Directors' Report, Annual Financial Report and Directors' Declaration for the Financial Year ended 31 December 2017

Roc Oil Company Limited

Contents

Directors' Report

The Directors of Roc Oil Company Limited ('Company' or 'ROC') have pleasure in submitting the Directors' Report for the financial year ended 31 December 2017.

Directors

The names and particulars of the Directors of the Company at any time during the year ended 31 December 2017 and up to the date of this report are:

Mr Bin Tang
Chairman & Non-Executive Director – Appointed Chairman 22 March 2017

Mr Tang is currently the Vice President of Fosun Group, Chairman of Fosun Capital, Chairman of Steel and Intelligent Equipment Group, Chairman of Energy Group, Chairman and President of China Momentum Fund (CMF), Chairman of Fashion Group and President of Fosun Wealth Management Group. Prior to joining Fosun, Mr Tang worked as principle staff member in Personnel Division of Jiangxi Provincial Economic and Trade Commission, and Deputy County Mayor of People's Government of Jiujiang County, Jiangxi Province.

Mr Tang holds a Bachelor degree in National Economic Management from Nanchang University, a MBA from Jiangxi University of Finance and Economics and an EMBA from China Europe International Business School.

Dr Yuanlin Jiang
Chief Executive Officer (CEO) & Executive Director – Resigned as Chairman 22 March 2017 and appointed CEO 1 April 2017

Dr Jiang was appointed a non-executive director of ROC on 10 November 2014 and later joined ROC as Country Manager – Malaysia in January 2016. Dr Jiang was subsequently appointed as Chief Executive Officer on 1 April 2017. Dr Jiang is familiar with the petroleum industry in the US, Mexico, and China.

Before joining Fosun group, Dr Jiang worked in a variety of roles in ORI International. His last role was leading a large multi-discipline advisory team and guiding the development of the giant Ku-Maloob-Zaap field in Mexico. Prior to that, Dr Jiang worked for BP and served in senior technical roles in a number of offshore and unconventional assets.

Dr Jiang holds a Ph.D. and a Masters in Petroleum Engineering, both from Stanford University. He also holds a bachelor degree in fluid mechanics from the University of Science and Technology of China. Dr Jiang has been a member of the Society of Petroleum Engineers since 2002.

Mr Lorne Krafchik
Chief Financial Officer & Executive Director – Appointed 22 March 2017

Mr Krafchik joined ROC as Group Financial Controller in 2004. He has twenty five years' experience in finance, including eighteen years in the upstream oil and gas industry. Mr Krafchik was appointed as Chief Financial Officer in 2016. Prior to joining ROC, Mr Krafchik was Group Financial Manager at Energy Africa Limited and prior to that he was employed as a Finance Manager at Rigwell Machine Moving & Haulage (Pty) Ltd.

Mr Krafchik holds a Bachelor of Commerce from the University of Cape Town and is a member of the Institute of Chartered Accountants Australia and New Zealand.

Mr Banglong Zhang
Non-Executive Director

Mr Zhang is currently assistant to the President of Fosun Group and is the CEO of Fosun Resources Group. He was Managing Director of Fosun Mineral Resources Division from March 2013 to June 2015. Prior to this time, Mr Zhang held senior management roles with Zhaojin Mining Co.Ltd, Guangdong Maikete Group Textile Co. Ltd and China Yangzi Group Co. Ltd. Mr Zhang is also a director of Hainan Mining Shareholding Co. Ltd. Mr Zhang holds an Executive Master of Business Administration from Cheung Kong Graduate School of Business and is a Senior Gold Analyst.

Mr Can (Robin) Wang
Non-Executive Director

Mr Wang is an Executive Director and Senior Vice President of the Fosun Group, as well as the Chief Financial Officer of the Fosun Group. Mr. Wang joined the Fosun Group in November 2012, worked as the general manager of Investment Management Department, deputy CFO and general manager of Financial Planning & Analysis Department, general manager of Chairman & President Office, and general manager of Investment Management & Strategy Center. Prior to joining the Fosun Group, Mr Wang worked in Kingdee Software (China) Co. Ltd., PricewaterhouseCoopers Zhong Tian LLP, Standard Chartered Bank (China) Limited and China Lodging Group, Limited (NASDAQ: HTHT). Mr Wang graduated from Anhui University in June 1997 and received an EMBA degree from China Europe International Business School (CEIBS) in September 2014. Mr Wang is also a non-practicing member of Chinese Institute of Certified Public Accountants (CICPA).

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

Mr Robin Simpson C Eng, C Sci, C Env, F I Chem E
Chief Executive Officer & Executive Director – Resigned 31 March 2017

Mr Simpson joined ROC in October 2006 as Operations Manager for ROC China. He has over 35 years' international experience in Petroleum and Production Engineering, Operational and Managerial roles, both onshore and offshore for oil and gas production operations. He has worked for ROC in China and Malaysia.

Prior to joining ROC, Mr Simpson held management and engineering positions at Apache Corporation and British Petroleum Ltd (BP) throughout the UK and in China.

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 Committee		Nomination Committee		Audit and Risk Committee		Health, Safety and Environment Committee	
	A	B	A	B	A	B	A	B	A	B
Mr Banglong Zhang	5	5	-	-	-	-	1	1	-	-
Dr Yuanlin Jiang	5	5	-	-	-	-	1	1	-	-
Mr Robin Simpson(1)	1	1	-	-	-	-	1	1	-	-
Mr Bin (William) Tang	5	3	-	-	-	-	-	-	-	-
Mr Can (Robin) Wang	5	1	-	-	-	-	1	1	-	-
Mr Lorne Krafchik(2)	5	5	-	-	-	-	1	1	-	-

Notes:

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

B Number of meetings attended.

1. Resigned 31 March 2017.
2. Appointed 22 March 2017.

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 profit of the consolidated entity for the financial year after income tax was US$38.9 million (2016: US$4.1 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 2017 (2016: US$45.0 million).

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 7 to 8.

Significant Changes in State of Affairs

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

Subsequent Events

No events have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

Future Developments

Business strategy

ROC's goal is to be a leading energy company, with a presence in and focus on China, South East Asia and Australia.

The Company aims to deliver these objectives by:

- sustaining and optimising the value of existing ROC assets through safe and reliable operations;
- enhancing organisational capabilities to deliver our strategic commitments;
- selectively identifying and pursuing acquisition of compatible growth assets;
- capitalising on our existing relationships and regional presence; and
- maintaining financial strength and optimizing capital and liquidity management to support investment and sustainable growth.

ROC aims to deliver growth whilst preserving our goals of zero harm to people, minimising our impact on the environment, supporting the communities in which we operate and building a motivated and engaged workforce.

Key projects and opportunities being pursued during the 2018 financial year include:

- China
  + completing Beibu Gulf Phase II development plan for WZ-12-8 East;
  + drilling two exploration blocks in the Pearl River Basin (South China);
  + pursuing acquisition of existing producing assets.
- Malaysia
  + Continuing the drilling campaign for the D35/D21/J4 Project Phase 2 minimum work commitments; and
  + pursuing acquisition of existing producing assets.
- Australia
  + pursuing acquisition assets.

The Company regards the coming year as an ideal time to optimise its portfolio and has the ability to take advantage of acquisition opportunities, should strategic and well-priced assets become available.

Share Rights and Options

During the financial year, the Company granted 3,785,000 Long Term Incentive (‘LTI’) Rights over unissued ordinary shares of ROC.

As at the date of this Directors’ Report, there were 6,060,000 LTI Rights over unissued ordinary shares of ROC.

Indemnification of Directors and Officers

The Company's Constitution provides that the Company indemnifies, on a full indemnity basis and to the full extent permitted by law, all past and present directors, executives and secretaries of all the companies in the Group, for all losses or liabilities incurred by the person as an officer of a company in the Group.

The Constitution also permits the Company to purchase and maintain a directors' and officers' insurance policy. During the year, the Company paid premiums in respect of directors' and officers' liability and legal expenses insurance contracts. A condition of the contracts is that the nature of the liability indemnified and premium payable is not disclosed.

The Company has also entered into Deeds of Access, Insurance and Indemnity with each of the Directors referred to in this report that held office during the year and certain senior executives of the Group indemnifying each against all liabilities incurred in their capacity as an officer of the Company to the full extent permitted by law.

Proceedings

As at the date of this report the Company is not aware of any proceedings brought on behalf of the Company or instituted against the Company.

Rounding

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, and, in accordance with the Corporation Instrument, amounts in this report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 6.

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* and forms part of the financial statements.

On behalf of the Directors:

Dr Yuanlin Jiang
Chief Executive Officer

Sydney, 20 March 2018

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Auditor's Independence Declaration to the Directors of Roc Oil Company Limited

As lead auditor for the audit of Roc Oil Company Limited for the financial year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Roc Oil Company Limited and the entities it controlled during the financial year.

Ernst & Young

Trent van Veen
Partner
20 March 2018

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 2017.

FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income

The Group reported a net profit after income tax of US$38.9 million (2016: US$4.1 million). The Group's gross profit was US$55.6 million (2016: US$19.7 million).

Included in the overall result were items relating to:

- Interest income from bonds of US$6.0 million;
- Net foreign exchange gain of US$6.7 million; and
- Gain on sale of Cliff Head asset of US$2.5 million,
- offset by:
- Exploration expense of US$6.4 million;
- Impairment of Seadrill Limited bond of US$4.1 million; and
- Loss on foreign exchange derivative of US$2.7m.

Sales and Production Growth

The Group recorded reliable performance from its producing assets, with working interest production of 2.6 MMBOE (7,219 BOEPD) (2016: 2.7 MMBOE; 7,324 BOEPD), down 1.4% compared to the prior year. ROC's closing balance economic interest 2P reserves at 31 December 2017 was 19.0 MMBOE.

Oil and gas sales revenue of US$130.7 million (2016: US$99.6 million) was generated from sales volume of 2.7 MMBOE (2016: 2.6 MMBOE), which achieved an average realised oil price of US$52.79/BBL (excluding oil hedge) (2016: US$40.03/BBL). Operating costs of US$75.1 million (2016: US$79.9 million) which comprises production costs of US$34.9 million (US$13.23/BOE); amortisation costs of US$38.7 million (US$14.7/BOE), and special oil income levy, supplemental taxes and royalty of US$1.7 million offset by stock movements of US$0.2 million.

Exploration Expensed

Exploration and evaluation expenditure of US$9.0 million (2016: US$11.0 million) was incurred during the period, attributable to Pearl River Mouth Blocks 03/33 and 16/07 and new venture costs. US$6.4 million was expensed and written-off (2016: US$5.2 million) and US$2.5 million was capitalised in relation to the acquisition of seismic data for the Pearl River Mouth Block 03/33.

Income Tax

An income tax expense of US$11.2 million (2016: US$3.1 million) was incurred during the period, which included a current tax expense of US$0.8 million and a deferred tax expense of US$10.4 million. The net tax paid during the year was US$0.6 million (2016: US$0.4 million).

Consolidated Statement of Cash Flows

Net cash generated from operating activities was US$66.6 million (2016: US$24.7 million). During the year, funds were primarily used for development expenditure of US$44.4 million (2016: US$25.0 million); investment in bonds of US$21.4 million (2016: US$40.3 million); exploration expenditure initially capitalised US$2.5 million (2016: US$5.8 million); and provision of a loan to Fosun Group of US$20.0 million, offset by return of investment from BC Petroleum of US$1.3 million (2016: US$63.2) and sale of Cliff Head asset of US$2.1 million.

CORPORATE ACTIVITY

Health, Safety and Environment ('HSE')

ROC had no lost time injuries during 2017. No Tier 1 or Tier 2 process safety events occurred at its operated assets. ROC has now completed more than three years without a lost time injury at its operated assets.

Discussion and Analysis of Financial Statements

Implementation of our HSE Management Systems, HSE Expectations and Asset Integrity Management system progressed at our operations in Malaysia. A corporate HSE and process safety audit was conducted at the J4 well abandonment and drilling project in Malaysia.

Sale of Cliff Head

During the period, ROC executed a Share Purchase Agreement with Triangle (Perth Basin) Pty Ltd and Royal Energy Pty Ltd for the sale of Roc Oil (WA) Pty Limited which held a 42.5% interest in the Cliff Head Oil Field. The transaction completed on 22 May 2017. The net gain on the sale was US$2.5 million.

Oil Price Hedging

Consistent with ROC's oil price hedging strategy, as at 31 December 2017, ROC held Brent oil price swap contracts for 0.8MMBBL at an average price of US$58.38/BBL. During the period, 0.6MMBBL of oil price were settled, resulting in a cash outflow of US$1.0 million. At the end of the period, the mark-to-market position of ROC's remaining oil price hedge was a liability of US$5.2 million (2016: US$1.6 million).

Foreign Exchange Derivatives

ROC invests in foreign currency denominated bonds and is subject to foreign exchange exposure on these investments. ROC enters into foreign exchange collar options to manage some of its foreign exchange investment exposure. These foreign exchange collar option contracts are not designated as a cash flow hedge. At 31 December 2017, the mark-to-market position of ROC's remaining foreign exchange collar options was a liability of US$1.9 million (2016: Nil). During the period, a loss of US$0.8 million was realised on foreign exchange contracts.

OPERATIONAL OVERVIEW

Production and Development

The Group incurred US$34.9 million in production costs (2016: US$39.5 million) and US$49.2 million (2016: US$21.1 million) in development expenditure during 2017. Development costs primarily related to the development of D35/D21/J4 Oil Fields.

Zhao Dong Oil Fields, Bohai Bay, Offshore China

ROC's working interest in oil production from the C and D Fields (24.5%), the C4 unitised field (11.667%) and Zhanghai Block (39.2%) averaged 2,104 BOPD, down 13% compared to the previous year as a result of natural field decline and three development wells were drilled in late 2017.

Cliff Head Oil Field, WA-31-L, Offshore Western Australia (42.5% and Operator)

ROC's working interest in oil production from the Cliff Head Oil Field averaged 180 BOPD.

D35/D21/J4, Offshore Malaysia (ROC: 30% & Project Development Manager)

ROC's working interest in oil production from the D35/D21/J4 Fields averaged 3,303 BOEPD, up 25% compared to the previous year.

Development expenditure of US$42.1 million (2016: US$21.8 million) was incurred.

During the year, ROC completed four production wells in D21 successfully. The drilling rig moved to J4 location in December and commenced drilling of four new wells (two producers and two injectors).

WZ 6-12 and WZ 12-8 West Oil Field Development, Beibu Gulf, Offshore China (19.6%)

ROC's working interest in oil production from the Beibu Oil Field averaged 1,632 BOEPD, down 7% compared to last year due to natural decline.

Exploration and Appraisal

The Group incurred US$9.0 million (2016: US$11.0 million) in exploration and evaluation expenditure during 2017.

Pearl River Mouth Blocks 03/33 & 16/07 (100% and Operator)

Drilling planning is in progress with operations planned for 1H2018.

Beibu Gulf, Offshore China (40% and Operator)

Work commenced on the Overall Development Plan for the development of the WZ12-8E discovery.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Sales revenue	*3*	**130,672**	**99,609**
Operating costs	*4*	(75,089)	(79,887)
Gross profit		**55,583**	**19,722**
Interest income		6,033	2,631
Loss on derivatives		(2,707)	(328)
Gain on sale of subsidiary		2,480	-
Exploration expensed and written off	*11*	(6,425)	(5,227)
Impairment of investment in bonds		(4,082)	-
Foreign Exchange gain/(loss)		6,683	(3,778)
Other costs	*5*	(5,501)	(4,037)
Finance costs	*6*	(2,010)	(1,830)
Profit before income tax		**50,054**	**7,153**
Income tax expense	*7*	(11,192)	(3,095)
Net profit		**38,862**	**4,058**
Other comprehensive gain			
Foreign currency translation reserve on sale of subsidiary		2,018	-
Net movement on cash flow hedges		(3,701)	(1,181)
Other comprehensive loss net of tax		**(1,683)**	**(1,181)**
Total comprehensive profit		**37,179**	**2,877**

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 US$'000	2016 US$'000
Current assets			
Cash assets	*8*	26,923	45,563
Trade and other receivables		28,719	22,899
Loan to related party	*18*	20,458	-
Inventories		1,836	1,863
Other financial assets	*9*	36,690	57,458
Total current assets		**114,626**	**127,783**
Non-current assets			
Oil and gas assets	*10*	144,429	139,121
Exploration and evaluation assets	*11*	8,801	11,281
Property, plant and equipment	*12*	156	217
Deferred tax assets	*7*	-	1,831
Other financial assets	*9*	62,571	18,225
Investments in associate companies		942	2,284
Total non-current assets		**216,899**	**172,959**
Total assets		**331,525**	**300,742**
Current liabilities			
Trade and other payables	*14*	15,424	14,703
Derivatives	*15*	7,120	1,559
Current tax liabilities	*7*	237	317
Provisions	*16*	3,843	8,064
Total current liabilities		**26,624**	**24,643**
Non-current liabilities			
Deferred tax liabilities	*7*	11,640	2,697
Provisions	*16*	16,869	34,189
Total non-current liabilities		**28,509**	**36,886**
Total liabilities		**55,133**	**61,529**
Net assets		**276,392**	**239,213**
Equity			
Share capital	*17*	734,150	734,150
Accumulated losses		(480,207)	(519,069)
Other reserves		22,449	24,132
Total equity		**276,392**	**239,213**

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2017

	Note	Inflow/ (Outflow) 2017 US$'000	Inflow/ (Outflow) 2016 US$'000
Cash flows from operating activities			
Cash generated from operations		77,956	33,099
Payments for exploration and evaluation expenses		(6,354)	(6,108)
Net financing (costs)/income		(414)	1,932
Interest received		3,425	-
Payments made for abandonment costs		(6,412)	(3,854)
(Payments)/proceeds from derivatives		(1,009)	51
Income taxes and PRRT paid		(598)	(382)
Net cash generated from operating activities		**66,594**	**24,738**
Cash flows from investing activities			
Payments for plant and equipment		(205)	(19)
Payments for development expenditure		(44,373)	(24,957)
Payments for exploration and evaluation expenditure initially capitalised		(2,535)	(5,766)
Proceeds from sale of exploration and development assets		2,125	2,000
Related party transaction – Loan		(20,000)	-
Related party transaction – Dividend		-	(45,000)
Investment in Bonds		(21,362)	(40,315)
Proceeds from return of investment in associate company		1,343	63,187
Net cash used in investing activities		**(85,007)**	**(50,870)**
Net decrease in cash held		**(18,413)**	**(26,132)**
Cash at beginning of financial year		45,563	72,608
Effect of exchange rate changes on the balance of cash held in foreign currencies		(227)	(913)
Cash at end of financial year	*8*	**26,923**	**45,563**

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2017

	Share Capital US$'000	Accumulated Losses US$'000	Share Equity Reserve US$'000	Hedge Reserve US$'000	Foreign Currency Translation Reserve US$'000	Total US$'000
Balance at 1 January 2016	**734,150**	**(478,127)**	**18,883**	**-**	**6,430**	**281,336**
Total comprehensive profit/(loss) net of tax	-	4,058	-	(1,181)	-	2,877
Dividend payment	-	(45,000)	-	-	-	(45,000)
Balance at 31 December 2016	**734,150**	**(519,069)**	**18,883**	**(1,181)**	**6,430**	**239,213**
Total comprehensive profit/(loss) net of tax	-	38,862	-	(3,701)	2,018	37,179
Balance at 31 December 2017	**734,150**	**(480,207)**	**18,883**	**(4,882)**	**8,448**	**276,392**

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of preparation

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

The financial report is presented in USD. All values are rounded to the nearest thousand dollars (US$'000) unless otherwise stated under the option available to the Company under the ASIC Corporation Instrument 2016/191. The Company is an entity to which the Corporation Instrument applies.

The financial statements were authorised for issue on 20 March 2018 by the Board.

Statement of compliance

The Group has adopted AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements for the financial year beginning on 1 January 2014.

The Group is a for-profit, private sector entity which is not publicly accountable. Therefore, the consolidated financial statement for the Group are tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements (AASB – RDRs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporation Act 2001*.

The adoption of AASB 1053 and AASB 2010-2 allows Roc Oil Company Limited to remove a number of disclosures. Other than the accounting standards adopted as noted above, there are no new accounting standards that have a material impact to the financial statements.

Basis of consolidation

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

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

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.

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, 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 underway 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.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

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 in the current and prior year:

- 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 Consolidated Statement of Comprehensive Income in equal instalments over the term of the lease.

Oil and gas stock and materials inventories

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

Under/overlift

Lifting or offtake arrangements for oil produced in jointly-owned operations are 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 Consolidated Statement of Comprehensive Income in operating costs.

Financial assets

Financial assets are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the Consolidated Statement of Comprehensive Income in finance costs for loans and in cost of sales or other operating expenses for receivables.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired.

Investments

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

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. Where no restoration asset exists, the corresponding adjustment is recognised in the Consolidated Statement of Comprehensive Income. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

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.

Cash and cash equivalents

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

Investments in associate companies

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

Trade receivables

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

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 Consolidated Statement of Comprehensive Income whenever the carrying amount of the asset or cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

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

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

Provisions

Provisions are recognised when the Group 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.

Revenue

Sales

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

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

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

Interest

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

Dividends

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

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

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.

Share-based payment transactions

Share-based compensation benefits are provided to employees via the Long Term Incentive Plan and the Short Term Incentive Plan.

Any equity-settled transactions with employees under the Long Term Incentive Plan are measured by reference to the fair value at the date at which they are granted. 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.

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

- the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associate companies and interests in joint operations, 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 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 date.

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

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

Petroleum Resource Rent Tax

Petroleum Resource Rent Tax ('PRRT') is accounted for as income tax.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

Goods and services tax

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

Cash flows are included in the Consolidated Statement of Cash Flows 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.

Derivative financial instruments

Oil Price Collar Options – designated as hedging instrument

The Group uses Oil Price Collar Option financial instruments to hedge its risks associated with crude oil price fluctuations during the period. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured to fair value.

Oil Price Collar options have been designated as cash flow hedge instruments. Changes in the fair value of the hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (revenue) when the forecast transaction occurs.

Each designated cash flow hedge is tested for hedge effectiveness at each balance date, both retrospectively and prospectively, by using the dollar offset method regression analysis. If the testing falls within the 80:125 range, the hedge is considered to be highly effective and continues to be designated as a cash flow hedge.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if it no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction occurs.

Foreign Exchange Collar Options – fair value through profit & loss (FVTPL)

The Group uses foreign exchange collar option financial instruments to act as a natural hedge against its risks associated with foreign currency fluctuations during the period. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured to fair value.

Derivative financial instruments relating to foreign exchange collar options have been designated as financial liabilities fair valued through profit and loss. Changes in the fair value of the financial instrument are recognised in the statement of comprehensive income.

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 consolidated financial statements are presented in United States dollars, which is ROC's functional currency.

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

- a significant portion of ROC's activity is denominated in US$;
- a significant portion of ROC's assets and liabilities is denominated in US$; 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 Consolidated Statement of Comprehensive Income.

Group companies

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

- assets and liabilities for each Statement of Financial Position are translated at the closing rate at the date of that Statement of Financial Position;

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

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

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

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.

Interests in joint arrangements

Interests in joint 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 operation and its share of any income and expenses incurred.

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 acquirer's identifiable assets, liabilities and contingent liabilities.

Note 2. Significant Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with 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 various other 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 the 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. 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 Consolidated Statement of Comprehensive Income.

(b) Significant accounting estimates and assumptions

Impairment of assets

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

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

Notes to the Consolidated Financial Statements

Note 2. Significant Accounting Judgements, Estimates and Assumptions *continued*

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 details regarding the policy in respect of the provision for restoration, refer to Note 1.

Reserve estimates

Estimates of recoverable quantities of proved 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, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the Consolidated Statement of Comprehensive Income. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

Note 3. Sales Revenue

	2017 US$'000	2016 US$'000
Oil Revenue	127,149	98,266
Gas Revenue	3,684	1,343
Hedging Loss	(161)	-
	130,672	**99,609**

Note 4. Operating Expense

	2017 US$'000	2016 US$'000
Production costs	34,854	39,548
Amortisation	38,733	40,523
Other	1,502	(184)
	75,089	**79,887**

Note 5. Other Costs

	2017 US$'000	2016 US$'000
Operating lease expenses	262	225
Depreciation	69	74
General and administration costs	5,170	3,738
	5,501	**4,037**

Notes to the Consolidated Financial Statements

Note 6. Finance Costs

	2017 US$'000	2016 US$'000
Unwinding of discount – restoration provision	1,262	1,402
Other finance costs	748	428
	2,010	**1,830**

Note 7. Tax

(a) Composition of income tax

	2017 US$'000	2016 US$'000
Income tax charge – current period	(784)	(316)
Deferred income tax – current period	(10,743)	(3,860)
Deferred income tax – PRRT	335	1,081
Income tax expense	**(11,192)**	**(3,095)**

(b) Recognised tax liabilities and assets

	2017 Current Tax Liabilities US$'000	2017 Net Deferred Income Tax Liabilities US$'000	2016 Current Tax Liabilities US$'000	2016 Net Deferred Income Tax Liabilities US$'000
Opening balance	(317)	(866)	(237)	2,157
Charged	(784)	(10,408)	(317)	(2,778)
Cash payments	598	-	382	-
Asset sold	89	(1,250)	-	-
Utilised losses	163	(163)	-	-
Translation gain/(loss)	14	1,047	(145)	(245)
	(237)	**(11,640)**	**(317)**	**(866)**

Deferred income tax at 31 December relates to the following:

	Consolidated Statement of Financial Position	
	2017 US$'000	2016 US$'000
(i) Deferred tax assets		
Asset timing differences	-	(3,843)
Tax losses recognised	-	4,596
PRRT	-	1,078
Net deferred tax assets	**-**	**1,831**
(ii) Deferred tax liabilities		
Asset timing differences	(30,933)	(7,915)
Tax losses recognised	12,223	4,884
Provisions	7,070	334
Net deferred tax liabilities	**(11,640)**	**(2,697)**
Total net deferred tax liabilities	**(11,640)**	**(866)**

Notes to the Consolidated Financial Statements

Note 7. Tax *continued*

(c) Tax losses

Tax losses not recognised – revenue	**81,038**	**83,032**

Income tax reconciliation

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

	2017 US$'000	2016 US$'000
Profit before income tax	50,054	7,153
Prima facie income tax (expense)/benefit calculated as 30% of profit before income tax	(15,016)	(2,146)
Tax effect of adjustments		
Non-deductible expenses	(686)	(556)
Overseas tax rate differential	(169)	(431)
Tax losses not brought into account	3,176	2,275
Other	1,503	(2,237)
Income tax expense	**(11,192)**	**(3,095)**

Note 8. Cash Assets

	2017 US$'000	2016 US$'000
Cash and cash equivalents	26,923	45,563
	26,923	**45,563**

Note 9. Other Financial Assets - Bonds

	2017 US$'000	2016 US$'000
Investment in bonds – Current	36,690	57,458
Investment in bonds – Non Current	62,571	18,225
	99,261	**75,683**

These financial assets are non-derivative financial assets, initially recognised at fair value, and carried at amortised cost. These assets generate a fixed interest income for the Group. The carrying value of these assets may be affected by changes in the credit risk of the counterparties.

Notes to the Consolidated Financial Statements

Note 10. Oil and Gas Assets

	2017 US$'000	2016 US$'000
Costs		
Opening balance	898,193	856,367
Development expenditure incurred	49,206	21,094
Increase in restoration asset	4,916	20,732
Transferred from exploration and evaluation assets	5,015	-
Asset disposal	(139,870)	-
Total	**817,460**	**898,193**
Accumulated amortisation		
Opening balance	(759,072)	(718,549)
Charge	(38,733)	(40,523)
Asset disposal	124,774	-
Total	**(673,031)**	**(759,072)**
Net book value	**144,429**	**139,121**

In 2017, ROC completed the sale of Roc Oil (WA) Pty Limited which held a 42.5% interest in the Cliff Head oil field. ROC received consideration of US$2.1 million from the buyers. ROC recorded a gain on the sale of US$2.5 million in the period.

Note 11. Exploration and Evaluation Assets

	2017 US$'000	2016 US$'000
Opening balance	11,281	5,514
Expenditure incurred	8,960	10,994
Transfer to oil and gas assets	(5,015)	-
Amounts expensed and written-off	(6,425)	(5,227)
	8,801	**11,281**

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 12. Plant and Equipment

	2017 US$'000	2016 US$'000
Costs		
Opening balance	2,449	2,430
Expenditure incurred	8	19
Disposal	-	-
Costs at 31 December	**2,457**	**2,449**
Accumulated depreciation		
Opening balance	(2,232)	(2,158)
Charge	(69)	(74)
Disposal	-	-
Accumulated depreciation at 31 December	**(2,301)**	**(2,232)**
Net book value	**156**	**217**

Notes to the Consolidated Financial Statements

Note 13. Controlled Entities

	Country of Incorporation	Ownership and Voting Interest 2017 %	Ownership and Voting Interest 2016 %
Name of entity			
Parent entity			
Roc Oil Company Limited	Australia		
Controlled entities			
Roc Oil (WA) Pty Limited	Australia	-[1]	100
Roc Oil Australia Holdings Pty Ltd	Australia	100	100
Roc Oil (Gippsland) Pty Limited	Australia	-[2]	100
Roc Oil International Holdings Pty Ltd	Australia	100	100
Roc Oil (Finance) Pty Limited	Australia	100	100
Anzon Energy Pty Limited	Australia	100	100
Roc Oil (VIC) Pty Limited	Australia	100	100
Roc Oil (Ventures) Pty Limited	Australia	100	100
Roc Oil (Tasman) Pty Limited	Australia	100	100
Roc Oil (Malaysia) Pty Limited	Australia	100	100
Roc Oil Malaysia (Holdings) Sdn Bhd	Malaysia	100	100
Roc Oil (Sarawak) Sdn Bhd	Malaysia	100	100
Roc Oil Holdings (Cayman Islands) Company	Cayman Islands	100	100
Roc Oil (Bohai) Company	Cayman Islands	100	100
Roc Oil (China) Company	Cayman Islands	100	100
Roc Oil (Cabinda) Company	Cayman Islands	100	100
Roc Oil (Mauritania) Company	Cayman Islands	-[2]	100
Roc Oil (Equatorial Guinea) Company	Cayman Islands	-[2]	100
Roc Oil (Angola) Limited	Cayman Islands	100	100
Lacula Oil Company Ltd	Cayman Islands	100	100
Roc Oil (Falklands) Limited	United Kingdom	100	100
Roc Oil (Europe) Limited	United Kingdom	100	100
Roc Oil (North Sea) Limited	United Kingdom	-[2]	100
Roc Oil (Chinguetti) B.V.	Netherlands	100	100

[1] Sold during the period
[2] Liquidated during the period

Note 14. Trade and Other Payables

	2017 US$'000	2016 US$'000
Trade and other payables	11,986	8,904
Accrued liabilities	3,438	5,799
	15,424	**14,703**

Notes to the Consolidated Financial Statements

Note 15. Derivative Financial Instruments

	2017 US$'000	2016 US$'000
Foreign Exchange Collar Options – FVTPL	1,887	-
Oil Price Collar Options – designated as hedging instrument	5,233	1,559
	7,120	**1,559**

Derivatives designated as Fair Value through Profit and Loss

The Group invests in foreign currency-denominated bonds and is subject to foreign exchange exposure on these investments. The Group enters into foreign exchange collar options to manage some of its foreign exchange investment exposure. The foreign exchange collar option contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months.

Derivatives designated as hedging instruments

The Group, through its operations, is subject to changes in commodity prices through the sale of its oil. The Group enters into oil price collar options to manage its commodity price exposure. The balance of derivative liability reflected in the statement of financial position reflects the fair value of oil price collar option contracts, designated as cash flow hedges to hedge future oil sales in USD. The oil price collar option contracts do not result in physical delivery of oil, but are designated as cash flow hedges to offset the effect of price changes in oil.

Note 16. Provisions

	Employee Benefits US$'000	Restoration US$'000	Total US$'000
Balance at 1 January 2017	1,125	41,128	42,253
Additions	578	3,545	4,123
Unwinding of discount	-	1,262	1,262
Disposed during the period	-	(18,220)	(18,220)
Utilised	(624)	(8,181)	(8,805)
Translation adjustments	99	-	99
Balance at 31 December 2017	**1,178**	**19,534**	**20,712**
Current – 2017	545	3,298	3,843
Non-current – 2017	633	16,236	16,869
Total 2017	**1,178**	**19,534**	**20,712**
Current – 2016	491	7,573	8,064
Non-current – 2016	634	33,555	34,189
Total 2016	**1,125**	**41,128**	**42,253**

In 2017, ROC completed the sale of Roc Oil (WA) Pty Limited which held a 42.5% interest in the Cliff Head oil field. ROC received consideration of US$2.1 million from the buyers. ROC recorded a gain on the sale of US$2.5 million in the period.

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.

Note 17. Share Capital

	2017 Number of Shares	2016 Number of Shares	2017 US$'000	2016 US$'000
Balance at beginning of financial year	687,618,400	687,618,400	734,150	734,150
Balance at end of financial year	**687,618,400**	**687,618,400**	**734,150**	**734,150**

Notes to the Consolidated Financial Statements

Note 18. Related Party Disclosures

Loans to related parties

At 31 December 2017, there was a $20 million loan outstanding from Fosun Gold Holdings Limited, a subsidiary of Fosun International Limited. The loan is payable on demand. Interest is charged at daily LIBOR rate plus 2.5% margin. Interest of $458,417 was charged and is outstanding at 31 December 2017.

The ultimate parent

The ultimate parent of the Group is Fosun International Limited.

Loan to key management personnel ('KMP')

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

KMP Total Remuneration

The aggregate of compensation of the KMPs of the Group is set out below:

	2017 US$	2016 US$
Total Compensation	**1,906,192**	**1,725,389**

Note 19. Commitments for Expenditure

(a) Capital commitments

	2017 US$'000	2016 US$'000
No longer than one year		
Joint operations	23,775	4,035
Longer than one year but not longer than five years		
Joint operations	27,000	59,330
	50,775	**63,365**

(b) Operating lease expenditure commitments

No longer than one year	592	1,010
Longer than one year but not longer than five years	135	370
Longer than five years	28	-
	755	**1,380**

Notes to the Consolidated Financial Statements

Note 20. Joint Operations

The Group has an interest (rounded to two decimal places) in the following joint operations as at 31 December 2017:

Country	Block	Principal Activities	Interest 2017 %	Interest 2016 %
Australia	WA-31-L (Cliff Head)	Oil production	-[4]	42.50
	L14 (Jingemia)	Oil production	-[4]	0.25
China	Beibu Gulf Development Areas (formerly Block 22/12)	Oil and gas development/production	40.00/19.60[1]	40.00/19.60[1]
	Zhao Dong Block (C and D Fields/C4 Field)	Oil development/production	24.50/11.67[2]	24.50/11.67[2]
	Chenghai and Zhanghai Blocks	Oil appraisal/development	80.00/39.20[3]	80.00/39.20[3]
	Pearl River Block 03/33	Exploration	100.00	100.00
	Pearl River Block 16/07	Exploration	100.00	100.00
Malaysia	D35/D21/J4	Oil and gas development/production	30.00	30.00

Notes:

1. Interest in field development post-government back-in.
2. Unitised interest in the C4 Field.
3. Interest in development/production following government back-in.
4. Sold during the period.

The Group's interest in the joint operations is accounted for via recognition of the Group's share of assets, liabilities, revenue and expenses.

Note 21. Associate Companies

Details of investments in associate companies are as follows:

Name of Associate Company	Country of Incorporation	Principal Activity	Balance Date	Beneficial Interest in Ordinary Shares at 31 December	
				2017 %	2016 %
Croft Exploration Limited	UK	Dormant	31 December	-[1]	50
BC Petroleum Sdn Bhd	Malaysia	Dormant	31 December	48	48

Note:

1. Liquidated during the period.

The Group's interest in the associate companies is accounted for using the equity accounting method.

Note 22. Contingent Liabilities

In accordance with normal oil and gas industry practice, the Group has entered into joint operations and farm-in agreements with other parties for the purpose of exploring and developing its licence interests. If a party to a joint operation defaults and does not contribute its share of joint operation obligations, then the other joint operations parties 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.

Notes to the Consolidated Financial Statements

Note 23. Information Relating to Roc Oil Company Limited ('parent entity')

	2017 US$'000	2016 US$'000
Current assets	209,204	194,035
Total assets	222,266	218,936
Current liabilities	897	682
Total liabilities	1,530	1,316
Net assets	**220,736**	**217,620**
Share capital	734,150	734,150
Accumulated losses	(601,880)	(559,996)
Dividend paid	-	(45,000)
Share equity reserves	18,882	18,882
Foreign currency translation reserves	69,584	69,584
Total equity	**220,736**	**217,620**
Net profit of the parent entity	3,116	34,526
Total comprehensive profit of the parent entity	3,116	34,526

Note 24. Subsequent Events

No events have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Note 25. Additional Company Information

The Company is a public company and is incorporated in Australia and operates in Australia and overseas.

The registered office and principal place of business is:

Level 12

20 Hunter Street
Sydney NSW 2000
Australia.

Telephone number: +61 2 8023 2000

ABN: 32 075 965 856

Directors' Declaration

The Directors declare that:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards – Reduced Disclosure Requirement and the Corporations Regulations 2001;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Directors:

Dr Yuanlin Jiang
Chief Executive Officer

Sydney, 20 March 2018

Building a better
working world

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Independent auditor's report to the members of Roc Oil Company Limited

Opinion

We have audited the financial report of Roc Oil Company Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Trent van Veen
Partner
Sydney
20 March 2018

AUD/A$ or cents	Australian currency
BBL(s)	Barrel(s), an oil barrel is equivalent to 0.159 cubic metres
BCP	BC Petroleum Sdn Bhd
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
Economic interest	The working interest share of production which is adjusted for production that is delivered to host governments under the petroleum contracts.
FVTPL	Fair value through profit & loss
Group	Parent entity and its subsidiaries
GST	Goods and services tax
HSE	Health, Safety & Environment
IFRS	International Financial Reporting Standards
MMBBL	One million barrels of oil
MMBOE	One million barrels of oil equivalent
NGL	Natural gas liquid
Possible reserves	An incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable reserves	An incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Proved reserves	An incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Proved Reserves are those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs under defined economic conditions, operating methods and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as “Proven”.
PSC	Production Sharing Contract
Reserves	Are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: They must be discovered, recoverable, commercial and remaining (as of a given date) based on the development project(s) applied
ROC	Roc Oil Company Limited
USD/US$ or cents	United States currency
1P	Proven reserves
2P	Proved and probable reserves
3P	Proved and probable and possible