



**Directors' Report, Directors' Declaration
and Annual Financial Report
for the Financial Year ended 31 December 2008**

ROC OIL COMPANY LIMITED

ABN 32 075 965 856

This page is left intentionally blank

Contents

| | |
|---|----|
| Directors' Report | 2 |
| Auditor's Independence Declaration | 15 |
| Discussion and Analysis of Financial Statements | 16 |
| Income Statement | 21 |
| Balance Sheet | 22 |
| Cash Flow Statement | 23 |
| Statement of Changes in Equity | 24 |
| Notes to the Financial Statements | |
| 1 Summary of Significant Accounting Policies | 26 |
| 2 Significant Accounting Judgements, Estimation and Assumptions | 32 |
| 3 Financial Risk Management Objectives and Policies | 33 |
| 4 Sales Revenue | 35 |
| 5 Operating Costs | 35 |
| 6 Other Income | 36 |
| 7 Exploration Expensed and Impaired | 36 |
| 8 Impairment of Goodwill | 37 |
| 9 Other Costs | 37 |
| 10 Finance Costs | 37 |
| 11 Income Tax | 38 |
| 12 Cash Assets | 41 |
| 13 Current Trade and Other Receivables | 42 |
| 14 Financial Assets Available for Sale | 42 |
| 15 Derivatives | 42 |
| 16 Inventories | 43 |
| 17 Non-Current Trade and Other Receivables | 43 |
| 18 Other Non-Current Financial Assets | 43 |
| 19 Oil and Gas Assets | 44 |
| 20 Exploration and Evaluation Expenditure | 45 |
| 21 Property, Plant and Equipment | 45 |
| 22 Bank Loans | 46 |
| 23 Controlled Entities | 47 |
| 24 Current Trade and Other Payables | 48 |
| 25 Provisions | 48 |
| 26 Share Capital | 49 |
| 27 Other Reserves | 49 |
| 28 Employee Benefits | 50 |
| 29 Earnings per Share | 52 |
| 30 Segment Information | 52 |
| 31 Related Party Disclosures | 54 |
| 32 Commitments for Expenditure | 54 |
| 33 Joint Ventures | 55 |
| 34 Associate Companies | 56 |
| 35 Remuneration of Auditors | 57 |
| 36 Key Management Personnel Disclosures | 57 |
| 37 Contingent Liabilities | 60 |
| 38 Business Combinations | 61 |
| 39 Subsequent Events | 62 |
| 40 Additional Company Information | 62 |
| Directors' Declaration | 63 |
| Independent Audit Report | 64 |
| ROC Reserves Analysis (Unaudited) | 66 |
| ROC Licences at 31 December 2008 (Unaudited) | 67 |
| Glossary and Definitions | 68 |

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 2008.

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 **Age 55**
(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. Appointed in July 2005, Mr Love is a non-executive director of Babcock & Brown Communities Limited (formerly Primelife Corporation Limited) and since April 2006 has been Deputy Chairman of Riversdale Mining Limited. Mr Love is also a director of the Museum of Contemporary Art. In the prior three years, Mr Love was a director of Principal Real Estate Investors (Aust) Limited. Mr Love is a member of the Remuneration and Nomination Committee and the Audit and Risk Committee.

Mr William G Jephcott BCOM, FCPA, FAICD **Age 58**
(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 **Age 52**
(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 **Age 65**
(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 Dennis Paterson BSc, MSc, DIC **Age 57**
(Executive Director and President, Roc Oil (China) Company) - Appointed 23 March 2007

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 2007. Mr Paterson has more than 30 years of international oil and gas exploration and production experience in diverse areas including the Middle East, Central and South East Asia, Kazakhstan, Europe and North and West Africa. For the four year period prior to joining ROC, Mr Paterson consulted on projects in China, Libya and the Bahamas. Mr Paterson formed and managed Genting Oil and Gas. Prior to that, he was Managing Director of British Gas Malaysia and Country Manager, British Gas Indonesia. He also worked for British Gas in a variety of senior roles on the super-giant Karachaganak gas condensate field, and Caspi-shelf consortia in Kazakhstan. Mr Paterson has been a director of a number of small independent oil and gas exploration companies including BPC Limited, Ramco plc and Medusa Oil and Gas. Mr Paterson is a member of the Health, Safety and Environment Committee.

Mr Robert C A Leon Age 59
(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 Limited and from 2007 until the successful takeover by ROC, he was a non-executive director of Anzon Australia 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. Mr Leon is a member (since 1 January 2009) of the Audit and Risk Committee.

Dr R John P Doran BSc, MSc, PhD, FAICD
(Executive Director and Chief Executive Officer) - Appointed 14 October 1996 - 27 June 2008

Dr Doran was Chief Executive Officer and the founder Director of ROC. He had more than 30 years' experience in international oil exploration and development characterised by direct involvement with several corporate expansions and/or commercial discoveries and developments in Western Europe, North and West Africa, the Middle East, India, China and Australia. Dr Doran passed away on 27 June 2008.

Ms Sheree Ford BA, LLB, GRAD DIP (RESOURCES LAW), MBA
(Company Secretary) - Appointed 10 November 2003

Ms Ford is General Counsel and Company Secretary of ROC. Ms Ford joined the Company in November 2003 and holds Bachelors of Arts and Law, Graduate Diploma of Resources Law and Master of Business Administration from the University of Melbourne. Prior to joining ROC, Ms Ford held positions of Corporate Counsel with Qantas Airways Limited and BHP Billiton Limited. During her 10 years with BHP Billiton Limited, Ms Ford acted as legal advisor on all aspects of the company's petroleum business both in Australia and overseas.

Ms Leanne Nolan BEc, LLB (HONS), LLM
(Assistant Company Secretary) - Appointed 29 August 2007

Ms Leanne Nolan is Senior Lawyer and Assistant Company Secretary of ROC. Ms Nolan joined the Company in March 1998 and holds Bachelors of Economics and Laws (Hons) and Masters 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 of the Company who resigned during the financial year are listed below:

Mr Adam C Jolliffe Age 52
(Non-Executive Director) - Appointed 27 November 1998 - Resigned 3 December 2008

Prior to joining Cargill Financial Markets plc ('Cargill') in 1981, Mr Jolliffe worked for Tenant Trading (Metals) Ltd, a subsidiary of Consolidated Gold Fields trading non-ferrous metals. At Cargill, Mr Jolliffe joined the non-ferrous metals department as Manager - Aluminium Trading, where he was responsible for Eastern and Western Europe, Asia and Africa. In 1986, Mr Jolliffe transferred to Cargill's rubber trading business as the manager of its European, African and Latin American operations. In 1990, he joined Cargill's Financial Trading Division and became the Manager of Western European Equity Trading. Mr Jolliffe resigned from Cargill in November 2003 and is now an independent financial consultant.

Dr Douglas Schwebel BSc (HONS), PhD Age 57
(Non-Executive Director) - Appointed 1 September 2007 - Resigned 3 December 2008

Dr Schwebel was appointed a Non-Executive Director of ROC on 1 September 2007. Prior to joining ROC, Dr Schwebel was Exploration Director of Esso Australia. During his 26 year career with ExxonMobil, Dr Schwebel gained extensive exposure to various petroleum systems and upstream petroleum management practices in Australia, South East Asia and other parts of the world. Dr Schwebel also represented ExxonMobil on various Australian Government, industry and academic bodies. Dr Schwebel was a director of various ExxonMobil Australian subsidiaries as well as Great Artesian Oil and Gas Limited. Dr Schwebel was a member of the Health, Safety and Environment Committee.

Directors' Report

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 | 17 | 16 | 3 | 3 | 3 | 3 | - | - |
| Mr W G Jephcott | 17 | 15 | 3 | 3 | 3 | 3 | - | - |
| Dr R J P Doran ⁽¹⁾ | 7 | 7 | 1 ⁽⁵⁾ | 1 | - | - | 1 ⁽⁵⁾ | 1 |
| Mr B F Clement | 17 | 17 | 1 ⁽⁵⁾ | 1 | - | - | 2 ⁽⁵⁾ | 2 |
| Mr S J Jansma, Jr | 17 | 14 | - | - | - | - | 2 | 2 |
| Mr D Paterson | 17 | 16 | - | - | - | - | 2 | 2 |
| Mr Robert C A Leon ⁽²⁾ | 2 | 2 | - | - | - | - | 1 | 1 |
| Mr A C Jolliffe ⁽³⁾ | 15 | 15 | - | - | 2 | 2 | - | - |
| Dr D Schwebel ⁽⁴⁾ | 15 | 14 | - | - | - | - | 1 | 1 |

A Number of meetings held during the time that the Director held office during the financial year.

B Number of meetings attended.

(1) Ceased to be a Director on 27 June 2008.

(2) Appointed 3 December 2008.

(3) Resigned 3 December 2008.

(4) Resigned 3 December 2008.

(5) Observer.

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\$278.4 million (2007: US\$84.4 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 2008.

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 16 to 20.

Significant Changes in State of Affairs

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

Subsequent Events

Since the end of the financial year, the significant events referred to in Note 39 to the financial statements have occurred.

Except for the matters referred to in Note 39, there has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in financial years subsequent to 31 December 2008.

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 key 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 executive and/or employee share options.

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 2008 financial year is disclosed in this Report.

The consolidated entity's reporting currency is US dollars and the amounts shown in this Report are in US dollars unless otherwise stated. A majority of the Directors and Specified Executives are paid in Australian dollars. As a result, the US dollar amounts shown are affected by foreign currency movements between years. The exchange rate used is calculated in accordance with Australian Accounting Standards as the average for the period. The AUD/USD average rate used for 2008 was 0.8524 (2007: 0.8386).

Directors' Report

Remuneration Report (Audited) *continued*

Remuneration of Directors and Specified Executives *continued*

The following table sets out the remuneration of Non-Executive Directors:

| Year | Short Term | | | Post Employment | Equity Compensation | Termination Benefits US\$ | Total US\$ | Percentage Performance Related % | |
|---|----------------------|-----------------|----------------------------|----------------------|-----------------------------|---------------------------|------------|----------------------------------|---|
| | Salary and Fees US\$ | Cash Bonus US\$ | Non-Monetary Benefits US\$ | Super-annuation US\$ | Value of Share Options US\$ | | | | |
| Non-Executive Directors | | | | | | | | | |
| Mr A J Love | 2008 | 123,087 | – | – | 3,452 | – | – | 126,539 | – |
| | 2007 | 75,478 | – | – | – | – | – | 75,478 | – |
| Mr W G Jephcott | 2008 | 106,550 | – | – | 5,754 | – | – | 112,304 | – |
| | 2007 | 62,898 | – | – | 5,661 | – | – | 68,559 | – |
| Mr S J Jansma, Jr | 2008 | 38,358 | – | – | – | – | – | 38,358 | – |
| | 2007 | 37,739 | – | – | – | – | – | 37,739 | – |
| Mr Robert C A Leon (appointed 3 December 2008) | 2008 | 2,919 | – | – | – | – | – | 2,919 | – |
| Mr A C Jolliffe (resigned 3 December 2008) | 2008 | 38,358 | – | – | – | – | – | 38,358 | – |
| | 2007 | 37,739 | – | – | – | – | – | 37,739 | – |
| Dr D Schwebel (resigned 3 December 2008) | 2008 | 35,439 | – | – | 3,190 | – | – | 38,629 | – |
| | 2007 | 12,580 | – | – | 1,132 | – | – | 13,712 | – |
| Mr R J Burgess (retired 10 May 2007) | 2008 | – | – | – | – | – | – | – | – |
| | 2007 | 18,869 | – | – | – | – | – | 18,869 | – |
| Mr R Dobinson (retired 31 December 2007) | 2008 | – | – | – | – | – | – | – | – |
| | 2007 | 37,739 | – | – | 3,396 | – | – | 41,135 | – |
| Total Non-Executive Directors | 2008 | 344,711 | – | – | 12,396 | – | – | 357,107 | – |
| | 2007 | 283,042 | – | – | 10,189 | – | – | 293,231 | – |

The following table sets out the remuneration for Executive Directors and Specified Executives:

| | | | | | | | | | |
|---|------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------|
| Executive Directors | | | | | | | | | |
| Dr R J P Doran Chief Executive Officer (ceased to be a Director on 27 June 2008) | 2008 | 226,373 | 100,000 | 18,619 | 22,905 | – | 2,248,470 | 2,616,367 | 3.8 |
| | 2007 | 455,246 | 83,864 | 36,600 | 40,972 | 76,169 | – | 692,851 | 23.1 |
| Mr B F Clement Chief Executive Officer (appointed Chief Executive Officer 24 September 2008) | 2008 | 470,106 | – | 10,340 | 42,310 | 163,324 | – | 686,080 | 23.8 |
| | 2007 | 385,775 | – | 11,916 | 34,720 | 188,694 | – | 621,105 | 30.4 |
| Mr D Paterson President, Roc Oil (China) Company | 2008 | 993,197 | – | 152,916 | 63,393 | 131,472 | – | 1,340,978 | 9.8 |
| | 2007 | 1,101,269 | – | 138,540 | 69,175 | 129,344 | – | 1,438,328 | 9.0 |
| Total Executive Directors | 2008 | 1,689,676 | 100,000 | 181,875 | 128,608 | 294,796 | 2,248,470 | 4,643,425 | 8.5 |
| | 2007 | 1,942,290 | 83,864 | 187,056 | 144,867 | 394,207 | – | 2,752,284 | 17.4 |

| | Year | Short Term | | | Post Employment | Equity Compensation | Termination Benefits US\$ | Total US\$ | Percentage Performance Related % |
|--|------|----------------------|-----------------|----------------------------|----------------------|-----------------------------|---------------------------|------------|----------------------------------|
| | | Salary and Fees US\$ | Cash Bonus US\$ | Non-Monetary Benefits US\$ | Super-annuation US\$ | Value of Share Options US\$ | | | |
| Specified Executives | | | | | | | | | |
| Ms S Ford General Counsel and Company Secretary | 2008 | 348,713 | – | 32,562 | 27,320 | 96,878 | – | 505,473 | 19.2 |
| | 2007 | 272,558 | – | 11,916 | 24,530 | 121,400 | – | 430,404 | 28.2 |
| Dr K Hird General Manager Business Development | 2008 | 337,554 | – | 10,126 | 31,079 | 98,008 | – | 476,767 | 20.6 |
| | 2007 | 393,686 | – | 8,104 | 35,428 | 111,254 | – | 548,472 | 20.3 |
| Mr J Mebberson General Manager Exploration | 2008 | 289,816 | – | 10,340 | 26,083 | 45,680 | – | 371,919 | 12.3 |
| | 2007 | 232,444 | 12,580 | 8,825 | 20,920 | 42,626 | – | 317,395 | 17.4 |
| Mr A Neilson Chief Financial Officer | 2008 | 247,196 | – | – | 22,248 | 84,606 | – | 354,050 | 23.9 |
| | 2007 | 150,955 | – | – | 13,586 | 50,780 | – | 215,321 | 23.6 |
| Mr A Linn Chief Operating Officer ⁽¹⁾ | 2008 | 309,966 | – | – | 27,375 | 84,731 | – | 422,072 | 20.1 |
| | 2007 | N/A | N/A | N/A | N/A | N/A | – | N/A | N/A |
| Mr C Way ⁽²⁾ General Manager Operations | 2008 | N/A | N/A | N/A | N/A | N/A | – | N/A | N/A |
| | 2007 | 313,543 | – | – | 28,219 | 62,737 | – | 404,499 | 15.5 |
| Total Specified Executives | 2008 | 1,533,245 | – | 53,028 | 134,105 | 409,903 | – | 2,130,281 | 19.2 |
| | 2007 | 1,363,186 | 12,580 | 28,845 | 122,683 | 388,797 | – | 1,916,091 | 21.0 |
| Total | 2008 | 3,567,632 | 100,000 | 234,903 | 275,109 | 704,699 | 2,248,470 | 7,130,813 | 11.3 |
| | 2007 | 3,588,518 | 96,444 | 215,901 | 277,739 | 783,004 | – | 4,961,606 | 17.7 |

(1) Mr A Linn commenced with the Company during the reporting period.

(2) Mr C Way met the definition of Specified Executive as defined in AASB 124 *Related Party Disclosures* for 2007.

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\$419,300 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 2008 financial year were a total of US\$344,711. Remuneration for Executive and Non-Executive Directors is set out in the table above. No additional fees are paid for sitting on Board Committees. Included in Directors' fees was US\$42,000 paid to each of Mr Jephcott and Mr Love (via a consultancy arrangement) for services provided in relation to the merger of the Company with AEL and the takeover of AZA. This amount has been reflected in the table above.

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

Directors' Report

Remuneration Report (Audited) *continued*

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 | 561,353 | - |
| Mr W G Jephcott | 1,117,300 | - |
| Mr S J Jansma, Jr | 644,641 | - |
| Mr Robert C A Leon (appointed 3 December 2008) | 1,221,212 | - |
| Executive Directors | | |
| Mr B F Clement | 160,000 | 680,000 |
| Mr D Paterson | 157,000 | 450,000 |

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.

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 www.rocoil.com.au.

Remuneration consists of the following key elements:

- fixed remuneration (base salary, superannuation and non-monetary benefits); and
- variable remuneration:
 - short term incentive in the form of cash bonus; and
 - long term incentive in the form of Executive Share Option Plan.

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 on page 9, 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 senior 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 Senior Management 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.

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 purposes 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 the 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, ROC 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 – D Paterson

In addition to the above terms and conditions applicable to Specified Executives, Mr Dennis Paterson, President, Roc Oil (China) Company, (appointed 1 October 2006) was subsequently appointed as an Executive Director on 23 March 2007. Mr Paterson is based in Beijing and is responsible for managing ROC's China operations. In recognition of his position in China, in addition to receiving his base salary Mr Paterson receives a total allowance equal to 40% of his base salary and a goods and services allowance equal to 25% of his base salary. As at 1 January 2009, the location allowance will be 35% of base salary and the goods and services allowance will be US\$24,000 per annum. 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 Paterson is entitled to two one-week regional leave periods together with business class air fares for Mr Paterson and his spouse and a per diem payment of £300 per day.

Variable Remuneration

The Company's Remuneration Policy links remuneration of the Executive Directors and Specified Executives to the Company's performance through participation in the Executive Share Option Plan and award of performance bonuses.

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.

Directors' Report

Remuneration Report (Audited) *continued*

Variable Remuneration *continued*

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 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 sale of shares on the ASX in the 90 days before the issue date.

Since August 2004 ROC's share price has dropped by 70% compared to the S&P/ASX 200 Energy Index which has increased by 99%.

Remuneration packages for Executive Directors and Specified Executives may also include performance-based components in the form of cash bonuses. Cash 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. No cash bonuses were awarded to the Chief Executive Officer and Specified Executives in 2008.

Equity-based Remuneration

In relation to Executive Directors and Specified Executives, details of options granted and vested during the year under the Executive Share Option Plan are set out in the table below:

| | GRANTED | | | | | | VESTED AS AT 31 DEC 2008 | |
|----------------------------------|---------|--------------------|--|--|--------------|---------------------------|-----------------------------|-------------------------|
| | No. | Grant Date | Weighted Average Fair Value per Option at Grant Date ⁽¹⁾ A\$ | Weighted Average Exercise Price per Option ⁽¹⁾ A\$ | Expiry Date | First Exercise Date | No. | % of Options Held |
| Executive Directors | | | | | | | | |
| Dr R J P Doran ⁽²⁾ | 2008 | – | – | – | – | – | – | – |
| | 2007 | 300,000 | 10 May 07 | 1.34 | 3.43 | 10 May 13 | 10 May 09 | – |
| Mr B F Clement | 2008 | – | – | – | – | – | – | 295,000 |
| | 2007 | – | – | – | – | – | – | 90,000 |
| Mr D Paterson | 2008 | – | – | – | – | – | – | 135,000 |
| | 2007 | – | – | – | – | – | – | – |
| Specified Executives | | | | | | | | |
| Ms S Ford | 2008 | 150,000 30,000 | 23 Dec 08 19 May 08 | 0.22 1.14 | 0.73 2.28 | 23 Dec 14 19 May 14 | 23 Dec 10 19 May 10 | 252,900 |
| | 2007 | – | – | – | – | – | – | 128,700 |
| Dr K Hird | 2008 | 30,000 | 19 May 08 | 1.14 | 2.28 | 19 May 14 | 19 May 10 | 173,700 |
| | 2007 | – | – | – | – | – | – | 58,500 |
| Mr A Linn ⁽³⁾ | 2008 | 150,000 400,000 | 23 Dec 08 19 May 08 | 0.22 1.14 | 0.73 2.28 | 23 Dec 14 19 May 14 | 23 Dec 10 19 May 10 | – |
| | 2007 | – | – | – | – | – | – | – |
| Mr J Mebberson | 2008 | 150,000 30,000 | 23 Dec 08 19 May 08 | 0.22 1.14 | 0.73 2.28 | 23 Dec 14 19 May 14 | 23 Dec 10 19 May 10 | 52,000 |
| | 2007 | – | – | – | – | – | – | 3,000 |
| Mr A Neilson | 2008 | 150,000 20,000 | 23 Dec 08 19 May 08 | 0.22 1.14 | 0.73 2.28 | 23 Dec 14 19 May 14 | 23 Dec 10 19 May 10 | – |
| | 2007 | 200,000 | 10 May 07 | 1.34 | 3.43 | 10 May 13 | 10 May 09 | – |
| Mr C Way ⁽⁴⁾ | 2008 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | 2007 | – | – | – | – | – | – | 111,000 |

(1) Note 28 to the financial statements.

(2) Dr R J P Doran ceased to be a director on 27 June 2008.

(3) Mr A Linn commenced with the Company during the reporting period.

(4) Mr C Way met the definition of Specified Executive as defined in AASB 124 *Related Party Disclosures* for 2007.

Directors' Report

Remuneration Report (Audited) *continued*

Equity-based Remuneration continued

Details of the value of options granted to, exercised by (calculated at the date of exercise) and lapsed in relation to Directors and Specified Executives in 2008 as part of remuneration are set out below:

| | Value of Options Granted during the Year US\$ | Value of Options Exercised during the Year US\$ | Value of Options Lapsed during the Year US\$ | Total Value of Options Granted, Exercised and Lapsed during the Year US\$ | Remuneration Consisting of Options for the Year % |
|-----------------------------|--|--|---|--|--|
| Executive Directors | | | | | |
| Mr B F Clement | – | – | – | – | 23.8 |
| Mr D Paterson | – | – | – | – | 9.8 |
| Specified Executives | | | | | |
| Ms S Ford | 56,834 | – | – | 56,834 | 19.2 |
| Dr K Hird | 29,088 | – | – | 29,088 | 20.6 |
| Mr A Linn | 415,588 | – | – | 415,588 | 20.1 |
| Mr J Mebberson | 56,834 | – | – | 56,834 | 12.3 |
| Mr A Neilson | 47,138 | – | – | 47,138 | 23.9 |

During the financial year the number of shares issued to Directors and Specified Executives as a result of exercise of options is set out in the table below:

| | | Shares Issued | Weighted Price paid per Share US\$ | Unpaid per Share US\$ |
|-----------------------------|------|---------------|--|--------------------------|
| Executive Directors | | | | |
| Mr B F Clement | 2008 | – | – | – |
| | 2007 | 80,000 | 3.37 | – |
| Specified Executives | | | | |
| Ms S Ford | 2008 | – | – | – |
| | 2007 | 128,700 | 3.21 | – |
| Dr K Hird | 2008 | – | – | – |
| | 2007 | 58,500 | 2.98 | – |

Shares under Option

During or since the end of the financial year, the Company granted a total of 6,240,000 options over unissued ordinary shares of ROC, comprising 4,130,000 options under the Employee Share Option Plan and 2,110,000 options under the Executive Share Option Plan.

As at the date of this Directors' Report, there were 18,216,500 options, comprising 5,625,600 employee share options and 12,590,900 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 28 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 the Employee Share Option Plan and 15,000 ordinary shares were issued as a result of exercise of options under the Executive Share Option Plan. 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.

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 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 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 two Executive Directors 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 A C Jolliffe (resigned 3 December 2008) 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 2008 interim review:

- | | |
|---|-------------|
| • tax compliance | US\$159,398 |
| • fees associated with the acquisition of AZA and AEL | US\$227,542 |

Directors' Report

Corporate Governance *continued*

Auditor and Non-Audit Services *continued*

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 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 15.

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, 26 February 2009

**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 2008, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Michael Elliott'.

Michael Elliott
Partner

Sydney, 26 February 2009

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 2008.

FINANCIAL PERFORMANCE

Income Statement

The Group reported a net loss after income tax of US\$278.4 million (2007: net loss US\$84.4 million). The Group's trading profit was US\$163.8 million (2007: US\$104.7 million).

Included in this result were impairment write-downs of assets of US\$376.9 million (US\$290.7 million after tax), partially offset by unrealised hedging gains of US\$78.8 million. After adjustment for these items, the after tax loss for the Group was US\$66.5 million, which included exploration expensed of US\$112.7 million.

The impairment asset write-downs were made mainly as a result of the significantly lower oil price environment at year end, with spot oil prices at year end down 62% from 31 December 2007 and down 64% from 8 September 2008 being the effective date of the acquisition of AEL. The write-downs included US\$174.2 million in relation to assets acquired through the AEL acquisition and US\$179.9 million in relation to the Zhao Dong development and exploration assets.

Sales and Production Growth

The Group recorded good performance and growth from its producing assets, with working interest production of 4.0 MMBOE (2007: 3.5 MMBOE), a 14% increase on the prior year. The increase in production was mainly due to the acquisition of the Basker Manta Gummy Oil and Gas Fields, Bass Strait, offshore Victoria. Of the total working interest production, 0.2 MMBBL (5.0%) was delivered to host governments in relation to respective governments' share of profit oil under the Group's production sharing contracts. 99% of the Group's production was oil.

Oil and gas sales revenue of US\$356.8 million (2007: US\$208.0 million) was generated from sales volumes of 3.9 MMBOE (2007: 3.0 MMBOE). This amount is predominantly oil sales of US\$355.2 million, which achieved an average realised price of US\$92.06/BBL (2007: US\$70.16/BBL) before hedging, a discount of US\$5.20/BBL (5.3%) to the Brent oil price average of US\$97.26/BBL for 2008.

Operating costs of US\$194.5 million (2007: US\$103.8 million) included production costs of US\$44.3 million (US\$10.98/BOE), amortisation costs of US\$120.4 million (US\$29.83/BOE), Chinese levies and special taxes of US\$24.0 million and stock movements of US\$5.8 million.

Exploration Expensed

Exploration and evaluation expenditure of US\$115.2 million (2007: US\$94.7 million) was incurred during the period, including the drilling of eight exploration wells and six appraisal wells.

In accordance with the Company's successful efforts accounting policy, US\$112.7 million (2007: US\$88.9 million) in exploration costs were expensed during the period. The Frankland-2 gas discovery, the Dunsborough-2 and Coco-1 oil discovery and two Massambala heavy oil discovery appraisal wells were all expensed during the period as they are not considered to be commercial on a stand-alone basis at this time. Further evaluation work on these discoveries is planned in the future.

Financing Costs

During the year, ROC successfully completed the establishment of a new one year US\$30 million working capital loan facility.

Financing costs were US\$8.1 million (2007: US\$13.0 million) for the period. At year end, the total loan facilities available to ROC were US\$170.0 million which were fully drawn.

Income Tax

An income tax benefit of US\$28.3 million (2007: benefit US\$4.6 million) was recognised during the period, with a current year income tax expense of US\$78.0 million mainly in relation to taxable income generated by the Blane, Enoch, Zhao Dong, Cliff Head and BMG assets, offset by a deferred tax benefit of US\$110.2 million, arising mainly from the recognition of tax losses and the reversal of timing differences as a result of asset impairments.

The total tax paid during the year was US\$39.7 million, mainly relating to the Zhao Dong and BMG assets.

Financial Ratios

Basic loss per share for the year was US74.6 cents based on a weighted average number of fully paid ordinary shares on issue of 373,252,930.

At 31 December 2008, the market capitalisation of the Company was A\$294.0 million, based on a closing share price of A\$0.50 per fully paid ordinary shares and 588,031,673 fully paid ordinary shares on issue.

Hedging

Consistent with ROC's oil price hedging strategy, as at 31 December 2008 ROC held Brent oil price swap contracts for 2.7 MMBBL and Tapis put options for 37,500 BBLs, representing approximately 11% of the Group's proved and probable reserves, at an average price of US\$67.26/BBL for the period from January 2009 to December 2011. During the period, 1.2 MMBBL of oil price derivatives were settled, resulting in a cash outflow of US\$40.2 million. At the end of the period, the mark-to-market position of ROC's remaining oil price hedge book was a US\$14.1 million asset (2007: liability US\$58.6 million), the movement in this mark-to-market position between periods has resulted in ROC reporting a total unrealised hedging and derivative gain for 2008 of US\$78.8 million (2007: loss of US\$64.8 million). The total hedging and derivative gain for the period was US\$38.6 million (2007: loss US\$68.8 million).

Balance Sheet

During the period, total assets decreased to US\$520.6 million (2007: US\$607.1 million), total liabilities decreased to US\$313.3 million (2007: US\$318.3 million), and net assets decreased to US\$207.3 million (2007: US\$288.7 million).

Oil and gas assets decreased to US\$366.6 million (2007: US\$423.5 million) during the period, mainly resulting from impairment write-down of asset values of US\$224.8 million and amortisation of US\$120.4 million, offset by acquired assets of US\$247.4 million and US\$76.3 million development expenditure incurred.

Capitalised exploration and evaluation expenditure decreased to US\$14.7 million (2007: US\$92.7 million), mainly due to a US\$77.8 million impairment write-down in connection with the Zhao Dong Block (US\$60.2 million), Mauritania (US\$7.7 million) and Angola (US\$9.9 million).

At 31 December 2008, ROC had financial assets held for sale comprising 65.7 million listed securities in Nexus Energy Limited totalling US\$24.1 million acquired through the acquisition of AEL.

At 31 December 2008, ROC's debt was US\$168.7 million (2007: US\$133.3 million), offset by cash assets held of US\$54.3 million (2007: US\$41.4 million).

Cash Flow Statement

Net cash generated from operating activities was US\$182.5 million (2007: US\$138.1 million) for the period, with cash acquired of US\$44.0 million through the AEL acquisition. The funds were primarily used for development expenditure of US\$77.0 million (2007: US\$62.3 million) and exploration expenditure of US\$115.8 million (2007: US\$82.4 million).

OPERATIONAL OVERVIEW

Following the successful merger with AIM-listed AEL and the off-market takeover of ASX-listed AZA during the year, the Group now has 40% and operatorship of BMG, offshore Victoria and production from this field was consolidated into ROC's accounts as of 8 September 2008. The Group undertook and was involved in a number of exploration, development and production activities during the year.

The new conductor pod and pipeline terminal facilities at the Zhao Dong C4 Oil Field, Bohai Bay, offshore China were commissioned in October. Following commissioning of the new facilities, oil production commenced for the first time from the C4 Oil Field (ROC: 11.575% and Operator) and the Extended Reach Area of the Zhao Dong C and D Oil Fields (ROC: 24.5% and Operator). Expansion work at the existing Zhao Dong facilities also progressed, with the successful installation of the second drilling platform in October and continued construction and fabrication of the second processing platform. Following the formal end to the exploration period for Block 22/12, Beibu Gulf, offshore China (ROC: 40% and Operator), an extension to the PSC was granted for areas covering the Wei 6-12 and Wei 12-8 discoveries to allow the completion of the joint development feasibility study and the overall development plan with CNOOC.

The drilling programme at the Cabinda South Block, onshore Angola (ROC: 60% and Operator) was completed during the year, with the Massambala-1 and Coco-1 discoveries yet to be established as commercially viable. Three wells drilled in WA-286-P, Perth Basin, offshore Western Australia (ROC: 37.5% and Operator) were plugged and abandoned. Two infill development wells at the Chinguetti Oil Field, offshore Mauritania (ROC: 3.25%), successfully increased average production rates. The Group was also awarded 75% and operatorship of the offshore Juan de Nova Maritime Profond Block located in the French Exclusive Economic Zone in the Mozambique Channel.

Discussion and Analysis of Financial Statements

OPERATIONAL OVERVIEW *continued*

Production and Development

The Group produced total hydrocarbons of 4.034 MMBOE (11,023 BOPD); up 14% compared to the previous year.

The Group incurred US\$44.3 million in production expenditure (2007: US\$30.5 million) and US\$76.3 million (2007: US\$57.4 million) in development expenditure.

Basker Manta Gummy Oil and Gas Fields, VIC/L26, VIC/L27 and VIC/L28, Offshore Victoria (ROC: 40% and Operator)

Gross oil production averaged 9,292 BOPD (ROC: 3,716 BOPD) between 8 September and 31 December 2008. BMG was consolidated into ROC's accounts as of 8 September 2008 when the AEL merger became effective. Oil production rates at BMG benefited from the commencement of production from the Basker 6ST1 well in September.

Development expenditure was US\$10.4 million due to ongoing field expansion activities.

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

Gross oil production averaged 6,583 BOPD (ROC: 2,469 BOPD), down 24% compared to the previous year primarily due to natural reservoir decline.

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

Gross oil production averaged 18,050 BOPD (ROC: 4,422 BOPD); down 6% compared to the previous year. First oil production commenced from the Extended Reach Area ('ERA') of the C & D Oil Fields in October.

Development expenditure of US\$39.8 million was incurred, mainly due to the drilling of development wells, the construction and installation of a second drilling platform and continued construction of a second fluid processing and storage facility. Both the additional drilling and storage platforms will be located adjacent to the existing Zhao Dong facilities.

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

Gross oil production averaged 735 BOPD (ROC: 85 BOPD) for the year. This was the first oil production from the C4 Oil Field, which was established from two wells drilled from the new conductor pod and pipeline terminal facilities commissioned in October.

Development expenditure of US\$11.9 million was incurred, mainly due to development drilling and the construction, fabrication and installation of the new facilities.

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

Gross production averaged 13,870 BOEPD (ROC: 1,734 BOEPD), down 13% compared to the previous year primarily due to natural reservoir decline.

Development expenditure was US\$8.4 million, mainly due to gas compression upgrade works undertaken on the Ula platform.

Enoch Oil and Gas Field, North Sea (ROC: 12.0%)

Gross production averaged 5,904 BOEPD (ROC: 709 BOEPD); down 36% compared to the previous year. Planned downtime associated with Brae A platform tri-annual maintenance, unplanned downtime associated with onshore industrial action and platform power generation issues contributed to the decline in average production. The resolution of power generation issues increased production uptime by approximately 30% in 4Q 2008.

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

Gross oil production averaged 11,676 BOPD (ROC: 379 BOPD), down 21% compared to the previous year. Natural reservoir decline was offset by the completion of the Chinguetti-19 and Chinguetti-20 infill development wells, which increased average gross production from under 10,000 BOPD in 1H 2008 to over 15,000 BOPD in 4Q 2008.

Development expenditure of US\$5.2 million was incurred, mainly due to the drilling and completion of the two infill development wells.

Exploration and Appraisal

The Group incurred US\$115.2 million in exploration and evaluation expenditure on drilling and completing eight exploration wells and six appraisal wells and acquisition of 4,440 sq km of 3D seismic.

Block 22/12, Beibu Gulf, Offshore China (ROC: 40% and Operator – subject to Government participation in developments for up to 51%)

Exploration expenditure of US\$14.8 million was incurred, mainly for the drilling of two exploration wells. Both wells were plugged and abandoned as dry holes.

Following the formal end to the exploration period for Block 22/12 on 30 September 2008, an extension to the PSC was granted over the Wei 6-12 and Wei 12-8 areas to allow the completion of the joint development feasibility study and the overall development plan with CNOOC.

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

Exploration expenditure of US\$20.9 million was incurred, mainly in relation to the drilling of the Lilac-1, Frankland-2 and Dunsborough-2 wells. All three wells were plugged and abandoned. Following post-drill assessments, work continues on identifying incremental reserve opportunities around the Cliff Head Oil Field and to mature exploration prospects for potential drilling in 2010.

WA-351-P, Carnarvon Basin, Offshore Western Australia (ROC: 20.0%)

Exploration expenditure of US\$4.2 million was incurred, mainly for the acquisition of the 3,493 sq km Aragon 3D seismic survey. Work continues to mature Triassic gas prospects for potential drilling in 2010.

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

Exploration expenditure was US\$0.6 million. Reprocessing of historical 2D data was completed and interpretation of the data was initiated. Results of this analysis will be used to plan a potential 3D seismic acquisition programme in late 2009 or early 2010.

Cabinda South Block, Onshore Angola (ROC: 60% and Operator)

Exploration expenditure was US\$61.3 million. Four exploration wells were completed (Milho-1, Coco-1, Sesamo-1 and Arroz-1) and two appraisal wells at the Massambala heavy oil discovery were drilled during the year. Coco-1 was suspended as an oil discovery after downhole constraints limited well testing. The Massambala appraisal programme was suspended in October as planned.

Offshore Mauritania (ROC: 2.0%-5.49%)

Exploration expenditure of US\$6.8 million was incurred, mainly for the drilling of the Khop-1 exploration well in PSC Area C, Block 6 and the Banda North West and Banda East appraisal wells in PSC Area A. Khop-1 was plugged and abandoned. Operational problems at the Banda East appraisal well resulted in gas deliverability testing being delayed until a future drilling campaign.

The PSC for Block 8 was relinquished in January 2009.

Belo Profond Block, Offshore Madagascar, Mozambique Channel (ROC: 75% and Operator)

Exploration expenditure of US\$3.6 million was incurred, mainly for the completion of an aeromagnetic survey and an Environmental Impact Study. Planning progressed for a potential 2,000 km 2D seismic acquisition programme.

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

In December 2008, the French Government awarded the Juan de Nova Profond Block to ROC and Marex Petroleum Corporation for a five year term. This ROC-operated offshore permit is located in the French Exclusive Economic Zone off the coast of Juan de Nova Island in the Mozambique Channel and is adjacent to the Belo Profond Block, offshore Madagascar, in which ROC also has a 75% interest. The first year programme will involve the study of existing geological and geophysical data.

Discussion and Analysis of Financial Statements

OPERATIONAL OVERVIEW *continued*

Exploration and Appraisal *continued*

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

Exploration expenditure of US\$0.4 million was incurred, mainly in relation to planning for the possible drilling of the Aleta-1 prospect in 2H 2009. Following resolution of a dispute between the joint venture participants, the Equatorial Guinea Government approved the assignment of Pioneer Natural Resources Equatorial Guinea Limited's interest in Block H to the remaining joint venture partners. As a result, ROC's interest increased from 18.75% to 37.5%.

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

ROC obtained an interest in this permit as a result of the AZA takeover. Planning progressed for a potential 480 km 2D seismic acquisition programme over the Barque prospect.

Income Statement

For the financial year ended 31 December 2008

| | Note | CONSOLIDATED | | COMPANY | |
|---|------|------------------|------------------|------------------|------------------|
| | | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Sales revenue | 4 | 358,230 | 208,513 | – | – |
| Operating costs | 5 | (194,467) | (103,770) | – | – |
| Trading profit | | 163,763 | 104,743 | – | – |
| Other income | 6 | 41,826 | 7,294 | 2,235 | 681 |
| Exploration expensed | 7 | (112,728) | (88,948) | (2,258) | (1,097) |
| Impairment of exploration | 7 | (77,813) | – | – | – |
| Impairment of oil and gas assets | 19 | (224,796) | (17,307) | – | – |
| Impairment of goodwill | 8 | (43,790) | – | – | – |
| Loss on investment in listed securities | 14 | (30,527) | – | – | – |
| Other costs | 9 | (14,495) | (81,787) | (279,691) | (174,935) |
| Finance costs | 10 | (8,093) | (13,045) | (35) | (50) |
| Loss before income tax | | (306,653) | (89,050) | (279,749) | (175,401) |
| Income tax benefit | 11 | 28,268 | 4,628 | 6,051 | 875 |
| Net loss | | (278,385) | (84,422) | (273,698) | (174,526) |
| Basic loss per share - cents | 29 | (74.6) | (28.3) | | |
| Diluted loss per share - cents | 29 | (74.6) | (28.3) | | |

Balance Sheet

As at 31 December 2008

| | Note | CONSOLIDATED | | COMPANY | |
|--|------|------------------|------------------|------------------|------------------|
| | | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Current assets | | | | | |
| Cash assets | 12 | 54,260 | 41,437 | 6,760 | 11,804 |
| Trade and other receivables | 13 | 29,235 | 30,210 | 7,288 | 7,634 |
| Financial assets available for sale | 14 | 24,131 | – | – | – |
| Derivatives | 15 | 16,517 | – | – | – |
| Inventories | 16 | 10,562 | 7,156 | – | – |
| Total current assets | | 134,705 | 78,803 | 14,048 | 19,438 |
| Non-current assets | | | | | |
| Trade and other receivables | 17 | – | – | 101,569 | 164,156 |
| Other financial assets | 18 | – | – | 123,782 | 58,566 |
| Derivatives | 15 | 2,170 | – | – | – |
| Oil and gas assets | 19 | 366,557 | 423,476 | – | – |
| Exploration and evaluation expenditure | 20 | 14,720 | 92,727 | – | – |
| Property, plant and equipment | 21 | 2,415 | 2,428 | 1,753 | 1,591 |
| Deferred tax assets | 11 | 16 | 9,630 | 16 | 4,774 |
| Total non-current assets | | 385,878 | 528,261 | 227,120 | 229,087 |
| Total assets | | 520,583 | 607,064 | 241,168 | 248,525 |
| Current liabilities | | | | | |
| Bank loans | 22 | 80,000 | – | 30,000 | – |
| Trade and other payables | 24 | 38,773 | 43,128 | 1,299 | 1,836 |
| Current tax liabilities | 11 | 17,233 | 4,730 | – | – |
| Derivatives | 15 | – | 24,115 | – | – |
| Provisions | 25 | 1,091 | 1,427 | 1,091 | 1,427 |
| Total current liabilities | | 137,097 | 73,400 | 32,390 | 3,263 |
| Non-current liabilities | | | | | |
| Bank loans | 22 | 88,736 | 133,304 | – | – |
| Long term liabilities | | 206 | 341 | 206 | 341 |
| Deferred tax liabilities | 11 | 50,409 | 63,065 | – | – |
| Derivatives | 15 | 4,548 | 34,513 | – | – |
| Provisions | 25 | 32,327 | 13,708 | 586 | 780 |
| Total non-current liabilities | | 176,226 | 244,931 | 792 | 1,121 |
| Total liabilities | | 313,323 | 318,331 | 33,182 | 4,384 |
| Net assets | | 207,260 | 288,733 | 207,986 | 244,141 |
| Equity | | | | | |
| Share capital | 26 | 669,942 | 435,790 | 669,942 | 435,790 |
| Accumulated losses | | (471,396) | (189,081) | (539,970) | (266,272) |
| Other reserves | 27 | 8,714 | 42,024 | 78,014 | 74,623 |
| Total equity | | 207,260 | 288,733 | 207,986 | 244,141 |

Cash Flow Statement

For the financial year ended 31 December 2008

| | Note | CONSOLIDATED | | COMPANY | |
|---|------|--|--|--|--|
| | | Inflow/ (Outflow) 2008 US\$'000 | Inflow/ (Outflow) 2007 US\$'000 | Inflow/ (Outflow) 2008 US\$'000 | Inflow/ (Outflow) 2007 US\$'000 |
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 12 | 267,940 | 171,616 | (2,428) | (4,529) |
| Derivatives paid | | (40,201) | (3,933) | – | – |
| Interest received | | 548 | 854 | 167 | 146 |
| Finance cost paid | | (6,130) | (13,882) | – | (50) |
| Income taxes paid | | (39,671) | (16,556) | – | – |
| Net cash generated from/(used in) operating activities | | 182,486 | 138,099 | (2,261) | (4,433) |
| Cash flows from investing activities | | | | | |
| Acquisition of controlled entities | 38 | (5,154) | – | (5,154) | – |
| Acquisition of minority interest | 38 | (6,799) | – | (6,799) | – |
| Cash balance acquired | 38 | 44,073 | – | – | – |
| Payments for plant and equipment | | (858) | (626) | (854) | (626) |
| Payments for development expenditure | | (77,043) | (62,255) | – | – |
| Payments for exploration expenditure | | (115,798) | (82,363) | (2,436) | (1,112) |
| Proceeds from sale of assets | | 15 | 695 | 15 | – |
| Net cash used in investing activities | | (161,564) | (144,549) | (15,228) | (1,738) |
| Cash flows from financing activities | | | | | |
| Proceeds from share issues | | 29 | 963 | 29 | 963 |
| Share issue expenses | | – | (126) | – | (126) |
| Bank loan advances | | 150,000 | 173,000 | 30,000 | – |
| Bank loan repayments | | (115,000) | (175,500) | – | – |
| Reimbursement of funds from entities | | – | – | – | 5,407 |
| Provision of funds to entities | | – | – | (17,584) | (15,747) |
| Repayment of debt | | (38,864) | – | – | – |
| Loan to associate company | | (8) | (44) | – | – |
| Net cash used in financing activities | | (3,843) | (1,707) | 12,445 | (9,503) |
| Net increase/(decrease) in cash held | | | | | |
| Cash at beginning of financial year | | 17,079 | (8,157) | (5,044) | (15,674) |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 41,437 | 47,955 | 11,804 | 26,615 |
| | | (4,256) | 1,639 | – | 863 |
| Cash at end of financial year | 12 | 54,260 | 41,437 | 6,760 | 11,804 |

Statement of Changes in Equity

For the financial year ended 31 December 2008

| | CONSOLIDATED | | | | |
|---|---------------------------|-----------------------------------|-------------------------------|----------------------------------|-------------------|
| | Share Capital US\$'000 | Accumulated Losses US\$'000 | Other Reserves US\$'000 | Minority Interest US\$'000 | Total US\$'000 |
| Balance at 1 January 2007 | 434,953 | (104,659) | 43,815 | – | 374,109 |
| Foreign currency translation differences | – | – | 8,939 | – | 8,939 |
| Net unrealised loss on cash flow hedges | – | – | (12,742) | – | (12,742) |
| Tax benefit on cash flow hedges | – | – | (531) | – | (531) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (458) | – | (458) |
| Total income and expenses for the year recognised directly in equity | – | – | (4,792) | – | (4,792) |
| Net loss | – | (84,422) | – | – | (84,422) |
| Total income and expenses for the year | – | (84,422) | (4,792) | – | (89,214) |
| Share issue costs | (126) | – | – | – | (126) |
| Exercise of share options | 963 | – | – | – | 963 |
| Share-based payments | – | – | 3,001 | – | 3,001 |
| Balance at 31 December 2007 | 435,790 | (189,081) | 42,024 | – | 288,733 |
| 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 | – |
| Foreign currency translation differences | – | – | (34,867) | – | (34,867) |
| Tax expense on cash flow hedges | – | – | (449) | – | (449) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (1,385) | – | (1,385) |
| Total income and expenses for the year recognised directly in equity | – | (3,930) | (36,701) | – | (40,631) |
| Net loss | – | (278,385) | – | – | (278,385) |
| Total income and expenses for the year | – | (282,315) | (36,701) | – | (319,016) |
| Issue of share capital | 234,123 | – | – | – | 234,123 |
| Exercise of share options | 29 | – | – | – | 29 |
| Share-based payments | – | – | 3,391 | – | 3,391 |
| Balance at 31 December 2008 | 669,942 | (471,396) | 8,714 | – | 207,260 |

COMPANY

| | Share Capital US\$'000 | Accumulated Losses US\$'000 | Other Reserves US\$'000 | Total US\$'000 |
|--|---------------------------|-----------------------------------|-------------------------------|-------------------|
| Balance at 1 January 2007 | 434,953 | (91,746) | 44,316 | 387,523 |
| Foreign currency translation differences | – | – | 27,306 | 27,306 |
| Net loss | – | (174,526) | – | (174,526) |
| Share issue costs | (126) | – | – | (126) |
| Exercise of share options | 963 | – | – | 963 |
| Share-based payments | – | – | 3,001 | 3,001 |
| Balance at 31 December 2007 | 435,790 | (266,272) | 74,623 | 244,141 |
| Net loss | – | (273,698) | – | (273,698) |
| Exercise of share options | 29 | – | – | 29 |
| Issue of share capital | 234,123 | – | – | 234,123 |
| Share-based payments | – | – | 3,391 | 3,391 |
| Balance at 31 December 2008 | 669,942 | (539,970) | 78,014 | 207,986 |

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 US dollars. 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 26 February 2009 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.

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 2008 and are not expected to have a material impact.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries ('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 Income Statement in equal instalments over the term of the lease.

(g) Oil and gas stock and materials inventory

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 Income Statement 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 profit or loss.

(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 Balance Sheet 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 Income Statement 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 Income Statement 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 Income Statement, 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 goods and services tax 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.

There are currently two share option plans in place to provide these benefits:

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

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 balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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 balance sheet 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 balance sheet date.

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

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

Tax consolidation

The Company and all its wholly-owned Australian resident entities (excluding AZA) 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.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

(u) Goods and services tax

Revenue, expenses and assets are recognised net of amounts of goods and services tax ('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 Cash Flow Statement 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 US dollars 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 Income Statement.

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 balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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 Income Statement, 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.

(aa) Change in accounting policy

AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax* under which Petroleum Resource Rent Tax ('PRRT') is defined as an income tax, applies to annual reporting periods ending on or after 30 June 2008.

ROC previously accounted for PRRT on an accrual basis. The effect of the change in accounting policy is to increase the deferred tax liability at 31 December 2008 by US\$17.5 million (December 2007: increase in deferred tax liability by US\$1.1 million) and increase the deferred income tax expense by US\$3.9 million (December 2007: increase deferred income tax expense by US\$1.1 million). There was an increase of 0.4 cents for the basic and diluted loss per share for the year ended 31 December 2007. There was no impact to accumulated losses at 1 January 2007.

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 Income Statement.

The carrying amount of exploration and evaluation assets as at 31 December 2008 is US\$14.7 million (2007: US\$92.7 million).

(b) Significant accounting estimates and assumption

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 2008 is US\$366.6 million (2007: US\$423.5 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 judgmental 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, 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 Income Statement. 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 commodity price risk, interest rate risk and foreign currency 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

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:

| | CONSOLIDATED | | COMPANY | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Six months or less | 82,424 | 62,452 | 1,659 | 1,836 |
| Six to 12 months | 55,923 | 10,956 | 30,138 | – |
| One to three years(s) | 97,598 | 138,081 | – | – |
| Three to five years | – | 48,061 | – | – |
| | 235,945 | 259,550 | 31,797 | 1,836 |

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 (refer to Note 39).

Market risk

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 cash flow is denominated in USD and as a result the Group's exposure to foreign currency risk is minimal.

Interest rate risk

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

A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit and loss for the year by US\$1.5 million (2007: US\$0.9 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 2008, the Group had a US\$14.1 million derivative asset (2007: US\$58.6 million liability) arising from 2.7 MMBBL of oil price swaps which represents approximately 11% 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 profit and equity would have been affected as follows:

| | | Post-Tax Loss Higher/(Lower) | | Equity Higher/(Lower) | |
|---|-------------|---------------------------------|------------------|--------------------------|------------------|
| | | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Judgement of reasonably possible movements | | | | | |
| Consolidated | | | | | |
| Crude oil price | +US\$10/BBL | (25,059) | (29,350) | – | – |
| Crude oil price | -US\$10/BBL | 25,059 | 29,350 | – | – |

Fair value of financial instruments

The Directors consider that the carrying amounts of the financial assets and liabilities recorded in the financial statements approximates 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.

Note 4. Sales Revenue

| | CONSOLIDATED | | COMPANY | |
|--------------|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Oil | 355,213 | 206,264 | – | – |
| NGL | 981 | 974 | – | – |
| Gas | 651 | 817 | – | – |
| Hedging gain | 1,385 | 458 | – | – |
| | 358,230 | 208,513 | – | – |

Note 5. Operating Costs

| | | | | |
|--|----------------|----------------|---|---|
| Production costs | 44,295 | 30,497 | – | – |
| Amortisation | 120,361 | 81,423 | – | – |
| Movement in stock and over/(under)lift | 5,790 | (15,059) | – | – |
| Chinese special levy | 24,021 | 6,909 | – | – |
| | 194,467 | 103,770 | – | – |

Notes to the Financial Statements

Note 6. Other Income

Interest income: external
 Profit from sale of assets
 Rental income
 Net derivative gains
 Net foreign currency gains
 Other

| | CONSOLIDATED | | COMPANY | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Interest income: external | 465 | 1,314 | 167 | 681 |
| Profit from sale of assets | 13 | 1,096 | 13 | – |
| Rental income | 800 | 4,767 | – | – |
| Net derivative gains | 37,201 | – | – | – |
| Net foreign currency gains | 3,339 | – | 2,048 | – |
| Other | 8 | 117 | 7 | – |
| | 41,826 | 7,294 | 2,235 | 681 |

Note 7. Exploration Expensed and Impaired

Angola
 Australia
 China
 Equatorial Guinea
 Madagascar
 Mauritania
 United Kingdom
 Other

Exploration expensed

Angola
 China
 Mauritania

Impairment of exploration

Exploration expensed and impaired

| | | | | |
|-------------------|----------------|---------------|--------------|--------------|
| Angola | 61,340 | 62,361 | – | – |
| Australia | 25,781 | 16,885 | – | – |
| China | 12,340 | 5,006 | – | – |
| Equatorial Guinea | 437 | 300 | – | – |
| Madagascar | 3,643 | 2,353 | – | – |
| Mauritania | 6,767 | 832 | – | – |
| United Kingdom | 162 | 114 | – | – |
| Other | 2,258 | 1,097 | 2,258 | 1,097 |
| | 112,728 | 88,948 | 2,258 | 1,097 |
| Angola | 9,974 | – | – | – |
| China | 60,172 | – | – | – |
| Mauritania | 7,667 | – | – | – |
| | 77,813 | – | – | – |
| | 190,541 | 88,948 | 2,258 | 1,097 |

Note 8. Impairment of Goodwill

Goodwill acquired at acquisition of AEL

Impairment of goodwill

| CONSOLIDATED | | COMPANY | |
|------------------|------------------|------------------|------------------|
| 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| 43,790 | – | – | – |
| (43,790) | – | – | – |
| – | – | – | – |

Goodwill has been written off in the year based on the discounted cash flow from the Basker Manta Gummy Field (refer to Note 19(b)(ii)).

Note 9. Other Costs

Operating lease expenses

Loss from sale of assets

Net foreign currency losses

Depreciation

Impairment of non-current intercompany receivables

Impairment of investments in controlled entities

Other administration costs

Share-based payments

Net derivative losses

| | | | |
|---------------|---------------|----------------|----------------|
| 1,255 | 979 | 1,131 | 906 |
| 20 | 41 | 6 | 4 |
| – | 670 | – | 14,775 |
| 803 | 802 | 630 | 622 |
| – | – | 91,145 | 151,407 |
| – | – | 180,860 | – |
| 9,026 | 7,068 | 2,528 | 4,220 |
| 3,391 | 3,001 | 3,391 | 3,001 |
| – | 69,226 | – | – |
| 14,495 | 81,787 | 279,691 | 174,935 |

Note 10. Finance Costs

Interest expensed on bank loans

Unwinding of discount – restoration provision

Other finance costs

| | | | |
|--------------|---------------|-----------|-----------|
| 5,593 | 10,645 | – | – |
| 1,092 | 845 | – | – |
| 1,408 | 1,555 | 35 | 50 |
| 8,093 | 13,045 | 35 | 50 |

| | 2008 | | 2007 | |
|------------------------------|---|------------------------------|---|------------------------------|
| | 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 | (4,730) | (53,435) | (5,663) | (73,719) |
| Acquisition | (30,205) | (59,642) | – | – |
| (Charged)/credited to income | (78,038) | 106,306 | (29,395) | 34,023 |
| Cash payments | 39,671 | – | 16,556 | – |
| Utilisation of tax losses | 51,394 | (51,394) | 13,335 | (13,335) |
| Translation gain/(loss) | 4,675 | 7,772 | 437 | (404) |
| | (17,233) | (50,393) | (4,730) | (53,435) |

| | | | | |
|------------------------------|---|-----------|---|--------------|
| Company | | | | |
| Opening balance | – | 4,774 | – | 8,506 |
| (Charged)/credited to income | – | 6,051 | – | 875 |
| Utilisation of tax losses | – | (10,809) | – | (5,225) |
| Translation gain/(loss) | – | – | – | 618 |
| | – | 16 | – | 4,774 |

| | CONSOLIDATED | | COMPANY | |
|---------------------------|---------------|---------------|---------------|---------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| (d) Tax losses | | | | |
| Tax losses not recognised | 123,475 | 56,760 | 8,447 | 11,416 |

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 benefit in the financial statements as follows:

| | CONSOLIDATED | | COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Loss before income tax | (306,653) | (89,050) | (279,749) | (175,401) |
| Prima facie income tax benefit calculated as 30% of loss before income tax | 91,996 | 26,715 | 83,924 | 52,620 |
| Tax effect of adjustments | | | | |
| Non-deductible expenses (net) | (6,586) | (20,254) | (81,722) | (50,812) |
| Non-assessable income | 622 | – | – | – |
| Prior year losses now recognised | 351 | 4,652 | 4,052 | – |
| Overseas tax rate differential | (6,882) | 924 | – | – |
| Prior year overprovision | – | 101 | – | – |
| Reversal of prior year losses recognised | (1,810) | – | – | – |
| Change in Chinese tax rates | – | 21,417 | – | – |
| Tax losses not brought into account | (43,854) | (27,512) | – | (1,218) |
| PRRT | (3,913) | (1,141) | – | – |
| Other | (1,656) | (274) | (203) | 285 |
| Income tax benefit | 28,268 | 4,628 | 6,051 | 875 |

(f) Tax consolidation

ROC and its wholly-owned Australian subsidiaries (excluding AZA) 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

Cash and cash equivalents

| CONSOLIDATED | | COMPANY | |
|------------------|------------------|------------------|------------------|
| 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| 54,260 | 41,437 | 6,760 | 11,804 |
| 54,260 | 41,437 | 6,760 | 11,804 |

Included in cash assets is US\$2,510,441 (2007: US\$2,479,885) 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.

| | CONSOLIDATED | | COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Reconciliation of net loss before tax to net cash flows generated from/(used in) operations | | | | |
| Net loss before tax | (306,653) | (89,050) | (279,749) | (175,401) |
| <i>Add/(less) non-cash items</i> | | | | |
| Amortisation | 120,361 | 81,423 | – | – |
| Impairment of assets | 346,399 | 17,307 | – | – |
| Loss on investment in listed securities | 30,527 | – | – | – |
| Depreciation | 803 | 802 | 630 | 622 |
| Impairment of non-current intercompany receivables | – | – | 91,145 | 151,407 |
| Impairment of investments in controlled entities | – | – | 180,860 | – |
| Provision for employee benefits | (530) | 486 | (530) | 486 |
| Net foreign currency (gains)/losses | (3,339) | 670 | (2,048) | 14,775 |
| Loss/(gain) from sale of assets | 7 | 41 | (7) | 4 |
| Share-based payments | 3,391 | 3,001 | 3,391 | 3,001 |
| <i>Add/(less) non-operating items</i> | | | | |
| (Gain)/loss on derivatives | (38,586) | 68,768 | – | – |
| Interest income | (465) | (1,314) | (167) | (681) |
| Finance costs | 8,093 | 13,045 | 35 | 50 |
| Exploration expensed | 112,728 | 88,948 | 2,258 | 1,097 |
| <i>Changes in net assets and liabilities</i> | | | | |
| (Increase)/decrease in current trade and other receivables | (5,948) | (867) | 348 | (4,872) |
| Decrease/(increase) in materials and inventories | 5,164 | (4,948) | – | – |
| (Decrease)/increase in current trade and other payables | (4,012) | (6,696) | 1,406 | 4,983 |
| Net cash generated from/(used in) operations | 267,940 | 171,616 | (2,428) | (4,529) |

Notes to the Financial Statements

Note 13. Current Trade and Other Receivables

Trade receivables
Other receivables
Stock underlift

| CONSOLIDATED | | COMPANY | |
|------------------|------------------|------------------|------------------|
| 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| 12,287 | 16,241 | – | – |
| 15,618 | 11,890 | 7,288 | 7,634 |
| 1,330 | 2,079 | – | – |
| 29,235 | 30,210 | 7,288 | 7,634 |

Note 14. Financial Assets Available for Sale

Shares in listed entity at cost
Impairment of assets
Exchange loss

| | | | |
|---------------|----------|----------|----------|
| 63,830 | – | – | – |
| (30,527) | – | – | – |
| (9,172) | – | – | – |
| 24,131 | – | – | – |

Shares in listed entity comprise 65.7 million shares in Nexus Energy Limited and have been impaired based on the current share market value.

Note 15. Derivatives

At fair value:

Oil price swaps
Oil price puts

Net assets/(liabilities)

Assets – current assets
– non-current assets

Total assets

Liabilities – current liabilities

Non-current liabilities

Total liabilities

Total

| | | | |
|---------------|-----------------|----------|----------|
| 10,872 | (58,628) | – | – |
| 3,267 | – | – | – |
| 14,139 | (58,628) | – | – |
| 16,517 | – | – | – |
| 2,170 | – | – | – |
| 18,687 | – | – | – |
| – | (24,115) | – | – |
| (4,548) | (34,513) | – | – |
| (4,548) | (58,628) | – | – |
| 14,139 | (58,628) | – | – |

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 2008, the Group's oil hedge position was summarised as follows:

| | | 2009 | 2010 | 2011 | Total |
|---------------------------------------|------------|---------|---------|---------|-----------|
| Crude oil price put contracts | | | | | |
| Volume | (BBLs) | 37,500 | – | – | 37,500 |
| Weighted average Tapis oil price | (US\$/BBL) | 113.50 | – | – | 113.50 |
| Crude oil price swap contracts | | | | | |
| Volume | (BBLs) | 851,998 | 966,990 | 875,997 | 2,694,985 |
| Weighted average Brent oil price | (US\$/BBL) | 70.01 | 66.27 | 63.71 | 66.62 |

Note 16. Inventories

Materials inventory
Oil and gas stock

| | | CONSOLIDATED | | COMPANY | |
|---------------------|--|------------------|------------------|------------------|------------------|
| | | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Materials inventory | | – | 68 | – | – |
| Oil and gas stock | | 10,562 | 7,088 | – | – |
| | | 10,562 | 7,156 | – | – |

Note 17. Non-Current Trade and Other Receivables

Amount owing by controlled entities
Less impairment

| | | 2008 | 2007 | 2008 | 2007 |
|-------------------------------------|--|----------|----------|----------------|----------------|
| | | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Amount owing by controlled entities | | – | – | 474,566 | 446,008 |
| Less impairment | | – | – | (372,997) | (281,852) |
| | | – | – | 101,569 | 164,156 |

These loans are interest free and at call. During the year an assessment of the recoverable amount was made and an impairment of US\$91,145,000 was recorded.

Note 18. Other Non-Current Financial Assets

Shares in unlisted controlled entities, at cost
Less impairment

| | | 2008 | 2007 | 2008 | 2007 |
|---|--|----------|----------|----------------|---------------|
| | | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Shares in unlisted controlled entities, at cost | | – | – | 304,642 | 58,566 |
| Less impairment | | – | – | (180,860) | – |
| | | – | – | 123,782 | 58,566 |

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

Notes to the Financial Statements

| | CONSOLIDATED | | | COMPANY |
|--|------------------------------|--------------------------------------|-------------------|-------------------|
| | Producing Assets US\$'000 | Assets under Development US\$'000 | Total US\$'000 | Total US\$'000 |
| Note 19. Oil and Gas Assets | | | | |
| Costs | | | | |
| Balance at 1 January 2007 | 394,604 | 113,802 | 508,406 | – |
| Transfer of assets under development to producing assets | 68,005 | (68,005) | – | – |
| Development expenditure incurred | 53,926 | 3,496 | 57,422 | – |
| Translation gain | 10,565 | – | 10,565 | – |
| Disposal of assets | (308) | – | (308) | – |
| Costs at 31 December 2007 | 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 | – |
| Accumulated amortisation | | | | |
| Balance at 1 January 2007 | (52,478) | – | (52,478) | – |
| Charge for the year | (81,423) | – | (81,423) | – |
| Disposal of assets | 308 | – | 308 | – |
| Impairment of assets (see note (a) below) | (17,307) | – | (17,307) | – |
| Translation loss | (1,709) | – | (1,709) | – |
| Accumulated amortisation at 31 December 2007 | (152,609) | – | (152,609) | – |
| Charge for the year | (120,361) | – | (120,361) | – |
| Impairment of assets (see note (b) below) | (224,796) | – | (224,796) | – |
| Translation gain | 1,807 | – | 1,807 | – |
| Accumulated amortisation at 31 December 2008 | (495,959) | – | (495,959) | – |
| Net book value at 31 December 2008 | 366,557 | – | 366,557 | – |
| Net book value at 31 December 2007 | 374,183 | 49,293 | 423,476 | – |

(a) This amount is attributable to the carrying value of the Zhao Dong Oil Field being greater than the estimated discounted cash flow using a pre-tax discount rate of 14%. This was as a result of the initial net 2P reserves being reduced by 2.1 MMBBL and an increase in the estimated future capital costs.

(b) The impairment is 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%. 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 Basker Manta Gummy Fields being greater than the discounted cash flow by US\$100.0 million using a pre-tax discount rate of 16%. This is the result of the reduction in the forecast realised oil price assumption;
- (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%. 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.

Note 20. Exploration and Evaluation Expenditure

| | CONSOLIDATED | | COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Opening balance | 92,727 | 86,937 | – | – |
| Expenditure incurred | 115,210 | 94,734 | 2,258 | 1,097 |
| Translation gain | – | 4 | – | – |
| Proceeds received from joint venture partner | (2,676) | – | – | – |
| Amounts expensed | (112,728) | (88,948) | (2,258) | (1,097) |
| Impairment of exploration | (77,813) | – | – | – |
| | 14,720 | 92,727 | – | – |

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

Costs

| | | | | |
|----------------------|-------|-------|-------|-------|
| Opening balance | 7,473 | 6,930 | 5,779 | 4,954 |
| Expenditure incurred | 812 | 626 | 799 | 626 |
| Disposals | (870) | (455) | (855) | (173) |
| Translation gain | – | 372 | – | 372 |

Costs at 31 December

| | | | |
|--------------|--------------|--------------|--------------|
| 7,415 | 7,473 | 5,723 | 5,779 |
|--------------|--------------|--------------|--------------|

Accumulated depreciation

| | | | | |
|---------------------|---------|---------|---------|---------|
| Opening balance | (5,045) | (4,331) | (4,188) | (3,468) |
| Charge for the year | (803) | (802) | (630) | (622) |
| Disposals | 848 | 355 | 848 | 169 |
| Translation loss | – | (267) | – | (267) |

Accumulated depreciation at 31 December

| | | | |
|----------------|----------------|----------------|----------------|
| (5,000) | (5,045) | (3,970) | (4,188) |
|----------------|----------------|----------------|----------------|

Net book value

| | | | |
|--------------|--------------|--------------|--------------|
| 2,415 | 2,428 | 1,753 | 1,591 |
|--------------|--------------|--------------|--------------|

Notes to the Financial Statements

Note 24. Current Trade and Other Payables

| | | | | |
|-------------------------------------|---------------|---------------|--------------|--------------|
| Trade payables | 30,604 | 21,257 | 728 | 391 |
| Deferred income | – | 6,289 | – | – |
| Accrued liabilities | 7,332 | 14,464 | 418 | 692 |
| Amount owing to controlled entities | – | – | – | 600 |
| Amount owing to associate companies | 684 | 965 | – | – |
| Other | 153 | 153 | 153 | 153 |
| | 38,773 | 43,128 | 1,299 | 1,836 |

| CONSOLIDATED | | COMPANY | |
|------------------|------------------|------------------|------------------|
| 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| 30,604 | 21,257 | 728 | 391 |
| – | 6,289 | – | – |
| 7,332 | 14,464 | 418 | 692 |
| – | – | – | 600 |
| 684 | 965 | – | – |
| 153 | 153 | 153 | 153 |
| 38,773 | 43,128 | 1,299 | 1,836 |

Note 25. Provisions

| | | | | | |
|------------------------------------|--------------|---------------|---------------|--------------|--------------|
| Balance at 1 January 2008 | 2,207 | 12,928 | 15,135 | 2,207 | 2,207 |
| Acquired in business combination | – | 20,413 | 20,413 | – | – |
| Additions during the year | 314 | 404 | 718 | 314 | 314 |
| Unwinding of discount | – | 1,092 | 1,092 | – | – |
| Utilised | (844) | – | (844) | (844) | (844) |
| Translation adjustments | – | (3,096) | (3,096) | – | – |
| Balance at 31 December 2008 | 1,677 | 31,741 | 33,418 | 1,677 | 1,677 |
| 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 |
| Current – 2007 | 1,427 | – | 1,427 | 1,427 | 1,427 |
| Non-current – 2007 | 780 | 12,928 | 13,708 | 780 | 780 |
| Total 2007 | 2,207 | 12,928 | 15,135 | 2,207 | 2,207 |

| CONSOLIDATED | | | COMPANY | |
|-------------------------------|-------------------------|-------------------|-------------------------------|-------------------|
| Employee Benefits US\$'000 | Restoration US\$'000 | Total US\$'000 | Employee Benefits US\$'000 | Total US\$'000 |
| 2,207 | 12,928 | 15,135 | 2,207 | 2,207 |
| – | 20,413 | 20,413 | – | – |
| 314 | 404 | 718 | 314 | 314 |
| – | 1,092 | 1,092 | – | – |
| (844) | – | (844) | (844) | (844) |
| – | (3,096) | (3,096) | – | – |
| 1,677 | 31,741 | 33,418 | 1,677 | 1,677 |
| 1,091 | – | 1,091 | 1,091 | 1,091 |
| 586 | 31,741 | 32,327 | 586 | 586 |
| 1,677 | 31,741 | 33,418 | 1,677 | 1,677 |
| 1,427 | – | 1,427 | 1,427 | 1,427 |
| 780 | 12,928 | 13,708 | 780 | 780 |
| 2,207 | 12,928 | 15,135 | 2,207 | 2,207 |

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

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

Movement in fully paid ordinary shares

| | | | | |
|--|--------------------|--------------------|----------------|----------------|
| Balance at beginning of financial year | 298,887,006 | 298,161,006 | 435,790 | 434,953 |
| Issue of shares pursuant to exercise of options under the share option plans | 15,000 | 726,000 | 29 | 837 |
| Shares issued | 289,129,667 | – | 234,123 | – |
| Balance at end of financial year | 588,031,673 | 298,887,006 | 669,942 | 435,790 |

| | 2008 Number of Shares | 2007 Number of Shares | 2008 US\$'000 | 2007 US\$'000 |
|--|-----------------------------|-----------------------------|------------------|------------------|
| Balance at beginning of financial year | 298,887,006 | 298,161,006 | 435,790 | 434,953 |
| Issue of shares pursuant to exercise of options under the share option plans | 15,000 | 726,000 | 29 | 837 |
| Shares issued | 289,129,667 | – | 234,123 | – |
| Balance at end of financial year | 588,031,673 | 298,887,006 | 669,942 | 435,790 |

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 28.

Note 27. Other Reserves

| | | | | |
|---|---------------|--------------|--------------|---------------|
| Balance at 1 January 2007 | 27,111 | 2,038 | 14,666 | 43,815 |
| Foreign currency translation differences | 8,939 | – | – | 8,939 |
| Net unrealised loss on cash flow hedges | – | – | (12,742) | (12,742) |
| Tax benefit on cash flow hedges | – | – | (531) | (531) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (458) | (458) |
| Share-based payments | – | 3,001 | – | 3,001 |
| Balance at 31 December 2007 | 36,050 | 5,039 | 935 | 42,024 |
| Foreign currency translation differences | (34,867) | – | – | (34,867) |
| Tax expensed on cash flow hedges | – | – | (449) | (449) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (1,385) | (1,385) |
| Share-based payments | – | 3,391 | – | 3,391 |
| Balance at 31 December 2008 | 1,183 | 8,430 | (899) | 8,714 |

CONSOLIDATED

| | Foreign Currency Translation Reserve US\$'000 | Employee Equity Benefit Reserve US\$'000 | Net Unrealised Oil Price Hedging (Losses)/Gains US\$'000 | Total US\$'000 |
|---|---|---|--|-------------------|
| Balance at 1 January 2007 | 27,111 | 2,038 | 14,666 | 43,815 |
| Foreign currency translation differences | 8,939 | – | – | 8,939 |
| Net unrealised loss on cash flow hedges | – | – | (12,742) | (12,742) |
| Tax benefit on cash flow hedges | – | – | (531) | (531) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (458) | (458) |
| Share-based payments | – | 3,001 | – | 3,001 |
| Balance at 31 December 2007 | 36,050 | 5,039 | 935 | 42,024 |
| Foreign currency translation differences | (34,867) | – | – | (34,867) |
| Tax expensed on cash flow hedges | – | – | (449) | (449) |
| Transfer from cash flow hedge reserve to Income Statement | – | – | (1,385) | (1,385) |
| Share-based payments | – | 3,391 | – | 3,391 |
| Balance at 31 December 2008 | 1,183 | 8,430 | (899) | 8,714 |

COMPANY

| | Foreign Currency Translation Reserve US\$'000 | Employee Equity Benefit Reserve US\$'000 | Net Unrealised Oil Price Hedging (Losses)/Gains US\$'000 | Total US\$'000 |
|--|---|---|--|-------------------|
| Balance at 1 January 2007 | 42,278 | 2,038 | – | 44,316 |
| Foreign currency translation differences | 27,306 | – | – | 27,306 |
| Share-based payments | – | 3,001 | – | 3,001 |
| Balance at 31 December 2007 | 69,584 | 5,039 | – | 74,623 |
| Share-based payments | – | 3,391 | – | 3,391 |
| Balance at 31 December 2008 | 69,584 | 8,430 | – | 78,014 |

Notes to the Financial Statements

Note 28. 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 as 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:

| | 2008 | | 2007 | |
|--|-------------------|-------------------------------------|-------------------|-------------------------------------|
| | Number of Options | Weighted Average Exercise Price A\$ | Number of Options | Weighted Average Exercise Price A\$ |
| Balance at beginning of financial year | 1,533,600 | 2.97 | 1,800,400 | 2.80 |
| Granted | 4,130,000 | 0.78 | 89,000 | 3.39 |
| Exercised | – | – | (170,800) | 1.32 |
| Forfeited | (67,500) | 2.75 | (185,000) | 3.06 |
| Balance at end of financial year | 5,596,100 | 1.36 | 1,533,600 | 2.97 |
| Exercisable | 1,385,100 | 2.95 | 97,000 | 1.48 |

The weighted average share price for share options exercised in 2008 was nil (2007: A\$3.19).

The range of exercise prices at the end of the financial year is between A\$0.54 and A\$3.46 with a weighted average remaining contractual life of 4.33 years.

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.

| | 2008 | | 2007 | |
|--|-------------------|-------------------------------------|-------------------|-------------------------------------|
| | Number of Options | Weighted Average Exercise Price A\$ | Number of Options | Weighted Average Exercise Price A\$ |
| Balance at beginning of financial year | 10,949,100 | 3.05 | 9,607,200 | 2.83 |
| Granted | 2,110,000 | 1.84 | 2,265,000 | 3.51 |
| Exercised | (15,000) | 2.85 | (555,200) | 1.46 |
| Forfeited | (753,200) | 3.08 | (367,900) | 2.47 |
| Balance at end of financial year | 12,290,900 | 2.84 | 10,949,100 | 3.05 |
| Exercisable | 2,426,700 | 1.77 | 767,200 | 1.58 |

The weighted average share price for share options exercised in 2008 was A\$2.22 (2007: A\$3.22).

The range of exercise prices at the end of the financial year is between A\$0.65 and A\$4.25 with a weighted average remaining contractual life of 3.8 years.

Fair value of options

The weighted average fair value of the share options granted during the financial year is A\$0.52 per share. Options were valued using the Monte Carlo simulation technique. Under this technique, the share price is randomly simulated under risk 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. Options carry no voting rights or rights to dividends.

The following are the assumptions made in determining the fair value of the options:

| | Issue 23 December 2008 | Issue 19 May 2008 |
|--|------------------------|-------------------|
| Share price | A\$0.50 | A\$2.59 |
| Share price volatility | 60% | 35% |
| Energy index volatility | 28% | 20% |
| Correlation between energy index and ROC share price | 50% | 40% |
| Risk free rate per annum | 3.7% | 6.3% |

(b) Superannuation plans

During the 2008 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% (2007: 9%) of employee cash remuneration.

(c) Employee benefits expensed

| | CONSOLIDATED | | COMPANY | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Salary and wages | 17,852 | 12,770 | 11,089 | 9,353 |
| Social security contributions | – | 18 | – | – |
| Termination benefits | 4,427 | 194 | 2,324 | 26 |
| Other benefits | 112 | 34 | 106 | 34 |
| Workers' compensation | 66 | 63 | 63 | 63 |
| Superannuation | 1,693 | 1,118 | 999 | 784 |
| Share-based payments | 3,391 | 3,001 | 3,391 | 3,001 |
| | 27,541 | 17,198 | 17,972 | 13,261 |

Notes to the Financial Statements

Note 29. Earnings per Share

Basic loss per share amounts are calculated by dividing 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:

| | 2008 | 2007 |
|---|------------------|------------------|
| | Number of Shares | Number of Shares |
| Weighted average number of ordinary shares for basic loss per share | 373,252,930 | 298,398,215 |
| Effect of dilution: | | |
| Share options | – | – |
| Adjusted weighted average number of ordinary shares for diluted loss per share | 373,252,930 | 298,398,215 |
| 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 | 1,625,587 |

Note 30. Segment Information

Primary reporting - geographical segments

The Group's risks and returns are affected predominantly by differences in the geographical areas in which it operates; therefore, geographical segments is considered its primary reporting format.

Secondary reporting - business segments

The Group operates predominantly in one business, namely exploration, development and production of hydrocarbons.

Segment accounting policies

Segment accounting policies are the same as the Group's policies.

Composition of each geographical segment

Africa comprises areas of interest in Angola, Equatorial Guinea, Madagascar and Mauritania.

| | United Kingdom US\$'000 | Australia US\$'000 | China US\$'000 | Africa US\$'000 | Unallocated US\$'000 | Total US\$'000 |
|--|----------------------------|-----------------------|-------------------|--------------------|-------------------------|-------------------|
| For the financial year ended 31 December 2008 | | | | | | |
| Sales revenue | 97,766 | 119,899 | 131,552 | 9,013 | – | 358,230 |
| Segment result | | | | | | |
| Profit/(loss) before income tax | 69,678 | (90,872) | (125,036) | (98,084) | (62,339) | (306,653) |
| Income tax benefit | – | – | – | – | 28,268 | 28,268 |
| Net profit/(loss) | 69,678 | (90,872) | (125,036) | (98,084) | (34,071) | (278,385) |
| As at December 2008 | | | | | | |
| Segment assets/liabilities | | | | | | |
| Assets | 83,713 | 219,973 | 148,962 | 28,310 | 39,625 | 520,583 |
| Liabilities | (10,047) | (37,741) | (3,802) | (17,239) | (244,494) | (313,323) |
| Other segment information | | | | | | |
| Expenditure incurred on exploration and evaluation | 162 | 25,781 | 14,822 | 72,187 | 2,258 | 115,210 |
| Expenditure incurred on oil and gas assets | 8,921 | 10,383 | 51,748 | 5,222 | – | 76,274 |
| Depreciation | 173 | – | – | – | 630 | 803 |
| Amortisation | 19,794 | 34,148 | 62,397 | 4,022 | – | 120,361 |
| Exploration expensed | 162 | 25,781 | 12,340 | 72,187 | 2,258 | 112,728 |
| Impairment of exploration | – | – | 60,172 | 17,641 | – | 77,813 |
| Impairment of goodwill | – | 43,790 | – | – | – | 43,790 |
| Impairment of oil and gas assets | – | 99,921 | 119,711 | 5,164 | – | 224,796 |

| | | | | | | |
|--|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| For the financial year ended 31 December 2007 | | | | | | |
| Sales revenue | 28,351 | 79,821 | 91,656 | 8,685 | – | 208,513 |
| Segment result | | | | | | |
| (Loss)/profit before income tax | 18,067 | 32,201 | 16,842 | (70,104) | (86,056) | (89,050) |
| Income tax benefit | – | – | – | – | 4,628 | 4,628 |
| Net (loss)/profit | 18,067 | 32,201 | 16,842 | (70,104) | (81,428) | (84,422) |
| As at December 2007 | | | | | | |
| Segment assets/liabilities | | | | | | |
| Assets | 105,077 | 98,942 | 331,327 | 46,631 | 25,087 | 607,064 |
| Liabilities | (18,136) | (10,863) | (14,234) | (10,334) | (264,764) | (318,331) |
| Other segment information | | | | | | |
| Expenditure incurred on exploration and evaluation | 114 | 16,724 | 5,480 | 71,319 | 1,097 | 94,734 |
| Expenditure incurred on oil and gas assets | 29,193 | 32 | 25,040 | 3,157 | – | 57,422 |
| Depreciation | 180 | – | – | – | 622 | 802 |
| Amortisation | 10,182 | 26,272 | 40,603 | 4,366 | – | 81,423 |
| Exploration expensed | 114 | 16,885 | 5,006 | 65,846 | 1,097 | 88,948 |
| Impairment of oil and gas assets | – | – | 17,307 | – | – | 17,307 |

Note 33. Joint Ventures

The Group has an interest (rounded to two decimal places) in the following joint ventures as at 31 December 2008:

| Country | Block | Principal Activities | Interest 2008 % | Interest 2007 % |
|--------------------|--|------------------------------------|----------------------------|----------------------------|
| Australia | WA-286-P | Oil and gas exploration | 37.50 | 37.50 |
| | WA-31-L (Cliff Head) | Oil production | 37.50 | 37.50 |
| | TP/15 | Oil and gas exploration | – | 20.00 |
| | WA-351-P | Oil and gas exploration | 20.00 | 20.00 |
| | EP413 | Oil and gas exploration | – | 0.25 |
| | L14 (Jingemia) | Oil production | 0.25 | 0.25 |
| | WA-381-P | Oil and gas exploration | 20.00 | 20.00 |
| | WA-382-P | Oil and gas exploration | 20.00 | 20.00 |
| | VIC/L26 | Oil production | 40.00 | – |
| | VIC/L27 | Oil production | 40.00 | – |
| | VIC/L28 | Oil production | 40.00 | – |
| | VIC/P49 | Oil and gas exploration | 20.00 | – |
| | New Zealand | PEP38259 | Oil and gas exploration | 15.00 |
| Equatorial Guinea | Block H | Oil and gas exploration | 37.50 | 18.75 |
| Mauritania | Area A | Oil and gas exploration | 4.16 | 4.16 |
| | Area B (Chinguetti) | Oil and gas exploration/production | 3.69/3.25 ⁽¹⁾ | 3.69/3.25 ⁽¹⁾ |
| | 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 | 5.0 (at 31 Dec 2008) | 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 | – |
| Angola | Cabinda South Block | Oil and gas exploration | 60.00 | 60.00 |
| China | Beibu Gulf Block 22/12 | Oil and gas pre-development | 40.00 | 40.00 |
| | Zhao Dong Block (C and D Fields/C4 Field) | Oil development/production | 24.50/11.58 ⁽²⁾ | 24.50/11.58 ⁽²⁾ |
| Onshore UK | PEDL002 (relinquished 3 April 2008) | Oil and gas exploration | – | 5.00 |
| | PEDL030 (to be relinquished 17 March 2009) | Oil and gas exploration | 100.00 | 100.00 |
| UK North Sea | P111 (Block 30/3a Upper) (Blane) | Oil and gas development | 15.24/12.50 ⁽³⁾ | 15.24/12.50 ⁽³⁾ |
| | P219 (Block 16/13a) (Enoch) | Oil and gas development | 15.00/12.00 ⁽³⁾ | 15.00/12.00 ⁽³⁾ |

(1) Post-government back-in in Chinguetti Oil Field.

(2) Unitised interest in the C4 Field subject to redetermination following commencement of production.

(3) Unitised interest in producing Blane and Enoch Fields.

Notes to the Financial Statements

Note 33. Joint Ventures *continued*

The Group's share of net working interest production from the above joint ventures during the financial year was 4,034,473 BBLs (2007: 3,528,980 BBLs).

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 | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 US\$'000 |
| Current assets | 20,659 | 17,226 | – | – |
| Non-current assets | 381,280 | 516,204 | – | – |
| Total assets | 401,939 | 533,430 | – | – |
| Current liabilities | 33,264 | 25,963 | – | – |
| Non-current liabilities | 31,741 | 12,928 | – | – |
| Total liabilities | 65,005 | 38,891 | – | – |

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 32 and Note 37 respectively.

Note 34. 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 | |
|----------------------------|----------------------------|--------------------|--------------|---|--------|--|---------------|-----------------------------------|---------------|
| | | | | 2008 % | 2007 % | 2008 US\$'000 | 2007 US\$'000 | 2008 US\$'000 | 2007 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 35. Remuneration of Auditors

Amounts due to and recoverable by the auditor of the parent entity:

Audit and review of the financial report

Fees associated with the acquisition of AZA and AEL

Tax compliance and accounting advice

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2008 US\$ | 2007 US\$ | 2008 US\$ | 2007 US\$ |
| | | | | |
| Audit and review of the financial report | 198,187 | 93,557 | 198,187 | 93,557 |
| Fees associated with the acquisition of AZA and AEL | 227,542 | – | 227,542 | – |
| Tax compliance and accounting advice | 159,398 | 104,070 | 143,559 | 163,020 |
| | 585,127 | 197,627 | 569,288 | 256,577 |
| | | | | |
| Amounts due by related practices of Ernst & Young, Australia for: | | | | |
| Audit and review of the financial report | 103,013 | 23,980 | – | – |
| Taxation and accounting services | – | 35,890 | – | – |
| | 688,140 | 257,497 | 569,288 | 256,577 |

Ernst & Young, Australia was the auditor for the Company in 2008.

Note 36. 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) |
| Dr R J P Doran | Executive Director and Chief Executive Officer (ceased to be a director and officer on 27 June 2008) |
| 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 |
| Mr R C Leon | Director (Non-Executive) (appointed 3 December 2008) |
| Mr A C Jolliffe | Director (Non-Executive) (resigned 3 December 2008) |
| Dr D Schwebel | Director (Non-Executive) (resigned 3 December 2008) |
| Ms S Ford | General Counsel and Company Secretary |
| Dr K Hird | General Manager Business Development |
| Mr A Linn | Chief Operating Officer (appointed October 2008) |
| Mr J Mebberson | General Manager Exploration |
| Mr A Neilson | Chief Financial Officer |

Notes to the Financial Statements

Note 36. Key Management Personnel Disclosures *continued*

(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 executive 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 executive team to achieve significant long term growth in the Company's share price. For details, refer to Note 28 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 | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2008 US\$ | 2007 US\$ | 2008 US\$ | 2007 US\$ |
| Short term employee benefits | 3,902,535 | 3,900,863 | 2,655,670 | 2,661,054 |
| Post-employment benefits | 275,109 | 277,739 | 207,145 | 208,564 |
| Termination payments | 2,248,470 | – | 2,248,470 | – |
| Share-based payments | 704,699 | 783,004 | 573,227 | 653,660 |
| | 7,130,813 | 4,961,606 | 5,684,512 | 3,523,278 |

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

| | 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 |
|----------------|--|--|----------------------|-------------------|---|--------------------------|-------------------------------|
| 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 |

2007

| | 1 Jan 2007 Balance at Beginning of Financial Year | Executive Share Options Granted as Remuneration | Options Exercised | Options Lapsed | 31 Dec 2007 Balance at End of Financial Year | Vested and Exercisable at 31 Dec 2007 |
|----------------|--|--|----------------------|----------------|---|---|
| Dr R J P Doran | – | 300,000 | – | – | 300,000 | – |
| Mr B F Clement | 760,000 | – | (80,000) | – | 680,000 | 10,000 |
| Mr D Paterson | 450,000 | – | – | – | 450,000 | – |
| Ms S Ford | 571,300 | – | (128,700) | – | 442,600 | – |
| Dr K Hird | 455,500 | – | (58,500) | – | 397,000 | – |
| Mr J Mebberson | 150,000 | – | – | – | 150,000 | 6,000 |
| Mr A Neilson | – | 200,000 | – | – | 200,000 | – |
| Mr C Way | 359,000 | – | – | – | 359,000 | 111,000 |
| | 2,745,800 | 500,000 | (267,200) | – | 2,978,600 | 127,000 |

(d) Shareholdings**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 Final Director's Interest Notice.

Notes to the Financial Statements

Note 36. Key Management Personnel Disclosures *continued*

(d) Shareholdings *continued*

| | 1 Jan 2007 Balance at Beginning of Financial Year | Change on Exercise of Options | Net Change from On-Market Transactions | 31 Dec 2007 Balance at End of Financial Year |
|-------------------|---|----------------------------------|--|--|
| 2007 | | | | |
| Mr A J Love | 692,717 | – | (131,364) | 561,353 |
| Mr W G Jephcott | 1,117,300 | – | – | 1,117,300 |
| Dr R J P Doran | 4,850,001 | – | (300,000) | 4,550,001 |
| Mr S J Jansma, Jr | 844,641 | – | (400,000) | 444,641 |
| Mr A C Jolliffe | 140,373 | – | (40,373) | 100,000 |
| Dr D Schwebel | – | – | 30,000 | 30,000 |
| Mr B F Clement | 140,000 | 80,000 | (140,000) | 80,000 |
| Mr D Paterson | – | – | – | – |
| Mr R J Burgess | 340,400 | – | – | 340,400 |
| Mr R Dobinson | 1,452,337 | – | (550,000) | 902,337 |
| Ms S Ford | 128,700 | 128,700 | (257,400) | – |
| Dr K Hird | 334,018 | 58,500 | (58,500) | 334,018 |
| Mr J Mebberson | 5,500 | – | – | 5,500 |
| Mr A Neilson | – | – | – | – |
| Mr C Way | 13,200 | – | – | 13,200 |
| | 10,059,187 | 267,200 | (1,847,637) | 8,478,750 |

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 37. 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 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\$11.6 million at 31 December 2008 (2007: US\$7.0 million).

On 19 December 2008, AZA together with other participants in the BMG Project gave notice of termination of the Letter of Intent ('LOI') with BW Offshore ('BW') for supply of a floating production and storage and offloading vessel ('FPSO') for the proposed BMG Phase 2 Project. AZA has received notice of a claim against the participants in the BMG Project by BW in the Federal Court of Australia seeking recovery of costs, including costs of terminating third party vendor contracts, in relation to the performance of initial activities under the LOI. Costs claimed are in the order of US\$90.1 million (gross). Participants in the BMG Project dispute that these costs are payable and intend to defend the claim.

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 and when they become due.

Note 38. 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, an Australian listed company, whose two main assets were a 40% operating interest in the Basker Manta Gummy Oil and Gas Fields, offshore Gippsland Basin and a 10% shareholding in Nexus Energy Limited, an Australian listed oil and gas company.

The total cost of the acquisition was 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 | Carrying Value |
|--|--------------------------------------|-----------------------|
| | US\$'000 | 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 | |
| <i>Costs of acquisition</i> | | |
| 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 | |
| <i>The cash inflow on acquisition is as follows:</i> | | |
| Net cash acquired with the subsidiary | 44,073 | |
| Cash paid | – | |
| Net acquisition cash inflow | 44,073 | |

Notes to the Financial Statements

Note 38. Business Combinations *continued*

The goodwill relates 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 has contributed a loss of US\$87.5 million to the Group. Financial information for the 12 months to 31 December 2008 has been impracticable to disclose.

Note 39. Subsequent Events

Subsequent to 31 December 2008, Commonwealth Bank of Australia and ROC have agreed a bank credit approved term sheet for an extension of ROC's existing US\$30 million working capital facility until 30 June 2010 and establishment of a new US\$35 million bridge facility maturing on 31 March 2010. The loans are subject to agreement on documentation and a number of other conditions precedent that are standard in loans of this nature and include a requirement for ROC to undertake cash management initiatives of US\$15 million prior to 15 June 2009.

Note 40. Additional Company Information

Roc Oil Company Limited is a public company listed in Australia on the ASX and in the United Kingdom on the AIM, and incorporated in Australia and operating in Australia and overseas.

The registered office and principal place of business is:

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

Sydney, 26 February 2009



Mr B F Clement
Director and Chief Executive Officer

INDEPENDENT AUDIT 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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

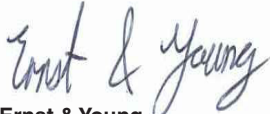
1. the financial report of Roc Oil Company Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Roc Oil Company Limited and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
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 5 to 12 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Roc Oil Company Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Michael Elliott'.

Michael Elliott

Partner

Sydney, 26 February 2009

Additional Information

ROC RESERVES ANALYSIS (UNAUDITED)

Summary Proved and Probable Working Interest Reserves

Opening balance
Acquisitions
Reserve revisions
Production

Closing balance

| | MMBBL | BCF | Total MMBOE |
|------------------------|-------------|------------|-------------|
| Opening balance | 21.1 | 1.7 | 21.4 |
| Acquisitions | 8.2 | – | 8.2 |
| Reserve revisions | (1.3) | (1.3) | (1.5) |
| Production | (4.0) | (0.1) | (4.0) |
| Closing balance | 24.0 | 0.3 | 24.0 |

Analysis of Proved and Probable Reserves

Basker Manta Gummy
Zhao Dong (C and D Fields)
Zhao Dong (C4 Field)
Cliff Head
Chinguetti
Blane
Enoch

Closing balance

| | MMBBL | BCF | Total MMBOE |
|----------------------------|-------------|------------|-------------|
| Basker Manta Gummy | 7.7 | – | 7.7 |
| Zhao Dong (C and D Fields) | 7.7 | – | 7.7 |
| Zhao Dong (C4 Field) | 0.8 | – | 0.8 |
| Cliff Head | 3.6 | – | 3.6 |
| Chinguetti | 0.4 | – | 0.4 |
| Blane | 2.8 | – | 2.8 |
| Enoch | 1.0 | 0.3 | 1.0 |
| Closing balance | 24.0 | 0.3 | 24.0 |

Note:

1 MMBOE = 6 BCF

Analysis of Contingent Resources

Basker Manta Gummy
Beibu Gulf

Closing balance

| | MMBBL | BCF | Total MMBOE |
|------------------------|------------|-----------|-------------|
| Basker Manta Gummy | 4.2 | 87 | 18.7 |
| Beibu Gulf | 5.2 | – | 5.2 |
| Closing balance | 9.4 | 87 | 23.9 |

In accordance with ASX Listing Rules and AIM 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.

ROC LICENCES AT 31 DECEMBER 2008 (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 | | 20.00 | Roc Oil (WA) Pty Limited |
| | WA-382-P | | 20.00 | Roc Oil (WA) Pty Limited |
| | VIC/L26 | Basker Manta Gummy | 40.00 | Anzon Australia Limited |
| | VIC/L27 | Basker Manta Gummy | 40.00 | Anzon Australia Limited |
| | VIC/L28 | Basker Manta Gummy | 40.00 | Anzon Australia Limited |
| | VIC/P49 | | 20.00 | Nexus Energy Australia NL |
| New Zealand | PEP38259 | | 15.00 | AWE (New Zealand) Pty Ltd |
| Equatorial Guinea | H/15 and H/16 | | 37.5 | 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 ⁽¹⁾ | 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 |
| | Block 8 | | 5.00 ⁽⁴⁾ | 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 | | 60.00 | Roc Oil (Cabinda) Company |
| China | Beibu Gulf Block 22/12 | Wei 6-12, Wei 12-8 | 40.00 | Roc Oil (China) Company |
| | Zhao Dong Block | C and D Fields, C4 Field | 24.50/11.58 ⁽²⁾ | Roc Oil (Bohai) Company |
| Onshore UK | PEDL030 | Cloughton | 100.00 | Roc Oil (GB) Limited |
| UK North Sea | P111 (Block 30/3a Upper) | Blane | 15.24/12.50 ⁽³⁾ | Talisman Energy (UK) Limited |
| | P219 (Block 16/13a & e) | Enoch, J1 | 15.00/12.00 ⁽³⁾ | Talisman North Sea Limited |

(1) Interest in producing Chinguetti Oil and Gas Field post government back-in.

(2) Unitised interest in the C4 Field subject to redetermination following commencement of production.

(3) Unitised interest in Blane and Enoch producing fields.

(4) Relinquished in January 2009.

Glossary and Definitions

| | |
|--------------------------|---|
| AUD/A\$ or cents | Australian currency. |
| A-IFRS | Australian equivalents to International Financial Reporting Standards. |
| AIM | Alternative Investment Market of the London Stock Exchange. |
| API | The American Petroleum Institute unit of measurement that denotes how heavy or light (the gravity) a petroleum liquid is compared to water - the lower the API number the heavier the oil. |
| ASIC | Australian Securities and Investments Commission. |
| ASX | Australian Securities Exchange. |
| AEL | Anzon Energy Limited |
| AZA | Anzon Australia Limited |
| BBL(s) | Barrel(s), oil barrel is equivalent to 0.159 cubic metres. |
| BCF | One billion cubic feet of natural gas. |
| 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. |
| CNOOC | China National Offshore Oil Corporation. |
| EBITDAX | Earnings before interest, taxes, depreciation, depletion and amortisation, and exploration expenses. |
| GST | Goods and services tax. |
| km | Kilometres. |
| m | Metre. |
| MCF | One thousand cubic feet of natural gas. |
| MM | Millions. |
| MMBBL/MMBO | One million barrels of oil. |
| MMBOE | One million barrels of oil equivalent. |
| MMBOOIP | One million barrels of oil originally in place. |
| MMBOPD | One million barrels of oil per day inclusive of NGLs. |
| MMSCFD | One million standard cubic feet of natural gas per day. |
| NGL | Natural gas liquid. |
| pound or £ | UK pounds. |
| 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. |
| PSA | Production sharing agreement. |
| PSC | Production sharing contract. |
| ROC | Roc Oil Company Limited. |
| sq km | Square kilometres. |
| UK | United Kingdom. |
| USD/US\$ | United States dollars. |
| 2D | Two dimensional. |
| 3D | Three dimensional. |
| 4D | Four dimensional. |
| 2P | Proved and probable reserves. |