*ASX Listing Rule 4.3A*

# Appendix 4E

## Financial Year Ended 31 December 2009

**This information should be read in conjunction with ROC's 2009 Financial Report which is enclosed.**

Name of Entity

| |
|---|
| **Roc Oil Company Limited** |

ABN or Equivalent Company Reference

| |
|---|
| **32 075 965 856** |

## Results For Announcement To The Market

| | | | | **US$'000** |
|---|---|---|---|---|
| Revenues from ordinary activities | Decrease | 43% | To | 204,483 |
| Loss from ordinary activities after tax attributable to members | Decrease | 59% | To | (115,390) |
| Net loss for the period attributable to members | Decrease | 59% | To | (115,390) |

| Dividends | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |
| Record date for determining entitlements to the final dividend | N/A | |
| Payment date for the final dividend | N/A | |

A review of the consolidated entity's operations during the year is included in the attached Financial Report.

# Directors' Report, Annual Financial Report and Directors' Declaration for the Financial Year ended 31 December 2009

**ROC OIL COMPANY LIMITED**

ABN 32 075 965 856

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# Contents

# Directors' Report

The Directors of Roc Oil Company Limited ('Company' or 'ROC') have pleasure in submitting the Directors' Report for the financial year ended 31 December 2009.

## Directors

The names and particulars of the Directors and Company Secretaries of the Company at any time during or since the end of the financial year are:

***Mr Andrew J Love*** *BCom, FCPA, MAICD*
***(Non-Executive Director, Chairman) - Appointed 5 February 1997***

Mr Love is Chairman of the Board of Directors of ROC, a Fellow of The Institute of Chartered Accountants in Australia and a consultant with the firm of Ferrier Hodgson, Chartered Accountants. Mr Love is Deputy Chairman of Riversdale Mining Ltd and was a Non-Executive Director of Eircom Holdings Ltd at 31 December 2009. In the prior three years, Mr Love had been a Non-Executive Director of Lend Lease Primelife Ltd. Subsequent to year end, following a takeover, Mr Love resigned his position as Non-Executive Director of Eircom Holdings Ltd. He is also a Director of the Museum of Contemporary Art. Mr Love is a member of the Remuneration and Nomination Committee and the Audit and Risk Committee.

***Mr William G Jephcott*** *BCom, FCPA, FAICD*
***(Non-Executive Director, Deputy Chairman) - Appointed 5 February 1997***

Mr Jephcott is an investment banker who specialises in merger and acquisition advice. He also has experience in the financing and structuring of major resource projects, including those in the oil and gas industry. Since July 2006, Mr Jephcott has been Special Advisor to Gresham Partners Limited. He is also a director of New South Wales Rugby Union Limited. Previously, Mr Jephcott was Vice-Chairman, Investment Banking Group for Merrill Lynch International (Australia) Limited, Non-Executive Chairman of Engin Limited and a director of Parbury Limited. Mr Jephcott is Chairperson of the Audit and Risk Committee and Chairperson of the Remuneration and Nomination Committee.

***Mr Bruce F Clement*** *BSc, BEng (Hons), MBA*
***(Executive Director and Chief Executive Officer) - Appointed Executive Director on 1 July 2007 and Chief Executive Officer on 24 September 2008***

Mr Clement joined ROC in 1997 and held the positions of Commercial Manager, Company Secretary, and Chief Financial Officer before being appointed Chief Operating Officer in 2003. Mr Clement has almost 30 years of oil and gas industry experience, including banking sector exposure, having held engineering and project management, commercial and supervisory roles with Exxon Corporation and Ampolex, before joining AIDC Limited (Australian resource bank). Following the death of Dr Doran in June 2008, Mr Clement assumed the role of Chief Executive Officer and was formally appointed to this position on 24 September 2008.

***Mr Sidney J Jansma, Jr*** *MBA*
***(Non-Executive Director) - Appointed 17 March 1998***

Mr Jansma began his career in the oil and gas industry in 1959 working for his father's private oil company. In 1978, Mr Jansma purchased the company from his father, and during the ensuing 19 years the company grew to become the third largest Antrim gas producer in Michigan. In 1997, Mr Jansma merged his company with Dominion Resources, Inc, where he remained as President and Chief Executive Officer of Dominion Midwest Energy, Inc, a wholly-owned subsidiary of Dominion Resources, Inc. Mr Jansma founded Wolverine Gas and Oil Corporation and explores for oil and gas in the United States. Mr Jansma has served as a member of the Board of Governors of the Independent Petroleum Association of America and Chairman of both its Tax and Environmental Committees. In addition, Mr Jansma currently serves on the Board of the American Petroleum Institute and as Chairman of the Board of Calvin Theological Seminary in Grand Rapids, Michigan. Mr Jansma is Chairperson of the Health, Safety and Environment Committee.

***Mr Robert C A Leon***
***(Non-Executive Director) - Appointed 3 December 2008***

Mr Leon is a French national with over 30 years of experience in business and government administration. From 2002 until the merger with ROC in 2008, Mr Leon was a non-executive director of Anzon Energy Pty Limited and from 2008 until the takeover by ROC, he was a non-executive director of Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited). Mr Leon is also a director of the Mandarin Oriental Group of Hotels. In 1996, Mr Leon co-founded Qualis, a diversified industrial group based in France of which he is a co-manager. He was Chief Executive Officer of Arnault Group between 1986 and 1997, during which time he managed numerous strategic acquisitions, disposals and financial transactions. Prior to a career in business, Mr Leon held several positions in the French Government administration. He holds degrees in political science and economics, and is a graduate of École Nationale d'Administration in France. Since 1 January 2009, Mr Leon has been a member of the Audit and Risk Committee.

***Ms Leanne Nolan*** *BEc, LLB (Hons), LLM*
***(Company Secretary) - Appointed 29 August 2008***

Ms Leanne Nolan is Senior Lawyer and Company Secretary of ROC. Ms Nolan joined the Company in March 1998 and holds Bachelors of Economics and Laws (Hons) and Master of Law from the University of Sydney. Prior to joining ROC, Ms Nolan held the position of Corporate Counsel with Ampolex Limited and prior to that was employed as a solicitor with Freehills.

Directors and officers of the Company who resigned during the financial year are listed below:

***Mr Dennis Paterson BSc, MSc, DIC***
***(Executive Director and President, Roc Oil (China) Company) - Appointed 23 March 2008, Resigned 31 July 2009***

Mr Paterson joined ROC in October 2006 in the capacity of President of Roc Oil (China) Company and was appointed as an Executive Director on 23 March 2008. Mr Paterson resigned on 31 July 2009.

***Ms Sheree Ford*** *BA, LLB, GradDip (Resources Law), MBA*
***(Company Secretary) - Appointed 10 November 2003, Resigned 31 October 2009***

Ms Ford was General Counsel and Company Secretary of ROC. Ms Ford joined the Company in November 2003 and resigned on 31 October 2009.

## Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) and attendance during the financial year:

| | Directors | | Remuneration and Nomination Committee | | Audit and Risk Committee | | Health, Safety and Environment Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| Mr A J Love | 11 | 11 | 2 | 2 | 4 | 4 | – | – |
| Mr W G Jephcott | 11 | 9 | 2 | 2 | 4 | 4 | – | – |
| Mr B F Clement | 11 | 11 | 2 | 2 | 4 | 4(1) | 2 | 1(1) |
| Mr S J Jansma, Jr | 11 | 10 | – | – | – | – | 2 | 2 |
| Mr R C A Leon | 11 | 10 | – | – | 4 | 3 | – | – |
| Mr D Paterson(2) | 7 | 6 | – | – | – | – | – | – |

A Number of meetings held during the time that the Director held office during the financial year.
B Number of meetings attended.
(1) Number of meetings attended as observer.
(2) Resigned on 31 July 2009.

## Principal Activities

The consolidated entity's principal activities during the course of the financial year were oil and gas exploration, development and production. There were no significant changes in the nature of those activities during the financial year.

## Results

The net loss of the consolidated entity for the financial year after income tax was US$115.4 million (2008: US$278.4 million).

## Dividends

No dividends have been paid or declared since the end of the prior financial year and no dividends have been recommended by the Directors in respect of the financial year ended 31 December 2009.

# Directors' Report

## Review of Operations

A review of the consolidated entity's operations during the financial year and the results of those operations are included in the Discussion and Analysis of Financial Statements on pages 15 to 18.

## Significant Changes in State of Affairs

In the opinion of the Directors, there were no significant changes in the nature of the activities or state of affairs of the consolidated entity during the financial year.

## Subsequent Events

Subsequent to 31 December 2009, no events have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

## 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 been omitted from this Directors' Report.

## Remuneration Report (Audited)

This section of the Directors' Report is prepared in accordance with section 300A of the Corporations Act 2001. Where appropriate, information which is included in other parts of the Annual Financial Report is included in this report by reference.

The objective of the Company's remuneration framework is to attract and retain suitably qualified personnel who are motivated to achieve ROC's business objectives and to ensure the interests of employees are aligned with the interests of shareholders.

The Remuneration and Nomination Committee of the Board is responsible for making recommendations to the Board on remuneration policies applicable to Board members and employees of the Company, including compensation arrangements for senior executives, fees for Non-Executive Directors, the Employee Share Option Plan and the Executive Share Option Plan. Senior executive performance reviews and succession planning are also considered by the Remuneration and Nomination Committee.

Remuneration levels for Directors and relevant executives of the Company are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Remuneration and Nomination Committee evaluates the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company's remuneration strategy.

Remuneration packages typically include remuneration and performance-based incentives in the form of employee and/or executive share options. Given the changing nature of the industry, ROC's business and Government legislative changes, ROC has reviewed both its Long Term Incentive ('LTI') and Short Term Incentive ('STI') plans to ensure they are competitive and appropriate in today's environment. As a consequence of this review, ROC will implement a performance-based STI cash bonus plan and a new performance-based LTI share rights plan. The existing employee and executive options will no longer be issued (refer to *Variable Remuneration* section of this Report).

Further details of the Company's remuneration policy and practices will be included in the Corporate Governance Statement in the Annual Report.

### *Remuneration of Directors and Specified Executives*

Australian and International Financial Reporting Standards and the Corporations Act 2001 require ROC to make disclosure regarding remuneration of 'Key Management Personnel'. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly. In addition, the Corporations Act 2001 requires ROC to make certain disclosures in respect of the five highest paid executives below Board level. In accordance with the above requirements, the remuneration paid to members of ROC's Executive Committee and Key Management Personnel ('Specified Executives') and Executive Directors in respect of the 2009 financial year is disclosed in this Report.

The consolidated entity's reporting currency is USD and the amounts shown in this Report are in USD unless otherwise stated. A majority of the Directors and Specified Executives are paid in Australian dollars. As a result, the USD amounts shown are affected by foreign currency movements between years. The exchange rate used is the average for the period. The AUD/USD average rate used for 2009 was 0.7917 (2008: 0.8524).

The following table sets out the remuneration of Directors and Specified Executives for the financial year ended 31 December 2009:

| | Short Term | | | Post - Employment | Equity Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and Fees US$ | Cash Bonus[4] US$ | Non-Monetary Benefits US$ | Super-annuation US$ | Value of Share Options US$ | Termination Benefits US$ | Total US$ | Percentage Performance Related % |
| ***Non-Executive Directors*** | | | | | | | | |
| Mr A J Love | 137,558 | – | – | – | – | – | 137,558 | – |
| Mr W G Jephcott | 118,756 | – | – | 5,344 | – | – | 124,100 | – |
| Mr S J Jansma, Jr | 35,627 | – | – | – | – | – | 35,627 | – |
| Mr R C A Leon | 35,627 | – | – | – | – | – | 35,627 | – |
| ***Executive Directors*** | | | | | | | | |
| Mr B F Clement<br>Chief Executive Officer | 472,645 | 150,423 | 14,879 | 47,264 | 80,110 | – | 765,321 | 30.1 |
| Mr D Paterson[1]<br>President, Roc Oil (China) Company (resigned 31 July 2009) | 697,271 | 289,618 | 105,059 | 32,099 | (138,943) | 29,570 | 1,014,674 | 14.9 |
| ***Total Directors*** | 1,497,484 | 440,041 | 119,938 | 84,707 | (58,833) | 29,570 | 2,112,907 | 18.0 |
| ***Specified Executives*** | | | | | | | | |
| Ms S Ford[2]<br>General Counsel and Company Secretary (resigned 31 October 2009) | 471,360 | – | 56,575 | 21,868 | (117,867) | 121,749 | 553,685 | N/A |
| Mr A Linn<br>Chief Operating Officer | 345,915 | 79,170 | 55,938 | 31,567 | 135,747 | – | 648,337 | 33.2 |
| Mr J Mebberson<br>General Manager Exploration | 277,095 | – | 14,879 | 24,939 | 38,647 | – | 355,560 | 10.9 |
| Mr R Morris[3]<br>President, Roc Oil (China) Company | 766,608 | – | 149,091 | 54,785 | 18,209 | – | 988,693 | 1.8 |
| Mr A Neilson<br>Chief Financial Officer | 238,302 | 87,087 | 14,879 | 20,584 | 69,195 | – | 430,047 | 36.3 |
| ***Total Specified Executives*** | 2,099,280 | 166,257 | 291,362 | 153,743 | 143,931 | 121,749 | 2,976,322 | 10.4 |
| ***Total Directors and Specified Executives*** | **3,596,764** | **606,298** | **411,300** | **238,450** | **85,098** | **151,319** | **5,089,229** | **13.6** |

(1) Mr D Paterson resigned on 31 July 2009 and forfeited his performance option. Any share-based payment expressed previously recognised under AASB 2 *Share-based Payment* in respect to the options has been reversed. The cash bonus relates to the successful completion of the expanded Zhao Dong Project.

(2) Ms S Ford resigned on 31 October 2009 and forfeited her performance option. Any share-based payment expressed previously recognised under AASB 2 *Share-based Payment in* respect to the options has been reversed.

(3) Mr R Morris was appointed as President of Roc Oil (China) Company on 1 August 2009. Mr Morris was previously employed by the Company and his remuneration disclosed for a 12 month period.

(4) Short term cash performance bonuses relate to individual achievements for work performed from 1 January 2008 to the end of 1Q 2009.

## Remuneration Report (Audited) *continued*

***Remuneration of Directors and Specified Executives** continued*

The following table sets out the remuneration of Directors and Specified Executives for the year ended 31 December 2008:

| | Short Term | | | Post-Employment | Equity Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and Fees US$ | Cash Bonus US$ | Non-Monetary Benefits US$ | Super-annuation US$ | Value of Share Options US$ | Termination Benefits US$ | Total US$ | Percentage Performance Related % |
| ***Non-Executive Directors*** | | | | | | | | |
| Mr A J Love | 123,087 | – | – | 3,452 | – | – | 126,539 | – |
| Mr W G Jephcott | 106,550 | – | – | 5,754 | – | – | 112,304 | – |
| Mr S J Jansma, Jr | 38,358 | – | – | – | – | – | 38,358 | – |
| Mr R C A Leon (appointed 3 December 2008) | 2,919 | – | – | – | – | – | 2,919 | – |
| Mr A C Jolliffe (resigned 3 December 2008) | 38,358 | – | – | – | – | – | 38,358 | – |
| Dr D Schwebel (resigned 3 December 2008) | 35,439 | – | – | 3,190 | – | – | 38,629 | – |
| ***Executive Directors*** | | | | | | | | |
| Dr R J P Doran Chief Executive Officer (ceased to be a Director on 27 June 2008) | 226,373 | 100,000 | 18,619 | 22,905 | – | 2,248,470 | 2,616,367 | 3.8 |
| Mr B F Clement Chief Executive Officer (appointed Chief Executive Officer 24 September 2008) | 470,106 | – | 10,340 | 42,310 | 163,324 | – | 686,080 | 23.8 |
| Mr D Paterson President, Roc Oil (China) Company | 993,197 | – | 152,916 | 63,393 | 131,472 | – | 1,340,978 | 9.8 |
| ***Total Directors*** | 2,034,387 | 100,000 | 181,875 | 141,004 | 294,796 | 2,248,470 | 5,000,532 | 8.5 |
| ***Specified Executives*** | | | | | | | | |
| Ms S Ford General Counsel and Company Secretary | 348,713 | – | 32,562 | 27,320 | 96,878 | – | 505,473 | 19.2 |
| Dr K Hird General Manager Business Development | 337,554 | – | 10,126 | 31,079 | 98,008 | – | 476,767 | 20.6 |
| Mr A Linn Chief Operating Officer | 309,966 | – | – | 27,375 | 84,731 | – | 422,072 | 20.1 |
| Mr J Mebberson General Manager Exploration | 289,816 | – | 10,340 | 26,083 | 45,680 | – | 371,919 | 12.3 |
| Mr A Neilson Chief Financial Officer | 247,196 | – | – | 22,248 | 84,606 | – | 354,050 | 23.9 |
| ***Total Specified Executives*** | 1,533,245 | – | 53,028 | 134,105 | 409,903 | – | 2,130,281 | 19.2 |
| ***Total Directors and Specified Executives*** | **3,567,632** | **100,000** | **234,903** | **275,109** | **704,699** | **2,248,470** | **7,130,813** | **11.3** |

In accordance with AASB 2 *Share-based Payment*, the Company has calculated the attributable value of options for the year using the Monte Carlo simulation technique. Under this technique, the share price is randomly simulated under risked neutral conditions and parameters. The simulation is repeated numerous times to produce a distribution of the option payoff at expiry. The option value is taken as the average payoff amounts calculated discounted back to the valuation date. The value of options is amortised over the vesting period of the option.

***Non-Executive Directors' Remuneration***

The Company's Constitution specifies that the aggregate remuneration of Non-Executive Directors will be determined by a general meeting. At the Annual General Meeting held in 2005, shareholders approved total remuneration for all Non-Executive Directors of up to US$395,850 per annum. Fees are set based on review of external market information in relation to fees paid to non-executive directors of comparable companies.

Non-Executive Directors' fees for the 2009 financial year were a total of US$327,568. Remuneration for Executive and Non-Executive Directors is set out in the table above. No additional fees are paid for sitting on Board Committees.

Non-Executive Directors do not receive any incentive-based remuneration or employee share options or rights and do not receive any retirement benefits other than statutory entitlements.

***Directors' Interests***

As at the date of this Directors' Report, the relevant interests of the current Directors in the fully paid shares and share options of the Company were:

| | Ordinary Shares Fully Paid | Options |
|---|---|---|
| ***Non-Executive Directors*** | | |
| Mr A J Love | 589,521 | – |
| Mr W G Jephcott | 1,117,300 | – |
| Mr S J Jansma, Jr | 644,641 | – |
| Mr R C A Leon | 1,221,212 | – |
| ***Executive Director*** | | |
| Mr B F Clement | 181,126 | 680,000 |

***Executive Directors' and Specified Executives' Remuneration***

This section of the Remuneration Report provides specific disclosures in relation to remuneration for the Executive Directors and Specified Executives.

*Mix of Remuneration*

Remuneration levels are competitively set to attract, motivate and retain appropriately qualified and experienced executives capable of discharging their responsibilities. The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration for the Executive Directors and Specified Executives. The Remuneration and Nomination Committee Charter can be found on the Company's website at www.rocoil.com.au.

Remuneration consists of the following key elements:

- fixed remuneration (base salary, superannuation and non-monetary benefits); and
- variable remuneration:
  - STI in the form of a cash bonus; and
  - LTI in the form of an Executive Share Option Plan (historically) and performance share rights (for future awards).

# Directors' Report

## **Remuneration Report (Audited)** *continued*

***Fixed Remuneration***

Fixed remuneration consists of base salary (which is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits), as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual performance, Company performance and relative comparative remuneration in the market including, where appropriate, review of externally provided remuneration data.

The Company has employment contracts with Executive Directors and Specified Executives. The employment contracts do not provide a fixed expiry date. Employment of Executive Directors and Specified Executives may be terminated by either party with up to three months' written notice or in the case of the Chief Executive Officer, six months' written notice.

Other than the Chief Executive Officer whose termination benefits are described below, if employment of any Executive Director or Specified Executive terminates or the Executive Director or Specified Executive resigns within three months of a substantial diminution of the executive's job contract, status, responsibility or authority, the executive is entitled to a payment in lieu of notice equivalent to the aggregate base remuneration paid to the executive over the previous 12 months. A substantial diminution will be deemed to have occurred if the Company ceases to be listed on the ASX and the Executive Director or Specified Executive ceases to be part of the executive team. If the employment of the Executive Director or Specified Executive is terminated for cause, the Company will have no further obligations other than the amount of base pay due to the executive through to the termination date plus any unpaid amounts of accrued leave.

***Service Agreement – B F Clement***

Mr Clement has been employed as Chief Executive Officer of the Company since 24 September 2008. His service agreement was signed on 26 February 2009. There is no fixed term to Mr Clement's contract of employment. Under this employment contract, Mr Clement's remuneration comprises a base salary, other benefits, superannuation and discretionary cash bonuses. His remuneration may also include the issue of options under the Executive Share Option Plan or rights under the new LTI Share Rights Plan, subject to ASX Listing Rules requirements.

Remuneration levels are reviewed each year to take into account individual performance as well as the Company's performance. The remuneration may be increased or remain unchanged but may not be decreased as a result of this review unless Mr Clement's role or status within the Company has been diminished. Mr Clement is also required to participate in an annual review of his performance against achievement of specific performance goals, conducted by the Remuneration and Nomination Committee. The outcome of this review is taken into account for the purpose of the annual review of Mr Clement's remuneration and award of bonuses.

The Chief Executive Officer's employment contract includes provision for termination by the Company by giving six months' written notice. Mr Clement may also terminate the contract at any time by giving six months' notice.

If Mr Clement's authority, status or scope of duties within the Company is materially altered or diminished, or he is requested to relocate from Sydney, then Mr Clement may terminate his employment on not less than one month's written notice provided this right is exercised within six months of the change of position. Mr Clement's employment may also be terminated by the Company by not less than three months' notice if Mr Clement is prevented from performing his duties due to illness or incapacity.

Except where Mr Clement resigns or is terminated for cause, the Company is required to pay Mr Clement a lump sum retiring allowance equal to his then base remuneration for the one year preceding the date of termination of the agreement less any payment made in lieu of notice plus an amount equal to 1.5 months' base remuneration for each completed year of service up to a maximum of 12 months' base remuneration. Mr Clement's employment may be terminated with immediate effect for cause. If Mr Clement's employment is terminated for cause, the Company has no further obligations other than to pay any accrued entitlements.

Details of Mr Clement's remuneration are included in the tables supporting the Remuneration Report.

***Service Agreement – R Morris***

In addition to the above terms and conditions applicable to Specified Executives, Mr Ron Morris, President, Roc Oil (China) Company, (appointed 1 August 2009), is based in Beijing and is responsible for managing the Company's China operations. In recognition of his position in China, in addition to receiving his base salary Mr Morris receives a total allowance equal to 35% of his base salary and a goods and services allowance of US$2,000 per month. The Company is also responsible for housing and utility costs in Beijing and payment of local Chinese taxes. In addition to standard leave entitlements, Mr Morris is entitled to five weeks' annual leave, together with business class air fares for Mr Morris and his spouse, and a per diem payment of US$100 for the first two days.

***Variable Remuneration***

*Existing Awards*

The Company's Remuneration Policy links remuneration of the Executive Directors and Specified Executives to the individual's and Company's performance. These benefits are an "at risk" bonus provided through participation in the Executive Share Option Plan and award of performance bonuses.

Short term cash performance bonuses are generally awarded at the end of each financial year at the discretion of the Remuneration and Nomination Committee and are generally related to an individual's contribution to achievement of particular objectives and/or the performance of the Company.

In the case of the Chief Executive Officer, specific goals are set at the commencement of each year and payment of a bonus is assessed against achievement of the specified goals. The goals which are set and reviewed annually relate to the performance objectives and goals of the Company.

Long term performance benefits in the form of executive share options have historically been granted to senior executives based on an individual's contribution to achievement of particular objectives and/or the performance of the Company. No executive share options were awarded to the Chief Executive Officer and Specified Executives in 2009.

The ability to exercise options under the Executive Share Option Plan is subject to continuity of employment and certain share and industry peer group performance hurdles. Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after they are granted. Of the options granted to an employee, 50% are performance options and only exercisable if certain share performance benchmarks are met and 50% are price options which require share price performance measures to be met.

Performance options may only be exercised if, between the date of vesting and the date of exercise, the performance hurdles are satisfied. The performance hurdles provide that ROC total shareholder return ('TSR') must be benchmarked against industry performance.

TSR is the total of:

- dividends and capital returns paid to shareholders between the issue date of the executive options and the date the performance hurdle is measured; and
- the difference between the volume weighted average price ('VWAP') for the sale of ROC shares on the ASX in the 90 days before the issue date and the VWAP for the sale of shares on the ASX in the 90 days before the date on which the performance hurdle is measured,

expressed as a percentage of the VWAP for the sale of shares on the ASX in the 90 days before the issue date.

The performance hurdle requires that ROC's TSR must be more than:

- 100% of the percentage increase in the S&P/ASX 200 Energy Index at any time after the vesting date for 50% of the relevant performance options to be exercised;
- 110% of the percentage increase in the S&P/ASX 200 Energy Index at any time after vesting for 75% of the relevant performance options to be exercised; and
- 120% of the percentage increase in the S&P/ASX 200 Energy Index at any time after the vesting date for 100% of the performance options to be exercised.

The exercise price of the price options is calculated as 115%, 122.5% and 130% of the VWAP for the sale of shares on the ASX in the 90 days before the issue date.

Since August 2004, ROC's share price has decreased by 59% compared to the S&P/ASX 200 Energy Index which has increased by 153%.

*New Awards Plan*

ROC has conducted a review of its remuneration practices during the year to ensure that the Company's practices are competitive and appropriate in the industry and today's environment. As a result of this review, the Company will implement a revised STI cash performance bonus and LTI performance share rights plan. These bonus plans are "at risk" plans based on achievement of particular objectives for the individual and/or the Company. No rights have yet been issued under these plans.

### **Remuneration Report (Audited)** *continued*

***Variable Remuneration** continued*

*New Short Term Incentive Plan ('STI')*

The STI is an "at risk" cash-based incentive paid on an annual basis for performance during a given financial year. The incentive is paid at the discretion of the Board and is based on a percentage of fixed remuneration.

A short term performance benefit of up to 45% of fixed remuneration can be awarded to the Chief Executive Officer and Specified Executives subject to achievement of particular objectives for the individual and/or the Company. The performance objectives of both the Company and individuals are determined in advance each year by the Board for the Company and the Chief Executive Officer; and by the Chief Executive Officer for Specified Executives. The objectives may vary from year to year and between individuals, but will reflect both financial and operational goals of the Company.

The Remuneration and Nomination Committee will assess the extent to which performance objectives were met for the Chief Executive Officer and Specified Executives after the close of the relevant period.

*New Long Term Incentive Plan ('LTI')*

The LTI is an "at risk" equity-based incentive plan designed to generate performance-based awards of share rights that may be converted into fully paid ordinary shares in the Company on satisfaction of the performance conditions and Board approval. The LTI is designed to reward efforts, attract and retain suitably qualified staff and promote long term growth in shareholder value.

Features of the plan include:

- the grant of rights to acquire fully paid ordinary shares in the Company, at no cost to the participant;
- the number of rights granted is based on the employee's level in the Company and individual and/or Company performance;
- the rights will only become exercisable if certain performance conditions are met within defined periods;
- there will be three tiers of rights with separate vesting criteria:
  - Tier One – Absolute TSR,
  - Tier Two – Relative TSR, and
  - Tier Three – Retention;
- the vesting period will be three years, except for the first issue which has the option to be two years;
- there is no re-testing of performance conditions; and
- the rights lapse when a participant ceases to be employed by ROC other than in certain circumstances relating to death, injury, permanent disability, redundancy, retirement or sale of business.

<u>Tier One - Absolute TSR</u>

- Vesting will occur subject to the satisfaction of the performance condition which relates to the TSR growth of ROC measured over the performance period.
- The values for TSR are calculated on a 60 day VWAP of ROC shares:

| TSR Growth over Performance Period Annualised | Vesting |
|---|---|
| < 6% | 0% |
| 6%-9% | 25%-50% pro rata |
| 9%-12% | 51%-100% pro rata |
| >12% | 100% |

Tier Two - Relative TSR

- Vesting will occur subject to the satisfaction of the performance condition which relates to a relative TSR test over the performance period.
- The TSR of ROC will be ranked against a subset of conventional oil and gas companies in the S&P/ASX 300 Energy Index as determined by the Board from time to time.
- The values for TSR are calculated on a 60 day VWAP of the respective company share prices.

| ROC Position in Comparator Group | Vesting |
|---|---|
| Below median (50th percentile) | 0% |
| Median (50th percentile)-Upper Quartile (75th percentile) | 50%-100% pro rata |
| Upper Quartile (>75th percentile) | 100% |

Tier Three - Retention

- Vesting will be subject to participant being continuously employed by the Group throughout the performance period.
- The number of rights granted under Tier Three cannot exceed 20% of the total grant.

*Equity-based Remuneration*

In relation to Directors and Specified Executives, no options were granted or exercised during the financial year. No value was attributable for options that lapsed during the year.

Details of the options vested and percentage of remuneration consisting of options in relation to Directors and Specified Executives in 2009 are set out below:

| | Vested as at 31 Dec 2009 | | Remuneration Consisting of Options for the Year |
|---|---|---|---|
| | No. | % of Options Held | % |
| *Executive Directors* | | | |
| Mr B F Clement | 460,000 | 67.6 | 10.5 |
| Mr D Paterson | – | – | – |
| *Specified Executives* | | | |
| Ms S Ford | – | – | – |
| Mr A Linn | – | – | 20.9 |
| Mr J Mebberson | 94,000 | 28.5 | 10.9 |
| Mr R Morris | – | – | 1.8 |
| Mr A Neilson | 60,000 | 16.2 | 16.1 |

## Shares under Option

During or since the end of the financial year, the Company granted a total of nil options over unissued ordinary shares of ROC.

As at the date of this Directors' Report, there were 11,798,600 options, comprising 4,011,500 employee share options and 7,787,100 executive share options granted over unissued ordinary shares of ROC under the Employee Share Option Plan and the Executive Share Option Plan. Refer to Note 27 to the financial statements for further details of options outstanding. During the financial year, no ordinary shares were issued as a result of exercise of options under either of the plans. Since the end of the financial year, no ordinary shares were issued as a result of exercise of share options and no options have lapsed or been cancelled.

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

# Directors' Report

## Indemnification of Directors and Officers

An insurance policy has been put in place by the Company for the benefit of past and present Directors of the Company and the executive officers, directors and secretaries of all Australian group companies. Under this policy, the insurance company has agreed to indemnify these directors and officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The terms of the insurance prohibit disclosure of the nature of the liability and the amount of the premium.

The Company has agreed to indemnify the Directors and officers of the Company against any liability to another person other than the Company or a related body corporate for an act or omission that may arise from their position as Directors or Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or legal costs arising from certain events.

## Rounding

The Company is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the annual financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## Corporate Governance

The Board is responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals, and the monitoring of the business and affairs of the Company on behalf of its shareholders. The Board delegates responsibility for the day-to-day management of ROC to the Chief Executive Officer. In addition, the Board has established a number of committees to support it in matters which require more detailed consideration. All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports from senior management during the financial year on a monthly basis.

The Board is currently comprised of one Executive Director and four Non-Executive Directors including the Chairman. In accordance with the Company's Constitution and the ASX Listing Rules, the Directors (other than the Chief Executive Officer) are subject to re-election by shareholders every three years.

The Board usually meets on a monthly basis, and where appropriate, hears presentations from senior management who may be questioned directly by Board members on operational and commercial issues.

Details of the Company's corporate governance practices will be set out in the Corporate Governance Statement in the Annual Report.

### *Audit and Risk Management*

During the financial year, Mr W G Jephcott (Chairman), Mr A J Love and Mr R C A Leon were members of the Company's Audit and Risk Committee. It is responsible for monitoring the operational and financial aspects of the Company's activities and considers recommendations and advice of internal and external advisors on the operational and financial risks of ROC. The Committee evaluates senior management's assessment of risk and its recommendations in relation to the management of that risk, including hedging policies.

### *Environmental Performance*

The consolidated entity is subject to Commonwealth and State regulations and legislation in Australia. There is similar legislation that governs international operations. The consolidated entity is also a party to various production sharing contracts and exploration and development licences in the countries in which it operates. In most cases, these contracts and licences specify the environmental regulations applicable to oil and gas operations in the respective jurisdictions. Based upon an environmental monitoring system, the consolidated entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. The Directors are not aware of any material breaches of the environmental obligations of the consolidated entity's contracts or licences. In addition, the Board has established a Health, Safety and Environment Committee. The Committee's responsibility is to ensure that occupational health, safety and environmental standards of the Company's operations are maintained at a level equal to, or above, accepted industry standards and that the Company complies with applicable legislation in the jurisdictions in which it operates.

*Auditor and Non-Audit Services*

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year. During the financial year, ROC paid its auditor, Ernst & Young, Australia, the following amount for material non-audit services, excluding services for the June 2009 interim review:

- tax compliance and accounting advice US$376,583.

The Directors have considered the position and, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of these services is compatible with the standards of auditor independence imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure 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 the relevant professional statement, including reviewing and 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 risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 14.

This Directors' Report is made in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors:

**Mr A J Love**
*Chairman*

**Mr B F Clement**
*Director and Chief Executive Officer*

Sydney, 24 February 2010

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## AUDITOR'S INDEPENDENCE DECLARATION
## TO THE DIRECTORS OF ROC OIL COMPANY LIMITED

In relation to our audit of the financial report of Roc Oil Company Limited for the financial year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

**Ernst & Young**

**Michael Elliott**
Partner

Sydney, 24 February 2010

# Discussion and Analysis of Financial Statements

This discussion and analysis is provided to assist readers in understanding the financial statements for the financial year ended 31 December 2009.

## FINANCIAL PERFORMANCE

### Statement of Comprehensive Income

The Group reported a net loss after income tax of US$115.4 million (2008: net loss US$278.4 million). The Group's trading profit was US$35.4 million (2008: US$163.8 million).

Included in this result were significant items relating to: net impairment write down of assets of US$82.2 million (US$88.8 million after tax); unrealised hedging losses of US$30.4 million; a loss on sale of Nexus Energy Limited shares of US$5.6 million; offset by a profit on the sale of a 10% participating interest in the Basker Manta Gummy ('BMG') Oil & Gas Fields of US$5.7 million. After adjustment for these items, the normalised after tax loss for the Group was US$3.7 million, which included exploration expensed of US$7.1 million.

The net impairment asset write down was made as a result of the reserve downgrade at BMG totalling US$98.8 million, a write down to Chinguetti of US$10.1 million, offset by a write back of prior year impairments to Zhao Dong of US$26.8 million.

### Sales and Production Growth

The Group recorded solid performance from its producing assets, with working interest production of 3.7 MMBOE (10,034 BOEPD) (2008: 4.0 MMBOE), down 9% compared to the prior year. Of the total working interest production, 0.17 MMBBL (4.7%) was delivered to host governments in relation to respective governments' share of profit oil under the Group's production sharing contracts. The Group's production was 99% oil.

Oil and gas sales revenue of US$204.4 million (2008: US$356.8 million) was generated from sales volumes of 3.6 MMBOE (2008: 3.9 MMBOE). This amount is predominantly oil sales of US$203.9 million, which achieved an average realised price of US$56.88/BBL (2008: US$92.06/BBL) before hedging, a discount of US$4.79/BBL (7.8%) to the Brent oil price average of US$61.67/BBL for 2009.

Operating costs of US$169.0 million (2008: US$194.5 million) comprised production costs of US$64.9 million (US$17.73/BOE), amortisation costs of US$91.0 million (US$24.84/BOE), Chinese levies and special taxes of US$6.8 million and stock movements of US$6.4 million.

### Exploration Expensed

Exploration and evaluation expenditure of US$8.5 million (2008: US$115.2 million) was incurred during the period, mainly in connection with general studies and Beibu Gulf pre-development work. In accordance with the Company's successful efforts accounting policy, US$7.1 million (2008: US$112.7 million) in exploration costs were expensed during the period.

### Income Tax

An income tax expense of US$11.7 million (2008: benefit US$28.3 million) was recognised during the period, with a current year income tax expense of US$32.2 million mainly in relation to taxable income generated by Blane, Enoch and Zhao Dong and an underprovision of prior year income tax of US$2.9 million, offset by a deferred tax benefit of US$23.4 million, arising mainly from the reversal of prior year PRRT liabilities.

The total tax paid during the year was US$47.0 million, mainly relating to the Zhao Dong, UK and BMG assets.

### Financial Ratios

Basic loss per share for the year was US$0.179 based on a weighted average number of fully paid ordinary shares on issue of 646,173,601.

### Hedging

Consistent with ROC's oil price hedging strategy, as at 31 December 2009 ROC held Brent oil price swap contracts for approximately 2.1 MMBBL at an average price of US$66.00/BBL for the period to December 2011. During the period, 1.0 MMBBL of oil price derivatives were settled, resulting in a cash inflow of US$12.7 million. At the end of the period, the mark-to-market position of ROC's remaining oil price hedge book was a US$32.8 million liability (2008: US$14.1 million asset), the movement in this mark-to-market position between periods has resulted in ROC reporting a total unrealised hedging and derivative loss for 2009 of US$30.4 million. The total hedging and derivative loss for the period was US$36.9 million (2008: gain US$38.6 million).

# Discussion and Analysis of Financial Statements

## FINANCIAL PERFORMANCE *continued*

### Statement of Financial Position

During the period, total assets decreased to US$354.2 million (2008: US$520.6 million), total liabilities decreased to US$186.4 million (2008: US$313.3 million), and net assets decreased to US$167.8 million (2008: US$207.3 million).

Oil and gas assets decreased to US$244.6 million (2008: US$366.6 million) during the period, mainly resulting from impairment write down of asset values of US$82.2 million, amortisation of US$91.0 million and sale of 10% of BMG of US$28.1 million, offset by an increase in the restoration provision of US$15.6 million and US$63.7 million development expenditure incurred.

At 31 December 2009, ROC's net cash position was approximately US$17.9 million, consisting of debt US$49.2 million (2008: US$168.7 million), offset by cash assets held of US$67.1 million (2008: US$54.3 million). At year end, the total loan facilities available to ROC were US$90.0 million relating to the remaining portion of the 2007 borrowing base facility.

### Statement of Cash Flow

Net cash generated from operating activities was US$98.2 million (2008: US$182.5 million) for the period. The funds were primarily used for development expenditure of US$87.8 million (2008: US$77.0 million) and exploration expenditure of US$11.4 million (2008: US$115.8 million).

### Corporate Activity

#### Sale of 10% interest in BMG to Pertamina

On 27 May 2009, ROC announced the sale of a 10% participating interest in production licences VIC/L26, VIC/L27 and VIC/L28, offshore Victoria, which includes the BMG project, to Pertamina Hulu Energi Australia Pty Ltd, a subsidiary of the Indonesian National Oil Company ('Pertamina'). Total cash consideration received for the sale was US$32.3 million, which was completed on 18 August 2009. ROC has retained a 30% participating interest and remains Operator of the BMG project.

#### Equity Capital Raising

On 26 June 2009, ROC raised approximately A$68.8 million (US$55.0 million) through a fully underwritten placement of approximately 88.2 million new ordinary shares at an issue price of A$0.78 per share. On 7 August 2009, ROC also raised an additional A$26.2 million (US$21.6 million) through a share purchase plan with existing shareholders, resulting in approximately 36.9 million new ordinary shares being issued at an issue price of A$0.71 per share.

## OPERATIONAL OVERVIEW

### Production and Development

The Group incurred US$64.9 million in production expenditure (2008: US$44.3 million) and US$63.7 million (2008: US$76.3 million) in development expenditure. Development expenditure related to the BMG and Zhao Dong fields.

#### Basker Manta Gummy Oil and Gas Fields, VIC/L26, VIC/L27 and VIC/L28, Offshore Victoria (ROC: 30% and Operator)

Gross oil production averaged 3,854 BOPD (ROC: 1,430 BOPD); ROC's share of BMG production and development expenditure is recorded at 30%, effective 1 June 2009, following the sale of a 10% participating interest to Pertamina.

The primary operational issues that affected production during 2009 were: the drilling and workover programme between mid-June and September; the planned shutdown of the BMG Fields for approximately nine weeks between mid-September and late-November for maintenance and vessel surveys of the Crystal Ocean FPSO and the Basker Spirit shuttle tanker; unscheduled downtime due to poor weather; a flowline blockage in the Basker–6 sidetrack production well; and a shut-in of the B2 production well.

Development expenditure incurred for the period was US$40.9 million relating to the drilling and workover programme. Basker-5 and Basker-3 well workovers were conducted and the Basker-7 development well was drilled and completed as a producer. During the field shutdown, a flare gas compressor was installed on the Crystal Ocean FPSO, which, subject to regulatory approval, is planned to remove the need for gas flaring during normal operations and Basker-2 well repairs were successfully completed.

#### Cliff Head Oil Field, WA-31-L, Offshore Western Australia (ROC: 37.5% and Operator)

Gross oil production averaged 3,888 BOPD (ROC: 1,458 BOPD), down 41% compared to the previous year primarily due to workovers to install electric submersible pumps at the Cliff Head-6 and Cliff Head-10 production wells.

### Zhao Dong C and D Oil Fields, Bohai Bay, Offshore China (ROC: 24.5% and Operator)

Gross oil production averaged 17,845 BOPD (ROC: 4,372 BOPD); down 1% compared to the previous year. Production was positively impacted by the commissioning of the second processing platform ('OPB') that increased fluid handling capabilities from 90,000 BFPD to 175,000 BFPD and allowed production to restart from previously shut-in high water cut wells. The commissioning of the OPB represented the completion of facility development activities at Zhao Dong that were started in early 2007 and included the installation of four new platforms and two new pipelines.

Development expenditure of US$21.6 million was incurred, due to the 2009 drilling programme that included 12 production wells and four injection wells; and completion of facilities expansion.

### Zhao Dong C4 Oil Field, Bohai Bay, Offshore China (ROC: 11.575% unitised and Operator)

Gross oil production averaged 1,661 BOPD (ROC: 192 BOPD) for the year. Development expenditure of US$0.7 million was incurred.

### Blane Oil Field, North Sea (ROC: 12.5%)

Gross oil production averaged 11,528 BOEPD (ROC: 1,441 BOEPD), down 17% compared to the previous year primarily due to gas lift and water injection interruptions at the Ula host platform.

### Enoch Oil and Gas Field, North Sea (ROC: 12%)

Gross production averaged 6,567 BOEPD (ROC: 788 BOEPD), up 11% compared to the previous year primarily due to the benefits from the resolution of power generation issues that took place in 4Q 2008.

### Chinguetti Oil Field, PSC Area B, Offshore Mauritania (ROC: 3.25%)

Gross oil production averaged 10,831 BOPD (ROC: 352 BOPD), down 7% compared to the previous year primarily due to natural field decline.

## Exploration and Appraisal

The Group incurred US$8.5 million in exploration and evaluation expenditure during the period, including US$2.7 million in pre-development expenditure in Beibu Gulf.

### Wei 6-12 and Wei 12-8 West Oil Field Development Areas (Block 22/12 Petroleum Contract), Beibu Gulf, Offshore China (ROC: 40% and Operator – subject to Government participation in developments for up to 51%)

Exploration expenditure of US$2.7 million was incurred. The technical section of the Overall Development Plan ('ODP') for development of the fields was completed as scheduled on 20 December 2009. The economic section of the ODP was pending completion at the end of 2009. Completion of the ODP is planned for 1Q 2010 and should be followed by formal Chinese Government approvals and the Final Investment Decision.

### WA-286-P, Perth Basin, Offshore Western Australia (ROC: 37.5% and Operator)

Exploration expenditure was incurred on evaluation of the block in preparation for the 2010 permit renewal process.

### WA-351-P, Carnarvon Basin, Offshore Western Australia (ROC: 20%)

Exploration expenditure of US$0.7 million was incurred. Interpretation of the 3D Aragon seismic survey (acquired in 2008) was completed, confirming the presence of a large number of leads representing several different play types. A three month permit suspension was granted to 5 April 2010 to enable to completion of the permit's technical assessment and determination of the 50% relinquishment pattern.

### WA-381-P and WA-382-P, Vlaming Basin, Offshore Western Australia (ROC: 20% and Operator)

Exploration expenditure was US$0.4 million. ROC withdrew from the Permits and resigned as Operator of the Permits effective 31 December 2009 pending execution of documentation and regulatory approvals.

# Discussion and Analysis of Financial Statements

## OPERATIONAL OVERVIEW *continued*

### Exploration and Appraisal *continued*

#### Cabinda South Block, Onshore Angola (ROC: 10%)

On 28 April 2009, Roc Oil (Cabinda) Company, a wholly-owned subsidiary of ROC, executed a farm-out agreement with Pluspetrol Angola Corporation ('Pluspetrol'), a wholly owned subsidiary of Pluspetrol Resources Corporation, for the farm-out of a 45% participating interest in the Cabinda Onshore South Block. Pluspetrol also became operator of the block. In late 2009, Lacula Oil Company Ltd (wholly-owned by ROC) assigned a 5% participating interest to Cuba Petroleo, pending final documentation. ROC retained a 10% participating interest (6.25% paying interest) in the block and was free-carried through the full 2009 work programme, which included testing of the Coco discovery and the drilling of an exploration well.

The Castanha-1 exploration well commenced drilling on 13 November 2009 and encountered a gross hydrocarbon column of approximately 15 metres in the pre-salt section. The Coco-1 extended well test commenced in November 2009 and results indicate that none of the five zones tested exhibited natural hydrocarbon flow. Following the completion of planned production testing at Castanha-1, joint venture participants will review the results from the Coco-1 extended well test and the future potential for the discovery.

#### Offshore Mauritania (ROC: 2%-5.49%)

Exploration expenditure of US$1.6 million was incurred. Preparations began for the possible drilling of Gharabi-1 and Cormoran-1 exploration wells during 2010.

#### Belo Profond Block, Offshore Madagascar, Mozambique Channel (ROC: 75% and Operator) and Juan de Nova Maritime Profond Block, Offshore French Territory, Mozambique Channel (ROC: 75% and Operator)

Exploration expenditure of US$2.3 million was incurred. Geological and geophysical work continued and expressions of interest were sent for a potential 2D seismic acquisition programme in 2010.

#### Block H, Offshore Equatorial Guinea (ROC: 37.5% and Technical Operator)

Exploration expenditure of US$0.6 million was incurred on drilling planning activities and continued farm-out work during the year in preparation for the possible drilling of the Aleta-1 prospect in 2010.

#### PEP38259, Canterbury Basin, Offshore New Zealand (ROC: 15%)

Exploration expenditure of US$0.2 million was incurred on the acquisition and processing of the Barque 2D seismic survey during the year.

# Statement of Comprehensive Income

For the financial year ended 31 December 2009

| | Note | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|---|
| **Sales revenue** | *4* | 204,483 | 358,230 | – | – |
| Operating costs | *5* | (169,073) | (194,467) | – | – |
| **Trading profit** | | **35,410** | **163,763** | **–** | **–** |
| Other income | *6* | 16,812 | 4,625 | 81,690 | 2,235 |
| Net derivative (losses)/gains | | (36,983) | 37,201 | – | – |
| Exploration expensed | *7* | (7,115) | (112,728) | (2,206) | (2,258) |
| Impairment of exploration | *7* | – | (77,813) | – | – |
| Impairment of oil and gas assets | *19* | (82,155) | (224,796) | – | – |
| Impairment of goodwill | *8* | – | (43,790) | – | – |
| Loss on investment in listed securities | | (5,616) | (30,527) | – | – |
| Other costs | *9* | (13,105) | (14,495) | (208,742) | (279,691) |
| Finance costs | *10* | (10,923) | (8,093) | (3,849) | (35) |
| **Loss before income tax** | | **(103,675)** | **(306,653)** | **(133,107)** | **(279,749)** |
| Income tax (expense)/benefit | *11* | (11,715) | 28,268 | (16) | 6,051 |
| **Net loss** | | **(115,390)** | **(278,385)** | **(133,123)** | **(273,698)** |
| **Other comprehensive income** | | | | | |
| Foreign currency translation | | – | (34,867) | – | – |
| Cash flow hedges transferred to trading profit | | (85) | (1,385) | – | – |
| Income tax expense on items of other comprehensive income | | – | (449) | – | – |
| Other comprehensive losses net of tax | | (85) | (36,701) | – | – |
| **Total comprehensive loss** | | **(115,475)** | **(315,086)** | **(133,123)** | **(273,698)** |
| Basic loss per share - cents | *28* | (17.9) | (74.6) | | |
| Diluted loss per share - cents | *28* | (17.9) | (74.6) | | |

# Statement of Financial Position

As at 31 December 2009

| | Note | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash assets | *12* | 67,079 | 54,260 | 48,101 | 6,760 |
| Trade and other receivables | *13* | 16,686 | 29,235 | 6,094 | 7,288 |
| Financial assets available for sale | *14* | – | 24,131 | – | – |
| Derivatives | *15* | – | 16,517 | – | – |
| Inventories | *16* | 7,045 | 10,562 | – | – |
| **Total current assets** | | **90,810** | **134,705** | **54,195** | **14,048** |
| **Non-current assets** | | | | | |
| Trade and other receivables | *17* | – | – | 56,225 | 101,569 |
| Other financial assets | *18* | – | – | 42,342 | 123,782 |
| Derivatives | *15* | – | 2,170 | – | – |
| Oil and gas assets | *19* | 244,630 | 366,557 | – | – |
| Exploration and evaluation expenditure | *20* | 16,129 | 14,720 | – | – |
| Property, plant and equipment | *21* | 1,386 | 2,415 | 1,386 | 1,753 |
| Deferred tax assets | *11* | 1,266 | 16 | – | 16 |
| **Total non-current assets** | | **263,411** | **385,878** | **99,953** | **227,120** |
| **Total assets** | | **354,221** | **520,583** | **154,148** | **241,168** |
| **Current liabilities** | | | | | |
| Bank loans | *22* | – | 80,000 | – | 30,000 |
| Trade and other payables | *24* | 21,536 | 38,773 | 890 | 1,299 |
| Current tax liabilities | *11* | 8,054 | 17,233 | – | – |
| Derivatives | *15* | 15,162 | – | – | – |
| Provisions | *25* | 1,363 | 1,091 | 1,363 | 1,091 |
| **Total current liabilities** | | **46,115** | **137,097** | **2,253** | **32,390** |
| **Non-current liabilities** | | | | | |
| Bank loans | *22* | 49,229 | 88,736 | – | – |
| Long term liabilities | | 72 | 206 | 72 | 206 |
| Deferred tax liabilities | *11* | 28,213 | 50,409 | – | – |
| Derivatives | *15* | 17,668 | 4,548 | – | – |
| Provisions | *25* | 45,121 | 32,327 | 942 | 586 |
| **Total non-current liabilities** | | **140,303** | **176,226** | **1,014** | **792** |
| **Total liabilities** | | **186,418** | **313,323** | **3,267** | **33,182** |
| **Net assets** | | **167,803** | **207,260** | **150,881** | **207,986** |
| **Equity** | | | | | |
| Share capital | *26* | 744,201 | 669,942 | 744,201 | 669,942 |
| Accumulated losses | | (586,786) | (471,396) | (673,093) | (539,970) |
| Other reserves | | 10,388 | 8,714 | 79,773 | 78,014 |
| **Total equity** | | **167,803** | **207,260** | **150,881** | **207,986** |

# Statement of Cash Flow

For the financial year ended 31 December 2009

| | Note | CONSOLIDATED Inflow/(Outflow) 2009 US$'000 | CONSOLIDATED Inflow/(Outflow) 2008 US$'000 | COMPANY Inflow/(Outflow) 2009 US$'000 | COMPANY Inflow/(Outflow) 2008 US$'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | *12* | 138,465 | 267,940 | (8,061) | (2,428) |
| Derivatives received/(paid) | | 12,688 | (40,201) | – | – |
| Interest received | | 1,421 | 548 | 836 | 167 |
| Finance cost paid | | (7,386) | (6,130) | (2,376) | – |
| Income taxes paid | | (47,025) | (39,671) | – | – |
| **Net cash generated from/(used in) operating activities** | | **98,163** | **182,486** | **(9,601)** | **(2,261)** |
| **Cash flows from investing activities** | | | | | |
| Acquisition of controlled entities | *37* | – | (5,154) | – | (5,154) |
| Acquisition of minority interest | *37* | – | (6,799) | – | (6,799) |
| Cash balance acquired | *37* | – | 44,073 | – | – |
| Payments for plant and equipment | | (246) | (858) | (246) | (854) |
| Payments for development expenditure | | (87,760) | (77,043) | – | – |
| Payments for exploration expenditure | | (11,385) | (115,798) | (2,608) | (2,436) |
| Proceeds from sale of Nexus shares | | 18,508 | – | – | – |
| Proceeds from sale of 10% of BMG | | 32,251 | – | – | – |
| Proceeds from sale of assets | | 974 | 15 | 4 | 15 |
| **Net cash used in investing activities** | | **(47,658)** | **(161,564)** | **(2,850)** | **(15,228)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from share issues | *26* | 76,621 | 29 | 76,621 | 29 |
| Share issue expenses | *26* | (2,362) | – | (2,362) | – |
| Bank loan advances | | 1,000 | 150,000 | – | 30,000 |
| Bank loan repayments | | (121,000) | (115,000) | (30,000) | – |
| Provision of funds to controlled entities | | – | – | 1,117 | (17,584) |
| Repayment of debt | | – | (38,864) | – | – |
| Loan to associate company | | (2) | (8) | – | – |
| **Net cash (used in)/generated from financing activities** | | **(45,743)** | **(3,843)** | **45,376** | **12,445** |
| **Net increase/(decrease) in cash held** | | **4,762** | **17,079** | **32,925** | **(5,044)** |
| Cash at beginning of financial year | | 54,260 | 41,437 | 6,760 | 11,804 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 8,057 | (4,256) | 8,416 | – |
| **Cash at end of financial year** | *12* | **67,079** | **54,260** | **48,101** | **6,760** |

# Statement of Changes in Equity

For the financial year ended 31 December 2009

| | CONSOLIDATED | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital US$'000 | Accumulated Losses US$'000 | Share Equity Reserve US$'000 | Foreign Currency Translation Reserve US$'000 | Hedge Reserve US$'000 | Minority Interest US$'000 | Total US$'000 |
| Balance at 1 January 2008 | 435,790 | (189,081) | 5,039 | 36,050 | 935 | – | 288,733 |
| Total comprehensive loss for the period net of tax | – | (278,385) | – | (34,867) | (1,834) | – | (315,086) |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | 234,123 | – | – | – | – | – | 234,123 |
| Minority interest arising on business combination | – | – | – | – | – | 106,670 | 106,670 |
| Purchased minority interest | – | – | – | – | – | (110,600) | (110,600) |
| Loss on purchase of minority interest | – | (3,930) | – | – | – | 3,930 | – |
| Exercise of share options | 29 | – | – | – | – | – | 29 |
| Share-based payments | – | – | 3,391 | – | – | – | 3,391 |
| **Total transactions with owners** | **234,152** | **(3,930)** | **3,391** | **–** | **–** | **–** | **233,613** |
| Balance at 1 January 2009 | 669,942 | (471,396) | 8,430 | 1,183 | (899) | – | 207,260 |
| Total comprehensive loss for the period net of tax | – | (115,390) | – | – | (85) | – | (115,475) |
| Transactions with owners | | | | | | | |
| Shares issued | 76,621 | – | – | – | – | – | 76,621 |
| Share issue costs | (2,362) | – | – | – | – | – | (2,362) |
| Share-based payments | – | – | 1,759 | – | – | – | 1,759 |
| **Total transactions with owners** | **74,259** | – | **1,759** | **–** | **–** | **–** | **76,018** |
| **Balance at 31 December 2009** | **744,201** | **(586,786)** | **10,189** | **1,183** | **(984)** | **–** | **167,803** |

COMPANY

| | Share Capital US$'000 | Accumulated Losses US$'000 | Share Equity Reserve US$'000 | Foreign Currency Translation Reserve US$'000 | Hedge Reserve US$'000 | Minority Interest US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | 435,790 | (266,272) | 5,039 | 69,584 | – | – | 244,141 |
| Total comprehensive loss for the period, net of tax | – | (273,698) | – | – | – | – | (273,698) |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | 234,123 | – | – | – | – | – | 234,123 |
| Minority interest using a business combination | – | – | – | – | – | – | – |
| Purchased minority interest | – | – | – | – | – | – | – |
| Loss on purchase of minority interest | – | – | – | – | – | – | – |
| Exercise of share options | 29 | – | – | – | – | – | 29 |
| Share-based payments | – | – | 3,391 | – | – | – | 3,391 |
| **Total transactions with owners** | **234,152** | **–** | **3,391** | **–** | **–** | **–** | **237,543** |
| Balance at 1 January 2009 | 669,942 | (539,970) | 8,430 | 69,584 | – | – | 207,986 |
| Total comprehensive loss for the period, net of tax | – | (133,123) | – | – | – | – | (133,123) |
| **Transactions with owners** | | | | | | | |
| Shares issued | 76,621 | – | – | – | – | – | 76,621 |
| Share issue costs | (2,362) | – | – | – | – | – | (2,362) |
| Share-based payments | – | – | 1,759 | – | – | – | 1,759 |
| **Total transactions with owners** | **74,259** | **–** | **1,759** | **–** | **–** | **–** | **76,018** |
| **Balance at 31 December 2009** | **744,201** | **(673,093)** | **10,189** | **69,584** | **–** | **–** | **150,881** |

# Notes to the Financial Statements

## Note 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and interpretations and other mandatory professional reporting requirements. The financial report has been prepared on the historical cost basis except for certain financial instruments which have been measured at fair value.

The financial report is presented in USD. All values are rounded to the nearest thousand dollars (US$'000) unless otherwise stated under the option available to the Company under the ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

The financial statements were authorised for issue on 24 February 2010 by the Board.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include A-IFRS. The financial report, comprising the financial statements, the ROC ('parent entity') financial statements and notes thereto, also complies with International Financial Reporting Standards.

The Group has adopted AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements (Revised)* and the amended AASB 7 *Financial Instruments: Disclosures*, all effective 1 January 2009. Comparative information has been re-presented so that it also is in conformity with the revised standards. Since the changes in accounting policies only impact presentation aspects, there is no impact on earnings per share.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the reporting period ending 31 December 2009 and are not expected to have a material impact.

### (c) Basis of consolidation

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

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

### (d) Oil and gas assets

Development expenditure is stated at cost less accumulated depletion and any impairment in value. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field, on a unit-of-production basis. Costs are amortised only once production begins.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

### (e) Exploration and evaluation expenditure

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. An area of interest refers to an individual geological area which is considered to constitute a favourable environment for the presence of an oil or gas field, or has been proved to exist, usually represented by an individual oil or gas field.

The successful efforts method requires all exploration and evaluation expenditure in relation to an area of interest to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where the rights to the tenure of the area of interest are current and the expenditure either:

- is expected to be recovered through sale or successful development and exploitation of the area of interest; or
- relates to an exploration discovery for which at balance date a reasonable assessment of the existence or otherwise of economically recoverable reserves is not yet complete, or additional appraisal work is under way or planned.

Pending assessment of the results of a well, the costs are initially capitalised then expensed or remain capitalised, depending on a review of the results in accordance with successful efforts accounting criteria.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to oil and gas assets.

**(f) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on plant and equipment, including freehold buildings but excluding land. Plant and equipment is depreciated on a straight line basis so as to write down these assets to their estimated residual values over their estimated useful lives to the Group.

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

- plant and equipment 2–10 years;
- leasehold improvements 2–10 years; and
- motor vehicles under finance leases 2–5 years.

Leases of plant and equipment, under which the Group assumes substantially all the risks and benefits of ownership, are classified as finance leases. Finance leases are capitalised and depreciated over their estimated useful lives to the Group.

Operating leases are not capitalised. Payments made under operating leases are charged to the Statement of Comprehensive Income in equal instalments over the term of the lease.

**(g) Oil and gas stock and materials inventories**

Oil and gas stock is valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, decommissioning and amortisation costs. Net realisable value is determined on the basis of selling prices less expenses to be incurred in transport, pipeline tariffs, handling and royalties, to the point in time where product passes to the purchaser.

Stocks of materials and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined by the first-in-first-out method utilising an average cost basis.

**(h) Under/overlift**

Lifting or offtake arrangements for oil produced in jointly-owned operations are frequently such that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of oil. The net movement in underlift and overlift is recognised in the Statement of Comprehensive Income in operating costs.

**(i) Available-for-sale securities**

Available-for-sale investments are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Statement of Comprehensive Income.

**(j) Investments**

Investments in subsidiaries are carried at cost less any impairment in value.

**(k) Provision for restoration**

Provision for restoration is recognised when there is a legal or constructive commitment to do so. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. This asset is subsequently depleted on a unit-of-production basis. Changes in the estimates of commercial reserves or restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset.

The unwinding of the effect of discounting on the restoration provision is included within finance costs.

**(l) Cash and cash equivalents**

Cash is defined as cash at bank and on hand and money market investments readily convertible to cash.

# Notes to the Financial Statements

## Note 1. Summary of Significant Accounting Policies *continued*

**(m) Investment in associate companies**

The Group's investment in its associate companies is accounted for under the equity method of accounting in the consolidated financial statements. An associate company is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate companies are used by the Group to apply the equity method. The reporting dates of the associate companies and the Group are identical and both use consistent accounting policies.

The investment in the associate companies is carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate companies, less any impairment in value. The consolidated Statement of Comprehensive Income reflects the Group's share of the results of operations of the associate companies.

**(n) Trade and other receivables**

Trade receivables are recognised and carried at amortised cost less impairment.

**(o) Impairment**

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories and deferred tax assets, may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income whenever the carrying amount of the asset or cash-generating unit exceeds its recoverable amount.

***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the value in use, the estimated discounted future cash flows based on management's expectations are used.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Statement of Comprehensive Income, net of any amortisation that would have been charged since the impairment.

**(p) Provisions**

Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable and the provision can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date.

**(q) Revenue**

***Sales***

Sales are recognised in the financial period during which hydrocarbons are produced, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers.

Sales revenue represents amounts invoiced, excluding GST or value added taxes, in respect of sales to purchasers.

Sales revenue is stated net of the impact of oil and gas price hedge contracts entered into by the Group to reduce future oil and gas price exposure.

***Interest***

Interest is recognised as the interest accrues to the net carrying amount of the financial asset.

***Dividends***

Revenue is recognised when the shareholders' right to receive the payment is established.

**(r) Finance costs**

Finance costs are recognised as an expense when incurred and are calculated using the effective interest rate method. This method amortises the transaction costs over the term of the borrowing.

**(s) Share-based payment transactions**

The Group provides benefits to employees of the Group in the form of share options.

Two share option plans were in place to provide these benefits:

- the Employee Share Option Plan; and
- the Executive Share Option Plan.

As a result of a review of ROC's share-based payment plan, the Company will implement a revised plan in the form of performance share rights. This new plan will replace the share options plans going forward. No performance share rights have yet been issued. Historically, the costs of these equity-settled transactions with employees are measured by reference to the fair value at the date at which the share options are granted. The fair value is determined by an external valuer using a Monte Carlo simulation technique.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to market performance.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects: (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**(t) Income tax**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable in respect of taxable profits. It is calculated by using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Tax for the current and prior periods is recognised as a liability to the extent that it is unpaid.

*Deferred tax*

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred income tax liability is recognised for all taxable temporary differences except where:

- the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associate companies and interests in joint ventures, the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

Where deferred tax arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill.

# Notes to the Financial Statements

## Note 1. Summary of Significant Accounting Policies *continued*

**(t) Income tax** *continued*

***Tax consolidation***

The Company and all its wholly-owned Australian resident entities are part of a tax consolidation group under Australian taxation law. ROC is the head entity in the tax consolidation group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidation group are recognised in the separate financial statements of the members of the tax consolidation group using the 'stand-alone taxpayer' approach. Current tax liabilities and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidation group are recognised by the Company (as head entity in the tax consolidation group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidation group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidation group in accordance with the arrangement.

**(u) Goods and services tax**

Revenue, expenses and assets are recognised net of amounts of GST, except where the amount of GST incurred is not recoverable from the taxation authority in which case the GST is recognised as part of the item of expenditure.

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

**(v) Derivative financial instruments**

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

***Cash flow hedges***

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

Amounts deferred in equity are transferred to profit or loss in the periods when the hedged item is recognised in profit or loss. 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 hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is redesignated to discontinue hedge accounting. At that time, any cumulative gain or loss recognised in equity is kept in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is transferred to profit or loss.

***Derivatives that do not qualify for hedge accounting***

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**(w) Foreign currency translation**

***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The Company and the consolidated financial statements are presented in United States dollars, which is ROC's functional currency.

ROC has identified USD as its functional and presentation currency for the following reasons:

- a significant portion of ROC's activity is denominated in USD;
- a significant portion of ROC's assets and liabilities are denominated in USD; and
- USD is primarily the global currency used in the oil industry.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

*Group companies*

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to equity. When a foreign operation is sold, a proportionate share of such exchange differences is recognised in the Statement of Comprehensive Income, as part of the gain or loss on sale.

**(x) Employee benefits**

Liability to employees for annual leave and long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably. All employment related on-costs (including payroll tax and superannuation contributions) are included in the calculation of the required provision. Provisions for annual leave in respect of services provided by employees up to the reporting date expected to be settled within 12 months, are measured using remuneration levels expected to apply at the time of settlement.

Provisions for annual leave and long service leave 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 the reporting date.

**(y) Interest in joint venture operations**

Interests in joint venture operations, where there is joint control, have been reported in the financial statements by including the Group's share of assets and liabilities of the joint venture and its share of any income and expenses incurred.

**(z) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

# Notes to the Financial Statements

## Note 2. Significant Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with A-IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of these assumptions and conditions may be found in the relevant notes to the financial statements.

**(a) Significant accounting judgements**

*Exploration and evaluation*

The Group's accounting policy for exploration and evaluation assets is set out at Note 1(e). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the Statement of Comprehensive Income.

The carrying amount of exploration and evaluation assets as at 31 December 2009 is US$16.1 million (2008: US$14.7 million).

**(b) Significant accounting estimates and assumptions**

*Impairment of assets*

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

The carrying value of oil and gas assets as at 31 December 2009 is US$244.6 million (2008: US$366.6 million).

*Restoration obligations*

The Group estimates the future removal costs of on and offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgmental assumptions regarding removal data, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of provision for restoration, refer to Note 1(k).

*Reserve estimates*

Estimates of recoverable quantities of proven and probable reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the Statement of Comprehensive Income. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

## Note 3. Financial Risk Management Objectives and Policies

**Overview**

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and commodity price risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for commodity prices, interest rates and foreign exchange rates. Monitoring of specific debtor balances is undertaken to manage credit risk and liquidity risk is monitored through the development of future rolling cash flow forecasts.

**Credit risk**

The Company's key credit risk is the risk of default from amounts owed from controlled entities which are assessed for impairment annually (see Note 17).

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets and derivative instruments.

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 creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The Group does not hold any credit derivatives to offset its credit exposure.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are assessed for each individual customer and are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis, with the result being that the Group's exposure to bad debts is not significant. Currently, there are no material receivables that are in arrears.

# Notes to the Financial Statements

## Note 3. Financial Risk Management Objectives and Policies *continued*

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**For the financial year ended 31 December 2009**

| Consolidated (US$'000) | 6 months or less | 6 months–1 year | 1–3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 21,536 | – | – | 21,536 |
| Tax liabilities | 8,054 | – | – | 8,054 |
| Borrowings | 450 | 450 | 50,675 | 51,575 |
| Derivatives | 7,090 | 8,592 | 17,459 | 33,141 |
| | **37,130** | **9,042** | **68,134** | **114,306** |

| Company (US$'000) | 6 months or less | 6 months–1 year | 1–3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 890 | – | – | 890 |
| | **890** | **–** | **–** | **890** |

**For the financial year ended 31 December 2008**

| Consolidated (US$'000) | 6 months or less | 6 months–1 year | 1–3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 38,773 | – | – | 38,773 |
| Tax liabilities | 17,233 | – | – | 17,233 |
| Borrowings | 26,418 | 55,923 | 91,935 | 174,276 |
| Derivatives | – | – | 5,663 | 5,663 |
| | **82,424** | **55,923** | **97,598** | **235,945** |

| Company (US$'000) | 6 months or less | 6 months–1 year | 1–3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 1,299 | – | – | 1,299 |
| Borrowings | 360 | 30,138 | – | 30,498 |
| | **1,659** | **30,138** | **–** | **31,797** |

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and through the monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

**Market risk**

Effective from 1 January 2009 the revisions to AASB 7 *Financial Instruments: Disclosures* has been adopted. The revised standard requires disclosures that categorise assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets, Level 2 inputs are observable inputs other than quoted prices, and Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy for the financial assets and liability accounted for at fair value as at 31 December 2009 consisted of the oil price derivatives as disclosed in Note 15 which have been classified as Level 2. There were no Level 1 or Level 3 financial assets or liabilities as at 31 December 2009, and no movements between any of the levels during the period.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial assets and liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Committee.

**Foreign currency risk**

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities.

The majority of the Group's and Company's cash flows are denominated in USD, however the Group and Company are exposed to certain non-USD cash balances. As at 31 December 2009 the non-USD cash balances amounted to A$51.5 million. The impact on the loss for the year assuming a +10% or -10% change in the foreign exchange rate would be US$4.6 million.

**Interest rate risk**

The Group's exposure to market interest rates relates primarily to the Group's cash (refer to Note 12) and long term debt obligations and the level of debt (refer to Note 22).

A change of 100 basis points per annum in interest rates at the reporting date would have increased or decreased profit and loss for the year by US$0.2 million (2008: US$1.5 million). This analysis assumes that all other variables remain constant. As a result, the Group's exposure to interest rate risk is minimal.

**Commodity price risk**

The Group is exposed to the movement in commodity prices, primarily the movement in oil price. In order to manage this exposure and its effect on sales revenue, the Group has entered into certain derivative instruments, in relation to the commodity price of a proportion of its forecast production.

These derivatives tend to be priced using benchmarks which correlate as far as possible to the underlying oil revenue (refer to Note 15).

At 31 December 2009, the Group had a US$32.8 million derivative liability (2008: US$14.1 million asset) arising from approximately 2.1 MMBBL of oil price swaps which represents approximately 15% of its proved and probable reserves.

The following sensitivity is based on the crude oil price risk exposures for derivatives in existence at the balance date. Had the crude oil price moved, as illustrated below, with all other variables held constant, post-tax loss and equity would have been affected as follows:

| | | Post-Tax Loss Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|---|
| | | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| **Judgement of reasonably possible movements** | | | | | |
| **Consolidated** | | | | | |
| Crude oil price | +US$10/BBL | (20,065) | (25,059) | – | – |
| Crude oil price | -US$10/BBL | 20,065 | 25,059 | – | – |

# Notes to the Financial Statements

## Note 3. Financial Risk Management Objectives and Policies *continued*

**Fair value of financial instruments**

The Directors consider that the carrying amounts of the financial assets and liabilities recorded in the financial statements approximate their fair values unless otherwise stated.

The fair values are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to the quoted price; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

**Capital management**

The Group's objective when managing capital is to maintain an efficient capital structure so that it can continue to provide returns for shareholders and benefits for other stakeholders. Capital requirements are determined based on rolling forecasts of operating and capital expenditure cash flows which are based on assumptions on oil prices, production and exploration and development capital costs. The Group manages its capital (debt plus equity) by maintaining adequate banking facilities and other funding and adjusting discretionary capital expenditure as appropriate.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| **Note 4. Sales Revenue** | | | | |
| Oil | 203,852 | 355,213 | – | – |
| NGL | 33 | 981 | – | – |
| Gas | 513 | 651 | – | – |
| Hedging gain | 85 | 1,385 | – | – |
| | **204,483** | **358,230** | **–** | **–** |
| **Note 5. Operating Costs** | | | | |
| Production costs | 64,935 | 44,295 | – | – |
| Amortisation | 90,959 | 120,361 | – | – |
| Movement in stock and over/(under)lift | 6,423 | 5,790 | – | – |
| Chinese special levy | 6,756 | 24,021 | – | – |
| | **169,073** | **194,467** | **–** | **–** |
| **Note 6. Other Income** | | | | |
| Dividend received | – | – | 72,000 | – |
| Interest income - external | 1,568 | 465 | 984 | 167 |
| Profit on sale of 10% of BMG | 5,744 | – | – | – |
| Profit from sale of other assets | 2,396 | 13 | 4 | 13 |
| Rental income | – | 800 | – | – |
| Net foreign currency gains | 6,031 | 3,339 | 8,702 | 2,048 |
| Other | 1,073 | 8 | – | 7 |
| | **16,812** | **4,625** | **81,690** | **2,235** |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |

## Note 7. Exploration Expensed and Impaired

| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
|---|---|---|---|---|
| Angola | (401) | 61,340 | – | – |
| Australia | 747 | 25,781 | – | – |
| China | 1,218 | 12,340 | – | – |
| Equatorial Guinea | 598 | 437 | – | – |
| Madagascar | 889 | 3,643 | – | – |
| Mauritania | 1,607 | 6,767 | – | – |
| United Kingdom | 52 | 162 | – | – |
| Other | 2,405 | 2,258 | 2,206 | 2,258 |
| **Exploration expensed** | **7,115** | **112,728** | **2,206** | **2,258** |
| Angola | – | 9,974 | – | – |
| China | – | 60,172 | – | – |
| Mauritania | – | 7,667 | – | – |
| **Exploration impaired** | **–** | **77,813** | **–** | **–** |
| **Exploration expensed and impaired** | **7,115** | **190,541** | **2,206** | **2,258** |

## Note 8. Impairment of Goodwill

| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
|---|---|---|---|---|
| Goodwill acquired on acquisition of AEL | – | 43,790 | – | – |
| Impairment of goodwill | – | (43,790) | – | – |
| | **–** | **–** | **–** | **–** |

Goodwill was written off in 2008 based on the discounted cash flow from the BMG Fields (refer to Note 19(a)(ii)).

## Note 9. Other Costs

| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
|---|---|---|---|---|
| Operating lease expenses | 1,754 | 1,255 | 902 | 1,131 |
| Loss from sale of assets | – | 20 | – | 6 |
| Depreciation | 693 | 803 | 607 | 630 |
| Impairment of non-current intercompany receivables | – | – | 113,815 | 91,145 |
| Impairment of investments in controlled entities | – | – | 83,980 | 180,860 |
| Other administration costs | 10,160 | 9,026 | 8,940 | 2,528 |
| Share-based payments | 498 | 3,391 | 498 | 3,391 |
| | **13,105** | **14,495** | **208,742** | **279,691** |

# Notes to the Financial Statements

## Note 10. Finance Costs

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Interest expensed on bank loans | 3,745 | 5,593 | 237 | – |
| Unwinding of discount – restoration provision | 1,973 | 1,092 | – | – |
| Other finance costs | 5,205 | 1,408 | 3,612 | 35 |
| | **10,923** | **8,093** | **3,849** | **35** |

## Note 11. Income Tax

**(a) Composition of income tax**

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Income tax charge – current period | (32,224) | (78,038) | – | – |
| Income tax charge – prior period | (2,937) | – | – | – |
| Deferred income tax – current period | 5,979 | 110,219 | (16) | 6,051 |
| Deferred tax – PRRT | 17,467 | (3,913) | – | – |
| **Income tax (expense)/benefit** | **(11,715)** | **28,268** | **(16)** | **6,051** |

**(b) Amounts transferred from equity**

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Tax effect on cash flow hedges | – | (449) | – | – |

**(c) Recognised deferred tax assets and liabilities**

Deferred income tax at 31 December relates to the following:

| | STATEMENT OF FINANCIAL POSITION | | | |
|---|---|---|---|---|
| | CONSOLIDATED | | COMPANY | |
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| (i) *Deferred tax assets* | | | | |
| Accelerated depreciation for tax purposes | 1,266 | (595) | – | (595) |
| Recognition of tax losses | – | – | – | – |
| Provisions | – | 611 | – | 611 |
| Derivatives | – | – | – | – |
| Other | – | – | – | – |
| **Net deferred tax assets** | **1,266** | **16** | **–** | **16** |
| (ii) *Deferred tax liabilities* | | | | |
| Accelerated depreciation for tax purposes | (30,988) | (45,518) | – | – |
| Provisions | 2,775 | 9,899 | – | – |
| Derivatives | – | (980) | – | – |
| PRRT | – | (17,482) | – | – |
| Recognition of tax losses | – | 3,445 | – | – |
| Other | – | 227 | – | – |
| **Net deferred tax liabilities** | **(28,213)** | **(50,409)** | **–** | **–** |
| **Total net deferred tax (liability)/asset** | **(26,947)** | **(50,393)** | **–** | **16** |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Provision for Current Income Tax US$'000 | Deferred Income Tax US$'000 | Provision for Current Income Tax US$'000 | Deferred Income Tax US$'000 |
| **Consolidated** | | | | |
| Opening balance | (17,233) | (50,393) | (4,730) | (53,435) |
| Acquired through business combination | – | – | (30,205) | (59,642) |
| (Charged)/credited to income | (35,161) | 23,446 | (78,038) | 106,306 |
| Cash payments | 47,025 | – | 39,671 | – |
| Utilisation of tax losses | – | – | 51,394 | (51,394) |
| Translation (loss)/gain | (2,685) | – | 4,675 | 7,772 |
| | **(8,054)** | **(26,947)** | **(17,233)** | **(50,393)** |
| **Company** | | | | |
| Opening balance | – | 16 | – | 4,774 |
| (Charged)/credited to income | – | (16) | – | 6,051 |
| Utilisation of tax losses | – | – | – | (10,809) |
| Translation (loss)/gain | – | – | – | – |
| | **–** | **–** | **–** | **16** |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| **(d) Tax losses** | | | | |
| Tax losses not recognised | 76,736 | 123,475 | 30,661 | 8,447 |

# Notes to the Financial Statements

## Note 11. Income Tax *continued*

**(e) Income tax reconciliation**

The prima facie income tax benefit on pre-tax accounting loss reconciles to income tax (expense)/benefit in the financial statements as follows:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| *Loss before income tax* | **(103,675)** | **(306,653)** | **(133,107)** | **(279,749)** |
| Prima facie income tax benefit calculated as 30% of loss before income tax | 31,103 | 91,996 | 39,932 | 83,924 |
| *Tax effect of adjustments* | | | | |
| Non-deductible expenses | (10,270) | (6,586) | (56,849) | (81,722) |
| Non-assessable income | 15 | 622 | 21,600 | – |
| Prior year losses now recognised | – | 351 | – | 4,052 |
| Overseas tax rate differential | (5,366) | (6,882) | – | – |
| Prior year overprovision | (2,937) | – | – | – |
| Reversal of prior year losses recognised | – | (1,810) | – | – |
| Tax losses not brought into account | (18,874) | (43,854) | (4,452) | – |
| Deferred tax assets not recognised | (24,120) | – | – | – |
| PRRT | 17,467 | (3,913) | – | – |
| Other | 1,267 | (1,656) | (157) | (203) |
| **Income tax (expense)/benefit** | **(11,715)** | **28,268** | **(16)** | **6,051** |

**(f) Tax consolidation**

ROC and its wholly-owned Australian subsidiaries are a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expenses to the wholly-owned subsidiaries on a pro rata basis. In addition, the agreement provides for the allocation of income tax liabilities between entities, should the head entity default on its tax payment obligations.

## Note 12. Cash Assets

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Cash and cash equivalents | 67,079 | 54,260 | 48,101 | 6,760 |
| | **67,079** | **54,260** | **48,101** | **6,760** |

Included in cash assets is US$2,510,441 (2008: US$2,510,441) which is subject to a charge in favour of PC Mauritania I Pty Ltd relating to liabilities arising under the contract for lease of the *Berge Helene* floating production storage and offloading vessel to be used for production from the Chinguetti Oil Field.

**Reconciliation of net loss before tax to net cash flows generated from/(used in) operations**

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Net loss before tax | (103,675) | (306,653) | (133,107) | (279,749) |
| *Add/(less) non-cash items* | | | | |
| Amortisation | 90,959 | 120,361 | – | – |
| Impairment of assets | 82,155 | 346,399 | – | – |
| Loss on investment in listed securities | 5,616 | 30,527 | – | – |
| Depreciation | 693 | 803 | 607 | 630 |
| Impairment of non-current intercompany receivables | – | – | 113,815 | 91,145 |
| Impairment of investments in controlled entities | – | – | 83,980 | 180,860 |
| Provision for employee benefits | 628 | (530) | 628 | (530) |
| Net foreign currency (gains)/losses | (6,031) | (3,339) | (8,702) | (2,048) |
| (Gain)/loss from sale of assets | (2,396) | 7 | (4) | (7) |
| Gain on sale of 10% of BMG | (5,744) | – | – | – |
| Share-based payments | 498 | 3,391 | 498 | 3,391 |
| *Add/(less) non-operating items* | | | | |
| (Gain)/loss on derivatives | 36,898 | (38,586) | – | – |
| Interest income | (1,568) | (465) | (984) | (167) |
| Finance costs | 10,923 | 8,093 | 3,849 | 35 |
| Exploration expensed | 7,115 | 112,728 | 2,206 | 2,258 |
| Dividend income | – | – | (72,000) | – |
| *Changes in net assets and liabilities* | | | | |
| Decrease/(increase) in current trade and other receivables | 17,956 | (5,948) | 1,820 | 348 |
| Decrease in materials and inventories | 2,830 | 5,164 | – | – |
| Increase/(decrease) in trade and other payables | 1,608 | (4,012) | (667) | 1,406 |
| Net cash generated from/(used in) operations | **138,465** | **267,940** | **(8,061)** | **(2,428)** |

## Note 13. Current Trade and Other Receivables

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Trade receivables | 10,275 | 12,287 | – | – |
| Other receivables | 6,411 | 15,618 | 6,094 | 7,288 |
| Stock underlift | – | 1,330 | – | – |
| | **16,686** | **29,235** | **6,094** | **7,288** |

## Note 14. Financial Assets Available for Sale

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Shares in listed entity at cost | – | 63,830 | – | – |
| Impairment of assets | – | (30,527) | – | – |
| Exchange loss | – | (9,172) | – | – |
| | **–** | **24,131** | **–** | **–** |

In 2008, shares in listed entity comprised 65.7 million shares in Nexus Energy Limited which had been impaired based on the then current share market value.

## Note 15. Derivatives

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| At fair value: | | | | |
| Oil price swaps | (32,830) | 10,872 | – | – |
| Oil price puts | – | 3,267 | – | – |
| **Net (liabilities)/assets** | **(32,830)** | **14,139** | **–** | **–** |
| Assets – current assets | – | 16,517 | – | – |
| – non-current assets | – | 2,170 | – | – |
| Total assets | – | 18,687 | – | – |
| Liabilities – current liabilities | (15,162) | – | – | – |
| – non-current liabilities | (17,668) | (4,548) | – | – |
| Total liabilities | (32,830) | (4,548) | – | – |
| **Total** | **(32,830)** | **14,139** | **–** | **–** |

The Group uses a number of derivative instruments to mitigate the commodity price risk associated with its underlying oil revenues. These instruments include oil price swaps and oil price puts. These derivatives will tend to be priced using pricing benchmarks which correlate as far as possible to the underlying oil revenues.

At 31 December 2009, the Group's oil hedge position was summarised as follows:

| | | 2010 | 2011 | Total |
|---|---|---|---|---|
| *Crude oil price swap contracts* | | | | |
| Volume | (BBLs) | 1,206,984 | 875,997 | 2,082,981 |
| Weighted average Brent oil price | (US$/BBL) | 67.67 | 63.71 | 66.00 |

## Note 16. Inventories

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Oil and gas stock | 7,045 | 10,562 | – | – |
| | **7,045** | **10,562** | **–** | **–** |

## Note 17. Non-Current Trade and Other Receivables

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Amount owing by controlled entities | – | – | 543,037 | 474,566 |
| Less impairment | – | – | (486,812) | (372,997) |
| | **–** | **–** | **56,225** | **101,569** |

These loans are interest free and at call. During the year, an assessment of the recoverable amount was made and an impairment of US$113,815,000 was recorded.

## Note 18. Other Non-Current Financial Assets

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| Shares in unlisted controlled entities, at cost | – | – | 307,182 | 304,642 |
| Less impairment | – | – | (264,840) | (180,860) |
| | **–** | **–** | **42,342** | **123,782** |

Due to the impairment of assets in the underlying subsidiaries, certain shares have been written down to their net equity value.

## Note 19. Oil and Gas Assets

| | CONSOLIDATED | | | COMPANY |
|---|---|---|---|---|
| | Producing Assets US$'000 | Assets under Development US$'000 | Total US$'000 | Total US$'000 |
| **Costs** | | | | |
| Balance at 1 January 2008 | 526,792 | 49,293 | 576,085 | – |
| Transfer of assets under development to producing assets | 49,293 | (49,293) | – | – |
| Assets acquired through business combinations | 247,369 | – | 247,369 | – |
| Development expenditure incurred | 76,274 | – | 76,274 | – |
| Translation loss | (37,616) | – | (37,616) | – |
| Increase in restoration asset | 404 | – | 404 | – |
| **Costs at 31 December 2008** | **862,516** | **–** | **862,516** | **–** |
| Development expenditure incurred | 63,740 | – | 63,740 | – |
| Sale of 10% of BMG | (59,673) | – | (59,673) | – |
| Increase in restoration asset | 15,573 | – | 15,573 | – |
| **Costs at 31 December 2009** | **882,156** | **–** | **882,156** | **–** |
| **Accumulated amortisation** | | | | |
| Balance at 1 January 2008 | (152,609) | – | (152,609) | – |
| Charge for the year | (120,361) | – | (120,361) | – |
| Impairment of assets (see note (a) below) | (224,796) | – | (224,796) | – |
| Translation gain | 1,807 | – | 1,807 | – |
| **Accumulated amortisation at 31 December 2008** | **(495,959)** | **–** | **(495,959)** | **–** |
| Charge for the year | (90,959) | – | (90,959) | – |
| Sale of 10% of BMG | 31,547 | – | 31,547 | – |
| Net impairment of assets (see note (b) below) | (82,155) | – | (82,155) | – |
| **Accumulated amortisation at 31 December 2009** | **(637,526)** | **–** | **(637,526)** | **–** |
| **Net book value at 31 December 2009** | **244,630** | **–** | **244,630** | **–** |
| Net book value at 31 December 2008 | 366,557 | – | 366,557 | – |

**Impairment**

Impairment tests are performed when there is an indication of impairment. Each oil and gas producing asset is considered a separate cash generating unit.

The asset valuations are based on cash flow forecasts using 2P reserves. The key assumptions used in the cash flow forecasts include the following:

– oil price: forward market for two years and US$70/BBL thereafter;
– discount rates: the post tax discount rate of 10%.

(a) The impairment for 2008 was attributable to:

(i) the carrying value of the Zhao Dong Oil Field being greater than the estimated discounted cash flow by US$119.7 million using a pre-tax discount rate of 14% per annum. This was as a result of the initial net 2P reserves being reduced by 1.5 MMBBL and a reduction in the forecast realised oil price assumptions;

(ii) the carrying value of the BMG Fields being greater than the discounted cash flow by US$100.0 million using a pre-tax discount rate of 16% per annum. This is the result of the reduction in the forecast realised oil price assumption; and

(iii) the carrying value of the Chinguetti Oil Field being greater than the discounted cash flow by US$5.1 million using a pre-tax discount rate of 13% per annum. This is a result of the initial net 2P reserves being reduced by 0.6 MMBBL and a reduction in the forecast realised oil price assumption.

(b) The net impairment for 2009 is attributable to:

(i) a reversal of a prior year impairment of US$26.8 million (US$20.1 million post tax) for Zhao Dong Oil Field as a result of the discounted cash flow, using a pre-tax discount rate of 14% per annum, improving due to higher oil prices compared to year end 2008. This was as a result of the oil price increasing;

(ii) an impairment of US$98.8 million in the carrying value of the BMG Fields as a result of the discounted cash flows being lower than the carrying value, using a pre-tax discount rate of 16% per annum. This is as a result of the 2P reserves being reduced by 4.5 MMBBL; and

(iii) an impairment of US$10.1 million in the carrying value of the Chinguetti Oil Field as a result of the discounted cash flow being lower than the carrying value using a pre-tax discount rate of 13% per annum. This is as a result of an increase in restoration costs and the 2P reserves being reduced by 0.2 MMBBL.

Asset valuations, based on cash flow projections, use a range of assumptions that are subject to change. Accordingly, losses are sensitive to reasonable possible changes in key assumptions. The additional impairment loss that would arise from a possible change in key assumptions (all other assumptions remaining the same) is shown below:

– A 10% decrease in prevailing oil prices would result in an additional impairment of US$23.3 million;

– A 1% increase in the post tax discount rate applies to cash flow projects would result in an additional impairment loss of US$3.6 million.

## Note 20. Exploration and Evaluation Expenditure

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Opening balance | 14,720 | 92,727 | – | – |
| Expenditure incurred | 8,524 | 115,210 | 2,206 | 2,258 |
| Proceeds received from joint venture partner | – | (2,676) | – | – |
| Amounts expensed | (7,115) | (112,728) | (2,206) | (2,258) |
| Exploration impaired | – | (77,813) | – | – |
| | **16,129** | **14,720** | **–** | **–** |

The ultimate recovery of the capitalised exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or the commercial sale of the relevant areas of interest.

## Note 21. Property, Plant and Equipment

| | CONSOLIDATED 2009 US$'000 | CONSOLIDATED 2008 US$'000 | COMPANY 2009 US$'000 | COMPANY 2008 US$'000 |
|---|---|---|---|---|
| **Costs** | | | | |
| Opening balance | 7,415 | 7,473 | 5,723 | 5,779 |
| Expenditure incurred | 240 | 812 | 240 | 799 |
| Disposals | (1,694) | (870) | (2) | (855) |
| **Costs at 31 December** | **5,961** | **7,415** | **5,961** | **5,723** |
| **Accumulated depreciation** | | | | |
| Opening balance | (5,000) | (5,045) | (3,970) | (4,188) |
| Charge for the year | (693) | (803) | (607) | (630) |
| Disposals | 1,118 | 848 | 2 | 848 |
| **Accumulated depreciation at 31 December** | **(4,575)** | **(5,000)** | **(4,575)** | **(3,970)** |
| **Net book value** | **1,386** | **2,415** | **1,386** | **1,753** |

# Notes to the Financial Statements

## Note 22. Bank Loans

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| **(a) Current** | | | | |
| Secured bank loan – (1) | – | 50,000 | – | – |
| Secured bank loan – (2) | – | 30,000 | – | 30,000 |
| **(b) Non-current** | | | | |
| Secured bank loan – (1) | 49,229 | 88,736 | – | – |
| **Total** | **49,229** | **168,736** | **–** | **30,000** |

**(c) Terms and conditions**

*Secured bank loan – (1)*

The four year amortising loan, maturing in August 2011, has been provided by Commonwealth Bank of Australia, BOS International (Australia) Limited and Société Genérale Australia Branch.

The annual interest rate is USD LIBOR plus a fixed margin. The effective interest rate is 2.3% per annum.

*Secured bank loan – (2)*

In 2008, ROC entered into a one year US$30 million working capital loan facility provided by Commonwealth Bank of Australia. This facility was fully repaid during the year. The effective interest rate was 4.8% per annum.

**(d) Financing facilities available**

At reporting date, the following financing facilities had been negotiated and were available:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Total loan facilities: | | | | |
| Secured bank loans | 90,000 | 170,000 | – | – |
| Facilities used at reporting date: | | | | |
| Secured bank loans | 50,000 | 170,000 | – | – |
| Facilities unused at reporting date: | | | | |
| Secured bank loan | 40,000 | – | – | – |

**(e) Assets mortgaged as security**

*Secured bank loan – (1)*

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries giving security in relation to the loan facility from Commonwealth Bank of Australia, BOS International (Australia) Limited and Société Genérale Australia Branch. Roc Oil (Finance) Pty Limited has granted charges over all its assets and ROC has granted a 'featherweight' charge in favour of Commonwealth Bank of Australia as security trustee. In addition, the shares and Proceeds Accounts of the following ROC subsidiaries have been mortgaged to CBA Corporate Services (NSW) Pty Ltd, which are the entities that hold the producing assets: Roc Oil (WA) Pty Limited, Roc Oil (Bohai) Company and Roc Oil (GB) Limited. The net book value of Roc Oil (Finance) Pty Limited and the entities in which shares have been mortgaged is US$114.2 million.

*Secured bank loan – (2)*

The Company and AZA are joint borrowers and guarantors in relation to a loan facility with the Commonwealth Bank of Australia.

The shares of the following ROC subsidiaries have been mortgaged: AZA, AEL, Anzon Investments Limited, Roc Oil (Gobi) Pty Ltd and Roc Oil Australia Holdings Pty Ltd. In addition, AZA has granted charges over all its assets in favour of CBA Corporate Services (NSW) Pty Ltd as security trustee.

**(f) Foreign exchange, interest rate and liquidity risks**

Information regarding foreign exchange, interest rate and liquidity risks of the bank loans is set out in Note 3.

**(g) Fair value**

The fair value of the Group borrowing is US$49,115,000 (2008: US$167,200,000).

## Note 23. Controlled Entities

| Name of Entity | Country of Incorporation | Ownership and Voting Interest 2009 % | Ownership and Voting Interest 2008 % |
|---|---|---|---|
| *Parent entity* | | | |
| Roc Oil Company Limited | Australia | 100 | 100 |
| *Controlled entities* | | | |
| Roc Oil (Gobi) Pty Ltd | Australia | 100 | 100 |
| Roc Oil (WA) Pty Limited | Australia | 100 | 100 |
| Roc Oil (China) Pty Limited | Australia | 100 | 100 |
| Roc Oil (Madagascar) Pty Limited (formerly Roc Oil (New Zealand) Pty Limited) | Australia | 100 | 100 |
| Roc Oil Australia Holdings Pty Ltd | Australia | 100 | 100 |
| Roc Oil International Holdings Pty Ltd | Australia | 100 | 100 |
| Elixir Corporation Pty Ltd | Australia | 100 | 100 |
| Roc Oil (Finance) Pty Limited | Australia | 100 | 100 |
| Anzon Energy Pty Limited (formerly Anzon Energy Limited) | Australia | 100 | 100 |
| Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited) | Australia | 100 | 100 |
| Roc Oil (Exploration No. 1) Pty Limited (formerly Anzon Australia (Exploration (No. 1) Pty Limited) | Australia | 100 | 100 |
| Anzon Energy Mauritius | Mauritius | 100 | 100 |
| Anzon Investments Limited | Mauritius | 100 | 100 |
| Anzon Africa Limited | Mauritius | 100 | 100 |
| PT Anzon Energy Indonesia | Indonesia | 100 | 100 |
| Roc Oil (New Zealand) Limited (formerly Anzon New Zealand Limited) | New Zealand | 100 | 100 |
| Anzon Energy Nigeria Limited | Nigeria | 100 | 100 |
| Roc Oil Holdings (Cayman Islands) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Bohai) Company | Cayman Islands | 100 | 100 |
| Roc Oil (China) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Cabinda) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Mauritania) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Casamance) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Equatorial Guinea) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Angola) Ltd | Cayman Islands | 100 | 100 |
| Lacula Oil Company Ltd | Cayman Islands | 100 | 100 |
| Roc Oil (Maboque) Company | Cayman Islands | 100 | 100 |
| Roc Oil (Falklands) Limited | United Kingdom | 100 | 100 |
| Roc Oil (Europe) Limited | United Kingdom | 100 | 100 |
| Roc Oil (GB Holdings) Limited | United Kingdom | 100 | 100 |
| Roc Oil (GB) Limited | United Kingdom | 100 | 100 |
| Roc Oil (Chinguetti) B.V. | Netherlands | 100 | 100 |

# Notes to the Financial Statements

## Note 24. Current Trade and Other Payables

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Trade payables | 13,609 | 30,604 | 374 | 728 |
| Accrued liabilities | 4,752 | 7,332 | 363 | 418 |
| Amount owing to associate companies | 758 | 684 | – | – |
| Stock overlift | 2,264 | – | – | – |
| Other | 153 | 153 | 153 | 153 |
| | **21,536** | **38,773** | **890** | **1,299** |

## Note 25. Provisions

| | CONSOLIDATED | | | | COMPANY | |
|---|---|---|---|---|---|---|
| | Employee Benefits US$'000 | Office Rent US$'000 | Restoration US$'000 | Total US$'000 | Employee Benefits US$'000 | Total US$'000 |
| Balance at 1 January 2009 | 1,677 | – | 31,741 | 33,418 | 1,677 | 1,677 |
| Additions during the year | 1,196 | 840 | 15,573 | 17,609 | 1,196 | 1,196 |
| Sale of 10% of BMG | – | – | (5,735) | (5,735) | – | – |
| Unwinding of discount | – | – | 1,973 | 1,973 | – | – |
| Utilised | (1,082) | (213) | – | (1,295) | (1,082) | (1,082) |
| Translation adjustments | 514 | – | – | 514 | 514 | 514 |
| **Balance at 31 December 2009** | **2,305** | **627** | **43,552** | **46,484** | **2,305** | **2,305** |
| Current – 2009 | 1,363 | – | – | 1,363 | 1,363 | 1,363 |
| Non-current – 2009 | 942 | 627 | 43,552 | 45,121 | 942 | 942 |
| **Total 2009** | **2,305** | **627** | **43,552** | **46,484** | **2,305** | **2,305** |
| Current – 2008 | 1,091 | – | – | 1,091 | 1,091 | 1,091 |
| Non-current – 2008 | 586 | – | 31,741 | 32,327 | 586 | 586 |
| **Total 2008** | **1,677** | **–** | **31,741** | **33,418** | **1,677** | **1,677** |

The employee benefits provisions relate to annual leave and long service leave.

The office rent provision relates to the lease contract of an unoccupied office where no rental income is being received.

The restoration provisions relate to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the asset.

## Note 26. Share Capital

| | 2009 Number of Shares | 2008 Number of Shares | 2009 US$'000 | 2008 US$'000 |
|---|---|---|---|---|
| **Movement in fully paid ordinary shares** | | | | |
| Balance at beginning of financial year | 588,031,673 | 298,887,006 | 669,942 | 435,790 |
| Issue of shares pursuant to exercise of options under the share option plans | – | 15,000 | – | 29 |
| Shares issued | 125,122,887 | 289,129,667 | 74,259 | 234,123 |
| Balance at end of financial year | **713,154,560** | **588,031,673** | **744,201** | **669,942** |

All issued fully paid ordinary shares carry one vote per share and carry the right to dividends.

The Company has two employee share option plans under which options to subscribe for Company shares have been granted to employees and executives. Refer to Note 27.

## Note 27. Employee Benefits

**(a) Employee Share Option Plan and Executive Share Option Plan**

The Company has two share option plans, the Employee Share Option Plan and the Executive Share Option Plan, the details of which are set out below:

*Employee Share Option Plan*

Under the Employee Share Option Plan, the options granted vest after two years. Options expire five years after they are granted.

The exercise price of the options is the price of the sale of shares on the ASX on the day of the grant.

Options may be exercised two years after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable.

The following reconciles the outstanding share options granted under the Employee Share Option Plan at the beginning and end of the financial year:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price A$ | Number of Options | Weighted Average Exercise Price A$ |
| Balance at beginning of financial year | 5,596,100 | 1.36 | 1,533,600 | 2.97 |
| Granted | – | – | 4,130,000 | 0.78 |
| Exercised | – | – | – | – |
| Forfeited | (1,539,600) | 1.59 | (67,500) | 2.75 |
| Lapsed | (45,000) | 1.48 | – | – |
| Balance at end of financial year | 4,011,500 | 1.26 | 5,596,100 | 1.36 |
| Exercisable | 881,500 | 3.05 | 1,385,100 | 2.95 |

The range of exercise prices at the end of the financial year is between A$0.54 and A$3.10 per share, with a weighted average remaining contractual life of 3.4 years.

# Notes to the Financial Statements

## Note 27. Employee Benefits *continued*

### (a) Employee Share Option Plan and Executive Share Option Plan *continued*

***Executive Share Option Plan***

Under the rules of the Executive Share Option Plan, 30% of the options granted vest after two years. An additional 30% vest after three years and the remaining 40% vest after four years. Options expire six years after they are granted. Of the options granted to an employee, 50% are performance options and are only exercisable if certain share performance benchmarks are met and 50% are price options which require share price performance measures to be met.

The exercise price of performance options is calculated as the weighted average price for sale of shares on the ASX in the 90 days before the grant date. The exercise price for price options is calculated as 115%, 122.5% and 130% of this price respectively over the vesting period.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price A$ | Number of Options | Weighted Average Exercise Price A$ |
| Balance at beginning of financial year | 12,290,900 | 2.84 | 10,949,100 | 3.05 |
| Granted | – | – | 2,110,000 | 1.84 |
| Exercised | – | – | (15,000) | 2.85 |
| Forfeited | (4,503,800) | 2.94 | (753,200) | 3.08 |
| Balance at end of financial year | 7,787,100 | 2.78 | 12,290,900 | 2.84 |
| Exercisable | 3,191,700 | 2.48 | 2,426,700 | 1.77 |

The weighted average share price for share options exercised in 2009 was nil (2008: A$2.22).

The range of exercise prices at the end of the financial year is between A$0.65 and A$4.25 per share, with a weighted average remaining contractual life of 2.9 years.

### (b) Superannuation plans

During the 2009 financial year, the Company contributed to accumulation type benefit funds administered by fund managers. The funds cover all Australian domiciled employees of the Company. Employee and employer contributions are based on a fixed percentage of cash salary. The current contribution is 9% (2008: 9%) of employee cash remuneration.

### (c) Employee benefits expensed

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Salary and wages | 12,895 | 17,852 | 9,417 | 11,089 |
| Termination benefits | 1,978 | 4,427 | 1,807 | 2,324 |
| Other benefits | 60 | 112 | 60 | 106 |
| Workers' compensation | 69 | 66 | 69 | 63 |
| Superannuation | 1,204 | 1,693 | 798 | 999 |
| Share-based payments | 498 | 3,391 | 498 | 3,391 |
| | **16,704** | **27,541** | **12,649** | **17,972** |

## Note 28. Loss per Share

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year, adjusted by the effects of dilutive options.

The following table reflects the share data used in the total operations' basic and diluted loss per share computations:

| | 2009<br>Number of Shares | 2008<br>Number of Shares |
|---|---|---|
| Weighted average number of ordinary shares for basic loss per share | 646,173,601 | 373,252,930 |
| Effect of dilution: | | |
| Share options | – | – |
| Adjusted weighted average number of ordinary shares for diluted loss per share | 646,173,601 | 373,252,930 |
| Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted loss per share | – | – |
| Weighted average number of shares that were not included in the calculation of loss per share as they are anti-dilutive | – | 63,766 |

## Note 29. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and in determining the allocation of resources.

The operating segments identified by management are based on each individual oil and gas field. Discrete pre-tax financial information about each of these fields is reported to the Chief Executive Officer on a monthly basis.

The following items and associated assets and liabilities are not allocated to segments as they are not considered part of the core operations of any segment. These have been classified as "other" in the segment reporting table.

- Derivative gains and losses
- Gains and losses on the sale of investments
- Finance costs
- General and administration expenditure
- Share issues and related expenses
- Income tax expense.

# Notes to the Financial Statements

## Note 29. Segment Information *continued*

**For the financial year ended 31 December 2009**

| US$'000 | BMG Australia | Cliff Head Australia | Blane UK | Enoch UK | Chinguetti Africa | Zhao Dong China | Exploration | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | 30,569 | 30,273 | 30,740 | 16,290 | 6,254 | 90,243 | – | 114 | 204,483 |
| Production costs | 31,505 | 9,567 | 3,400 | 1,602 | 3,226 | 15,616 | – | 19 | 64,935 |
| Amortisation | 15,744 | 9,740 | 11,362 | 5,208 | 3,285 | 45,616 | – | 4 | 90,959 |
| Segment results(1) | (18,192) | 10,966 | 17,001 | 9,499 | (645) | 16,690 | – | 91 | 35,410 |
| Impairment of oil and gas assets | 98,780 | – | – | – | 10,139 | (26,764) | – | – | 82,155 |
| Capital expenditure incurred | 40,859 | – | 294 | (4) | 284 | 22,307 | 8,524 | – | 72,264 |
| Segment assets | 22,352 | 59,610 | 54,243 | 14,650 | 3,211 | 108,782 | 16,129 | – | 278,977 |

(1) Total segment results ('Trading Profit') is reconciled to the net loss before tax on the Statement of Comprehensive Income.

**For the financial year ended 31 December 2008**

| US$'000 | BMG Australia | Cliff Head Australia | Blane UK | Enoch UK | Chinguetti Africa | Zhao Dong China | Exploration | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | 32,789 | 88,511 | 71,799 | 25,967 | 9,013 | 128,673 | – | 1,478 | 358,230 |
| Production costs | 10,855 | 9,339 | 3,371 | 1,570 | 3,943 | 15,191 | – | 26 | 44,295 |
| Amortisation | 13,650 | 20,490 | 13,732 | 6,062 | 4,022 | 62,397 | – | 8 | 120,361 |
| Segment results(1) | 4,868 | 58,672 | 52,539 | 18,404 | 1,430 | 26,406 | – | 1,444 | 163,763 |
| Impairment of exploration | – | – | – | – | – | – | 77,813 | – | 77,813 |
| Impairment of oil and gas assets | 99,921 | – | – | – | 5,165 | 119,710 | – | – | 224,796 |
| Impairment of goodwill | 43,790 | – | – | – | – | – | – | – | 43,790 |
| Capital expenditure incurred | 10,374 | – | 8,419 | 502 | 5,222 | 51,757 | 115,210 | – | 191,484 |
| Segment assets | 121,552 | 69,246 | 62,644 | 19,045 | 22,945 | 115,965 | 14,720 | – | 426,117 |

(1) Total segment results ('Trading Profit') is reconciled to the net loss before tax on the Statement of Comprehensive Income.

In assessing the segment performance on a monthly basis, the Executive Committee analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the Executive Committee views as directly attributing to the performance of the segment. These assets include cash, trade receivables, inventories and oil and gas assets.

During the financial year ended 31 December 2009, all oil and gas sales have been made to various international oil companies. For each segment, with the exception of Chinguetti, sales have been made to individual customers, with sales revenue received from each of these customers representing over 10% of total group sales.

Reconciliation of segment operating assets to total assets:

| | CONSOLIDATED | |
|---|---|---|
| | 2009 US$'000 | 2008 US$'000 |
| Segment operating assets | 278,977 | 426,117 |
| Cash assets | 61,947 | 33,622 |
| Receivables | 8,381 | 15,595 |
| Deferred tax assets | 1,266 | 16 |
| Property, plant and equipment | 1,386 | 2,415 |
| Financial assets available for sale | – | 24,131 |
| Hedge assets | – | 18,687 |
| Stock overlift | 2,264 | – |
| **Total assets per the Statement of Financial Position** | **354,221** | **520,583** |

## Note 30. Related Party Disclosures

ROC and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are generally conducted on normal terms and conditions.

Detail of related party transactions and amounts are set out in:

- Note 17 as to amounts owing by controlled entities;
- Notes 18 and 23 as to investments in controlled entities;
- Note 24 as to amounts owing to controlled entities and associate companies;
- Note 33 as to investments in associate companies; and
- Note 35 as to disclosures relating to Key Management Personnel.

## Note 31. Commitments for Expenditure

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| **(a) Capital commitments** | | | | |
| **Not longer than one year** | | | | |
| Joint ventures | 20,257 | 62,038 | – | – |
| **Longer than one year but not longer than five years** | | | | |
| Joint ventures | 11,458 | 6,482 | – | – |
| | **31,715** | **68,520** | **–** | **–** |
| **(b) Operating lease rental commitments** | | | | |
| Not longer than one year | 11,762 | 12,202 | 1,154 | 697 |
| Longer than one year but not longer than five years | 6,260 | 7,629 | 194 | 843 |
| | **18,022** | **19,831** | **1,348** | **1,540** |

# Notes to the Financial Statements

## Note 32. Joint Ventures

The Group has an interest (rounded to two decimal places) in the following joint ventures as at 31 December 2009:

| Country | Block | Principal Activities | Interest 2009 % | Interest 2008 % |
|---|---|---|---|---|
| Australia | WA-286-P | Oil and gas exploration | 37.50 | 37.50 |
| | WA-31-L (Cliff Head) | Oil production | 37.50 | 37.50 |
| | WA-351-P | Oil and gas exploration | 20.00 | 20.00 |
| | L14 (Jingemia) | Oil production | 0.25 | 0.25 |
| | WA-381-P | Oil and gas exploration | –(1) | 20.00 |
| | WA-382-P | Oil and gas exploration | –(1) | 20.00 |
| | VIC/L26 | Oil production | 30.00 | 40.00 |
| | VIC/L27 | Oil production | 30.00 | 40.00 |
| | VIC/L28 | Oil production | 30.00 | 40.00 |
| | VIC/P49 | Oil and gas exploration | 20.00 | 20.00 |
| New Zealand | PEP38259 | Oil and gas exploration | 15.00 | 15.00 |
| Equatorial Guinea | Block H | Oil and gas exploration | 37.50 | 37.50 |
| Mauritania | Area A | Oil and gas exploration | 4.16 | 4.16 |
| | Area B (Chinguetti) | Oil and gas exploration/ production | 3.69/3.25(2) | 3.69/3.25(2) |
| | Area C Block 2 | Oil and gas exploration | 5.49 | 5.49 |
| | Area C Block 6 | Oil and gas exploration | 5.00 | 5.00 |
| | Block 1 | Oil and gas exploration | 2.00 | 2.00 |
| | Block 7 | Oil and gas exploration | 4.95 | 4.95 |
| | Block 8 (surrendered 21 January 2009) | Oil and gas exploration | – | 5.00 |
| Mozambique Channel | Belo Profond (Madagascar) | Oil and gas exploration | 75.00 | 75.00 |
| | Juan de Nova Maritime Profond (France) | Oil and gas exploration | 75.00 | 75.00 |
| Angola | Cabinda South Block | Oil and gas exploration | 10.00(3) | 60.00 |
| China | Beibu Gulf Development Areas (formerly Block 22/12) | Oil and gas pre-development | 40.00(4) | 40.00 |
| | Zhao Dong Block (C and D Fields/C4 Field) | Oil development/production | 24.50/11.58(5) | 24.50/11.58(5) |
| Onshore UK | PEDL030 (relinquished 17 March 2009) | Oil and gas exploration | – | 100.00 |
| UK North Sea | P111 (Block 30/3a Upper) (Blane) | Oil and gas production | 15.24/12.50(6) | 15.24/12.50(6) |
| | P219 (Block 16/13a and 16/13e) (Enoch) | Oil and gas production | 15.00/12.00(6) | 15.00/12.00(6) |

(1) ROC withdrew and resigned as operator effective 31 December 2009 pending final documentation.
(2) Post-government back-in in Chinguetti Oil Field.
(3) ROC has assigned 5% to Cuba Petroleo pending final documentation.
(4) Government has basis in entitlement of up to 51% equity in field development.
(5) Unitised interest in the C4 Field.
(6) Unitised interest in producing Blane and Enoch Fields.

The Group's share of net working interest production from the above joint ventures during the financial year was 3,662,349 BOE (2008: 4,034,473 BOE).

The following amounts represent the Group's interest in assets and liabilities in the above joint venture operations. The amounts are included in the financial statements as follows:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Current assets | 5,364 | 20,659 | – | – |
| Non-current assets | 260,758 | 381,280 | – | – |
| **Total assets** | **266,122** | **401,939** | **–** | **–** |
| Current liabilities | 10,691 | 33,264 | – | – |
| Non-current liabilities | 43,552 | 31,741 | – | – |
| **Total liabilities** | **54,243** | **65,005** | **–** | **–** |

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 31 and Note 36 respectively.

## Note 33. Associate Companies

Details of investments in associate companies are as follows:

| Name of Associate Company | Country where Incorporated | Principal Activity | Balance Date | Beneficial Interest in Ordinary Shares at 31 December | | Book Value of Ordinary Shares at 31 December | | Contribution to Consolidated Loss | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 2009 % | 2008 % | 2009 US$'000 | 2008 US$'000 | 2009 US$'000 | 2008 US$'000 |
| Croft (UK) Limited | UK | Holding company | 31 December | 50 | 50 | – | – | – | – |
| Croft Oil & Gas plc | UK | Holding company | 31 December | 50 | 50 | – | – | – | – |
| Croft Exploration Limited | UK | Dormant | 31 December | 50 | 50 | – | – | – | – |
| Croft Offshore Oil Limited | UK | Dormant | 31 December | 50 | 50 | – | – | – | – |

## Note 34. Remuneration of Auditors

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$ | 2008 US$ | 2009 US$ | 2008 US$ |
| **Amounts due to and recoverable by the auditor of the parent entity:** | | | | |
| Audit and review of the financial report | 260,815 | 198,187 | 260,815 | 198,187 |
| Fees associated with the acquisition of AZA and AEL | – | 227,542 | – | 227,542 |
| Tax compliance and accounting advice | 376,583 | 159,398 | 370,446 | 143,559 |
| | **637,398** | **585,127** | **631,261** | **569,288** |
| **Amounts due by related practices of Ernst & Young, Australia for:** | | | | |
| Audit and review of the financial report | 53,442 | 103,013 | – | – |
| | **690,840** | **688,140** | **631,261** | **569,288** |

Ernst & Young, Australia was the auditor for the Company in 2009.

## Note 35. Key Management Personnel Disclosures

**(a) Details of Key Management Personnel**

| | |
|---|---|
| Mr A J Love | Chairman (Non-Executive) |
| Mr W G Jephcott | Deputy Chairman (Non-Executive) |
| Mr B F Clement | Executive Director and appointed Chief Executive Officer on 24 September 2008 |
| Mr S J Jansma, Jr | Director (Non-Executive) |
| Mr D Paterson | Executive Director and President, Roc Oil (China) Company (resigned 31 July 2009) |
| Mr R C A Leon | Director (Non-Executive) |
| Ms S Ford | General Counsel and Company Secretary (resigned 31 October 2009) |
| Mr A Linn | Chief Operating Officer |
| Mr J Mebberson | General Manager Exploration |
| Mr R Morris | President, Roc Oil (China) Company (appointed 1 August 2009) |
| Mr A Neilson | Chief Financial Officer |

**(b) Remuneration**

*(i) Remuneration policy*

The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration of the Senior Management Team. Executive remuneration is set at levels and structured to attract, motivate, reward and retain good performers to drive the business effectively. Further details of the Company's remuneration policy are set out in the Remuneration Report section of the Directors' Report.

The Company has an Executive Share Option Plan. Under this plan, executives are issued options to subscribe for ordinary shares in the Company at the discretion of the Directors. The plan provides an incentive to the Senior Management Team to achieve significant long term growth in the Company's share price. For details, refer to Note 27 and the Directors' Report.

*(ii) Remuneration of Key Management Personnel*

The aggregate of compensation of the Key Management Personnel of the Group and the Company is set out below:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2009 US$ | 2008 US$ | 2009 US$ | 2008 US$ |
| Short term employee benefits | 4,614,362 | 3,902,535 | 2,606,715 | 2,655,670 |
| Post-employment benefits | 238,450 | 275,109 | 151,566 | 207,145 |
| Share-based payments | 85,098 | 704,699 | 205,832 | 573,227 |
| Termination payments | 151,319 | 2,248,470 | 121,749 | 2,248,470 |
| | **5,089,229** | **7,130,813** | **3,085,862** | **5,684,512** |

Remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs AUS 25.4 to AUS 25.7.2 are disclosed in the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

**(c) Optionholdings**

| 2009 | 1 Jan 2009 Balance at Beginning of Financial Year | Executive Share Options Granted as Remuneration | Options Exercised | Options Lapsed | 31 Dec 2009 Balance at End of Financial Year | Vested at 31 Dec 2009 | Exercisable at 31 Dec 2009 |
|---|---|---|---|---|---|---|---|
| Mr B F Clement | 680,000 | – | – | – | 680,000 | 460,000 | 235,000 |
| Mr D Paterson | 450,000 | – | – | (450,000) | – | – | – |
| Ms S Ford | 622,600 | – | – | (622,600) | – | – | – |
| Mr A Linn | 550,000 | – | – | – | 550,000 | – | – |
| Mr J Mebberson | 330,000 | – | – | – | 330,000 | 94,000 | 47,000 |
| Mr R Morris | 200,000 | – | – | – | 200,000 | – | – |
| Mr A Neilson | 370,000 | – | – | – | 370,000 | 60,000 | 30,000 |
| | **3,202,600** | **–** | **–** | **(1,072,600)** | **2,130,000** | **614,000** | **312,000** |

| 2008 | 1 Jan 2008 Balance at Beginning of Financial Year | Executive Share Options Granted as Remuneration | Options Exercised | Options Lapsed | 31 Dec 2008 Balance at End of Financial Year | Vested at 31 Dec 2008 | Exercisable at 31 Dec 2008 |
|---|---|---|---|---|---|---|---|
| Dr R J P Doran | 300,000 | – | – | (300,000) | – | – | – |
| Mr B F Clement | 680,000 | – | – | – | 680,000 | 295,000 | 152,500 |
| Mr D Paterson | 450,000 | – | – | – | 450,000 | 135,000 | 67,500 |
| Ms S Ford | 442,600 | 180,000 | – | – | 622,600 | 252,900 | 126,450 |
| Dr K Hird | 397,000 | 30,000 | – | – | 427,000 | 173,700 | 86,850 |
| Mr A Linn | – | 550,000 | – | – | 550,000 | – | – |
| Mr J Mebberson | 150,000 | 180,000 | – | – | 330,000 | 52,000 | 29,000 |
| Mr A Neilson | 200,000 | 170,000 | – | – | 370,000 | – | – |
| | **2,619,600** | **1,110,000** | **–** | **(300,000)** | **3,429,600** | **908,600** | **462,300** |

## Note 35. Key Management Personnel Disclosures *continued*

**(d) Shareholdings**

| 2009 | 1 Jan 2009 Balance at Beginning of Financial Year | Change on Exercise of Options | Net Change from On-Market Transactions | 31 Dec 2009 Balance at End of Financial Year |
|---|---|---|---|---|
| Mr A J Love | 561,353 | – | 28,168 | 589,521 |
| Mr W G Jephcott | 1,117,300 | – | – | 1,117,300 |
| Mr B F Clement | 160,000 | – | 21,126 | 181,126 |
| Mr S J Jansma, Jr | 644,641 | – | – | 644,641 |
| Mr D Paterson | 157,000 | – | – | 157,000(1) |
| Mr R C A Leon | 1,221,212 | – | – | 1,221,212 |
| Ms S Ford | – | – | – | – |
| Mr A Linn | – | – | – | – |
| Mr J Mebberson | 10,500 | – | – | 10,500 |
| Mr R Morris | – | – | – | – |
| Mr A Neilson | 5,000 | – | – | 5,000 |
| | **3,877,006** | **–** | **49,294** | **3,926,300** |

| 2008 | 1 Jan 2008 Balance at Beginning of Financial Year | Change on Exercise of Options | Net Change from On-Market Transactions | 31 Dec 2008 Balance at End of Financial Year |
|---|---|---|---|---|
| Mr A J Love | 561,353 | – | – | 561,353 |
| Mr W G Jephcott | 1,117,300 | – | – | 1,117,300 |
| Dr R J P Doran | 4,550,001 | – | – | 4,550,001(1) |
| Mr B F Clement | 80,000 | – | 80,000 | 160,000 |
| Mr S J Jansma, Jr | 444,641 | – | 200,000 | 644,641 |
| Mr D Paterson | – | – | 157,000 | 157,000 |
| Mr R C A Leon | – | – | 1,221,212 | 1,221,212 |
| Mr A C Jolliffe | 100,000 | – | – | 100,000(1) |
| Dr D Schwebel | 30,000 | – | – | 30,000(1) |
| Ms S Ford | – | – | – | – |
| Dr K Hird | 334,018 | – | (165,000) | 169,018 |
| Mr A Linn | – | – | – | – |
| Mr J Mebberson | 5,500 | – | 5,000 | 10,500 |
| Mr A Neilson | – | – | 5,000 | 5,000 |
| | **7,222,813** | **–** | **1,503,212** | **8,726,025** |

(1) As per the Director's Final Interest Notice.

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

**(e) Loans and other transactions**

No loans have been made to the Key Management Personnel other than advances made for the purpose of meeting business expenses incurred in performing their duties. No interest is being charged on these amounts.

## Note 36. Contingent Liabilities

Under a sale and purchase agreement dated 29 December 1997, by which Roc Oil (GB) Limited acquired an interest in the Blane Oil Field (Block 30/3a), a royalty of 22% of the company's share of production from the field is payable. No royalty becomes payable on any oil produced from the field until the total cumulative production has reached 15 MMBBL (produced to date 10.6 MMBBL) of oil and thereafter royalty is due on the company's share of oil produced in excess of 2,000 BOPD (gross). The company is not yet liable to pay this royalty due to the contingent nature of production reaching the threshold rates in the future; however, the Company has estimated a potential contingent liability of US$10.6 million at 31 December 2009 (2008: US$11.6 million).

AZA, a wholly-owned subsidiary of ROC, together with the other participants in the BMG project are currently in dispute in the Federal Court of Australia with BW Offshore Ltd ('BW') in relation to the termination of a Letter of Intent ('LOI') for the supply of a FPSO for the proposed BMG Phase 2 Project. BW is seeking recovery of costs, including costs of terminating third party vendor contracts, in relation to the performance of the initial activities under the LOI. BW has lowered its costs claimed from an initial US$90.1 million (AZA: US$36.0 million) to US$73.8 million (AZA: US$29.5 million). As part of the sale and purchase agreement for the sale of a 10% participating interest in the BMG Project to Pertamina Hulu Energi Australia Pty Ltd, AZA will retain a 40% liability for the BW dispute and receive the benefit of any successful cross claim.

AZA, on behalf of the BMG Joint Venture, has initiated a cross claim against BW due to the reliance by the BMG Joint Venture on the supply of the FPSO pursuant to the LOI, seeking recovery of drilling related costs in the range of US$63 million to US$86 million (AZA: US$25 million to US$34 million).

AEL has received notice of a potential dispute in respect of a Heads of Agreement entered into in July 2007. The potential dispute relates to a bid process and no claim has been made.

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries in relation to finance obligations under the loan facility referred to in Note 22.

In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm-in agreements with other parties for the purpose of exploring and developing its licence interests. If a party to a joint venture operation defaults and does not contribute its share of joint venture operation obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the licence held by the defaulting party may be redistributed to the remaining joint venturers.

The Company's present intention is to provide the necessary financial support for all Australian incorporated controlled entities, whilst they remain controlled entities, as is necessary for each company to pay all debts when they become due.

# Notes to the Financial Statements

## Note 37. Business Combinations

On 8 September 2008, ROC effectively acquired 100% of the voting shares of AEL, an AIM listed public company based in Australia, by way of a scheme of arrangement between AEL and ROC. AEL's main asset was a 53.05% shareholding of AZA, a then Australian listed company, whose two main assets were a 40% operating interest in the BMG Fields, offshore Gippsland Basin and a 10% shareholding in Nexus Energy Limited, an Australian listed oil and gas company.

The total costs of the acquisition were US$135.5 million and comprised an issue of equity and the costs directly attributable to the acquisition. The Company issued 145,581,694 ordinary shares with a fair value of US$0.93 each based on the quoted price of ROC shares at the day of the issue translated at the spot rate.

| | Recognised on Acquisition US$'000 | Carrying Value US$'000 |
|---|---|---|
| Cash and cash equivalents | 44,073 | 44,073 |
| Trade and other receivables | 564 | 564 |
| Derivatives | 525 | 525 |
| Inventories | 9,970 | 2,632 |
| Oil and gas assets | 247,369 | 220,521 |
| Plant and equipment | – | 358 |
| Listed investments | 63,830 | 63,830 |
| Provision for decommissioning | (20,413) | (20,068) |
| Trade and other payables | (90,284) | (90,284) |
| Deferred tax liabilities | (59,642) | (30,781) |
| Minority interest | (106,670) | (128,002) |
| Fair value of identifiable net assets acquired | 89,322 | 63,368 |
| Goodwill arising on acquisition | 43,790 | |
| Total costs of acquisition | 133,112 | |
| *Costs of acquisition* | | |
| Shares issued at fair value | 130,323 | |
| Foreign currency translation | (2,365) | |
| Direct costs relating to acquisition | 5,154 | |
| Total costs of acquisition | 133,112 | |
| ***The cash inflow on acquisition is as follows:*** | | |
| Net cash acquired with the subsidiary | 44,073 | |
| Cash paid | – | |
| Net acquisition cash inflow | 44,073 | |

The goodwill related to the expected synergies existing within the acquired business at the acquisition date.

Subsequent to the approval of the scheme of arrangement with AEL, ROC acquired the minority interest in AZA for US$110.6 million by way of the issue of 143,547,973 shares with a fair value of US$0.72 each based on the quoted price of ROC shares at the day of the issue translated at the spot rate and a payment of cash of US$6.8 million.

From the date of acquisition, the AEL group contributed a loss of US$87.5 million to the Group for 2008. Financial information for the 12 months to 31 December 2008 has been impracticable to disclose.

## Note 38. Subsequent Events

Subsequent to 31 December 2009, no events have arisen that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

## Note 39. Additional Company Information

The Company is a public company listed in Australia on the ASX and incorporated in Australia and operating in Australia and overseas.

The registered office and principal place of business are:

Level 14, 1 Market Street
Sydney NSW 2000
Australia.

# Directors' Declaration

The Directors declare that:

(a) the attached financial statements and notes thereto comply with relevant Australian Accounting Standards;

(b) the attached financial statements and notes thereto 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 attached financial statements and notes thereto are in accordance with the Corporations Act 2001;

(d) 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; and

(e) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This Directors' Declaration is made in accordance with a resolution of the Board of Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors:

**Mr A J Love**
*Chairman*

**Mr B F Clement**
*Director and Chief Executive Officer*

Sydney, 24 February 2010

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# INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ROC OIL COMPANY LIMITED

## Report on the Financial Report

We have audited the accompanying financial report of Roc Oil Company Limited, which comprises the Statement of Financial Position as at 31 December 2009, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls 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(b), the Directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

### *Auditor's Opinion*

In our opinion:

1. the financial report of Roc Oil Company Limited is in accordance with the *Corporations Act 2001*, including:
   - i giving a true and fair view of the financial position of Roc Oil Company Limited and the consolidated entity at 31 December 2009 and of their performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 11 of the Directors' Report for the year ended 31 December 2009. 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 Roc Oil Company Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

**Ernst & Young**

M. Elliott

**Michael Elliott**
Partner

Sydney, 24 February 2010

# Additional Information

## ROC RESERVES ANALYSIS (UNAUDITED)

| Summary Proved and Probable Working Interest Reserves | MMBBL | BCF | Total MMBOE |
|---|---|---|---|
| Opening balance | 24.0 | 0.3 | 24.0 |
| Sale of 10% of BMG | (1.8) | – | (1.8) |
| Reserve revisions | (4.7) | – | (4.7) |
| Production | (3.6) | (0.1) | (3.6) |
| **Closing balance** | **13.9** | **0.2** | **13.9** |

| Analysis of Proved and Probable Reserves | MMBBL | BCF | Total MMBOE |
|---|---|---|---|
| BMG | 0.9 | – | 0.9 |
| Zhao Dong (C and D Fields) | 6.1 | – | 6.1 |
| Zhao Dong (C4 Field) | 0.7 | – | 0.7 |
| Cliff Head | 3.1 | – | 3.1 |
| Chinguetti | 0.1 | – | 0.1 |
| Blane | 2.3 | – | 2.3 |
| Enoch | 0.7 | 0.2 | 0.7 |
| **Closing balance** | **13.9** | **0.2** | **13.9** |

***Note:***

1 MMBOE = 6 BCF

ROC has contingent resources of 5.2 MMBBL in Beibu Gulf. Following the downgrade in BMG 2P Reserves in February 2010, contingent resources for the project are being reviewed.

In accordance with ASX Listing Rules, the reserves information in this report is based upon information compiled, reviewed and signed off by Mr Neil Seage, Bachelors of Engineering (Hons) and Arts; Master of Business Administration; Chief Reservoir Engineer, Roc Oil Company Limited. Mr Seage has at least five years' relevant experience within the sector and consents to the information in the form and context in which it appears.

# Additional Information

## ROC LICENCES AT 31 DECEMBER 2009 (UNAUDITED)

| Country | Block | Field/Discovery | ROC Interest % | Operator |
|---|---|---|---|---|
| Australia | WA-286-P | Frankland, Dunsborough | 37.50 | Roc Oil (WA) Pty Limited |
| | WA-31-L | Cliff Head | 37.50 | Roc Oil (WA) Pty Limited |
| | WA-351-P | | 20.00 | BHP Billiton Petroleum Pty Limited |
| | L14 | Jingemia | 0.25 | Origin Energy Developments Pty Ltd |
| | WA-381-P | | –[1] | Roc Oil (WA) Pty Limited |
| | WA-382-P | | –[1] | Roc Oil (WA) Pty Limited |
| | VIC/L26 | BMG | 30.00 | Roc Oil (VIC) Pty Limited |
| | VIC/L27 | BMG | 30.00 | Roc Oil (VIC) Pty Limited |
| | VIC/L28 | BMG | 30.00 | Roc Oil (VIC) Pty Limited |
| | VIC/P49 | | 20.00 | Nexus Energy Services Pty Ltd |
| New Zealand | PEP38259 | | 15.00 | AWE (New Zealand) Pty Ltd |
| Equatorial Guinea | H/15 and H/16 | | 37.50 | Roc Oil (Equatorial Guinea) Company (Technical Operator) |
| Mauritania | Area A | Banda | 4.16 | PC Mauritania I Pty Ltd |
| | Area B | Chinguetti, Tiof, Tiof West, Tevét | 3.69/3.25[2] | PC Mauritania I Pty Ltd |
| | Area C Block 2 | | 5.49 | Tullow Mauritania Limited |
| | Area C Block 6 | | 5.00 | PC Mauritania I Pty Ltd |
| | Block 1 | | 2.00 | Dana Petroleum (E&P) Limited |
| | Block 7 | Pelican | 4.95 | Dana Petroleum (E&P) Limited |
| Mozambique Channel | Belo Profond (Madagascar) | | 75.00 | Roc Oil (Madagascar) Pty Limited |
| | Juan de Nova Maritime Profond (France) | | 75.00 | Roc Oil Company Limited |
| Angola | Cabinda South Block | | 10.00[3] | Pluspetrol Angola Corporation |
| China | Beibu Gulf Block 22/12 | Wei 6-12, Wei 12-8 | 40.00[4] | Roc Oil (China) Company |
| | Zhao Dong Block | C and D Fields, C4 Field | 24.50/11.58[5] | Roc Oil (Bohai) Company |
| UK North Sea | P111 (Block 30/3a Upper) | Blane | 15.24/12.50[6] | Talisman Energy (UK) Limited |
| | P219 (Block 16/13a and e) | Enoch, J1 | 15.00/12.00[6] | Talisman North Sea Limited |

(1) ROC withdrew and resigned as Operator effective 31 December 2009 pending documentation and government approval.
(2) Interest in producing Chinguetti Oil and Gas Field post-government back-in.
(3) ROC has assigned 5% to Cuba Petroleo pending final documentation.
(4) Government has back-in entitlement of up to 51% equity in field development.
(5) Unitised interest in the C4 Field.
(6) Unitised interest in Blane and Enoch producing fields.

# Glossary and Definitions

| | |
|---|---|
| **AEL** | Anzon Energy Pty Limited (formerly Anzon Energy Limited). |
| **A-IFRS** | Australian equivalents to International Financial Reporting Standards. |
| **AIM** | Alternative Investment Market of the London Stock Exchange. |
| **ASIC** | Australian Securities and Investments Commission. |
| **ASX** | Australian Securities Exchange. |
| **AUD/A$** or **cents** | Australian currency. |
| **AZA** | Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited). |
| **BBL(s)** | Barrel(s), oil barrel is equivalent to 0.159 cubic metres. |
| **BCF** | One billion cubic feet of natural gas. |
| **BFPD** | Barrel of fluid per day. |
| **BOE** | Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time. |
| **BOEPD** | Barrel of oil equivalent per day. |
| **BOPD** | Barrel of oil per day inclusive of NGLs. |
| **FPSO** | Floating production and storage and offloading vessel. |
| **Group** | Parent entity and its subsidiaries. |
| **GST** | Goods and services tax. |
| **MM** | Millions. |
| **MMBBL/MMBO** | One million barrels of oil. |
| **MMBOE** | One million barrels of oil equivalent. |
| **NGL** | Natural gas liquid. |
| **probable reserves** | Probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not. Note that probable reserves have not been risked. |
| **proved reserves** | Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions. Current economic conditions include prices and costs prevailing at the time of the estimate. Proved reserves may be developed or undeveloped. |
| **PRRT** | Petroleum Resource Rent Tax. |
| **PSC** | Production sharing contract. |
| **ROC** | Roc Oil Company Limited. |
| **UK** | United Kingdom. |
| **USD/US$** | United States dollars. |
| **2D** | Two dimensional. |
| **3D** | Three dimensional. |
| **4D** | Four dimensional. |
| **2P** | Proved and probable reserves. |