bid price -10%	-	(140)

The sensitivity rate of 10% is applied in internal equity price risk reporting to key management personnel.

Refer note 2(k) for the treatment of gains/(losses) on available-for-sale financial assets.

(h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with recognised credit worthy counterparties, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist primarily of oil and gas sales revenue due from the operator of the US operations joint venture, Cypress E&P Corporation.

The Company has undertaken credit evaluation and, as a result, does not consider Cypress E&P Corporation a significant credit risk exposure to the Group. The credit risk on liquid funds is limited with all material balances retained in high credit-rated Australian banks.

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and debt facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

25. Financial instruments (cont)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

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	5+ years $'000	Total $'000
2010							
Non-interest bearing	-	1,756	1,718	282	-	-	3,756
Variable interest instruments	3.59	-	994	2,214	2,448	-	5,656
		1,756	**2,712**	**2,496**	**2,448**	**-**	**9,412**
2009							
Non-interest bearing	-	175	599	465	-	-	1,239
Variable interest instruments	5.28	-	954	2,027	3,531	-	6,512
		175	**1,553**	**2,492**	**3,531**	**-**	**7,751**

(j) Fair value of financial instruments

The fair value representing the mark-to-market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate to their carrying values, as a result of their short maturity or because they carry floating rates of interest.

The fair value of financial instruments traded in active markets such as publicly traded available-for-sale assets are based on quoted market prices at the balance date. The quoted market price used for financial instruments held by the Group is the current bid price.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values as they are within agreed settlement terms.

At 30 June 2010 and 30 June 2009 the Group had no financial assets or liabilities where fair value did not approximate carrying value. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2010				
Financial assets at Fair Value				
Derivatives	-	77	-	77
Financial liabilities at Fair Value				
Derivatives	-	(266)	-	(266)
2009				
Financial assets at Fair Value				
Available-for-sale assets	1,044	-	-	1,044

26. Share-based payments

Employee share option plan

On 12 August 2004 the directors approved the Strike Oil Employee Share Incentive Option Plan (Plan). Staff that are eligible to participate in the Plan are those who have been continuously employed by the Company for a period of at least three months. Share options granted under the Plan are for no consideration. Typically, Plan share options are granted for a three year period, with 50% of each new tranche becoming exercisable one year after the date of grant, and the balance exercisable two years after the date of grant. Entitlements to the share options vest as soon as they become exercisable and conditions have been met. There are no cash settlement alternatives. Share options granted under the plan carry no dividend or voting rights. Shareholder approval of the Plan was renewed at the annual general meeting held on 19 November 2007.

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4(k).

The following table illustrates the number (No.), weighted average exercise prices (WAEP) of and movements in share options issued under the plan during the year:

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	12,115,000	0.27	8,385,000	0.33
Granted	9,000,000	0.38	7,410,000	0.22
Cancelled[(i)]	(2,610,000)	0.22	(3,580,000)	0.31
Expired	(1,890,000)	0.40	(100,000)	0.40
Outstanding at year end	**16,615,000**	**0.32**	**12,115,000**	**0.27**
Exercisable at year end	5,260,000	0.27	3,372,500	0.36

(i) Cancelled represents those share options held in which the attached vesting conditions have not been met. Under the terms of the Plan, such circumstances require cancellation of the share options unless such action is considered inappropriate by the directors.

Share options exercised during the financial year

There were no options exercised during the financial year (2009: Nil).

The balance of share options on issue at 30 June 2010 represented by:

Date options granted	Date exercisable	Expiry date	Exercise price of options	Number under option	Fair value at grant date
5 December 2007	5 December 2009	5 December 2010	0.30	2,305,000	0.08
14 April 2008	14 April 2010	14 April 2011	0.30	400,000	0.11
18 December 2008	18 December 2010	18 December 2011	0.30	1,500,000	0.07
24 March 2009	24 March 2011	24 March 2012	0.20	3,610,000	0.04
26 October 2009	26 October 2011	26 October 2012	0.35	3,300,000	0.11
17 November 2009	17 November 2011	17 November 2012	0.40	1,500,000	0.11
23 November 2009	23 November 2011	23 November 2012	0.40	4,000,000	0.12
				16,615,000	

26. Share based payments (cont)

The balance of share options on issue at 30 June 2009 represented by:

Date options granted	Date exercisable	Expiry date	Exercise price of options	Number under option	Fair value at grant date
8 November 2006	8 November 2008	8 November 2009	0.40	840,000	0.07
1 June 2007	1 June 2009	1 June 2010	0.40	1,000,000	0.08
22 June 2007	22 June 2009	22 June 2010	0.40	50,000	0.08
5 December 2007	5 December 2009	5 December 2010	0.30	2,565,000	0.08
14 April 2008	14 April 2010	14 April 2011	0.30	400,000	0.11
18 December 2008	18 December 2010	18 December 2011	0.30	1,500,000	0.07
24 March 2009	24 March 2011	24 March 2012	0.20	5,760,000	0.04
				12,115,000	

The weighted average remaining contractual life for share options on issue at the end of the year was 1.26 years (2009: 1.32 years).

The weighted average of exercise prices for share options on issue at the end of the year was $0.32 (2009: $0.33).

The weighted average fair value of share options granted during the year was $0.12 (2009: $0.05).

The fair value of the equity-settled share options granted under the Plan is estimated as at the date of grant using the Black-Scholes model taking into account the terms and conditions upon which the share options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2010:

	26 October 2009	17 November 2009	23 November 2009
Dividend yield	Nil%	Nil%	Nil%
Expected volatility	80.00%	80.00%	75.00%
Risk-free interest rate	4.40%	5.09%	4.62%
Expected life of share options (years)	3	3	3
Weighted average share option exercise price	$0.35	$0.40	$0.40
Weighted average share price at grant date	$0.25	$0.25	$0.29

The following table lists the inputs to the model used for the years ended 30 June 2009:

	18 December 2008	24 March 2009
Dividend yield	Nil%	Nil%
Expected volatility	75.00%	75.00%
Risk-free interest rate	3.61%	3.61%
Expected life of share options (years)	2.66	3
Weighted average share option exercise price	$0.30	$0.20
Weighted average share price at grant date	$0.19	$0.11

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

27. Key management personnel compensation

The aggregate compensation made to key management personnel of the Group is set out below:

	Consolidated	
	2010 $	2009 $
Short-term employee benefits	1,391,737	1,656,191
Post-employment benefits	189,612	194,824
Other long-term benefits	-	72,082
Termination benefits	-	277,190
Share-based payment	526,854	155,915
	2,108,203	**2,356,202**

Other details of remuneration of key management personnel are provided in the remuneration report which forms part of the Directors' Report to shareholders.

28. 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 20.

Equity interests in associates and joint ventures

Details of interests in joint ventures are disclosed in note 23.

Equity interests in other related parties

The Company holds Nil% (2009: 1.17%) of the ordinary shares in Comet Ridge Limited for which Mr J W Schneider is a director.

(b) Transactions with key management personnel

Key management personnel compensation

Details of aggregate key management personnel compensation are disclosed in note 27.

Loans to key management personnel

There were no loans made to key management personnel of the Group or their related entities during the financial year (2009: $Nil).

28. Related party transaction (cont)

Key management personnel equity holdings

Fully paid ordinary shares of Strike Energy Limited

30 June 2010	Balance at 1 July 2009	Granted as remuneration	On exercise of options	Net change - other	Balance at 30 June 2010
Directors					
J W Schneider	1,110,786	-	-	-	1,110,786
S M Ashton	8,533,964	-	-	-	8,533,964
D C Wrench	29,666	-	-	-	29,666
T M Clifton	19,997,243	-	-	-	19,997,243
D J O'Keeffe	-	-	-	30,000	30,000
Senior management					
D J Poynton	970,400	-	-	-	970,400
R J Weeden	1,411,100	-	-	-	1,411,100
A J Brazier	41,000	-	-	-	41,000
A J Traicos	-	-	-	-	-
TOTAL	**32,094,159**	**-**	**-**	**30,000**	**32,124,159**

No other key management personnel held shares during the year ended 30 June 2010.

30 June 2009	Balance at 1 July 2008	Granted as remuneration	On exercise of options	Net change - other	Balance at 30 June 2009
Directors					
J W Schneider	1,110,786	-	-	-	1,110,786
S M Ashton	8,533,964	-	-	-	8,533,964
D C Wrench	179,666	-	-	(150,000)	29,666
T M Clifton	19,997,243	-	-	-	19,997,243
Senior management					
D J Poynton	970,400	-	-	-	970,400
R J Weeden	1,411,100	-	-	-	1,411,100
A J Brazier	41,000	-	-	-	41,000
A J Traicos	500,166	-	-	(500,166)	-
TOTAL	**32,744,325**	**-**	**-**	**(650,166)**	**32,094,159**

No other key management personnel held shares during the year ended 30 June 2009.

28. Related party transaction (cont)

Share options of Strike Energy Limited

30 June 2010	Balance at 1 July 09	Granted as remuner-ation	Options exercised	Options expired/ cancelled	Balance at 30 June 10	Vested exercisable	Not vested not exercisable	Total
Directors								
S M Ashton	1,500,000	1,500,000	-	-	3,000,000	1,500,000	1,500,000	3,000,000
D J O'Keeffe	-	4,000,000	-	-	4,000,000	-	4,000,000	4,000,000
Senior management								
D J Poynton	1,700,000	700,000	-	(200,000)	2,200,000	950,000	1,250,000	2,200,000
R J Weeden	1,700,000	700,000	-	(200,000)	2,200,000	950,000	1,250,000	2,200,000
A J Brazier	830,000	400,000	-	(130,000)	1,100,000	500,000	600,000	1,100,000
A J Traicos	1,700,000	300,000	-	(1,000,000)	1,000,000	500,000	500,000	1,000,000
TOTAL	**7,430,000**	**7,600,000**	**-**	**(1,530,000)**	**13,500,000**	**4,400,000**	**9,100,000**	**13,500,000**

30 June 2009	Balance at 1 July 08	Granted as remuner-ation	Options exercised	Options expired/ cancelled	Balance at 30 June 09	Vested exercisable	Not vested not exercisable	Total
Directors								
S M Ashton	1,000,000	1,500,000	-	(1,000,000)	1,500,000	-	1,500,000	1,500,000
Senior management								
D J Poynton	800,000	1,100,000	-	(200,000)	1,700,000	400,000	1,300,000	1,700,000
R J Weeden	800,000	1,100,000	-	(200,000)	1,700,000	400,000	1,300,000	1,700,000
A J Brazier	530,000	400,000	-	(100,000)	830,000	180,000	650,000	830,000
A J Traicos	1,300,000	400,000	-	-	1,700,000	1,150,000	550,000	1,700,000
B G Ford	300,000	-	-	(300,000)	-	-	-	-
TOTAL	**4,730,000**	**4,500,000**	**-**	**(1,800,000)**	**7,430,000**	**2,130,000**	**5,300,000**	**7,430,000**

All share options issued to key management personnel were made in accordance with the provisions of the Employee Share Option Plan.

During the year no share options were exercised by key management personnel (2009: no share options exercised). Further details on the employee share option plan are contained in note 26.

Other transaction and balances with key management personnel

During the year fees totalling $3,000 (2009: Nil) were paid/are payable to Challenger Geological Services Pty Limited, a company related to Mr S M Ashton, for geological services.

There were no other transactions or balances with key management personnel other than in the ordinary course of business.

(c) Transactions with other related parties

During the financial year, the following transactions occurred between the Company and its related parties:

Strike Energy Limited paid $1,554,000 (2009: $2,543,000) for the working capital requirements of its subsidiaries.

Strike Energy Limited received interest income of $231,000 from its US subsidiary (2009: $748,000) on loans receivable. The weighted average interest rate on the loans was 3.59% (2009: 3.47%). Interest receivable is calculated on the outstanding loan balance on the last day of each month.

28. Related party transaction (cont)

Strike Energy Limited does not charge interest on loans made to its Australian subsidiaries.

Strike Energy Limited provided management services to its subsidiaries and joint ventures totalling $3,073,000 (2009: $3,264,000).

The following balances arising from transactions between the Company and its related parties are outstanding at reporting date:

- Loans receivable totalling $15,637,000 (2009: $18,912,000) are receivable from subsidiaries;
- A provision for doubtful debts for loans receivable from subsidiaries totalling $1,465,000 (2009: $1,465,000);
- Loans receivable totalling $84,000 (2009: $59,000) are receivable from joint ventures.

All amounts advanced to related parties are unsecured.

Amounts outstanding will be settled unless it is considered the related party will be unable to repay the amounts, in which case a bad debt is recognised. No guarantees have been received.

Transactions between the Company and its related parties were eliminated in the preparation of the consolidated financial statements of the Group – refer note 2(a).

(d) Parent entity

The parent and ultimate parent entity in the Group is Strike Energy Limited. Strike Energy Limited was incorporated in Australia.

29. Subsequent events

On 23 September 2010 the Company announced an increase in oil and gas reserves. Refer to note 2 for further information.

Since the end of the financial year, the directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that have significantly or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Group in subsequent years.

30. Remuneration of auditors

The auditor of the Group is Deloitte Touche Tohmatsu.

	Consolidated	
	2010 $	2009 $
Amounts received or due and receivable by Deloitte Touche Tohmatsu (Australia) for:		
• audit or review of the financial report of the entity and any other entity in the Group	72,958	66,500
Amounts received or due and receivable by related practices of Deloitte Touche Tohmatsu (Australia) for:		
• audit or review of associates	3,500	17,039
	76,458	**83,539**

Additional securities exchange information
As at 10 September 2010

1. Number of holders of equity securities

328,558,430 fully paid ordinary shares are held by 3,114 individual shareholders.

16,615,000 unlisted options are held by 17 individuals.

2. Voting rights

In accordance with Company's constitution, on a show of hands every shareholder present in person or by a proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by a proxy, attorney or representative has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the existing issued fully paid ordinary shares.

3. Distribution of shareholdings

Holdings	Number of shares
< 1,000	12,138
1,001 to 5,000	1,567,264
5,001 to 10,000	3,748,414
10,001 to 100,000	65,142,452
> 100,001	258,088,162
	328,558,430

4. Substantial shareholders

Name	% Interest
Timothy R B Goyer	6.94
Calm Holdings Pty Ltd	6.09

The above shareholdings are disclosed pursuant to section 671B(3) of the Corporations Act 2001 but the relevant interests shown do not necessarily represent the beneficial interest in the share capital of the Company or parties concerned.

5. The 20 largest holders of quoted equity securities

Ranking	Shareholder	Number of shares	% Held
1.	Timothy R B Goyder	22,786,608	6.94
2.	Calm Holdings Pty Ltd	19,997,243	6.09
3.	ANZ Nominees Limited	13,271,967	4.04
4.	National Nominees Limited	11,096,429	3.38
5.	S & Y Ashton Nominees Pty Ltd	8,533,964	2.60
6.	Mr James Michael Durrant & Mrs Monica Catherine Durrant	7,691,754	2.34
7.	D B Angliss Pty Ltd	6,435,000	1.96
8.	Sassey Pty Ltd	6,143,895	1.87
9.	P J Enterprises Pty Limited	4,500,000	1.37
10.	Ginostra Capital Pty Limited	4,000,000	1.22
11.	HSBC Custody Nominees (Australia) Limited	3,862,452	1.18
12.	Mr Thomas Fritz Ensmann	2,800,000	0.85
13.	Manotel Pty Ltd	2,800,000	0.85
14.	Mr David Breiner	2,500,000	0.76
15.	Citicorp Nominees Pty Ltd	2,324,053	0.71
16.	Mr Mark Christopher Jobling	2,237,000	0.68
17.	Mrs Helen Joy Alexander	2,000,000	0.61
18.	Mr Ian Richard Fausset Clarke & Mrs Kerry June Clarke	2,000,000	0.61
19.	Cologne Nominees Pty Ltd	2,000,000	0.61
20.	Vulcan Custodian Limited	1,952,103	0.59

Corporate governance statement

Introduction

The board of directors of Strike Energy Limited (Company) is responsible for the corporate governance of the Consolidated Entity.

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance.

This corporate governance statement outlines the key principles and practices of the Company which, taken as a whole, is the system of governance.

Unless otherwise indicated, the Company has complied with each of the eight *Corporate Governance Principles and Recommendations* (Eight Principles), as published by the ASX Corporate Governance Council.

The Company reviews and amends its corporate governance policies as appropriate to reflect the growth of the Company, current legislation and good practice. The website (www.strikeenergy.com.au) includes copies or summaries of key corporate governance policy documents.

Relationship with Shareholders

The Company places a high priority on communications with and accountability to shareholders. The board recognises that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. Similarly, prospective investors should be able to make an informed decision when considering the purchase of shares in the Company.

To safeguard the effective dissemination of information, the board has implemented a Disclosure Control Policy, detailed later in this statement and adopted a Shareholder Communications Policy. These reinforce the Company's commitment to its continuous disclosure obligations imposed by law.

Information will be communicated to shareholders by:

- Ensuring that published financial and other statutory reports are prepared in accordance with applicable laws and industry best practice;
- Ensuring the disclosure of full and timely information about the Company's activities in accordance with the general and continuous disclosure principles in the ASX Listing Rules, the Corporations Act and any other relevant legislation;
- Providing detailed reports from the Chairman and the Managing Director at the annual general meeting;
- Placing all material information released to the market (including notices of meeting and explanatory materials) on the Company's website as soon as practical following release; and
- Placing the Company's market announcements and financial data for preceding years on its website.

In addition, the website includes a facility to allow interested parties to subscribe to receive, electronically, public releases and other relevant material concerning the Company.

Shareholders are encouraged to attend annual general meetings and ask questions of directors and the Company's external auditors, who are required to be in attendance. In the event that shareholders are unable to attend meetings, they are encouraged to lodge proxies signifying their approval or otherwise of the business to be considered.

Board of Directors

Role of the board

The board guides and monitors the business of the Company on behalf of shareholders, by whom they are elected and to whom they are accountable. The board is responsible for setting corporate direction, defining policies and monitoring the business of the Company, to ensure it is conducted appropriately and in the best interests of shareholders.

The role of the board is to oversee and guide the management of the Company with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community.

The board operates under a charter and has a written code of conduct (Code) which establishes guidelines for its conduct. The purpose of the Code is to ensure that directors act honestly, responsibly, legally, ethically and in the best interests of the Company.

The board is responsible for setting the strategic direction of the Company and establishing goals for management and monitoring the achievements against these goals.

Composition of the board

The board comprises three non-executive directors, including the Chairman, and two executive directors, the Managing Director and Chief Operating Officer. The names of the directors, both in office at the date of this report and those who held the position during the past year, are set out in the Directors' Report. This information includes their status as non-executive or executive, their qualifications, experience and length of service.

The structure of the board reflects the needs of the Company to ensure the appropriate mix of skills and experience is available to oversee the growth of the Company to its full potential.

Skill sets represented at board level include managerial, technical, financial, corporate and commercial. Particularly, members have a broad range of qualifications, experience and expertise in the oil and gas industry.

Director independence

At 30 June 2010 the Company had two independent directors, including the Chairman, pursuant to the ASX Corporate Governance Principles. Subsequently Mr J W Schneider stepped down from the board, and, as a consequence, the Company has one independent director, being Mr D C Wrench, at the date of this publication.

The board believes that the individuals that comprise the board can and do make quality, independent judgements that are in the best interests of the Company on all relevant issues. The board considers that the Company is not of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent non-executive Chairman and independent non-executive directors.

Meetings of the board

The board meets formally at least eight times a year (typically over a two day period) and on other occasions as required. By invitation of the board, members of senior management attend and make presentations to the board. Non-executive directors are able to meet without the Managing Director and management being present, as considered appropriate.

Retirement and re-election

The constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the board are required to retire from office at the next annual general meeting and are not taken into account in determining the number of directors to retire by rotation at that annual general meeting. Directors cannot hold office for a period in excess of three years without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

The board does not believe that any director has served on the board for a period which could, or be perceived to, materially interfere with his ability to act in the best interests of the Company.

In reaching this conclusion, the board has noted that Mr S M Ashton (Managing Director) has served as a director for 13 years. Notwithstanding his period of service, the board believes the director retains independence of character and judgement and continues to make an outstanding contribution to the board. Mr Ashton brings his unique skills to the board and participates in robust and constructive debate.

Nomination and appointment of new directors

If it is necessary to appoint a new director to fill a vacancy on the board or to complement the existing board, a wide potential base of possible candidates is considered and external consultants are engaged to assist in the selection process, if required. The board assesses the qualifications of the proposed new director against a range of criteria including background, experience, professional skills, personal qualities, potential for the candidate's skills to augment the existing board and the candidate's availability to commit to the board's activities. If these criteria are met and the board appoints the candidate as a director, that director must retire at the next annual general meeting and will be eligible for re-election by shareholders at that meeting.

New directors appointed to the board are invited to participate in an induction programme which includes provision of comprehensive written material regarding the Company such as:

- Information on the financial, strategic and operational position of the Company;
- A comprehensive letter of appointment which sets out the Company's expectations on acceptance of the position;
- A written statement which sets out the duties, rights and responsibilities they undertake on becoming a director together with material detailing the operations, policies and practices of the Company; and
- Copies of previous minutes of board meetings together with recent annual reports and interim financial statements.

Further, new directors are invited to attend briefing sessions with the Managing Director and key members of the senior management team where they may ask questions and direct any queries they may have to the Chairman or the Managing Director or obtain any other briefings they feel necessary from the Chairman or the Managing Director. They are encouraged to attend site visits in liaison with the Managing Director, at appropriate times. Directors agree to participate in continuous improvement programs from time to time, as considered appropriate.

Evaluation of board performance

Improvement in board processes and effectiveness is a continuing objective and the primary purpose of board evaluation is to identify ways to improve performance. The Chairman is responsible for conducting an annual review of the board's performance.

An evaluation of the performance of the board was carried out in the fourth quarter of the 2010 financial year. This process involved completion of individual interviews with the Chairman focussed on process, structure, effectiveness and contributions. Responses were collated and discussed by the board and recommendations for improvement considered.

Knowledge, skills and experience

To assist directors to maintain an appropriate level of knowledge, skill and experience in the operations of the Company, directors have the opportunity to undertake site visits to familiarise themselves with the Company's operations.

Directors are also provided with papers, presentations and briefings on the Company's operations and on matters which may affect the Company. These are provided in addition to board papers and are designed to assist the directors to gain relevant and timely information to assist in their decision making. Directors are also encouraged to undertake continuing education relevant to the discharge of their obligations as directors of the Company. Subject to prior approval by the Chairman, the reasonable cost of such education is met by the Company.

Conflicts of interest

The code of conduct for directors, a copy of which is available on the Company's website, sets out the procedure to be followed if there is, or may be, a conflict between the personal or other interests of a director and the business of the Company. A director with an actual or potential conflict of interest in relation to a matter before the board does not receive the board papers relating to that matter and when the matter comes before the board for discussion, the director withdraws from the meeting for the period the matter is considered and takes no part in the discussions or decision-making process.

Minutes reporting on matters in which a director is considered to have a conflict of interest are not provided to that director, however, the director is given notice of the nature of the matter for discussions and, as much as practicable, of the general nature of the discussion or decision reached.

Remuneration

Details of the remuneration policies and practices of the Company and the remuneration paid to the directors (executive and non-executive) and senior management are set out in the Remuneration Report included in the Directors' Report. Shareholders will be invited to consider and to approve the Remuneration Report at the annual general meeting on 17 November 2010.

In relation to the non-executive directors, termination and retirement benefits do note accrue.

Independent advice

The board and any committees may seek advice from independent experts whenever it is considered appropriate. With the consent of the Chairman, individual directors may seek independent professional advice, at the expense of the Company, on any matter connected with the discharge of their responsibilities. No director availed himself of this right during the course of the year.

Board Committees

The board, through the audit committee, assists in the discharge of the board's responsibilities.

The board considers that the Company is not currently of a size, nor are its affairs of such complexity so as to justify the operation of a nomination committee or remuneration committee at this time.

The board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

Board approved charters set out the terms of reference and rules governing the audit committee.

Audit committee

The audit committee consists of the entire board to discharge the responsibilities to ensure that the Company complies with appropriate and effective accounting, auditing, internal control, business risk management, compliance and reporting practices in accordance with the audit committee charter. The committee is chaired by Mr D C Wrench, an independent director, pursuant to the ASX Corporate Governance Principles.

The role of the audit committee is to:
- Monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgments;
- Review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the board itself, risk management systems;
- Monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services; and
- Perform such other functions as assigned by law, the Company's constitution, or the board.

The audit committee meets at least bi-annually and at any other time requested by a board member, the Company Secretary, a member of senior management or the Company's external auditor. The external auditors attend at least twice a year and on other occasions where circumstances warrant.

The number of meetings of the audit committee during the reporting period and the names on the attendance record is set out in the Directors' Report.

The external auditors are Deloitte Touche Tohmatsu who were appointed in November 2005.

Financial Reporting

CEO and CFO sign-offs

In accordance with the Corporations Act 2001 and ASX Corporate Governance Principle 4: *Safeguard Integrity in Financial Reporting*, relevant declarations, statements and certifications have been provided by the Managing Director and the Chief Financial Officer in relation to the Company's 2010 annual report, including financial statements.

Disclosure controls

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal and timely access to material information concerning the Company.

The Company acknowledges that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange, and has adopted a disclosure control policy with underlying procedures covering public announcements, the prevention of selective or inadvertent disclosure, conduct of investor and analyst briefings, and media communications. This policy reflects the commitment of the directors and senior management to promoting consistent disclosure practices aimed at accurate, timely and broadly disseminated disclosure of material information to the market.

Risk management

The Company has established a Risk Management Policy which sets out a framework for a system of risk management and internal compliance and control, whereby the board delegates day-to-day management of risk to the Managing Director.

The Company has formed a risk management committee which has responsibility for identifying, assessing, treating, monitoring risks and reporting to the board on risk management. Members of this committee are the Company's senior management team.

The committee has compiled a master risk register which is subject to periodic review to ensure adequate risk control measures have been identified.

Environment

The Company seeks to prevent, minimise, mitigate and remediate any harmful effects of its operations on the environment and strives to achieve continuous improvement in environmental performance. The Company promotes an excellent standard of environmental performance across its business and has adopted an environmental policy that includes compliance with all applicable environmental laws as a minimum standard. Further, the Company has developed and implemented environmental management systems to identify, assess and manage environmental risks, to ensure its employees and contractors are aware of their environmental responsibilities, to consult with government and community in relation to the Company's operations and proposed projects, and to undertake regular audits and reviews on environmental performance.

Safety and occupational health

The safety, health and wellbeing of employees, contractors and the community are of core value to the Company's operations. A healthy workforce contributes to business success and the Company's objective is for zero injuries, which was achieved in the 2010 and 2009 financial years. The safety and health performance of the Company is measured through internal and external independently recognised auditing and reporting processes.

Securities ownership and dealings

The Company has a policy for trading in company securities which is binding on all directors and employees. The purpose of this policy is to provide a brief summary of the law on insider trading and other relevant laws, to set out the restrictions on dealing in securities by people who work for or are associated with the Company and to assist in maintaining market confidence in the integrity of dealings in the Company's securities.

The Company's policy prohibits hedging of options granted under share options plans. This relates to both vested and unvested options. Prohibited hedging practices include put/call arrangements over "in money" options to hedge against a future drop in share price. The board considers such hedging to be against the spirit of a share option plan and inconsistent with shareholder objectives.

Codes of conduct

The board has approved a code of conduct for directors (incorporating underlying Guidelines for the Interpretation of Principles) together with a code of business conduct and ethics, which applies to all directors, officers and employees including those employed by subsidiaries. A copy of the code is available on the Company's website.

These codes demonstrate and codify the Company's commitment to appropriate and ethical corporate practices. Compliance with the codes will also assist the Company to effectively manage its operating risks and meeting its legal and compliance obligations, as well as enhancing the Company's corporate reputation.

The principles outlined in this document are intended to:

- Establish a minimum global standard of conduct by which all employees are expected to abide;
- Protect the business interests of the Company, its employees and customers;
- Maintain the Company's reputation for integrity; and
- Facilitate compliance by employees with applicable legal and regulatory obligations.

The code of business conduct and ethics addresses honesty and integrity, compliance with the law, conflicts of interest, confidentiality, protection of Company assets, dealing with public officials, responsibility for international operations, employment practices, record keeping and community relations.

The board has appointed the Company Secretary as the Company's compliance officer in the case of employees, and the Chairman of the audit committee in the case of directors and officers, as the person responsible for receiving reports of breaches of the code and this is the mechanism by which compliance with the code is monitored.

The board has also approved a whistleblower policy which documents commitment to maintaining an open working environment in which employees and contractors are able to report instances of unethical, unlawful or undesirable conduct without fear of intimidation or reprisal.

The purpose of the whistleblower policy is to:

- Help detect and address unacceptable conduct;
- Help provide employees and contractors with a supportive working environment in which they feel able to raise issues of legitimate concern to them and to the Company; and
- Help protect people who report unacceptable conduct in good faith.

The Company has a firm commitment to protecting the privacy of any personal information that it collects and holds and recognises its obligations under the existing privacy legislation. It has adopted a privacy policy which provides details on the collection and use of personal information, circumstances under which it can be disclosed, management and security of personal information and how it can be accessed.

Any changes to the above codes and policies are considered by the board for approval.