roc

teams work

Annual Report 2010

ROC's strengths include our quality technical teams and regional focus. Our teams' operating capabilities, technical innovation and strong industry partnerships help differentiate ROC in our focus region of China, South East Asia and Australasia.

Contents

This year, we have taken the opportunity to develop a business strategy which capitalises on these strengths, encouraging our teams to work more effectively in creating value for shareholders.

By leveraging ROC's:

- competitive advantages and distinctive industry position;
- technical capabilities and operating experience;
- established industry relationships; and
- regional focus on China, South East Asia and Australasia.

Generate opportunities

1

Since 1999, ROC has developed a unique set of competitive advantages and now holds a distinctive industry position for a company of its size.

ROC has established global industry relationships. Of particular importance are the existing relationships we have with national oil companies through joint ventures, including: PetroChina and Sinochem at Zhao Dong; CNOOC in the Beibu Gulf; Petronas in Mauritania; and Pertamina in Australia.

ROC has been an upstream operator for 12 years. We have the technical capabilities and skill-sets to operate across the full range of upstream business activities, from frontier exploration, through development to production and delivery. There are few other Australian upstream companies of similar size that are able to operate and deliver this full asset lifecycle performance.

We discovered, appraised, developed and now operate the Cliff Head oil field. As operator of the Zhao Dong oil fields, we have doubled facility capacity, successfully managed annual development drilling programmes since 2006 and consistently met production forecasts. We discovered and appraised the Beibu Gulf oil field, which will be developed over the next two years. We have also operated exploration programmes in challenging environments.

ROC has a clear focus on China, South East Asia and Australasia. We are aiming to sell non-core assets and to reinvest the funds into growth assets in the focus region.

ROC will focus on these strengths to generate opportunities to grow the Company.

- Gain new growth assets in the focus region;
- Expand the China business;
- Transform the exploration portfolio; and
- Sell non-core assets.

Capture

2

value

ROC is determined to improve shareholder returns. This will require new assets, existing business expansion and asset portfolio restructuring. We have identified key focus areas where our competitive advantages can capture value.

The upstream industry in several South East Asian countries is at a crossroads. The previously overlooked development of smaller marginal fields in these countries is now becoming an important focus for governments and national oil companies. ROC considers that it has the operational experience and technical capabilities to assist in the development of such marginal fields and is actively pursuing these opportunities.

ROC's relationship with our Chinese partners has the potential to provide business expansion. ROC is engaging with Chinese partners to assess new acreage and exploration opportunities with the aim of growing the business in this country.

Exploration will always be an important element of ROC's activities and we are transforming the exploration portfolio – moving out of riskier deep water plays in frontier regions and focusing on existing hydrocarbon provinces where costs are lower and timeframes to monetise discoveries are shorter.

- Continue to exploit the existing reserve base;
- Exercise commercial and financial discipline;
- Strive to be a leader in HSEC and sustainability; and
- Implement effective risk management.

3

Deliver

excellence

Once growth opportunities are identified and value is captured, ROC must ensure profitability is delivered.

Over the past few years, extracting value from our existing asset portfolio has been an important focus. The performance of the underlying business in 2010 (with the exception of the Basker-Manta-Gummy oil and gas fields – BMG) reflects these efforts. We have met production targets, increased reserves, successfully contained costs, controlled expenditures and improved commercial agreements.

We constantly strive to better our performance with regard to the safety of ROC's people and contractors, the environment and surrounding communities. Continuing to be identified as a responsible, capable and engaged operator is critical if we are to grow the business, especially given recent industry events. Following on from our inaugural Sustainability Report in 2009, this year we have again made a considerable effort to transparently report all our health, safety, environment and community (HSEC) activities for stakeholders – refer to the 2010 Sustainability Report.

ROC has a strong risk management discipline regarding safety, environmental, community and financial issues, as demonstrated by the decision to enter the BMG Phase-1 oil project into a non-production phase.

Enhance effectiveness

4

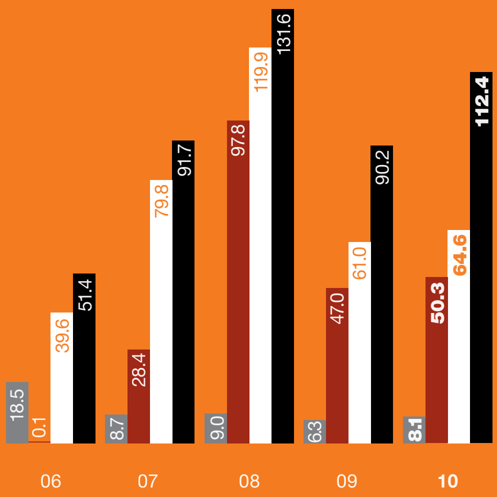
- Improve the deployment of our employees' range of skills across the business;
- Shape the organisation for sustainable growth;
- Utilise appropriate systems and processes; and
- Reinvigorate the leadership and culture.

Improving the effectiveness of our business and operational processes will be a particular focus in 2011. ROC employees have a proven range of skills that need to be deployed across the business in a collaborative way. This will require some restructuring of the organisation to better facilitate communication, and to clarify roles, responsibilities and accountability.

While ROC is a nimble organisation that can move quickly to take advantage of opportunities, we also need to be aware that our capacity has limits and boundaries if we are to grow the business sustainably. Implementing fit-for-purpose internal systems and processes will assist ROC to increase our capacity.

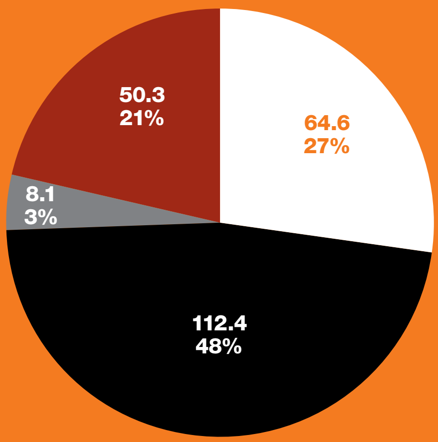
Reinvigoration of ROC's leadership and culture has already begun, with the appointment of Alan Linn as Chief Executive Officer in February 2011. A refreshed Executive Committee is supporting Alan in his efforts to restructure and grow the business. The clear internal communication of ROC's strategy is a priority, to ensure the staff understand how their own objectives are integral to the Company's ultimate goal to improve shareholder returns.

Key financial and operational achievements



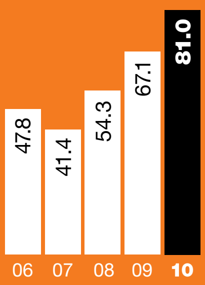
2006–2010 revenue, by region (US$m)

Africa UK Australasia China

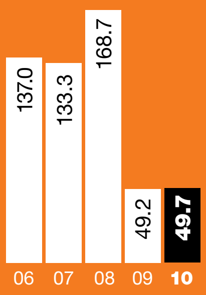


2010 revenue, by region (US$m)

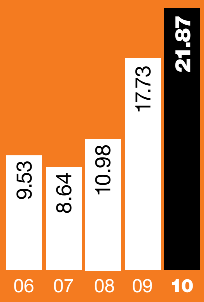
Australasia China Africa UK



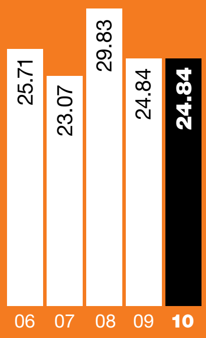
Cash position (US$m)



Debt position (US$m)

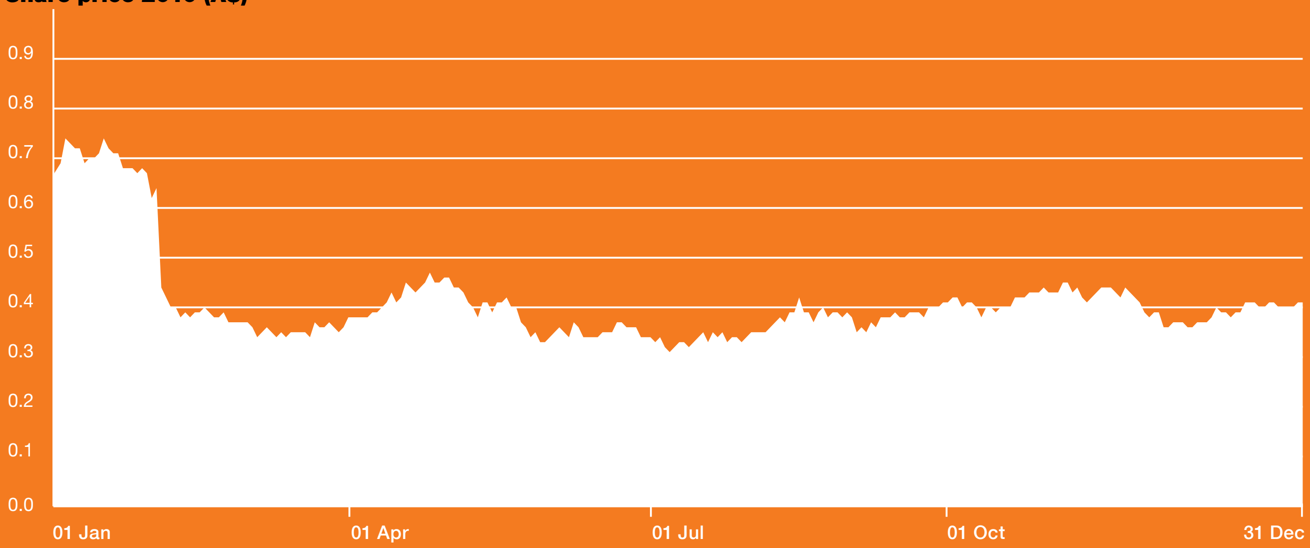


Production costs (US$/BOE)



Amortisation costs (US$/BOE)

Share price 2010 (A$)



17

% increase in year end remaining 2P Reserves

25,178

Average BOEPD production from ROC-operated assets

52

% of production from China assets

95

% increase in trading profit

35

Days of lost production at Zhao Dong due to winter weather

2,022,000

Man hours worked in 2010

5

% of remaining 2P Reserves hedged in 2011

54

% reduction in annual flared gas volumes

Chairman's report

The last year has been one of transition and the redirection of strategic priorities towards ROC's strengths. Our relationships with key partners in China and Australasia, together with our core operating skills and expertise have been important key elements in driving this strategic redirection.

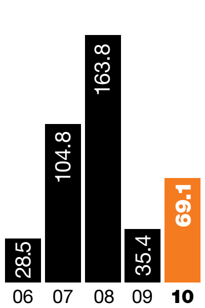
ROC's underlying production performance and cash flow generation in 2010 was encouraging; the reported loss of US$35.9 million largely reflected the need to draw a line under the BMG Phase-1 oil project. We have maintained a safe working environment for our employees and our environmental results continue to be strong.

The exit from the African assets is proceeding, although executing the sale of these assets is proving challenging due to the diverse locations and differing play-types that exist within the portfolio. The Board is focused on concluding this process by year end.

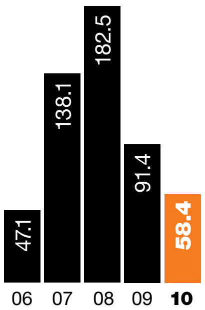
The Board and senior management undertook a detailed strategic evaluation of the Company over the last year, identifying and developing a number of growth initiatives focused, in particular, on China and South East Asia. Concluding the Final Investment Decision for the Beibu Gulf project was part of this strategy and we are confident that there will be further initiatives announced over coming months.

The single most important decision for a Board is choosing a new Chief Executive Officer. Following the announcement in November that Bruce Clement was resigning to take a new role elsewhere, the Board engaged Korn Ferry International Search consultants to conduct a wide-ranging international search. The Board's Nominations Committee reviewed the credentials of many applicants, conducted interviews of shortlisted candidates and, at the end of this three month process, recommended that Mr Alan Linn was the most appropriate candidate. He is an experienced international oil and gas industry executive, who has been with ROC since 2008 and was previously the Company's Chief Operating Officer.

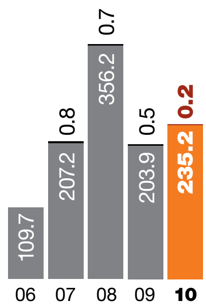
Our detailed strategic evaluation over the last year has identified a number of growth initiatives



Trading profit (US$m)



Operating cash flow (US$m)



Sales revenue (US$m)
Oil and liquids Gas

During the year we also advanced our stated strategy of Board renewal. We appointed two experienced non-executive Directors, Mr Graham Mulligan and Mr Chris Hodge. Both have made valuable contributions to the Board since their appointment.

Due to ROC's share price performance over the past year, the Board is acutely aware of the need to clearly communicate to the market the turnaround that is occurring at the Company and that legacy issues regarding certain assets have been addressed. Additionally, we need to demonstrate that the initiatives we are pursuing will ensure ROC's future as an expanding producer and explorer in China, South East Asia and Australasia. Our efforts are keenly focused on restoring shareholder value.

ROC's people are integral to successfully executing our strategy. The new CEO has outlined to the team what needs to be done and has explained the Company's new direction. All our employees made an enormous effort in 2010, sometimes in difficult circumstances, and the Board expresses our thanks.

Bruce Clement, who resigned at the end of January 2011, had been with the Company almost since its inception. On behalf of the Board, I would like to thank Bruce for his tireless efforts, in particular since he took over in mid-2008 in very difficult circumstances. We wish him well for the future.

In conclusion, I would like to thank my fellow Directors for their support and efforts during the year.

Shareholders should be aware that the Board is focused on increasing the momentum of the turnaround of your company. We have a reinvigorated senior management team and are introducing new initiatives aimed at restoring value to your shareholding.

Andrew Love
Chairman

Non-Executive Directors (L–R):

Andrew Love
Chairman
William Jephcott
Deputy Chairman
Robert Leon
Non-Executive Director
Sidney Jansma, Jnr
Non-Executive Director
Chris Hodge
Non-Executive Director
Graham Mulligan
Non-Executive Director

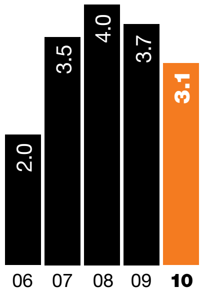
CEO's report

As ROC's new CEO, I want to ensure that shareholders gain a clear understanding of the strategy being implemented to accelerate the Company's business growth and deliver attractive shareholder returns.

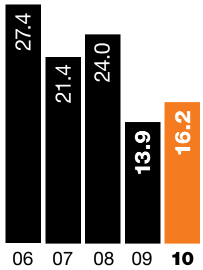
A key element of ROC's growth strategy is based upon our capabilities as an upstream operator of exploration, appraisal, development and production activities. As a "midcap" operator, ROC has consistently invested in business and operational systems and high calibre personnel to provide reliable and innovative operational management.

ROC began investing to improve operational capabilities before BP's Macondo well (Gulf of Mexico) and PTTEP's Montara well (Timor Sea) incidents and this timing has proved fortuitous. The tightening of regulatory environments in the industry in response to these incidents is making it more challenging to be an operator in the upstream business. The opportunity for non-operating upstream companies to grow and evolve as operators will become increasingly difficult. However, ROC expects that existing and recognised operators will increasingly have access to a growing list of attractive opportunities overlooked by larger companies, which now tend to be focused on large LNG, deep water and non-conventional plays. The opportunity set for ROC could include: operating for other similar sized non-operating companies; exploiting marginal greenfield and brownfield developments in mature oil provinces; exploiting near field exploration and appraisal opportunities within existing operations; and working with national oil companies on marginal fields. Through 2011 and beyond, ROC will be actively working to access these types of opportunities within China, South East Asia and Australasia, delivering reserve growth and future production.

Another element that will underpin ROC's transition to growth will be the divestment of several existing assets. ROC is actively marketing the sale of its African asset portfolio and seeking to reduce equity in the BMG Phase-2 gas development project. Restructuring the portfolio will assist ROC in reducing near term financial commitments in assets with longer term monetisation prospects and also potentially generate funding to support near term growth potential. The recently completed sale of the WA-351-P exploration permit, offshore Carnarvon Basin in Western Australia, was consistent with these objectives.



Production (MMBOE)



Remaining 2P Reserves (MMBOE)

A first step in building future company growth was obtaining the Final Investment Decision (FID) for the Beibu Gulf project in February 2011. First oil is expected before the end of 2012 and 4.7 MMBBL of 2P oil reserves have been booked for the project.

Part of ROC's efforts to bolster our operational capabilities is to constantly focus on the systems and processes that protect the safety of our employees, the surrounding environments and neighbouring communities. As an operator, effectively managing health, safety, environment and community issues is our highest priority – getting this right is essential to our business. Recognising that ROC operates a number of mature assets where risk needs to being actively managed, we have introduced an improved Asset Integrity Management System as a key building block in addressing overall business safety performance.

I look forward to reporting to you in the next Annual Report how ROC's unique growth strategy, underpinned by its operating capabilities, committed staff and the continued robust performance of the underlying business, has generated positive shareholder returns and value in 2011.

Alan Linn
Chief Executive Officer

ROC expects that existing and recognised operators will increasingly have access to a growing list of attractive opportunities

Executive Management Team (L–R):

Alan Linn
Chief Executive Officer

Ron Morris
President, Roc Oil (Bohai) Company

Anthony Neilson
Chief Financial Officer

Rolf Stork
General Manager, Operations

Leanne Nolan
Company Secretary and General Counsel

Matthew Gerber
General Manager, Corporate Affairs and Planning

Graham Griffin
Corporate Manager, Health, Safety and Environment

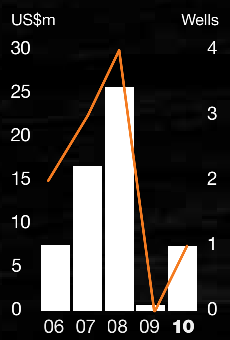
Lynne Evans
Corporate Manager, Human Resources and Administration

Summary of operations

ROC's underlying performance was broadly in line with expectations, underpinned by solid performances from the ROC-operated Zhao Dong and Cliff Head assets. The development drilling programme at Zhao Dong was delivered on schedule and within budget and ensured that this asset's annual production target was achieved despite weather-related operational challenges at the beginning of the year. The completion of well workovers at Cliff Head in early 2010 ensured that this asset recorded a year-on-year increase in the average production rate.

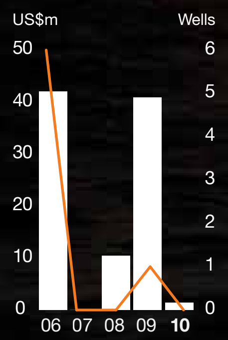
ROC made positive progress with the Beibu Gulf project and the joint venture approved a Final Investment Decision in February 2011. ROC has now booked working interest 2P Reserves of 4.7 MMBBL for this project. ROC had remaining 2P Reserves of 16.2 MMBOE at 31 December 2010.

Australasia



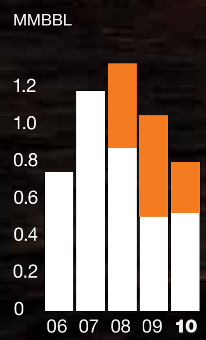
Exploration

■ Expenditure — Wells



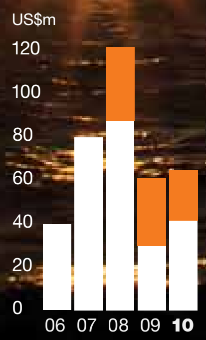
Development

■ Expenditure — Wells



Production

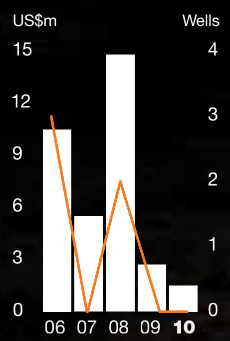
■ Cliff Head ■ BMG



Revenue

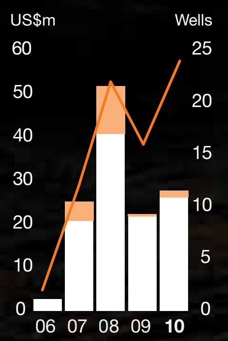
■ Cliff Head ■ BMG

China



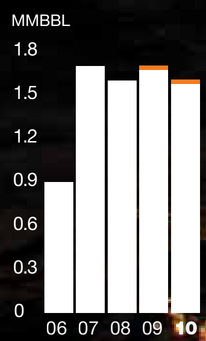
Exploration

■ Expenditure — Wells



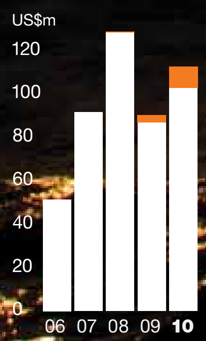
Development

■ Zhao Dong C&D
■ Zhao Dong C4 — Wells



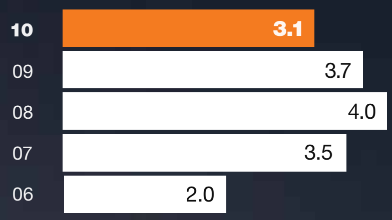
Production

■ Zhao Dong C&D
■ Zhao Dong C4

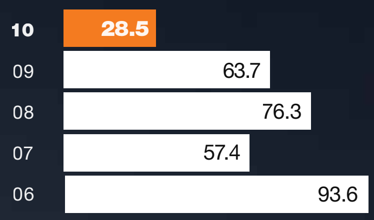


Revenue

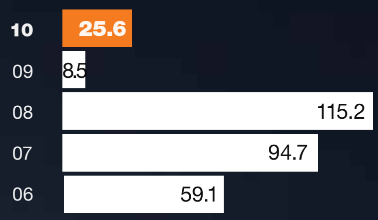
■ Zhao Dong C&D
■ Zhao Dong C4



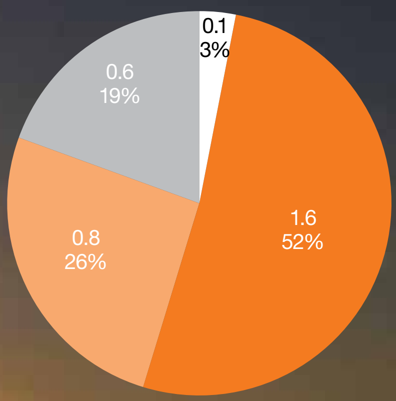
Production – five-year summary (MMBOE)



Development expenditure – five-year summary (US$m)

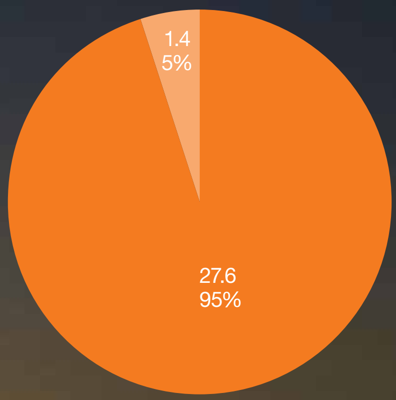


Exploration expenditure – five-year summary (US$m)



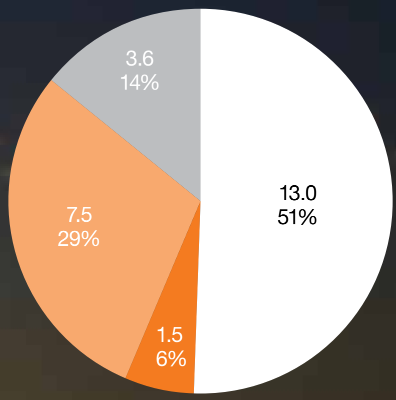
2010 production – by region (MMBOE)

■ Africa ■ China ■ Australasia ■ UK



2010 development expenditure – by region (US$m)

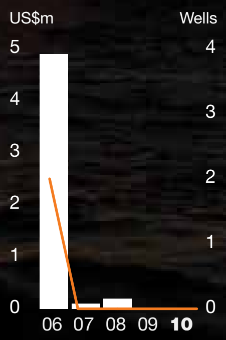
■ China ■ Australasia



2010 exploration expenditure – by region (US$m)

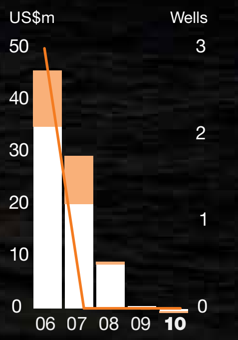
■ Africa ■ China ■ Australasia ■ Other

UK



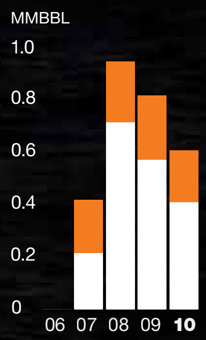
Exploration

■ Expenditure — Wells



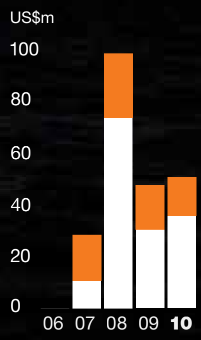
Development

■ Blane ■ Enoch — Wells



Production

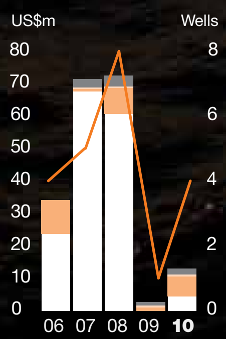
■ Blane ■ Enoch



Revenue

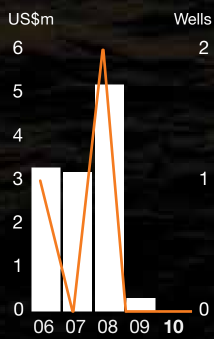
■ Blane ■ Enoch

Africa



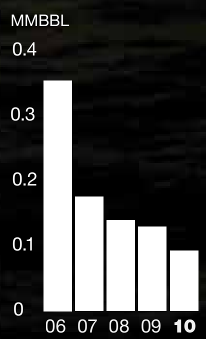
Exploration

■ Angola ■ Mauritania
■ Equatorial Guinea
■ Mozambique Channel
— Wells

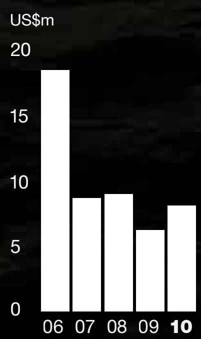


Development

■ Expenditure — Wells



Production



Revenue

Operational review

Offshore staff and contractors on Zhao Dong platforms

150

Australasia

Australasia is a core region for ROC. We operate production at the Cliff Head oil field, offshore Western Australia. We have exploration acreage in New Zealand in the offshore Taranaki and Canterbury Basins.

Key 2010 outcomes

- Australasian assets contributed 26% of production.
- Australasian assets contributed 27% of revenue.
- At 31 December 2010, Australasian assets represented 17% of 2P Reserves.
- Australasian exploration activity represented 29% of total exploration expenditure.
- Australasian development activity represented 5% of total development expenditure.
- ROC participated in the drilling of the Tuatara exploration well in PEP38524, offshore Taranaki Basin. The well was unsuccessful.
- ROC sold its 20% interest in the WA-351-P permit, offshore Carnarvon Basin in Western Australia, for US$15.8 million.
- The BMG Phase-1 oil project entered into a non-production phase.
- The successful completion of workovers at two wells ensured production at the Cliff Head oil field recorded a year-on-year increase in average production rate.
- ROC withdrew from the WA-286-P, WA-381-P and WA-382-P exploration permits, offshore Western Australia, and the VIC/P49 exploration permit, offshore Victoria, expired.

Looking ahead

The compilation of ROC's Australasian asset portfolio could change over the coming year, as the Company: seeks to lower its exposure to the BMG Phase-2 gas project; reassesses its long term presence in New Zealand exploration acreage; and actively searches for new growth opportunities in Australia. An important strategic focus will be assessing near field appraisal potential around Cliff Head that could be tied into existing facilities.

69.1

Trading profit US$m

China

China is a core element of ROC's business. ROC operates the Zhao Dong oil field, offshore Bohai Bay and is a partner in the Beibu Gulf development, offshore Beibu Gulf. The co-operative nature of our joint venture relationships with PetroChina and CNOOC, as well as our growing knowledge of how to approach business in China, has clearly set ROC apart from other foreign upstream companies in the country.

Key 2010 outcomes

- The Beibu Gulf development, which reached FID in February 2011, is the first example of CNOOC entering into arrangements to share existing facilities and to build new joint use facilities with foreign companies in China.
- Following ROC's outstanding operational performance at Zhao Dong during the worst winter conditions in 40 years, PetroChina declared ROC as "the best international cooperation partner" in China.
- ROC received official recognition from the China Offshore Oil Safety Authority for the operational performance at Zhao Dong.
- China assets contributed 52% of production.
- China assets contributed 48% of revenue.
- At 31 December 2010, China assets represented 67% of 2P Reserves.
- China development activity represented 95% of total development expenditure.
- At Zhao Dong, 24 development wells were drilled on schedule and below budget, ensuring that the annual production target was achieved.
- First Zhao Dong gas sales took place in December 2010.

Looking ahead

ROC has a 20-year strategic plan for growing the China business and is engaged with our Chinese partners to examine how this growth can be achieved. ROC is confident that our relationships and reputation in China will generate opportunities. Development of the Beibu Gulf project will progress over the next two years and development drilling at Zhao Dong is anticipated to continue through until 2014.

Development wells drilled at Zhao Dong

24

Africa

ROC has a presence in one deep water exploration block offshore Equatorial Guinea, two deep water offshore exploration blocks in the Mozambique Channel, a production asset and exploration acreage offshore Mauritania and is participating in the appraisal of the Castanha discovery onshore Angola.

Key 2010 outcomes

- African assets contributed 3% of production.
- African assets contributed 3% of revenue.
- At 31 December 2010, African assets represented 1% of 2P Reserves.
- African exploration activity represented 51% of total exploration expenditure.
- ROC participated in the drilling of the Cormoran-1 exploration well, offshore Mauritania. The well was plugged and abandoned as a gas discovery.
- ROC participated in the appraisal programme of the Castanha discovery, onshore Angola, through the testing of the Castanha-1 exploration well and the drilling of three further appraisal wells.

Looking ahead

Africa is a non-core focus for ROC. ROC is seeking the sale of its African assets.

13.35

Overall US$/BOE operating cost of production in 2010 excluding BMG

UK

ROC has non-operated interests in the Blane oil field and the Enoch oil and gas field, offshore North Sea.

Key 2010 outcomes

- UK assets contributed 19% of production.
- UK assets contributed 21% of revenue.
- At 31 December 2010, UK assets represented 15% of 2P Reserves.

Looking ahead

While the non-operated Blane and Enoch fields presently provide valuable production and cash flow for the business, these are not core assets for ROC. ROC would consider the divestment of these assets in the future if attractive growth opportunities arise in the focus region of China, South East Asia and Australasia.

South East Asia

South East Asia is a new focus area for ROC.

ROC is actively seeking to enter new growth opportunities in the region and has narrowed its search to several countries. Typically, these are countries where the development of smaller marginal fields is becoming an important focus for governments and national oil companies. ROC considers that it has the operational experience and technical capabilities to assist in the development of such marginal fields. ROC has a business development team located in South East Asia and is building useful relationships with national oil companies and potential locally-based industry partners.

Integrating sustainability into our business

Nan Pai He

Nan Pai He is a region of fishing villages located 10 kilometres from the ROC-operated Zhao Dong offshore platform facilities. As Nan Pai He is ROC's closest neighbour in the Bohai Bay, we support the local government and schools in their efforts to improve the standard of childhood education. In 2010, ROC launched its inaugural Annual Art Competition for the 21 schools in the area. The theme for the competition was "My Dream for the Future". All winners received a certificate and prize money, and the 12 Grand Prize winners, their teachers and parents also received a trip to Beijing. The Sustainability Report front cover is one of the pictures from the competition. The Chinese characters translate as "Fish, Home, Evening, View".

渔 家 夜 景

1.5 LTIFR per million man-hours worked

32 % increase in community investment

4 Significant loss of containment incidents

At ROC, sustainability is about delivering financial success, environmental excellence and social responsibility in partnership with our stakeholders.

We believe sustainability is about building long term shareholder value through enhancing the environmental and social dimensions of our performance. Our first Sustainability Report in 2009 focused on disclosing our performance to our stakeholders in the areas of safety, environment, community and employee wellbeing. The 2010 Sustainability Report provides an update to our stakeholders on our performance and discloses how we are continuing to manage and integrate sustainability risks and opportunities into our core business. As an international upstream oil and gas company, ROC recognises that to be successful, sustainability must be integrated into our day-to-day business operations, which will, in turn, strengthen our licence to operate, improve operational effectiveness and enhance business growth. We further recognise the need to provide transparent and concise information about our sustainability performance to our stakeholders.

Some of the highlights

This year, we have continued to strengthen our processes for analysing and reporting of material sustainability data through our new Health, Safety and Environment (HSE) Data Management System.

We have sought new ways of communicating our climate change risks, opportunities and governance practices through mechanisms such as the Carbon Disclosure Project (CDP).

The safety of our employees, the surrounding communities and the natural environment in which we operate has always been central to our strategy. Crucial to this strategy is upholding leading practice asset integrity management and incident prevention; areas where we have invested significantly in 2010.

In 2010, we remained committed to supporting local communities through foundation partnerships, educational sponsorships and working with neighbouring local schools in China.

In 2010, we implemented a Health, Safety, Environment and Community (HSEC) Due Diligence Expectation, which outlines our standards for assessing the HSEC-related situation for any new business transaction or venture. This

3 Lost Time Injuries

8 Staff turnover rate %

will allow us to effectively screen potential new venture opportunities according to ROC's sustainability objectives, whilst also fulfilling our duty to our shareholders to grow the business and create value.

As part of our ongoing sustainability journey, we recognise we still have room to improve the collection and reporting of material sustainability performance data. Our aim is continual improvement and accountability and the further integration of sustainability frameworks into our business.

A leadership priority

Sustainability is a priority at ROC, with the Board and senior management playing a key role in the development, implementation and review of key actions. The Board has overall accountability for sustainability issues and is informed about its progress and status via two avenues: the HSE Committee and the Audit and Risk Management Committee.

The HSE Committee is the executive body with overall responsibility for sustainability issues across all operational regions. The Committee meets at least twice each year to discuss the progress and status of the Company's sustainability activities, including compliance with all relevant legislation. The Audit and Risk Management Committee has the responsibility for monitoring management's progress in addressing the Company's sustainability risks. Our business unit HSEC managers and co-ordinators deal with sustainability activities on a day-to-day basis.

About our sustainability report

Report boundary

This report covers the operations and employer practices of ROC's operations in Australasia, China, Africa and South East Asia. It contains data on our sustainability performance for the 12 month period ended 31 December 2010.

Every separate operation is responsible for collecting their own respective data. This promotes ownership, accountability and the integration of sustainability practices. Our safety and environmental data is collected for all assets operated by ROC.

Report structure

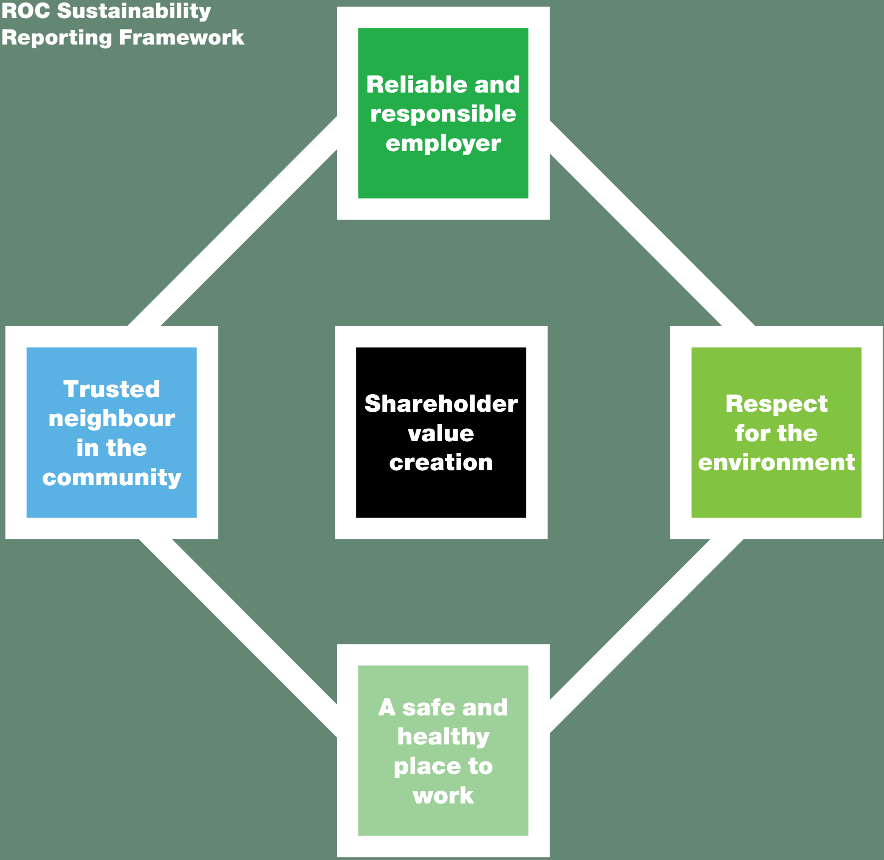
This report has been aligned to our Sustainability Reporting Framework and has considered industry best practice guidelines, including the Global Reporting Initiative (GRI), International Petroleum Industry Environmental Conservation Association and American Petroleum Institute (IPIECA/API) guidelines and Australian Petroleum Production and Exploration Association (APPEA) guidelines.

The framework also provides: a structure for disclosing our sustainability performance; a template for consistent communication to our stakeholders; and a means to track our annual progress.

ROC brand and logo

The new ROC logo is a visual representation of our brand, and as such, reinforces our brand values: bold, open, excellence and respect. In this way, our logo is more than a badge: it stands for who we are and what we aspire to achieve.

ROC Sustainability Reporting Framework



The four attributes of this framework that we consider fundamental to sustained value creation within our business are:

- ensuring our performance as a reliable and responsible employer;
- continuing our respect for the environment;
- fostering safe and healthy work practices; and
- continuing to be a trusted neighbour in the community.

The material issues

At ROC, we understand that sustainability can mean different things to different people and that the opportunities and challenges constantly evolve. We understand the importance of adapting our approach to address the social, environmental and economic issues that are material to our business and our stakeholders.

In this report, we have identified topics that we believe are material to our stakeholders. We aim to provide a balanced and transparent view on these topics, including not only our successes, but also our challenges.

Material topics included in this report were identified through a process of:

1. considering valuable feedback received from our stakeholders regarding the 2009 Sustainability Report;
2. benchmarking our 2009 sustainability data against best practice reporting guidelines such as the GRI-G3 and the IPIECA/API guidelines; and
3. considering the results of our 2010 business risk assessment and material sustainability risks identified through that process.

Engagement with our stakeholders

Our long term success depends on our ability to build strong relationships and to work collaboratively and transparently with our stakeholders. The term ‘stakeholder’ is used to define any person or group of people who can affect, has an interest in, or is affected by, an organisation’s activities.

Our core stakeholder groups include employees, shareholders, potential investors, joint venture partners, community partners, governments and regulatory bodies. Maintaining regular communication with our stakeholders helps us to stay responsive to issues important to our stakeholders and is fundamental in assessing the success of our business strategy. We engage with our stakeholders in a variety of ways from one-on-one meetings, to multi-stakeholder forums and participation in industry associations.

Our sustainability performance

Key ⟳ Ongoing ★ Outcome achieved

	Last year we said we would	This year we have	Results	Next year we aim to
A reliable and responsible employer	Strategically reshape the business; grow in key geographies/ assets.	Begun to expand business in China, Australasia and South East Asia.	⟳	Deliver shareholder return better than that of our peers. Review potential new business opportunities in South East Asia, China and Australasia. Embed vision and values and improve culture. Further strengthen our senior management capacity and capability. Link sustainability objectives to short term incentives. Conduct an employee climate survey. Adopt a staff Diversity Policy and strategy.
	Improve corporate risk management and governance processes.	Completed risk management reviews.	★	
	Ensure effective capital management and allocation.	Maintained a healthy balance sheet with a net cash position of US$31 million at year end.	⟳	
	Improve employee satisfaction and capability.	Implemented a new performance-based system of remuneration. Reduced employee turnover from 19% in 2009 to 8% in 2010.	⟳	
	Achieve correct staff level/expertise to deliver ROC's strategy.	Continued to identify and support employee learning and development opportunities, particularly through the newly implemented Performance Management Process.	⟳	
Respect for the environment	Minimise environmental impact.	Continued our green office programme and completed an IT system virtualisation project. Completed our evaporation pond remediation project close to our Cliff Head operations.	⟳	Continue to respond to the CDP and strengthen our environmental reporting processes. Achieve a 50% reduction in the loss of containment occurrences versus 2010. Commence oil export at Zhao Dong by pipeline to eliminate the need to use fuel barges. Improve our water/oil separation system using new technology in China.
	Improve environmental data collection and reporting.	Publically responded to the CDP.	★	
	Reduce greenhouse gas emissions.	Reduced Scope 1 green house gas (GHG) emissions by 35%. Eliminated flaring at BMG through the implementation of a low pressure gas compressor. Implemented a gas sales project at Zhao Dong that is expected to reduce emissions at this asset by 50%.	⟳	
A safe and healthy place to work	Continue our focus on zero harm to people.	Continued our track record of zero fatalities. Begun implementation of our Asset Integrity Management System to further strengthen our approach to process safety. Commenced development of HSE Management System Expectations.	⟳	Maintain and improve process safety performance. Continue track record of zero fatalities. Achieve TRIFR and LTIFR at least 50% below APPEA 5-year average figures. Conduct gap analysis against the Asset Integrity Management System and prepare improvement plans. Continue to improve the integrity of HSE data. Formalise new HSE Expectations and implement them in all ROC operations.
	Improve HSE system reporting.	Implemented Omnisafe™ HSE data software to collect Company-wide incident and environmental data.	★	
	Maintain employee health.	Implemented a new medical screening programme.	★	
	Complete mature asset facility integrity reviews.	Implemented asset integrity reviews.	⟳	
A trusted neighbour in the community	Build on existing relationships with host communities.	Continued partnership with Midwest Life Education and formed a new relationship with the Clontarf Foundation in Australia. Sponsored one college student in Western Australia and another in China. Worked closely with the schools in the Nan Pei He region in China. Provided fishing plotter upgrades to the fishermen at BMG to assist with navigation around the facility.	⟳	Continue donating to the local schools of Nan Pei He. Continue and look to increase number of educational sponsorships. Continue foundation partnerships. Work with the fishing community during the non-production phase at BMG.
	Actively consult with local stakeholders in our operational areas.	Increased frequency of consultation with the local fishing community. Engaged with fishing industry associations (SETFIA and LEFCOL) to provide a forum for the local fishing community to express their views and to participate in the decision-making process.	⟳	

Key performance indicators

Economic performance	2010	2009
Hydrocarbon production		
Total hydrocarbon production from ROC-operated assets (t) [1]	1,167,149	1,509,941
Financial performance		
Market capitalisation at year-end (A$m)	292.4	427.9
Sales revenue (US$m)	235	205
Operating cash flow (US$m)	58	91
Socio-economic distribution		
Number of employees [4]	182	160
Number of shareholders	22,417	26,609
Royalties to government (% of production)	7%	5%
Total taxes paid (US$m) [5]	46	54

Social responsibility	2010	2009
Health and safety		
Total man-hours [7]	2,022,000	2,549,973
Medical Treatment Cases	6	2
First Aid Cases	30	47
Lost Time Injury	3	1
Lost Time Injury Frequency Rate [10]	1.5	0.4
Restricted work cases	2	0
Fatalities	0	0
Total Recordable Injury Frequency Rate	5.4	1.2
Community		
Community investment [11] (US$)	290,111	219,116

Environmental stewardship	2010	2009
GHG emissions		
Scope 1 GHG emissions (tCO_2-e)	235,339	363,370
Intensity (tCO_2-e per t of hydrocarbon production)	0.20	0.24
Significant loss of containment incidents [2]		
Oil spills	2	0
Gas releases	2	0
Other significant environmental incidents [3]	0	0
Flared gas		
Total flared gas (t)	57,025	122,759 [6]
Intensity (t of flared gas per t of hydrocarbon production)	0.05	0.08
Controlled discharges to water		
Produced water quantity (m^3)	1,157,781	996,351
Total oil in discharged water (t)	65	53
Waste management		
Total hazardous waste [8] (t)	60	52
Total non-hazardous waste [9] (t)	3,751	5,061
Energy consumption		
Total energy consumption (Tj)	4,162	4,171
Intensity (energy consumption (Tj) per kt of hydrocarbon production)	0.004	0.003
Water usage		
Fresh water use (m^3)	45,102	45,056
Fines		
Total number of fines and penalties	0	1

Glossary:
t = tonne(s)
tCO_2-e = tonne(s) of Carbon Dioxide equivalent
Tj = Tera-joule(s)
m^3 = metres cubed

1 ROC-operated assets include BMG, Zhao Dong and Cliff Head fields. Total hydrocarbon production includes gas that is produced at these assets which is then flared, re-injected or used as feedstock in energy generation activities.
2 Defined as being greater than 1 barrel of oil equivalent as per IPIECA/API guidelines (2010).
3 Defined as any event that can be categorised as having a high impact on the environment as per APPEA Environmental Incident Database Guidelines (2001).
4 Includes both full and part-time employees as at 31 December 2010.
5 Total taxes paid include income taxes and Chinese special levies.
6 Total flaring in 2009 has been re-stated this year due to a correction in data from one of our business units.
7 This includes both the employees and contractors.
8 As per IPIECA/API Guidelines (2010), hazardous waste includes all wastes defined as hazardous, toxic, dangerous, listed, priority, special, or some other similar term as defined by an appropriate country, regulatory agency or authority.
9 As per IPIECA/API Guidelines (2010), includes industrial wastes resulting from Company operations that are not designated or listed as “hazardous” by a country or regulatory agency. This category consists of materials disposed of both on-site and off-site, including trash and other office, commercial or packaging related wastes.
10 Frequency rates are determined as the number of injuries per million hours worked.
11 Community investment covers both our compulsory and in-kind donations for our operations in Australasia, China and Africa.

A reliable and responsible employer

Our priority is to deliver valuable returns for our shareholders and build a business founded upon integrity and driven by a capable and motivated workforce.

Economic contribution

During 2010, we continued to focus on strengthening our financial performance following the volatile and challenging events of 2008 and 2009. We continued to restructure our asset portfolio and review non-core and poor performing assets. Integral to our strategy was a focus on maintaining cost control and improving our capital management, as well as a review and consequent improvement of our financial and operational risk management practices.

These important factors led to delivering US$235.4 million in revenue, a trading profit of US$69.1 million, a profit before tax of US$6.5 million and operating cash flow of US$58.4 million. This was re-invested back into the business through exploration and development expenditure of US$44.0 million.

As part of our sustainability strategy, we are committed to increasing the value of the business and delivering financial success. We have learnt from events in the past three years. We are now well-positioned to grow the business in 2011 through: commencing development activity at the Beibu Gulf project, offshore China; investing in new growth opportunities to deliver reserve replacement; and continuing to improve our operating and financial performance.

A framework for integrity

At ROC, we are committed to ensuring that we act with the highest ethical and professional standards. We strive to create the right business conditions so that every employee has a common understanding of integrity through our Core Values, internal codes of conduct, HSE Vision and Guiding Principles, governance principles and risk management practices.

Core Values

The foundation upon which we aim to be a sustainable organisation is set by our Core Values. ROC's Core Values were created in consultation with our employees and are promoted across our operations. They underpin the way we conduct our business activities and interact with our stakeholders and are aligned to our Code of Business Conduct. We are a company that:

- cares about and respects our people;
- values honesty and commitment;
- values technical and commercial excellence; and
- respects all its stakeholders.

Business Code of Conduct

The ROC Code of Business Conduct sets out a number of overarching principles of ethical behaviour that apply to all Directors, employees and contractors working on behalf of ROC. When prospective employees are made an offer at ROC, they are required to review the Code and agree on their compliance. It underpins all aspects of our business operations and decision-making and provides guidance for employees. Our standards for business ethics, set out in the code include:

- openness, honesty, fairness and integrity;
- mutual respect;
- ethical conduct; and
- compliance with laws.

HSE Vision and Guiding Principles

Our HSE Vision and Guiding Principles have been integrated into our strategic decision-making process by our operations and guide our commitment to the following goals:

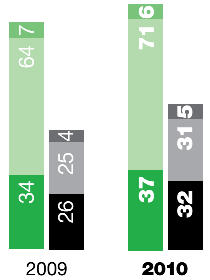
- zero harm to our employees, contractors and the communities in which we operate;
- conduct our business in a way that minimises the risks to the environment;
- integrate HSE into all of our business activities; and
- demonstrate industry leadership in HSE performance.

Good governance

Good governance is fundamental to the way that we do business and to the long term sustainability of ROC. It shapes how we interact with our stakeholders and provides the framework and control systems that help us to adhere to the highest ethical standards. It is our policy to adopt appropriate corporate governance practices and regularly review them to ensure that our governance principles address key business risks.

Risk management

At ROC, we recognise that risk is dynamic and requires constant vigilance. We are committed to identifying, managing and assessing all risks effectively through our Enterprise Risk Management Framework. This framework is embedded into our strategic business decision-making process to assist with driving effective and accountable action and management practices. In 2011, we will update our HSEC risk matrix to strengthen our ability in identifying economic, social and safety risks associated with a potential transaction.



Global gender breakdown

Male ■ Australasia ■ China ■ Africa
Female ■ Australasia ■ China ■ Africa

Cost of reducing flaring at Zhao Dong (US$m)

1.6

Strengthening our team

We recognise that continued operational growth and business performance require capable and engaged people, supported by an appropriate organisational structure to drive high performance.

Education and professional development

Education and professional development are important parts of maintaining a motivated workforce and we acknowledge that by investing in our employees, we are investing in the Company's capability to take on new challenges and manage risk.

Specific technical training, leadership development and HSEC training are among the areas of focus for us in ensuring employees achieve their full potential.

All employees are required to set personal education and training objectives for the year. These are discussed and agreed with their immediate supervisor during a meeting at the beginning of each calendar year. The process is designed to provide a constructive environment whereby balanced and effective feedback can be given and individual education and training needs identified. This planning process helps to schedule future requirements.

Attraction and retention of talent

We recognise that our success relies on identifying, recruiting and retaining a talented and motivated workforce. The employee turnover rate in 2010 was 8%, down from 19% in 2009.

Our remuneration policies and practices are designed to remain competitive in the market place to help us attract and retain the best people. This year, we implemented a new Performance Management Process following a review of our remuneration strategy and framework, to ensure our approach met Company needs, shareholder expectations and market practices.

We are also focused on ensuring a pipeline of talent for the future by continuing to actively support graduate and student placements in a bid to nurture young talent within the industry. This year, we hired five graduates and trainees. Going forward, we aim to build our graduate programme and improve cross boundary links by creating rotational employment arrangements between our regional offices.

Due to the challenges of relocating both the Sydney and Beijing offices during the year, the roll out of the employee climate survey was postponed. This has been prioritised as a key action for 2011 and implementation is scheduled for Q2. We look forward to receiving employee feedback from this survey.

Diversity and gender equality

We remain committed to respecting the cultural differences that exist amongst our people and also recognising the benefits that come from a diverse workforce. We are an equal opportunities employer, where diversity is highly valued as a source of competitive advantage. As part of our Code of Business Conduct, we have a strong commitment to hiring people purely based on competence and performance regardless of sex, age, race or religion. ROC will be adopting a Diversity Policy and Strategy in 2011.

For our business to be sustainable, we recognise the importance of developing productive relationships with our host communities and supporting their development and sustainability by providing employment opportunities. We actively recruit locally in the countries in which we operate and invest in mentoring and capacity building initiatives. This process also helps to create a vibrant and inclusive workforce that reflects the localities in which we operate.

A message from one of our engineers

"My name is Liu Yanhong. I have been working at ROC as a well engineer for two and a half years. Having always worked in a State-owned company, this was my first introduction to an international corporation; something that made me quite apprehensive. Fortunately, I came to work in a welcoming team where my fellow colleagues in the drilling department supported my growth and development. I have been given numerous responsibilities that challenge my technical skills and with good mentoring I have grown quickly within my team."

Respect for the environment

At ROC we are committed to protecting the environment in which we operate and to taking appropriate steps to manage, eliminate or minimise any impact that our activities may have.

As an international upstream oil and gas company, we operate in a range of environments where our activities have the potential to impact the ecosystems. We understand that our licence to operate depends upon how we manage this risk. Continued improvement in environmental performance is integral to our sustainability as a company.

One of our HSE Guiding Principles is a commitment to responsible environmental stewardship and we strive to ensure that any potential impacts on the environment are minimised and natural resources are conserved where practicable. No matter where the location, we continue to hold ourselves accountable to leading environmental practices and maintaining that compliance is a minimum standard. To ensure that our team is operating to the same standard, we provide applicable training and support where necessary.

In 2010, our areas of environmental focus centred around:

- improving the management and reporting of GHG emissions;
- managing and minimising the number and severity of incidents and spills;
- responsible management of resources;
- protecting biodiversity; and
- ensuring environmental compliance.

Improved management and reporting of GHG emissions

In planning for the future, we recognise the potential threat of climate change to our global operations and the possible impact on the communities in which we operate. We will continue to: investigate opportunities to reduce GHG emissions; improve resource efficiency across our operations; understand the potential impact on our assets; and foster climate change awareness and action among our people.

GHG performance data

In 2010, our operated share of GHG emissions totalled 235,339 tonnes of carbon dioxide equivalent (tCO_2-e). This represents a decrease of 35% from 2009. During the reporting period, the GHG intensity of our operations fell from 0.24 to 0.20 per tonne of hydrocarbon production. This was in part due to the Baska-Manta-Gummy (BMG) Phase-1 oil project being offline since August 2010.

To help us to minimise our carbon footprint, we actively monitor our GHG emissions and continue to develop our understanding of the physical, regulatory and financial risks and opportunities associated with potential climate change.

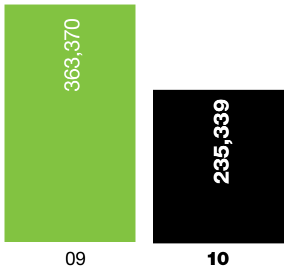
Green IT solutions

A major IT initiative is the utilisation of system virtualisation technologies to reduce the requirement for physical server hardware.

Over the last three years, ROC has migrated the majority of its physical server infrastructure to a virtualised platform, allowing greater utilisation of existing and new server hardware.

This includes the server infrastructure across ROC's offices in Sydney and Beijing, as well as smaller regional sites and production facilities.

Overall, cooling and power consumption requirements for running ROC's data centres has reduced by over 75% as a result of this initiative.



Total Scope 1 GHG emissions (tCO_2-e) 2009 vs 2010

Flaring reduction initiatives

At our offshore oil and gas operations, flaring is one of the most significant sources of Scope 1 GHG emissions. Flaring is the controlled burning of natural gas in the course of routine oil and gas operations and primarily acts as a means of relieving pressure during production. At ROC, we are proactive in reducing our flaring volumes via technological innovation and continual management of our GHG emissions. ROC's total flared gas volumes decreased by 54% in 2010.

Prior to entering a non-production phase for BMG's Phase-1 oil project, we invested US$13 million in a low pressure gas compressor to significantly reduce the need to flare. During its operation, the compressor effectively reduced flaring to zero.

This year, a sales gas pipeline was established at the Zhao Dong facilities which is expected to reduce flaring to zero during normal production operations at this asset.

Energy efficiency at the office

Where possible, we aim to ensure our operations are as energy efficient as possible. At our corporate offices, we encourage double sided printing, re-using paper for faxes and switching off all electrical equipment when not in use. We also recycle paper and printer cartridges.

We have invested in online conferencing technologies, allowing staff to reduce the need for air travel.

At our Tanggu base in China, we continue to take steps to reduce our carbon footprint by using electric bikes for transportation around the base, using electric forklifts and installing warehouse curtains for cooler months. These innovations help us to reduce our emissions significantly by avoiding the use of fuel-intensive machinery and heating.

GHG reporting

This year, we continued to report our GHG emissions in accordance with the National Greenhouse and Energy Reporting Act 2007. This allows us to measure and report our GHG emissions using a standard and industry accepted methodology. We also registered with the Energy Efficiency Opportunities (EEO) programme. However, due to BMG entering a non-production phase we now fall below the reporting threshold and are no longer required to report under the EEO programme.

In 2010, we completed the CDP questionnaire publically for the first time, communicating to our investors how we are addressing the regulatory and physical risks associated with potential climate change.

Elimination of flaring at Zhao Dong

At the Zhao Dong oil fields, gas is produced as a natural by-product with the oil. Prior to the gas sales pipeline project, any associated gas was used as a fuel in gas turbines to generate electricity for use on the platform and any excess gas was then flared.

After successful discussions with PetroChina about how a gas pipeline to shore could be beneficial to all partners and to the environment, a gas sales agreement was signed in February 2010. Project engineering was a co-operative effort between ROC and PetroChina; with PetroChina installing the gas pipeline and ROC operating the export facilities on the platform.

This project has eliminated the need to flare gas during normal production operations. We expect that this will lead to an approximate 50% reduction in Zhao Dong oil field emissions in 2011.

Export of gas to the local onshore gas grid commenced on 9 December 2010. During Spring 2011, a compressor will be installed which we expect will increase gas export volumes.

The required modifications to compress, meter and export this gas cost ROC US$1.6 million.

Transparent reporting of incidents and spills

The reporting and follow-up of HSE incidents is a fundamental part of our approach to HSE. At ROC, we believe that reporting significant loss of containment and environmental incidents demonstrates transparency and builds investor confidence that we are managing these risks. It is our aim to report all incidents and near miss events and to investigate and identify the root causes. Actions that will reduce the likelihood of similar incidents recurring in the future are then implemented.

Incident reporting and investigation

The circulation of the 'lessons learned' from incidents and near miss events allows others within the organisation to learn from previous incidents.

Our Incident Reporting and Investigation Expectation Document sets out guidelines that require each operation to develop an incident investigation procedure tailored to local regulatory and operational needs.

This year, we experienced two oil spills and two gas releases categorised as significant loss of containment incidents. All four incidents (see below table) were reported and investigated immediately. In all cases, there was minimal impact to the environment.

Stringent oil spill management

Oil spill management and prevention are high priorities for ROC. We minimise the risks of oil spills from pipelines by ensuring regular equipment inspections and routine maintenance.

This approach is aimed at early identification of small leaks. Pipeline integrity is of the upmost importance to us and we ensure that routine maintenance and pipeline checks are performed at all of our facilities. At our Zhao Dong platform in China, we have implemented a monitoring programme specifically focused on identifying "leaks, seeps and weeps" as part of our preventative maintenance programme. In addition, periodic audits and risk-based inspections take place to assess compliance with integrity procedures. A scorecard system is currently in place to report performance on a monthly basis.

Although we focus on prevention, we are well-prepared to minimise any impact should a spill occur. Oil spill contingency plans are reviewed on a continual basis and updated as circumstances change. ROC is also a member of the Australian Marine Oil Spill Centre (AMOSC), one of Australia's major response equipment operators, which provides 24-hour stand-by for immediate assistance in the event of an oil spill at sea. Zhao Dong has a formal mutual aide agreement with China National Petroleum Corporation. This agreement gives us access to their resources and the regulators can call for mutual assistance from ROC when dealing with a serious incident.

Responsible management of resources

As we take on further development opportunities and challenges, our responsibility for environmental conservation also increases. It is important that we have systems and processes in place to reduce the generation of waste and increase the efficiency of our water use.

Waste minimisation

We are committed to minimising waste, increasing recycling and preventing pollution. Managing waste efficiently not only helps us to reduce our environmental impact but it also helps to reduce costs relating to waste disposal. An important aspect of our approach to waste management is the segregation of waste materials based on their general physical and chemical characteristics. It is the responsibility of the personnel working on ROC offshore operations to identify all waste generated within their facility. Failure to

Month	Location	Incident description	Environmental impact
May 2010	Australia – Cliff Head	Corrosion caused a leak of produced water and approximately 0.2 m^3 of oil from a section of pipe at the Arrowsmith Plant into a containment bund.	Low/minimal environmental impact: liquids were recovered from the bunded area and the pipe was repaired.
May and June 2010	Australia – BMG	Two low flow rate, but long duration releases of gas occurred following rapid disconnection of the Crystal Ocean FPSO from the turret mooring during bad weather. The gas slowly leaked through isolation valves whilst the vessel was absent from the field.	Low/minimal environmental impact: procedures were modified to prevent a recurrence.
September 2010	Australia – Cliff Head	Avoiding a collision with a kangaroo caused a road tanker to roll over, spilling 40m^3 of crude oil into a ditch.	Low/minimal environmental impact: rapid clean-up with super suckers, tankers and end tippers to remove the product and contaminated soil.

% decline in non-hazardous waste

26

ROC employees

182

segregate wastes may result in the creation of a waste mixture incompatible with the desired recycling or disposal option and may require more complicated and extensive lab analysis and higher waste disposal costs.

We ensure that all field personnel have received awareness training on waste management, including information on the legislative background to waste disposal and the waste disposal procedures for their facility.

Water use

Unlike many industry sectors, our operations require comparatively little fresh water usage. Nonetheless, ROC practises responsible management of water usage at our operations, particularly the separation of naturally occurring water during oil production by our operations. Formation water occurs naturally within oil reservoirs and is brought to the surface commingled with oil and gas. As far as possible, we ensure that we reduce the amount of produced water released into the environment. At both our Cliff Head and China operations, any produced water is re-injected back into deep underground reservoir formations.

Protecting biodiversity

We are committed to managing any potential impacts that our operations have on the biological diversity of the environment in which we operate through rigorous planning, design, monitoring and mitigation programmes.

Environmental compliance

In each of the countries where we operate, we comply at a minimum with applicable laws, standards, regulations and guidelines that ensure the protection of the environment. We communicate openly on environmental issues related to our operations with the public and governmental and non-governmental bodies. During 2010, compliance with applicable environmental laws and regulations was maintained.

Evaporation pond remediation

Before

This year, we finished a two-year project to remediate an evaporation pond at our Cliff Head facility that was a legacy of the site's former land use. Due to the pond's history of different uses, long term evaporation effects and the discovery of low levels of hydrocarbons, the pond had become a hyper-saline environment with salt crusts, not only at the perimeter of the lake but also forming a layer at the sediment/water interface. The absence of algae indicates that the environment was inhospitable to the normal flora that is expected in solar evaporation ponds.

After

A remediation plan was implemented by ROC to convert this pond back to its natural state and make it safe enough for use as a fire water sump for fighting bush fires – an important community service. Approval was given by the Western Australian Government Department of Environment and Conservation to evaporate the pond. We then removed the sediment from site as solid waste utilising a waste management contractor. The pond was re-filled using fresh water and was tested by a third party. The presence of hydrocarbons was eliminated.

A safe and healthy place to work

We aim to create a safe and healthy place to work.

The health, safety and wellbeing of employees and contractors remains our highest priority and we are committed to ensuring that their safety is not compromised during the implementation of our business objectives. Our HSEC Management System includes policies and standards that allow for continuous improvement in health and safety and is a key part of our legal compliance requirement. We implement individual HSE action plans for each business operation to ensure that ROC Corporate HSEC goals are met. All safety action plans have been agreed with the asset managers and have an accountable manager for each of the tasks. Progress against these plans is reported to the Corporate HSEC Manager.

At ROC, we believe that the safety of our contractors is just as important as that of our employees. All contractors are required to complete HSE induction training when they come onto an offshore platform. Our Permit to Work System also ensures that contractors follow our HSE requirements.

2010 safety performance

This year, we continued our track record of zero fatalities. Whilst we did not experience any severe injuries in 2010, we experienced three Lost Time Injuries (LTIs). These LTIs led to an increase in our LTI Frequency Rate (LTIFR) to 1.5. All three injuries were sustained by ROC contractors. We have thoroughly investigated the causes of these incidents and communicated the lessons learnt to the rest of the organisation. Our Total Recordable Injury Frequency Rate (TRIFR) also increased, primarily due to the performance of one contractor. In response to this, we conducted a HSE audit of the contractor's procedures and worked closely with them to implement an improvement plan. We did not reach our 2010 target of reducing both our LTIFR and TRIFR by 5%.

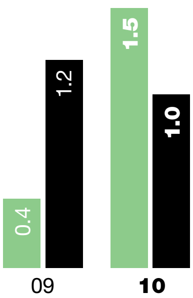
We strongly believe that every incident is avoidable and continue to strive to create an injury free workplace. To provide greater transparency, we tightened our HSE incident reporting definitions to ensure that we are being as conservative as possible in our estimations; an action which has had a direct impact on our incident statistics.

Although these 'lagging' measures are important indicators of safety performance, in 2011 we are concentrating on incorporating a suite of 'leading' indicators into our safety performance data. Other focus areas for 2011 include continuing to build our technical capability and systems that can better prevent and manage potential risks.

Process safety is our priority

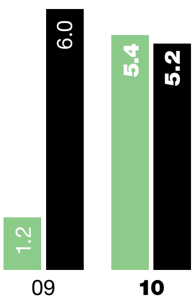
At ROC, process safety and the prevention of major accidents is integral to our business operations and at the core of our safety strategy. It means making sure that our assets are well designed, carefully managed and properly inspected and maintained. We are aware of the potential impact of such accidents on our employees, the environment and neighbouring communities. Major accidents also undermine our business through damaging our reputation and inflicting financial loss.

Our main focus in 2010 was to develop our Asset Integrity Management (AIM) System. Our AIM System was implemented in 2010 and an agenda has been set for each asset to conduct a gap analysis against the expectations and to prepare an improvement plan in early 2011.



Lost Time Injury Frequency Rate

ROC APPEA



Total Recordable Injury Frequency Rate

ROC APPEA

Safety performance	2010	2009
Man-hours	2,022,000	2,549,973
First Aid Cases	30	47
Medical Treatment Cases	6	2
Lost Time Injuries	3	1
Restricted Work Cases	2	0
Fatalities	0	0
TRIFR	**5.4**	**1.2**
LTIFR	**1.5**	**0.4**

0 Fatalities

36% decrease in First Aid Cases

Enhanced HSE reporting

At the end of 2010, we rolled out Omnisafe™ HSE software to manage our HSE data. This software will be the central point for collecting incident and environmental data and will be used to manage hazards and track HSE actions from audits, incidents and HSE plans. The system will assist us in performing root cause analysis of incidents, help to improve consistency of reporting and will facilitate the sharing of information.

Employee wellbeing

The wellbeing of our staff is a key priority at ROC. Encouraging a healthy lifestyle amongst employees not only increases the quality of life of our employees but also creates a more motivated workforce with lower absenteeism and higher productivity.

Every year, employees are encouraged to stay fit and healthy through subsidies for gym membership. At the Zhao Dong offshore operations, we initiated a healthy eating programme designed to educate and motivate staff to improve their health.

Work-life balance

At ROC, we believe one of the main ways to ensure employee well-being is to provide a work-life balance. We recognise that employees have a wide range of personal obligations that can have an impact on their ability to balance personal and work demands. We therefore endeavour to accommodate flexible working arrangements where necessary. We have several policies that formalise areas where employees typically require help, such as: educational sponsorship; parental leave; and salary continuance insurance.

Employee health checks

The health of our people is paramount. All employees travelling overseas are required to have a health check. Flu vaccines and other innoculations are also provided. In China and Australia, we have established a database to monitor our system of annual health checks and to track the health of our employees.

This year, we implemented a new health policy which includes a new medical screening programme in which we offer a complimentary bi-annual screening for employees between 40 and 49 years and an annual screening for those over 50 years.

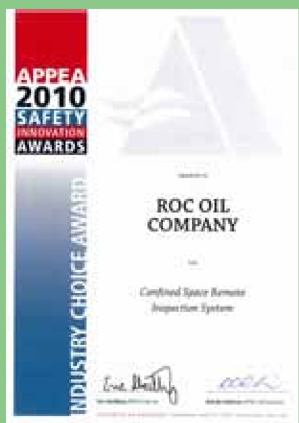
Safety Innovation Award

The APPEA Safety Innovation Awards highlight the oil and gas industry's commitment to solving safety and health-related challenges and sharing solutions.

This year APPEA received a record breaking total of 26 nominations. The APPEA judging panel shortlisted 10 innovations, the sponsors of which were then asked to give a presentation to conference delegates for the chance to also receive the Industry Choice Award.

The selection criteria were that the innovation had to: solve a problem; prove its effectiveness; show sustainability; display innovation and ownership; and be applicable to the rest of industry. ROC had nominated the 'Confined Space Remote Inspection System' which eliminates the need for saturation divers to work four-day shifts at a depth of 150 metres. The Company's solution engineers out risk and importantly, can be applied across the rest of the industry.

At the conference dinner, the ROC innovation was announced the winner of both the panel-judged and industry choice Safety Innovation Awards.



A trusted neighbour in the community

Forging sustainable relationships with the communities in which we operate is fundamental to our long term success and viability.

At ROC, success is not only measured in terms of financial outcomes, but also by the consequences our actions have on the wider community. We recognise that any contribution we make, no matter how large or small, adds value to a community. We also recognise that establishing and maintaining meaningful relationships are critical to the ongoing viability of our business.

Working with the fisherman in BMG

Having entered the BMG Phase-1 oil project into a non-production phase during the year, we worked closely with the fishermen affected by the BMG development to minimise any impacts on them. We have actively engaged with fishing industry associations (SETFIA and LEFCOL) to provide a forum for stakeholders to express their views and opinions and to participate in the decision-making process.

In addition, we are providing fishing plotter upgrades to fishermen to assist with their navigation around the BMG development.

Engaging the community

Regular, open and honest dialogue is fundamental to building strong and lasting relationships with our communities. We engage with communities at every stage of our projects, from initial investment decision to decommissioning. ROC develops and maintains transparent communication with our surrounding communities.

As part of our community consultation process, our operations are required to maintain regular dialogue with key stakeholders. The method and frequency of engagement vary according to the needs of our stakeholders. However, we take an active approach to enable early detection of contentious issues and engage stakeholders in determining problem-solving measures and improvement strategies to mitigate any concerns.

One of our core focus areas for community engagement is working with local fishing communities. Our operations at BMG, Cliff Head and Zhao Dong operate within designated fishing zones. We have established communication links to relevant fishing groups to ensure that we are aware of any concerns and we attempt to resolve them effectively.

Community strategy: investment in education and strengthening communities

We aim to make valuable contributions through organisations and initiatives that help to build and strengthen the social fabric of the communities in which we operate. We have a focused community support strategy in which the Company seeks to make targeted contributions to the area of education. This year, we have focused on creating and maintaining foundation partnerships, providing educational sponsorships and providing donations to the local schools in China.

Education sponsorship in China

Zhang Zhong Fu has been sponsored to attend the Science and Technology University of China in Hefei, Anhui Province. He is majoring in Electronics Information and Science. As a result of our sponsorship, his sister is now able to complete high school.

Backpacks donated to students at Nan Pei He village

200

Schools visited by MidWest Life Education in the Dongara region

7

Working with local schools in China

Our ongoing commitment to the community

As we continue to expand our operations, opportunities and challenges will arise as we interact with new host communities. In 2011, we will look to continue building long term relationships and responding to broader community concerns and needs. We will continue our focus on educational partnerships, sponsorships and donations. We are also aiming to improve our people-to-people links through providing work experience and employment opportunities in our local offices.

Foundation partnerships

For two years, ROC has been a Gold sponsor of Midwest Life Education, the largest non-governmental provider of drug and health education programmes. Through their 'Life Education Sessions' in schools across the Midwest region of Western Australia, they aim to encourage and empower young people to make smart life choices and to help develop skills in the areas of effective decision-making, communication, negotiation, peer resistance and refusal in drug-related situations. ROC's funding ensures that Life Education is able to visit schools across the Dongara region, where the Company's Cliff Head facility is located.

In 2010, ROC established a partnership with the Clontarf Foundation. The Foundation aims to improve the education, discipline, self-esteem, life skills and employment prospects of Aboriginal men and these outcomes are achieved through the medium of football. The Foundation uses the existing passion that Indigenous boys have for football to attract them to attend an Academy. To remain in the Academy, members must consistently endeavour to attend school regularly, apply themselves to the study of appropriate courses and embrace the Academy's requirements for behaviour and self-discipline.

As well as coordinating the football programme, Academy staff mentor and counsel students on a range of behavioural and lifestyle issues, whilst the school caters for their specific educational needs. ROC's support has been focused on the Bairnsdale Academy that was established in 2010. Bairnsdale is in the Gippsland area of Victoria, close to the location of the Company's BMG asset.

We have a very close relationship with the schools in the Nan Pai He region and have implemented several initiatives to help them deliver a better standard of education. This year, ROC:

- made financial donations to the classroom rebuilding programme;
- donated laptops to two local schools;
- donated 200 backpacks containing school equipment, books and toys;
- held a painting competition for all of the local school children (3,000 pupils across 21 schools) where the winning entries were incorporated into the ROC 2011 calendar. Prizes were awarded for the winners in each age group. Winners have also been awarded a trip to Beijing with their teachers and parents;
- donated surplus office furniture from our Tanggu shore base to a Nan Pai He school; and
- established links between Nan Pai He schools and a Beijing charity, which has supplied several truckloads of surplus classroom equipment.

Corporate governance

Compliance with ASX Recommendations

ROC's Board and management have an ongoing commitment to achieve and maintain the highest standards of corporate governance, and embrace the ASX Corporate Governance Council's revised "Principles of Corporate Governance and Best Practice Recommendations" as amended in 2010 ("ASX Recommendations"). This statement describes how the Company has applied the ASX Recommendations in order to promote transparency and responsible behaviour. The main corporate governance practices that the Company had in place throughout the financial year are summarised below. All policies and documents mentioned in this statement are available on the Company's website: www.rocoil.com.au under the "Corporate governance" section.

Principle 1: Lay solid foundations for management and oversight

Role and responsibilities of the Board

The Board operates in accordance with the Company's Constitution and Board Charter, which describe the Board's composition, functions and responsibilities and identify authorities reserved to the Board and those delegated to management. The Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring achievement towards the goals.

The responsibilities of the Board include:

- monitoring strategic and financial objectives and performance;
- monitoring performance of the Company and Chief Executive Officer;
- monitoring compliance with regulatory requirements;
- overseeing and reviewing risk management strategy;
- evaluating performance of the Board and appointing new Directors to the Board; and
- taking responsibility for corporate governance.

The Board has delegated a number of these responsibilities to the Chief Executive Officer and its Committees, as set out below.

A copy of the Board Charter can be obtained from the Company's website.

Management performance evaluation

The Board has established a Performance Evaluation Process. The Board, in conjunction with the Remuneration and Nomination Committee, is responsible for approving the performance objectives and measures for the Chief Executive Officer and key executives and providing input into the evaluation of performance against them.

The Performance Evaluation Process can be found on the Company's website.

Principle 2: Structure the Board to add value

Composition of the Board

The Board currently has six Non-Executive Directors: Mr A J Love (Chairman), Mr W G Jephcott, Mr S J Jansma Jr, Mr R C Leon, Mr G D Mulligan and Mr C C Hodge. There are currently no Executive Directors of the Company.

Together, the Board members have a broad range of relevant skills, extensive experience and knowledge necessary to guide the Company's business.

Mr G D Mulligan and Mr C C Hodge were appointed as Directors with effect from 7 September 2010 and Mr B F Clement resigned as a Director on 29 October 2010.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report.

Under the Company's Constitution, one-third of all Directors are required to retire by rotation at each Annual General Meeting and any Director who has been in office for more than three years since his or her election must retire. Those retiring Directors must seek re-election by the shareholders. The Chairman must be considered to be independent and a non-executive.

The Board usually meets on a monthly basis and the Directors also meet on a regular basis independently of the Chief Executive Officer and management. The role of the Chairman and Chief Executive Officer are held by different individuals. The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are set out in the Directors' Report.

The shareholders may, by resolution in accordance with appropriate due process in general meeting, remove or replace a Director.

Independence of Directors

All Non-Executive Directors of the Company, including the Chairman, are considered by the Board to be independent of management and free from any business relationship or other circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement. The independence of Directors is assessed pursuant to the Company's Policy on Independence of Directors, which is available on the Company's website. A review of the Board's own performance is conducted annually with the assistance of the Remuneration and Nomination Committee and external independent advisors where necessary. The evaluation aims to compare the Board's performance with the Board Charter and to set goals and objectives of the Board for the coming year.

Independent advice

Each Director may, with the approval of the Chairman, obtain independent professional advice at the Company's cost, in relation to their position while acting as a Director of the Company to help them carry out their responsibilities. In addition, each Director has unrestricted access to all relevant Company records and information.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including the Remuneration and Nomination Committee, the Audit and Risk Management Committee, and the Health, Safety and Environment Committee.

The Board establishes other Committees from time to time to consider matters of special importance or to exercise the delegated authority of the Board.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Mr W G Jephcott (Chairman), Mr A J Love and Mr G D Mulligan. It is a policy of the Board that a majority of members of the Remuneration and Nomination Committee be independent Directors. The Committee operates within a Charter which can be found on the Company's website.

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is documented in a formal charter approved by the Board. Under its Charter, the Audit and Risk Management Committee consists of at least three Non-Executive Directors. Mr W G Jephcott (Chairman), Mr A J Love, Mr R C Leon and Mr G D Mulligan are the current members of the Committee.

The primary role of the Audit and Risk Management Committee is to provide assistance to the Board in discharging its responsibilities in respect of financial affairs and related matters. The Audit and Risk Management Committee undertakes this by assisting the Board in relation to the Company's:

- financial management – overseeing the integrity of the financial statements;
- internal control systems – overseeing the effectiveness of the system of internal controls;
- corporate risk management – overseeing the effectiveness of the system of risk management;
- audit and review (internal and external) – overseeing the appointment, remuneration, qualifications, independence and performance of the external auditor and internal audit function and the integrity of the audit process as a whole; and
- consideration and implementation of the recommendations of advisors and management.

It is a policy of the Board that at least three of the Directors on this Committee are Non-Executive. At least one member must have a background in financial reporting and accounting or auditing.

Further detail of the roles, responsibilities, composition and membership requirements are documented in the Audit and Risk Management Committee Charter, which may be found on the Company's website.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee was established to contain and control the occupational health and safety risks that exist in the industry within which the Company operates. A copy of the Health, Safety and Environment Policy can be found on the Company's website.

The Health, Safety and Environment Committee comprises Mr S J Jansma, Jr (Chairman) and Mr C C Hodge.

Principle 3: Promote ethical and responsible decision-making

The Company is committed to the principles of efficiency, honesty and fairness in undertaking its activities and seeks to maintain the highest standard of integrity.

Code of Conduct

The Directors' Code of Conduct and Code of Business Conduct guide Directors, officers and employees in relation to the standards that are expected of them. In addition, the Anti-Corruption and Receipt of Gifts Policy establishes the Company's obligations to comply with relevant laws and to conduct its business ethically.

The Company also has a range of internal guidelines, communications and training processes and tools which apply to and support the Code of Business Conduct.

Diversity

The Company's policy is to recruit a team based on competence, regardless of sex, age, race or religion. The Company has a diverse workforce and employs locally in the countries in which it operates in an effort to attract the best people in their respective fields.

The Board will adopt a formal Diversity Policy and Strategy in 2011.

Trading in Company securities by Directors, officers and employees

In accordance with the ASX Listing Rules, the Board has adopted a Securities Dealing Policy that regulates dealing by officers and employees, including key management personnel, in securities of the Company and those of other companies. The Securities Dealing Policy replaces the Share Dealing Code and Share Trading Policy. The Policy seeks to ensure that officers and employees are aware of the legal restrictions on trading in Company shares while in possession of unpublished price-sensitive information and establishes a procedure for trading by officers and employees which is consistent with legal requirements in Australia and ensures integrity and market confidence.

Copies of the Directors' Code of Conduct (including the Anti-Corruption and Receipt of Gifts Policy), Code of Business Conduct and Securities Dealing Policy can be found on the Company's website.

For details of shares held by Directors, please refer to the Directors' Report and Note 32 to the consolidated Financial Statements.

Conflicts of interest

Directors are required to keep the Board appraised of any potential conflicts of interest they may have with the interests of the Company.

The Company recognises that it has a responsibility to shareholders, employees, clients and the community as a whole and is committed to corporate practices that reflect these responsibilities. The Company requires that the Directors and staff of the Company act in a manner that reflects the highest standards of behaviour and professionalism. It emphasises the need for honesty and integrity in all areas and in particular, in relation to legal compliance, record keeping, conflicts of interest and confidentiality.

The Company's Code of Business Conduct reflects its commitment to business and corporate ethics and recognition of the interests of shareholders. The Code includes the Company's whistleblower policies and procedures. Under that policy, any concerns may be reported to the Chairman of the Audit and Risk Management Committee of the Board, the Company Secretary or the Company's auditors.

Principle 4: Safeguard integrity in financial reporting

The Audit and Risk Management Committee reviews the Company's financial information to ensure its accuracy and timeliness. The Committee's functions also include reviewing the Company's accounting policies, overseeing the effectiveness and independence of the external audit, reporting externally and considering risk management and compliance issues.

The Charter of the Audit and Risk Management Committee details the role and responsibilities, composition and structure of the Committee and can be found on the Company's website.

In fulfilling its responsibilities, the Audit and Risk Management Committee has rights of access to management and to auditors (external and internal) without management present and may seek explanations and additional information.

Ernst & Young was appointed as external auditor of the Company for the 2010 financial year. A copy of the auditor's independence declaration is set out on page 54 of this Annual Report.

The Board received assurance from the Chief Executive Officer and Chief Financial Officer that the Company's records have been properly maintained, comply with the accounting standards and provide a true and fair view of the Company's financial position.

Principle 5: Make timely and balanced disclosure

The Company is committed to open, prompt and regular communication with the market. Under the ASX Listing Rules, the Company has an obligation to inform the market of information that may have a material effect on the price or value of the Company's securities. To meet these obligations, the Board has adopted a Continuous Disclosure Policy which contains policies and procedures designed to ensure accountability at the senior management level for compliance with the disclosure obligations.

All material matters are disclosed to the ASX immediately and such releases are subsequently posted in the Announcements section of the Company's website.

The Continuous Disclosure Policy also promotes a high degree of transparency regarding the Company's operations by ensuring that its securities are always trading on a fully informed basis. This allows investors to rely confidently on publicly available information when making investment decisions about the Company's securities.

The Company has also established a Continuous Disclosure Committee which comprises the Chief Executive Officer and the Company Secretary, who consult regularly with the Chief Financial Officer. The Company's Continuous Disclosure Policy can be found on the Company's website.

Principle 6: Respect the rights of shareholders

Shareholder communications

The Board has a primary responsibility to the shareholders. The maintenance of active channels of communication with shareholders forms an integral part of this responsibility. The Company is committed to effective communication with shareholders and other stakeholders. The Company has therefore established a Communications Strategy, which is available on the Company's website.

The Company's website is also a key source of information for shareholders. All Company announcements, including presentations, reports and briefings, are posted on the website. In addition, information is communicated via the distribution of the Annual Report, the lodging of a half-yearly report with the ASX and the distribution of notices to all shareholders informing them of shareholder meetings.

The Board encourages shareholder participation at general meetings and will provide for shareholder questions in all meetings. The Company auditors will attend the Annual General Meeting. Shareholders are invited to submit written questions to the auditors (via the Company) concerning the Auditor's Report or the conduct of the Company's audit no later than five business days before the Annual General Meeting. A list of questions will be made available to members at the Annual General Meeting. Shareholders can also ask questions of the auditor at the Annual General Meeting.

Principle 7: Recognise and manage risk

Risk management

The Company understands the need for an effective system of risk oversight, management and internal control. The Board is responsible for the overall control framework of the Company and has delegated to the Audit and Risk Management Committee, the responsibility in relation to the establishment, management and implementation of the Company's key business risks and risk systems.

Management has established and implemented a risk management system for assessing, monitoring and managing all risks, including material business risks, for the consolidated entity. Management has also put in place a number of key policies, processes and independent controls to provide assurance to the Board and the Audit and Risk Management Committee as to the integrity of the Company's reporting and effectiveness of the Company's systems of internal control and risk management.

During the year, management provided the risk profile on a half-yearly basis to the Audit and Risk Management Committee. Risk reporting includes the status of risks through integrated risk management programmes aimed at ensuring risks are identified, assessed and managed.

The Chief Executive Officer and Chief Financial Officer have stated in writing to the Board that for the financial year ended 31 December 2010, the statements made by them regarding the integrity of the financial statements are founded on a sound system of risk management, internal compliance and control which, in all material respects, implements the policies adopted by the Board and that the risk management and internal compliance and control, to the extent that they relate to financial reporting, are operating effectively and efficiently, in all material respects.

Principle 8: Remunerate fairly and responsibly

The Company is aware that fair remuneration is essential for attracting and retaining talented and motivated Directors and employees who will enhance the Company's performance. The Company is also aware that remuneration should be responsible and that there should be a clear relationship between performance and remuneration.

The Remuneration and Nomination Committee assists the Board by reviewing and approving the Company's policies and practices. The Committee's consideration of reward structures is based on fairness, business and individual performance, legal obligations and high standards of corporate governance.

Further information on remuneration can be found in the Remuneration Policy and in the Remuneration and Nomination Committee Charter on the Company's website.

Five year financial summary

	2010 US$m	2009 US$m	2008 US$m	2007 US$m	2006 US$m
Production (BOEPD)	**8,483**	10,034	11,023	9,668	5,477
Sales revenue	**235.4**	204.5	358.2	208.5	109.7
Trading profit	**69.1**	35.4	163.8	104.8	28.5
Reported (loss) after tax	**(35.9)**	(115.4)	(278.4)	(83.3)	(44.9)
Cash flow from operations	**58.4**	91.4	182.5	138.1	47.0
Capital expenditure incurred					
– Development	**28.5**	63.7	76.3	57.4	93.6
– Exploration	**25.6**	8.5	115.2	94.7	59.1
Net cash/(debt)	**31.3**	17.9	(114.5)	(91.9)	(89.5)
Total assets	**384.3**	354.2	520.6	607.1	749.7
Equity	**142.0**	167.8	207.3	289.9	374.1
Number of shares (million)	**713.2**	713.2	588.0	298.9	298.2
(Loss) per share (cents)	**(5.0)**	(17.9)	(74.6)	(27.9)	(19.4)

Note: Figures have been changed to reflect prior year accounting adjustments.

Directors' report and the annual financial report

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 2010.

Directors

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

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

Mr Love is Chairman of the Board of Directors of ROC and a Fellow of The Institute of Chartered Accountants in Australia. Mr Love is Deputy Chairman of Riversdale Mining Ltd and is a Director of Charter Hall Office Management Ltd. In the last three years, Mr Love has been a Non-Executive Director of Lend Lease Primelife Ltd, Eircom Holdings Ltd and the Museum of Contemporary Art. Mr Love is a member of the Remuneration and Nomination Committee, the Audit and Risk Management Committee and from 27 January until 4 November 2010 was a member of the Health, Safety and Environment Committee.

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

Mr Jephcott is an investment banker who specialises in merger and acquisition advice. He also has experience in the financing and structuring of major resource projects, including those in the oil and gas industry. Since July 2006, Mr Jephcott has been Special Advisor to Gresham Partners Limited. He is Chairman 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 Management Committee and Chairperson of the Remuneration and Nomination Committee.

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

Mr Jansma began his career in the oil and gas industry in 1959 working for his father's private oil company. In 1978, Mr Jansma purchased the company from his father, and during the ensuing 19 years the company grew to become the third largest Antrim gas producer in Michigan. In 1997, Mr Jansma merged his company with Dominion Resources, Inc., where he remained as President and Chief Executive Officer of Dominion Midwest Energy, Inc, a wholly-owned subsidiary of Dominion Resources, Inc. Mr Jansma founded Wolverine Gas and Oil Corporation and explores for oil and gas in the United States—most notably in the State of Utah where he has discovered over 100 million barrels since 2004. 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, he has served on the Board of the American Petroleum Institute. He currently serves on the Board and Executive Committee of Calvin Theological Seminary in Grand Rapids, Michigan. Mr Jansma is Chairperson of the Health, Safety and Environment Committee.

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

Mr Leon is a French national with over 30 years of experience in business and government administration. From 2002 until the merger with ROC in 2008, Mr Leon was a Non-Executive Director of Anzon Energy Pty Limited (formally Anzon Energy Limited) and from 2006 until the takeover by ROC, he was a Non-Executive Director of Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited). Mr Leon is also a Director of the Mandarin Oriental Hotel Group and Bridgeport Energy Limited. 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 of the Audit and Risk Management Committee.

Mr Graham D Mulligan *BSC, DIPACC, FAIM, MAICD*
(Non-Executive Director) - Appointed 7 September 2010

Mr Mulligan is the principal of International Infrastructure Ventures Pty Ltd, an independent consulting company which specialises in providing advisory services to major projects in infrastructure, transport and petroleum. He holds both science and accountancy qualifications and has considerable experience as a senior executive in the international petroleum, infrastructure and transport industries. This included over 16 years with the listed New Zealand Oil & Gas Limited Group as both a Director and senior executive.

Mr Mulligan has held a number of other senior executive roles, including Chief Executive Officer of Port of Brisbane Corporation and Managing Director of Port Wellington Limited. He is a former Chairman of the Petroleum Exploration Association of New Zealand, is currently a Director of Chalmers Limited and until recently was a Director of Transpacific Industries Group Ltd. Mr Mulligan is a member of the Remuneration and Nomination Committee and the Audit and Risk Management Committee.

***Mr Christopher C Hodge** MSc, DIC, FFin*
(Non-Executive Director) - Appointed 7 September 2010

Mr Hodge is a qualified geologist and petroleum geophysicist with extensive experience both in Australia and overseas. In addition to a variety of senior technical roles, he has held managerial positions in major petroleum exploration and production companies and played significant roles in substantially growing their asset bases through a mix of exploration and acquisition. Most recently, Mr Hodge was Managing Director of ASX-listed Adelphi Energy Limited and is currently the Exploration & Production Advisor to Mitsubishi in Australia. He is a member of the Petroleum Exploration Society of Australia, the Society of Exploration Geologists and the American Association of Petroleum Geologists. Mr Hodge is a member of the Health, Safety and Environment Committee.

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

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

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

***Mr Bruce F Clement** BSc, BEng (Hons), MBA*
(Executive Director and Chief Executive Officer) - Appointed Executive Director on 1 July 2007 and Chief Executive Officer on 24 September 2008. Resigned on 29 October 2010.

Mr Clement joined ROC in 1997 and held the positions of Commercial Manager, Company Secretary, Chief Financial Officer and Chief Operating Officer before being appointed Chief Executive Officer on 24 September 2008. Mr Clement resigned as a Director and Chief Executive Officer of the Company with effect from 29 October 2010 .

Mr John Mebberson

Mr Mebberson joined ROC in 1998. He was appointed General Manager Exploration in May 2007 and resigned with effect from 12 November 2010.

Mr David Minns

Mr Minns was appointed General Counsel and Joint Company Secretary on 7 April 2010 and resigned with effect from 12 November 2010.

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 Management Committee		Health, Safety and Environment Committee	
	A	B	A	B	A	B	A	B
Mr A J Love	11	11	1	1	3	3	2	1(4)
Mr W G Jephcott	11	10	1	1	3	3	2	2(1)
Mr B F Clement(2)	9	9	1	1(1)	3	3(1)	2	2(1)
Mr S J Jansma, Jr	11	9	-	-	3	1(1)	3	3
Mr R C A Leon	11	11	-	-	3	2	-	-
Mr G D Mulligan(3)	4	4	-	-	-	-	1	1(1)
Mr C C Hodge(3)	4	4	-	-	-	-	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) Number of meetings attended as observer.
(2) Resigned on 29 October 2010.
(3) Appointed 7 September 2010.
(4) Appointed 27 January 2011, resigned 4 November 2011.

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$35.9 million (2009: net loss of US$115.4 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 2010.

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 55 to 59.

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

On 23 February 2011, Mr Alan Linn was appointed as Chief Executive Officer.

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

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations, is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has been omitted from this Directors' Report.

Remuneration Report (Audited)

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

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

The Remuneration and Nomination Committee of the Board is responsible for making recommendations to the Board on remuneration policies applicable to Board members and employees of the Company, including compensation arrangements for senior executives, fees for Non-Executive Directors and the Long Term Incentive Plan ('LTI') and Short Term Incentive Plan ('STI'). Senior executive performance reviews and succession planning are also considered by the Remuneration and Nomination Committee.

Remuneration levels for Directors and senior 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 performance rights. During 2010, ROC introduced a performance-based STI cash bonus plan and a new performance-based LTI share rights plan.

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 Key Management Personnel ('Specified Executives') and Directors in respect of the 2010 financial year is disclosed in this Report.

The consolidated entity's reporting currency is USD and the amounts shown in this Report are in USD unless otherwise stated. A majority of the Directors and Specified Executives are paid in Australian dollars. As a result, the USD amounts shown are affected by foreign currency movements between years. The exchange rate used is the average for the period. The AUD/USD average rate used for 2010 was 0.9197 (2009: 0.7917).

The following table sets out the remuneration of Directors and Specified Executives for the financial year ended 31 December 2010:

	Short Term			Post-Employment	Equity Compen-sation			
	Salary and Fees US$	Cash Bonus US$	Non-Monetary Benefits US$	Super-annuation US$	Value of Share Options/Rights US$	Termination Benefits US$	Total US$	Percentage Performance Related %
Non-Executive Directors								
Mr A J Love	104,988	-	-	-	-	-	104,988	-
Mr W G Jephcott	73,778	-	-	6,599	-	-	80,377	-
Mr S J Jansma, Jr	50,985	-	-	-	-	-	50,985	-
Mr R C A Leon	50,985	-	-	-	-	-	50,985	-
Mr G D Mulligan	21,556	-	-	1,940	-	-	23,496	-
Mr C C Hodge	21,556	-	-	1,940	-	-	23,496	-
Executive Director								
Mr B F Clement(1) Chief Executive Officer	603,333	82,775	10,936	52,773	41,824	249,398	1,041,039	12.0
Total Directors	**927,181**	**82,775**	**10,936**	**63,252**	**41,824**	**249,398**	**1,375,366**	**9.1**
Specified Executives								
Mr R Morris President, Roc Oil (China) Company	788,822	50,000	178,791	43,126	39,154	-	1,099,893	8.1
Mr A S Linn(2) Acting Chief Executive Officer	456,677	32,190	80,373	41,105	163,240	-	773,585	25.3
Mr A Neilson Chief Financial Officer	345,187	36,789	12,171	22,394	64,544	-	481,085	21.1
Ms L Nolan(3) General Counsel and Company Secretary	273,327	27,592	10,052	22,394	29,614	-	362,979	15.8
Mr J Mebberson(4) General Manager Exploration	281,494	32,190	10,794	26,700	(47,647)	340,297	643,828	N/A
Mr D Minns(5) General Counsel and Joint Company Secretary	178,888	22,993	2,120	17,930	-	151,754	373,685	6.2
Total Specified Executives	**2,324,395**	**201,754**	**294,301**	**173,649**	**248,905**	**492,051**	**3,735,055**	**12.1**
Total Directors and Specified Executives	**3,251,576**	**284,529**	**305,237**	**236,901**	**290,729**	**741,449**	**5,110,421**	**11.3**

(1) Mr B F Clement resigned as a Director and Chief Executive Officer on 29 October 2010 but continued to be employed by the Company for the full year.

(2) Mr A S Linn was appointed Acting Chief Executive Officer on 29 October 2010 and Chief Executive Officer on 23 February 2011.

(3) Ms L Nolan was appointed General Counsel on 12 November 2010 and was previously employed by the Company. Her remuneration has been disclosed for a 12 month period.

(4) Mr J Mebberson resigned on 12 November 2010 and forfeited his performance options. Any share-based payment expressed previously recognised under AASB 2 *Share-based Payment* in respect to the options has been reversed.

(5) Mr D Minns was appointed on 7 April 2010 and resigned on 12 November 2010.

Remuneration Report (Audited) *continued*

Remuneration of Directors and Specified Executives continued

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

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

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

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

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

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

In accordance with AASB 2 *Share-based Payment*, the Company has calculated the attributable value of rights and 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 payoff at expiry. The value is taken as the average payoff amounts calculated discounted back to the valuation date. The value is amortised over the vesting period.

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 A$500,000 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 2010 financial year were a total of US$323,848. Remuneration for Executive and Non-Executive Directors is set out in the table above. No additional fees are paid for sitting on Board Committees.

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

Directors' Interests

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

	Ordinary Shares Fully Paid	Options
Non-Executive Directors		
Mr A J Love	589,521	-
Mr W G Jephcott	1,117,300	-
Mr S J Jansma, Jr	2,000,000	-
Mr R C A Leon	1,510,000	-
Mr G D Mulligan	25,000	-
Mr C C Hodge	50,000	-
Executive Director		
Mr B F Clement(1)	281,126	550,000

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

Executive Directors' and Specified Executives' Remuneration

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

Mix of Remuneration

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

Remuneration consists of the following key elements:

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

Remuneration Report (Audited) *continued*

Fixed Remuneration

Fixed remuneration consists of base salary (which is calculated on a total cost basis and includes any fringe benefits 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 six months' written notice.

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

Service Agreement – A S Linn

The appointment of Mr Linn as Chief Executive Officer, commencing on 23 February 2011, is for a minimum term of three years but may be terminated earlier under the terms of employment.

Fixed component

Mr Linn will be paid an initial base component of A$790,000 per annum, which includes salary, superannuation paid at the rate of 9%, all non-cash benefits and any fringe benefits tax if applicable. The base component will be reviewed annually at the end of each financial year with any increase effective 31 December consistent with the Company's practice for all employees.

Variable components

Short Term Benefits

Mr Linn's short term performance benefit for a particular year can represent up to 42% of the fixed remuneration component for that year.

The actual short-term performance benefit awarded will be determined at the discretion of the Board based on the Company's performance against annual performance targets and achievement of particular performance objectives by Mr Linn.

The extent to which Mr Linn is entitled to receive any bonus will be assessed at the same time the bonuses are generally assessed for employees of the Company, usually at the beginning of the year following the performance year, which will be early 2012 for the 2011 calendar year.

Long Term Benefits

Mr Linn will be granted long term performance benefits in a form of 1,500,000 performance rights. The Board will issue the rights under the Long Term Incentive Plan after the current close period has ended.

Termination

Either the Company or Mr Linn may terminate the agreement by giving six months' notice. If the Company terminates other than for cause within 12 months of a material diminution or Mr Linn resigns within 3 months of a material diminution, the Company will pay Mr Linn 12 months' base salary and statutory entitlements (inclusive of any payment in lieu of notice). Material diminution means a substantial diminution of Mr Linn's job content, status, responsibilities and/or authority arising by either the Company being removed from the ASX or the Board directing (without Mr Linn's consent) a substantial proportion of staff and consultants who report to him to no longer do so.

Service Agreement – R Morris

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

Variable Remuneration

Existing Awards

Short Term Incentive Plan ('STI')

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

A short term performance benefit of up to 42% of fixed remuneration can be awarded to the Chief Executive Officer and Specified Executives subject to achievement of particular objectives for the individual and/or the Company. The performance objectives of both the Company and individuals are determined in advance each year by the Board for the Company and the Chief Executive Officer; and by the Chief Executive Officer for Specified Executives. The objectives may vary from year to year and between individuals, but will reflect both financial and operational goals of the Company.

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

Long Term Incentive Plan ('LTI')

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

Features of the plan include:

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

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

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

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

Remuneration Report (Audited) *continued*

Variable Remuneration continued

***Existing Awards** continued*

Tier Two - relative TSR

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

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

Tier Three - retention

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

Previous Awards (replaced by STI and LTI in 2010)

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

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

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

Long term performance benefits in the form of executive share options have historically been granted to senior executives based on an individual's contribution to the achievement of particular objectives and/or the performance of the Company.

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 TSR must be benchmarked against industry performance.

TSR is the total of:

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

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

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

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

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

Equity-based Remuneration

In relation to Directors and Specified Executives, details of share rights granted during the year and share options vested are set out below:

	No. of Rights Granted	Grant Date	Fair Value per Right at Grant Date A$	Vesting Date	No. of Options Vested in the Current Year	% of Total Options Vested
Director						
Mr B F Clement	-	-	-	-	220,000	40%
Specified Executive						
Mr J Mebberson[1]	-	-	-	-	21,000	-
Mr A S Linn	120,000	29 March 2010	0.24	29 March 2012	165,000	100%
	1,250,000	12 November 2010	0.32	12 November 2013		
	250,000	12 November 2010	0.29	12 May 2011		
Mr R Morris	140,000	29 March 2010	0.24	29 March 2012	200,000	100%
	500,000	12 November 2010	0.32	12 November 2013		
Mr A Neilson	120,000	29 March 2010	0.24	29 March 2012	111,000	65%
	400,000	12 November 2010	0.32	12 November 2013		
Ms L Nolan	70,000	29 March 2010	0.24	29 March 2012	94,000	57%
	400,000	12 November 2010	0.32	12 November 2013		

(1) Mr J Mebberson resigned during the year and all his options were forfeited.

Details of the value of rights granted to Directors and Specified Executives in 2010 as part of remuneration are set out below. No rights or options were exercised. No value was attributable to options that lapsed during the year.

	Value of Rights Granted in 2010 A$	Remuneration Consisting of Options/Rights Expensed for the year
Director		
Mr B F Clement	-	4.0%
Specified Executives		
Mr A S Linn	501,300	21.1%
Mr R Morris	193,600	3.6%
Mr A Neilson	156,800	13.4%
Ms L Nolan	144,800	8.2%

Shares under Option

During the financial year, the Company granted 7,518,000 rights over unissued ordinary shares of ROC.

As at the date of this Directors' Report, there were 7,488,000 performance rights and 9,283,000 options, comprising 3,611,500 employee share options and 5,671,500 executive share options granted over unissued ordinary shares of ROC under the LTI Plan, Employee Share Option Plan and the Executive Share Option Plan. Refer to Note 24 to the financial statements for further details of the rights and options outstanding. During the financial year, no ordinary shares were issued as a result of exercise of either rights or options. Since the end of the financial year, no ordinary shares were issued as a result of exercise of share rights and options and no options have been granted.

Right and option holders do not have any right, by virtue of the rights or 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 the insurance prohibit disclosure of the nature of the liability and the amount of the premium.

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

Rounding

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

Corporate Governance

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

The Board is currently comprised of six 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 included 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, Mr R C A Leon and Mr G D Mulligan were members of the Company's Audit and Risk Management 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 2010 interim review:

- tax compliance and accounting advice US$400,327.

The Directors have considered the position and, in accordance with advice received from the Audit and Risk Management 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 Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermines the general principles relating to auditor independence as set out in the relevant professional statement, including reviewing and auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 98.

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 W G Jephcott
Deputy Chairman

Sydney, 24 February 2011

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

In relation to our audit of the financial report of Roc Oil Company Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner

Sydney, 24 February 2011

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 2010.

FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income

The Group reported a net loss after income tax of US$35.9 million (2009: net loss US$115.4 million). The Group's trading profit was US$69.1 million (2009: US$35.4 million).

Included in this result were significant items relating to: net impairment write-down of assets of US$7.6 million (US$16.7 million after tax); BW Offshore litigation settlement of US$16.0 million; non-cash foreign currency translation reserve loss on liquidation of subsidiary of US$9.5 million; offset by unrealised hedging gains of US$3.9 million and a profit on the sale of WA-351-P of US$15.8 million. After adjustment for these items, the normalised after tax loss for the Group was US$13.4 million, which included exploration expensed of US$20.5 million.

The net impairment asset write-down was made as a result of the reserve downgrade arising from the field moving into a non-production phase at Basker-Manta-Gummy ('BMG') totalling US$44.2 million, offset by a write-back of a prior year impairment to Zhao Dong of US$36.6 million.

Sales and Production Growth

The Group recorded solid performance from its producing assets, with working interest production of 3.1 MMBOE (8,483 BOEPD) (2009: 3.7 MMBOE), down 15% compared to the prior year. Of the total working interest production, 0.2 MMBBL (6.6%) was delivered to host governments in relation to respective governments' share of profit oil under the Group's Production Sharing Contracts. The Group's production was 99% oil.

Oil and gas sales revenue of US$235.4 million (2009: US$204.4 million) was generated from sales volumes of 3.0 MMBOE (2009: 3.6 MMBOE). This amount is predominantly oil sales of US$233.7 million, which achieved an average realised price of US$78.60/BBL (2009: US$56.88/BBL) before hedging, a discount of US$0.90/BBL (1.1%) to the Brent oil price average of US$79.50/BBL for 2010.

Operating costs of US$166.3 million (2009: US$169.0 million) comprised production costs of US$67.7 million (US$21.87/BOE), amortisation costs of US$76.9 million (US$24.84/BOE), Chinese levies and special taxes of US$17.3 million and stock movements of US$4.4 million.

Exploration Expensed

Exploration and evaluation expenditure of US$25.6 million (2009: US$8.5 million) was incurred during the period, mainly in connection with drilling exploration and appraisal wells in Mauritania, Angola and New Zealand. In accordance with the Company's successful efforts accounting policy, US$20.5 million (2009: US$7.1 million) in exploration costs were expensed during the period.

Income Tax

An income tax expense of US$42.5 million (2009: expense US$11.7 million) was recognised during the period, with a current year income tax expense of US$35.8 million mainly in relation to taxable income generated by Blane, Enoch and Zhao Dong and a deferred tax expense of US$7.5 million, arising mainly from the recognition of deferred tax in relation to PRRT.

The total tax paid during the year was US$29.0 million, relating to the Zhao Dong and UK assets.

Financial Ratios

Basic loss per share for the year was US$0.05 based on a weighted average number of fully paid ordinary shares on issue of 713,154,560.

Hedging

Consistent with ROC's oil price hedging strategy, as at 31 December 2010 ROC held Brent oil price swap contracts for approximately 0.9 MMBBL at an average price of US$63.71/BBL for the period to 31 December 2011. During the period, 1.2 MMBBL of oil price derivatives were settled, resulting in a cash outflow of US$13.0 million. At the end of the period, the mark-to-market position of ROC's remaining oil price hedge book was a US$27.3 million liability (2009: US$32.8 million liability). The movement in this mark-to-market position between periods has resulted in ROC reporting a total unrealised hedging gain for 2010 of US$3.9 million. The total hedging loss for the period was US$9.1 million (2009: loss of US$36.9 million).

Consolidated Statement of Financial Position

During the period, total assets increased to US$384.3 million (2009: US$354.2 million) and total liabilities increased to US$242.3 million (2009: US$186.4 million).

Oil and gas assets increased to US$247.6 million (2009: US$244.6 million) during the period, mainly resulting from a net impairment write-down of asset values of US$7.6 million and amortisation of US$76.9 million, offset by an increase in the restoration provision of US$42.6 million, US$28.5 million development expenditure incurred and the transfer of US$16.4 million from exploration expenditure.

At 31 December 2010, ROC's net cash position was approximately US$31.3 million (2009: US$17.9 million), consisting of cash assets held of US$81.0 million (2009: US$67.1 million), offset by debt of US$49.7 million (2009: US$49.2 million). At year end, the total loan facilities available to ROC were US$50.0 million relating to the remaining portion of the 2007 borrowing base facility. The Company has commenced refinancing of its current facility maturing in August 2011. The Company has currently received credit approved term sheets from banks totalling US$90 million for a facility maturing in June 2015. This debt facility is not yet complete and financial close is expected in 2Q 2011 and is subject to finalisation of bank syndication and legal review.

Consolidated Statement of Cash Flows

Net cash generated from operating activities was US$58.4 million (2009: US$91.4 million) for the period. The funds were primarily used for development expenditure of US$27.6 million (2009: US$87.8 million) and exploration and evaluation expenditure initially capitalised of US$16.3 million (2009: US$4.6 million).

CORPORATE ACTIVITY

Health, Safety, Environment and Community

During 2010, ROC increased focus on asset integrity issues, particularly for equipment with the potential to cause major accidents in the event of failure. Hydrocarbon containment and electrical equipment integrity in hazardous areas were critical focus issues. A ROC Asset Integrity Management Expectation was issued and will be used by all operations as a basis for performing gap analysis and developing specific Asset Integrity Management Improvement Plans for facilities.

Three Lost Time Injuries were sustained during 2010 (two at Zhao Dong and one at BMG), compared to one Lost Time Injury in 2009. ROC's 2010 Recordable Injury Frequency Rate (including Lost Time Injuries, medical treatment injuries and restricted work injuries) was 15% below the Australian Petroleum Production and Exploration Association (*'APPEA') five year average. ROC recorded 2.02 million man-hours worked during 2010.

Appointment of Non-Executive Directors

Mr Graham D Mulligan and Mr Christopher C Hodge were appointed as Non-Executive Directors of ROC, effective 7 September 2010.

Appointment of Chief Executive Officer ('CEO')

On 23 February 2011, the Board appointed Mr Alan Linn as CEO. Prior to this appointment, Mr Linn had been Acting CEO since the resignation of Mr Bruce Clement on 29 October 2010. The Board conducted an international search for a permanent Chief Executive Officer, which included both external and internal candidates.

Change of Other Personnel

Mr David Minns (General Counsel and Joint Company Secretary appointed on 7 April 2010) and Mr John Mebberson (General Manager Exploration) elected to resign effective 12 November 2010. Ms Leanne Nolan continues in her position as Company Secretary and has been appointed as General Counsel.

OPERATIONAL OVERVIEW

Production and Development

The Group incurred US$67.7 million in production expenditure (2009: US$64.9 million) and US$28.5 million in development expenditure during 2010 (2009: US$63.7 million). Development expenditure primarily related to the ongoing development drilling at the Zhao Dong fields.

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

Gross oil production averaged 16,999 BOPD (ROC: 4,165 BOPD); down 5% compared to the previous year. Despite the loss of approximately 35 days of production at the start of 2010 due to extreme winter weather conditions (the worst recorded in 40 years), ongoing development drilling throughout 2010 assisted in Zhao Dong achieving the 2010 production target.

Development expenditure of US$24.7 million was incurred. The 2010 drilling programme of 21 wells (14 producers and seven injectors) was successfully completed during the year on schedule and under budget. In addition to the drilling programme, nine well interventions and workovers were undertaken, including two electric submersible pump ('ESP') changes and the conversion of a production well to an injector.

A gas sales agreement was finalised and executed with PetroChina on 5 February 2010. Following the commissioning of a gas pipeline, gas sales commenced on 9 December 2010 and averaged 4.1 MMSCFD through to the end of the year. Gas sales will eliminate the need for offshore gas flaring during normal operations.

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

Gross oil production averaged 1,914 BOPD (ROC: 222 BOPD) for the year; up 15% compared to the previous year. Ongoing development drilling offset interruptions to production caused by severe winter weather conditions and the failure of a power cable from the Zhao Dong facilities in 1Q 2010.

Development expenditure of US$3.0 million was incurred, with the drilling of three new production wells and workovers on two existing wells.

Gas sales from the C4 Field commenced on 9 December 2010 and averaged 1.0 MMSCFD through to the end of the year.

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

Gross oil production averaged 4,045 BOPD (ROC: 1,517 BOPD), up 4% compared to the previous year due to the successful completion of workovers in 4Q 2009 and 1Q 2010 that replaced ESP at the Cliff Head-6 and Cliff Head-10 production wells. During the year planning continued for another workover to install a higher-rate ESP at the Cliff Head-12 production well. Workover operations were initiated in early January 2011.

On 5 February 2011, the Cliff Head project celebrated five years operations without a Lost Time Injury.

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

Gross production averaged 9,327 BOEPD (ROC: 1,166 BOEPD), down 19% compared to the previous year. The field was shut down for planned maintenance on the production system downstream of the Blane facilities throughout June. Planned repair work on the gas lift pipeline shut down the field for a further 35 days in 3Q 2010. Gas lift was reinstated on 18 October 2010.

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

Gross production averaged 4,110 BOEPD (ROC: 493 BOEPD), down 37% compared to the previous year primarily due to natural field decline and facility limitations that interrupted and restricted gas lift supply from the Brae host platform. While repairs to the Brae platform's gas lift supply system caused 18 days of lost production during 3Q 2010, gas lift was successfully reinstated on 23 October 2010.

BMG Oil and Gas Fields, VIC/L26, VIC/L27 and VIC/L28, Offshore Victoria (ROC: 30% and Operator)

For the period from 1 January 2010 to 19 August 2010, gross oil production averaged 3,507 BOPD (ROC: 1,052 BOPD).

The field has been offline since 19 August 2010 and in 4Q 2010 preparations commenced to enter the field into a Non-Production Phase ('NPP'). While production operations utilising the Crystal Ocean FPSO and the Basker Spirit shuttle tanker have been suspended, the vessels will be required to complete the field preparations for the NPP. NPP activities are expected to be competed in 3Q 2011 subject to approvals and vessel availability. The field was offline for approximately 11 weeks between the start of 2010 and 19 August due to repair and maintenance requirements.

The joint venture continues to evaluate options for the Phase-2 gas development.

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

Gross oil production averaged 7,814 BOPD (ROC: 254 BOPD), down 28% compared to the previous year primarily due to natural field decline.

OPERATIONAL OVERVIEW *continued*

Production and Development *continued*

WZ 6-12 and WZ 12-8 West Oil Field Development (Block 22/12 Petroleum Contract), Beibu Gulf, Offshore China (ROC: 19.6%)

Commercial terms for the Beibu Gulf project were agreed during the year and a Supplemental Development Agreement ('SDA') to the Petroleum Contract was signed by the joint venture and CNOOC Limited on 24 August 2010. The SDA outlines the commercial terms, as well as arrangements regarding facility integration and the sharing of services and personnel. The SDA confirmed that CNOOC Limited will take a 51% participating interest in and operate the project.

Overall Development Plan ('ODP') documentation was submitted to CNOOC Limited for internal and external expert reviews in 3Q 2010 and CNOOC Limited approval was received in January 2011. Early development preparation activities such as preliminary engineering design work and bidding for long-lead equipment are underway.

On 14 February 2011, ROC announced that the joint venture parties and the Joint Management Committee (which includes CNOOC Limited) have approved the Final Investment Decision ('FID'). As a result, 2P reserves of 24 MMBBL will be booked for the project (ROC: 4.7 MMBBL).

Exploration and Appraisal

The Group incurred US$25.6 million in exploration and evaluation expenditure during 2010 (2009: US$8.5 million).

WA-286-P and WA-31-L, Perth Basin, Offshore Western Australia (ROC: 37.5% and Operator)

Following the completion of prospectivity studies (including reprocessing of 3D seismic data), the joint venture withdrew its application for the renewal of WA-286-P and the permit expired on 30 November 2010.

In WA-31-L, the reprocessing of a 220km 2D seismic survey and the interpretation of 3D seismic data was completed during the year. Additional reserves potential on the western flank of the Cliff Head field is being assessed based on revised seismic interpretation and depth mapping.

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

In December 2010, ROC agreed to sell its 20% interest in WA-351-P to Woodside Energy Ltd for US$15.8 million subject to working capital adjustments. On 18 January 2011, Tap (Shelfal) Pty Ltd ('Tap')(a wholly-owned subsidiary of Tap Oil Limited), an existing joint venture party, gave notice to Roc Oil (WA) Pty Limited of the exercise of its rights of pre-emption on the sale of ROC's interest to Woodside Energy Ltd. The sale to Tap (is on the same terms and conditions as the previously proposed sale to Woodside Energy Ltd) is subject to normal industry terms and conditions, including the receipt of relevant government approvals.

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

An application to withdraw from both WA-381-P and WA-382-P was made on 15 March 2010 and ROC's withdrawal from both permits was effective 27 April 2010.

VIC/P49, Gippsland Basin, Offshore Victoria (formerly ROC: 20%)

The VIC/P49 permit expired effective 15 April 2010.

PEP38524, Offshore Taranaki, New Zealand (ROC: 20%)

Exploration expenditure of US$6.8 million was incurred during the year.

Roc Oil (Tasman) Pty Limited, a wholly-owned subsidiary of ROC, farmed into PEP38524 during 2Q 2010 and contributed towards the cost of the Tuatara-1 exploration well to earn a 20% participating equity interest in the permit.

Tuatara-1 spudded on 28 July 2010 and was drilled to a total measured depth of 1,911 metres. Non-commercial oil shows were reported between 1,790 and 1,850 metres and the rig was released on 20 August 2010. Geological and geophysical analyses of the Tuatara-1 well are being completed ahead of a permit-wide prospectivity review. New Zealand Government approval has been requested by the joint venture to continue into the optional permit term (1 October 2010 to 31 March 2012) with a 25% relinquishment.

PEP52181, Offshore Taranaki, New Zealand (ROC: 50% and Operator)

The New Zealand Ministry of Economic Development granted PEP52181 to ROC and its joint venture partners during 2Q 2010. The permit contains the Kaheru prospect, which is on trend with the Rimu oil and gas field and Kauri gas and condensate field. The five-year work programme includes an exploration well (Kaheru-1) by the end of year three. Reprocessing of the Kaheru 3D seismic dataset continues and completion is planned during 1H 2011. The joint venture is awaiting New Zealand Government approval on an application to extend permit acreage by 140km^2.

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

During the year, the Operator (AWE (New Zealand) Pty Limited) reviewed the interpretation of the Barque structure, using the most recent 2D seismic data. The Barque prospect is a potentially large gas and condensate play. An extension of the drilling commitment date by two years to August 2012 has been requested from the New Zealand Government to allow for the evaluation of rig availability and drilling costs for the Barque prospect, with an additional work programme of 500km 2D seismic reprocessing.

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

Exploration expenditure of US$4.1 million was incurred during the year.

Castanha-1 exploration well production testing was completed during 1Q 2010. The production test recovered 33° API to surface from the pre-salt Chela Formation, with a maximum flow rate of 2,275 BOPD through a 5/8 inch choke. The extended well test on Coco-1 was also concluded and the well suspended, with none of the five zones tested exhibiting natural hydrocarbon flow.

The Castanha-2 appraisal well commenced drilling on 28 July 2010 and was drilled to a total measured depth of 2,448 metres. Initial evaluations indicated that the well encountered a gross hydrocarbon column of 21 metres in the Chela Formation. The well was suspended and production testing is planned in 1Q 2011.

The Castanha-3 appraisal well commenced drilling on 20 September 2010. The Castanha-3 ST-1 appraisal well was drilled to a total measured depth of 2,525 metres and initial evaluation indicated that the well encountered a gross hydrocarbon column of approximately seven metres in the Chela Formation. The well was suspended and production testing is planned in 1Q 2011.

The Castanha-4 appraisal well commenced drilling on 14 November 2010 and was drilled to a total measured depth of 2,343 metres. Initial evaluations indicated that the well encountered a gross hydrocarbon column of approximately 15 metres in the Chela Formation. The well was suspended and production testing is planned in 1Q 2011.

Acquisition commenced in late September 2010 of a 169km^2 3D seismic programme (overlapping the north of the Castanha discovery) to define new exploration leads and assist with mapping of the Castanha discovery. Completion of the survey was delayed until 1Q 2011 due to adverse weather.

Offshore Mauritania (ROC: 2%-5.49%)

Exploration expenditure of US$6.5 million was incurred.

The Cormoran-1 exploration well in Block 7 (ROC: 4.95%) commenced drilling on 18 September 2010 and was drilled to a total true vertical depth of 4,695 metres subsea and was plugged and abandoned as a gas discovery. The well encountered several hydrocarbon columns in the various target objectives. A drill stem test was undertaken across a 33 metre interval (between 3,679 and 3,712 metres) in the Lower Pelican Group and flowed at stabilised rates of up to 22 to 24 MMSCFD on a 32/64 inch choke. The Operator considers that higher rates could have been obtained had flow not been constrained by sand production.

The Government of Mauritania granted an extension to the Block C2 PSC to 21 December 2011 with optional further extensions.

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

Exploration expenditure of US$2.0 million was incurred. Planning for a potential 8,000km 2D seismic survey was undertaken during the year.

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

Exploration expenditure of US$0.4 million was incurred during the year on drilling planning activities. The Government of Equatorial Guinea approved a one year extension to the current term of Block H to 3 February 2012.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Sales revenue	*4*	235,428	204,483
Operating costs	*5*	(166,308)	(169,073)
Trading profit		**69,120**	**35,410**
Other income	*6*	2,351	16,812
Profit on sale of WA-351-P		15,750	-
Net derivative losses		(9,066)	(36,983)
Exploration expensed	*7*	(20,517)	(7,115)
Net impairment of oil and gas assets	*16*	(7,610)	(82,155)
Litigation settlement – BW Offshore		(16,000)	-
Foreign currency translation reserve loss on liquidation of subsidiary		(9,527)	-
Loss on investment in listed securities		-	(5,616)
Other costs	*8*	(13,678)	(13,105)
Finance costs	*9*	(4,304)	(10,923)
Profit/(loss) before income tax		**6,519**	**(103,675)**
Income tax expense	*10*	(42,456)	(11,715)
Net loss		**(35,937)**	**(115,390)**
Other comprehensive income			
Foreign currency translation reserve loss on liquidation of subsidiary		9,527	-
Cash flow hedges transferred to trading profit		38	(85)
Other comprehensive income/(losses) net of tax		9,565	(85)
Total comprehensive loss		**(26,372)**	**(115,475)**
Basic loss per share - cents	*25*	(5.0)	(17.9)
Diluted loss per share - cents	*25*	(5.0)	(17.9)

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 US$'000	2009 US$'000
Current assets			
Cash assets	*11*	80,960	67,079
Trade and other receivables	*12*	45,428	16,686
Inventories	*15*	3,554	7,045
Total current assets		**129,942**	**90,810**
Non-current assets			
Oil and gas assets	*16*	247,564	244,630
Exploration and evaluation expenditure	*17*	4,867	16,129
Property, plant and equipment	*18*	1,975	1,386
Deferred tax assets	*10*	-	1,266
Total non-current assets		**254,406**	**263,411**
Total assets		**384,348**	**354,221**
Current liabilities			
Bank loans	*19*	49,692	-
Trade and other payables	*21*	25,179	21,536
Current tax liabilities	*10*	14,786	8,054
Derivatives	*14*	27,317	15,162
Provisions	*22*	31,495	1,363
Total current liabilities		**148,469**	**46,115**
Non-current liabilities			
Bank loans	*19*	-	49,229
Long term liabilities		-	72
Deferred tax liabilities	*10*	34,392	28,213
Derivatives	*14*	-	17,668
Provisions	*22*	59,485	45,121
Total non-current liabilities		**93,877**	**140,303**
Total liabilities		**242,346**	**186,418**
Net assets		**142,002**	**167,803**
Equity			
Share capital	*23*	744,201	744,201
Accumulated losses		(622,723)	(586,786)
Other reserves		20,524	10,388
Total equity		**142,002**	**167,803**

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2010

	Note	Inflow/ (Outflow) 2010 US$'000	Inflow/ (Outflow) 2009 US$'000
Cash flows from operating activities			
Cash generated from operations	*11*	106,908	138,465
Derivatives (paid)/received		(12,963)	12,688
Payments for exploration and evaluation expenses		(7,967)	(6,813)
Interest received		2,498	1,421
Finance cost paid		(1,039)	(7,386)
Income taxes paid		(29,000)	(47,025)
Net cash generated from operating activities		**58,437**	**91,350**
Cash flows from investing activities			
Payments for plant and equipment		(1,300)	(246)
Payments for development expenditure		(27,634)	(87,760)
Payments for exploration and evaluation expenditure initially capitalised		(16,296)	(4,572)
Proceeds from sale of Nexus shares		-	18,508
Proceeds from sale of 10% of BMG		-	32,251
Proceeds from sale of other assets		1,864	974
Net cash used in investing activities		**(43,366)**	**(40,845)**
Cash flows from financing activities			
Proceeds from share issues	*23*	-	76,621
Share issue expenses	*23*	-	(2,362)
Bank loan advances		-	1,000
Bank loan repayments		-	(121,000)
Loan to associate company		(42)	(2)
Net cash used in financing activities		**(42)**	**(45,743)**
Net increase in cash held		**15,029**	**4,762**
Cash at beginning of financial year		67,079	54,260
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,148)	8,057
Cash at end of financial year	*11*	**80,960**	**67,079**

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2010

	Share Capital US$'000	Accumulated Losses US$'000	Share Equity Reserve US$'000	Foreign Currency Translation Reserve US$'000	Hedge Reserve US$'000	Total US$'000
Balance at 1 January 2009	669,942	(471,396)	8,430	1,183	(899)	207,260
Total comprehensive loss net of tax	-	(115,390)	-	-	(85)	(115,475)
Transactions with owners						
Issue of share capital	76,621	-	-	-	-	76,621
Share issue costs	(2,362)	-	-	-	-	(2,362)
Share-based payments	-	-	1,759	-	-	1,759
Total transactions with owners	**74,259**	-	**1,759**	-	-	**76,018**
Balance at 1 January 2010	744,201	(586,786)	10,189	1,183	(984)	167,803
Total comprehensive loss net of tax	-	(35,937)	-	9,527	38	(26,372)
Transactions with owners						
Share-based payments	-	-	571	-	-	571
Total transactions with owners	-	-	**571**	-	-	**571**
Balance at 31 December 2010	**744,201**	**(622,723)**	**10,760**	**10,710**	**(946)**	**142,002**

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

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

The financial statements were authorised for issue on 24 February 2011 by the Board.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards. The financial report, comprising the consolidated financial statements and notes thereto, also complies with International Financial Reporting Standards.

Due to an amendment in AASB 107 *Cash Flow Statements*, the Group has changed the classification of exploration and evaluation expenditure in the Consolidated Statement of Cash Flows such that only exploration and evaluation that result in the initial recognition of an exploration and evaluation asset is included in investing activities. Exploration and evaluation expenditure that is expensed as incurred is classified in operating activities.

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 2010 and are not expected to have a material impact.

(c) Basis of consolidation

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

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

(d) Oil and gas assets

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

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

(e) Exploration and evaluation expenditure

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

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

(g) Oil and gas stock and materials inventories

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

(h) 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.

(i) Available-for-sale securities

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

(j) Investments

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

(k) Provision for restoration

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

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

Note 1. Summary of Significant Accounting Policies *continued*

(l) Cash and cash equivalents

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

(m) Investment in associate companies

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

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

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

(n) Trade and other receivables

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

(o) Impairment

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories and deferred tax assets, may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. An impairment loss is recognised in the 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.

(p) 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.

(q) Revenue

Sales

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

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

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

Interest

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

Dividends

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

(r) Finance costs

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

(s) Share-based payment transactions

Share-based compensation benefits are provided to employees via the Long Term Incentive Plan, the Employee Share Option Plan and the Executive Share Option Plan. Both share option plans have now been discontinued and no new issues under either of these plans will occur.

These equity-settled transactions with employees are measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the 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 and share rights 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 date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred income tax liability is recognised for all taxable temporary differences except where:

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

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

The carrying amount of deferred income tax assets is reviewed at each 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.

Note 1. Summary of Significant Accounting Policies *continued*

(t) Income tax *continued*

Tax consolidation

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

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the '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 consolidated group are recognised by the Company (as head entity in the tax consolidated group).

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

Petroleum Resource Rent Tax

Petroleum Resource Rent Tax is accounted for as income tax.

(u) Goods and services tax

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

Cash flows are included in the 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.

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

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

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

Transactions and balances

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

(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.

Note 1. Summary of Significant Accounting Policies *continued*

(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 is 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.

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 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(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 Consolidated Statement of Comprehensive Income.

The carrying amount of exploration and evaluation expenditure as at 31 December 2010 was US$4.9 million (2009: US$16.1 million).

(b) Significant accounting estimates and assumptions

Impairment of assets

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

The carrying value of oil and gas assets as at 31 December 2010 was US$247.6 million (2009: US$244.6 million).

Restoration obligations

The Group estimates the future removal costs of on and offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental 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(k).

Reserve estimates

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

Note 3. Financial Risk Management Objectives and Policies

Overview

The Group has exposure to the following risks from its 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 Management 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 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 Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and commodity price risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange and interest rate risk and assessments of market forecasts for foreign exchange rates, interest rates and commodity prices. 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.

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

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables 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.

Liquidity risk

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

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

For the financial year ended 31 December 2010

Consolidated (US$'000)	6 months or less	6 months–1 year	1–3 year(s)	Total
Trade and other payables	25,179	-	-	25,179
Bank loans	315	50,053	-	50,368
Derivatives	20,779	6,640	-	27,419
	46,273	**56,693**	-	**102,966**

For the financial year ended 31 December 2009

Consolidated (US$'000)	6 months or less	6 months–1 year	1–3 year(s)	Total
Trade and other payables	21,536	–	–	21,536
Bank loans	450	450	50,675	51,575
Derivatives	7,090	8,592	17,459	33,141
	29,076	**9,042**	**68,134**	**106,252**

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

Market risk

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

The fair value hierarchy for the financial assets and liabilities accounted for as at 31 December 2010 consisted of the oil price derivatives as disclosed in Note 14 which have been classified as Level 2. There were no Level 1 or Level 3 financial assets or liabilities as at 31 December 2010, and there were no movements between any of the levels during the period.

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

The Group enters into derivatives, and also incurs financial assets and liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Management 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 flows are denominated in USD; however, the Group is exposed to certain non-USD cash balances. As at 31 December 2010 the non-USD cash balances amounted to A$4.1 million. The impact on the loss for the year assuming a +10% or -10% change in the foreign exchange rate would be US$0.5 million.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash assets (refer to Note 11) and long term debt obligations and the level of debt (refer to Note 19).

A change of 100 basis points per annum in interest rates at the reporting date would have increased or decreased profit and loss for the year by US$0.3 million (2009: US$0.2 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 14).

At 31 December 2010, the Group had a US$27.3 million derivative liability (2009: US$32.8 million liability) arising from approximately 0.9 MMBBL of Brent oil price swaps which represents approximately 5.4% of its proved and probable reserves.

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

		Post-Tax Loss Higher/(Lower)		**Equity Higher/(Lower)**	
		2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Judgement of reasonably possible movements					
Consolidated					
Crude oil price	+US$10/BBL	(8,727)	(20,065)	–	–
Crude oil price	-US$10/BBL	8,727	20,065	–	–

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

Fair value of financial instruments

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

The fair values are determined as follows:

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

Capital management

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

	2010 US$'000	2009 US$'000
Note 4. Sales Revenue		
Oil	233,713	203,852
NGL	1,573	33
Gas	180	513
Hedging (loss)/gain	(38)	85
	235,428	**204,483**
Note 5. Operating Costs		
Production costs	67,708	64,935
Amortisation	76,921	90,959
Movement in stock and over/(under)lift	4,352	6,423
Chinese special levy	17,327	6,756
	166,308	**169,073**
Note 6. Other Income		
Interest income - external	2,351	1,568
Profit on sale of 10% of BMG	-	5,744
Profit from sale of other assets	-	2,396
Net foreign currency gains	-	6,031
Other	-	1,073
	2,351	**16,812**

	2010 US$'000	2009 US$'000

Note 7. Exploration Expensed

	2010 US$'000	2009 US$'000
Angola	518	(401)
Australia	802	747
China	-	1,218
Equatorial Guinea	393	598
Mozambique Channel	2,030	889
Mauritania	6,473	1,607
United Kingdom	-	52
New Zealand	6,702	187
Other	3,599	2,218
	20,517	**7,115**

Note 8. Other Costs

	2010 US$'000	2009 US$'000
Operating lease expenses	872	1,754
Depreciation	711	693
Other administration costs	9,282	10,160
Share-based payments	571	498
Net foreign currency loss	2,242	-
	13,678	**13,105**

Note 9. Finance Costs

	2010 US$'000	2009 US$'000
Interest expensed on bank loans	677	3,745
Unwinding of discount – restoration provision	2,932	1,973
Other finance costs	695	5,205
	4,304	**10,923**

	2010 US$'000	2009 US$'000

Note 10. Income Tax

(a) Composition of income tax

	2010 US$'000	2009 US$'000
Income tax charge – current period	(35,818)	(32,224)
Income tax credit/(charge) – prior period	807	(2,937)
Deferred income tax – current period	4,181	5,979
Deferred income tax – PRRT	(11,626)	17,467
Income tax expense	**(42,456)**	**(11,715)**

(b) Recognised deferred tax assets and liabilities

	2010 Current Tax Liabilities US$'000	2010 Deferred Income Tax US$'000	2009 Current Tax Liabilities US$'000	2009 Deferred Income Tax US$'000
Opening balance	(8,054)	(26,947)	(17,233)	(50,393)
(Charged)/credited to income	(35,011)	(7,445)	(35,161)	23,446
Cash payments	29,000	-	47,025	-
Translation loss	(721)	-	(2,685)	-
	(14,786)	**(34,392)**	**(8,054)**	**(26,947)**

Deferred income tax at 31 December relates to the following:

	Statement of Financial Position 2010 US$'000	2009 US$'000
(i) Deferred tax assets		
Accelerated depreciation for tax purposes	-	1,266
Net deferred tax assets	-	**1,266**
(ii) Deferred tax liabilities		
Accelerated depreciation for tax purposes	(28,466)	(30,988)
Provisions	5,222	2,775
PRRT	(11,626)	-
Other	478	-
Net deferred tax liabilities	**(34,392)**	**(28,213)**
Total net deferred tax liabilities	**(34,392)**	**(26,947)**

	2010 US$'000	2009 US$'000
(c) Tax losses		
Tax losses not recognised	**104,063**	**76,736**

(d) Income tax reconciliation

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

	2010 US$'000	2009 US$'000
Profit/(loss) before income tax	**6,519**	**(103,675)**
Prima facie income tax (expense)/benefit calculated as 30% of profit/(loss) before income tax	(1,956)	31,103
Tax effect of adjustments		
Non-deductible expenses	(5,779)	(10,270)
Non-assessable income	51	15
Overseas tax rate differential	(5,474)	(5,366)
Prior year over/(under) provision	807	(2,937)
Tax losses not brought into account	(19,816)	(18,874)
Deferred tax assets not recognised	-	(24,120)
PRRT	(11,626)	17,467
Other	1,337	1,267
Income tax expense	**(42,456)**	**(11,715)**

(e) Tax consolidation

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

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the '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 consolidated group are recognised by the Company (as head entity in the tax consolidated group).

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

Note 11. Cash Assets

	2010 US$'000	2009 US$'000
Cash and cash equivalents	80,960	67,079
	80,960	**67,079**

Included in cash assets is US$1,306,035 (2009: US$2,510,441) which is subject to a charge in favour of PC Mauritania I Pty Ltd relating to liabilities arising under the contract for lease of the *Berge Helene* FPSO vessel to be used for production from the Chinguetti Oil Field.

Reconciliation of net profit/(loss) before tax to cash generated from operations

	2010 US$'000	2009 US$'000
Net profit/(loss) before tax	6,519	(103,675)
Add/(less) non-cash items		
Amortisation	76,921	90,959
Net impairment of oil and gas assets	7,610	82,155
Loss on investment in listed securities	-	5,616
Depreciation	711	693
Other provisioning	1,566	628
Net foreign currency losses /(gains)	2,242	(6,031)
Loss/(gain) from sale of assets	136	(2,396)
Profit on sale of 10% of BMG	-	(5,744)
Profit on sale of WA-351-P	(15,750)	-
Foreign currency translation reserve loss on liquidation of subsidiary	9,527	-
Share-based payments	571	498
Add/(less) non-operating items		
(Gain)/loss on derivatives	9,104	36,898
Interest income	(2,351)	(1,568)
Finance costs	4,304	10,923
Exploration expensed	20,517	7,115
Changes in net assets and liabilities		
(Increase)/decrease in current trade and other receivables	(17,606)	17,956
Decrease in inventories	3,491	2,830
(Decrease)/increase in trade and other payables	(604)	1,608
Cash generated from operations	**106,908**	**138,465**

Note 12. Current Trade and Other Receivables

	2010 US$'000	2009 US$'000
Trade receivables	26,452	10,275
Receivable from sale of WA-351-P	15,750	-
Other receivables	3,226	6,411
	45,428	**16,686**

Note 13. Information Relating to Roc Oil Company Limited (the 'parent entity')

	2010 US$'000	2009 US$'000
Current assets	6,645	54,195
Total assets	92,590	154,148
Current liabilities	3,097	2,253
Total liabilities	3,931	3,267
Net assets	**88,659**	**150,881**
Share capital	744,201	744,201
Accumulated losses	(735,886)	(673,093)
Share equity reserve	10,760	10,189
Foreign currency translation reserve	69,584	69,584
Total equity	**88,659**	**150,881**
Net loss of the parent entity	**(62,793)**	**(133,123)**
Total comprehensive loss of the parent entity	(62,793)	(133,123)

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

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 19.

Note 14. Derivatives

		2010 US$'000	2009 US$'000
At fair value:			
Oil price swaps		(27,317)	(32,830)
Total liabilities		**(27,317)**	**(32,830)**
Liabilities	– current liabilities	(27,317)	(15,162)
	– non-current liabilities	-	(17,668)
Total liabilities		**(27,317)**	**(32,830)**

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. These derivatives will tend to be priced using pricing benchmarks which correlate as far as possible to the underlying oil revenues.

At 31 December 2010, the remaining hedge positions from 1 January 2011 to 31 December 2011 are 875,997 Brent oil price swaps, at a weighted average Brent price of US$63.71/BBL.

Note 15. Inventories

	2010 US$'000	2009 US$'000
Oil and gas stock	3,554	7,045
	3,554	**7,045**

Note 16. Oil and Gas Assets

	Producing Assets US$'000	Assets under Development US$'000	Total US$'000
Costs			
Balance at 1 January 2009	862,516	-	862,516
Development expenditure incurred	63,740	-	63,740
Sale of 10% of BMG	(59,673)	-	(59,673)
Increase in restoration asset	15,573	-	15,573
Costs at 31 December 2009	**882,156**	**-**	**882,156**
Development expenditure incurred	28,536	-	28,536
Increase in restoration asset	42,554	-	42,554
Transfer from exploration and evaluation expenditure	-	16,375	16,375
Costs at 31 December 2010	**953,246**	**16,375**	**969,621**
Accumulated amortisation			
Balance at 1 January 2009	(495,959)	-	(495,959)
Charge for the year	(90,959)	-	(90,959)
Net impairment of assets (see note (a) below)	(82,155)	-	(82,155)
Sale of 10% of BMG	31,547	-	31,547
Accumulated amortisation at 31 December 2009	**(637,526)**	**-**	**(637,526)**
Charge for the year	(76,921)	-	(76,921)
Net impairment of assets (see note (b) below)	(7,610)	-	(7,610)
Accumulated amortisation at 31 December 2010	**(722,057)**	**-**	**(722,057)**
Net book value at 31 December 2010	**231,189**	**16,375**	**247,564**
Net book value at 31 December 2009	244,630	-	244,630

Impairment

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

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

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

(a) The net impairment for 2009 was attributable to:

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

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

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

(b) The net impairment for 2010 is attributable to:

(i) an impairment of US$44.2 million in the carrying value of BMG (net of restoration and suspension provisions) as a result of the discounted cash flows being lower than the carrying value, using a pre-tax discount rate of 16% per annum. This is as a result of the 2P reserves being reduced by 0.7 MMBBL to zero. No value has been attributed to any future gas project; and

(ii) a reversal of a prior year impairment of US$36.6 million (US$27.5 million post tax) for the Zhao Dong Oil Field as a result of the discounted cash flow, using a pre-tax discount rate of 14% per annum. This is as a result of higher oil prices and an increase in 2P reserves by 0.9 MMBBL.

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

– a 10% decrease in prevailing oil prices would result in a lower impairment reversal of US$22.7 million; and
– a 1% increase in the post-tax discount rate would result in a lower impairment reversal of US$3.1 million.

Note 17. Exploration and Evaluation Expenditure

	2010 US$'000	2009 US$'000
Opening balance	16,129	14,720
Expenditure incurred	25,630	8,524
Expenditure transferred to assets under development	(16,375)	-
Amounts expensed	(20,517)	(7,115)
	4,867	**16,129**

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 18. Property, Plant and Equipment

Costs		
Opening balance	5,961	7,415
Expenditure incurred	1,300	240
Disposals	-	(1,694)
Costs at 31 December	**7,261**	**5,961**
Accumulated depreciation		
Opening balance	(4,575)	(5,000)
Charge	(711)	(693)
Disposals	-	1,118
Accumulated depreciation at 31 December	**(5,286)**	**(4,575)**
Net book value	**1,975**	**1,386**

Note 19. Bank Loans

	2010 US$'000	2009 US$'000
(a) Current		
Secured bank loan	49,692	-
(b) Non-current		
Secured bank loan	-	49,229
Total	**49,692**	**49,229**

(c) Terms and conditions

Secured bank loan

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

The annual interest rate is USD LIBOR plus a fixed margin. The effective interest rate is 1.45% per annum.

(d) Financing facilities available

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

	2010 US$'000	2009 US$'000
Total loan facilities:		
Secured bank loans	50,000	90,000
Facilities used at reporting date:		
Secured bank loans	50,000	50,000
Facilities unused at reporting date:		
Secured bank loan	-	40,000

The Company has commenced refinancing of its current facility maturing in August 2011. The Company has currently received credit approved term sheets from banks totalling US$90 million for a facility maturing in June 2015. This debt facility is not yet complete and financial close is expected in 2Q 2011 and is subject to finalisation of bank syndication and legal review.

(e) Assets mortgaged as security

Secured bank loan

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries giving security in relation to the loan facility from Commonwealth Bank of Australia, BOS International (Australia) Limited and Société Genérale Australia Branch. Roc Oil (Finance) Pty Limited has granted charges over all its assets and ROC has granted a 'featherweight' charge in favour of Commonwealth Bank of Australia as security trustee. In addition, the shares and proceeds accounts of the following ROC subsidiaries have been mortgaged to CBA Corporate Services (NSW) Pty Ltd, which subsidiaries are the entities that hold the producing assets: Roc Oil (WA) Pty Limited, Roc Oil (Bohai) Company and Roc Oil (GB) Limited. The net book value of Roc Oil (Finance) Pty Limited and the entities in which shares have been mortgaged is US$153.8 million.

(f) Foreign exchange, interest rate and liquidity risks

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

(g) Fair value

The fair value of the Group borrowings was US$49,182,000 (2009: US$49,115,000).

Note 20. Controlled Entities

Name of Entity	Country of Incorporation	Ownership and Voting Interest 2010 %	Ownership and Voting Interest 2009 %
Parent entity			
Roc Oil Company Limited	Australia	100	100
Controlled entities			
Roc Oil (Gobi) Pty Ltd	Australia	-	100
Roc Oil (WA) Pty Limited	Australia	100	100
Roc Oil (China) Pty Limited	Australia	-	100
Roc Oil (Madagascar) Pty Limited	Australia	100	100
Roc Oil Australia Holdings Pty Ltd	Australia	100	100
Roc Oil International Holdings Pty Ltd	Australia	100	100
Elixir Corporation Pty Ltd	Australia	100	100
Roc Oil (Finance) Pty Limited	Australia	100	100
Anzon Energy Pty Limited	Australia	100	100
Roc Oil (VIC) Pty Limited	Australia	100	100
Roc Oil (Exploration No. 1) Pty Limited	Australia	100	100
Roc Oil (Ventures) Pty Limited	Australia	100	-
Roc Oil (Taranaki) Pty Limited	Australia	100	-
Roc Oil (Tasman) Pty Limited	Australia	100	-
Anzon Energy Mauritius	Mauritius	100	100
Anzon Investments Limited	Mauritius	100	100
Anzon Africa Limited	Mauritius	100	100
PT Anzon Energy Indonesia	Indonesia	100	100
Roc Oil (New Zealand) Limited	New Zealand	100	100
Anzon Energy Nigeria Limited	Nigeria	100	100
Roc Oil Holdings (Cayman Islands) Company	Cayman Islands	100	100
Roc Oil (Bohai) Company	Cayman Islands	100	100
Roc Oil (China) Company	Cayman Islands	100	100
Roc Oil (Cabinda) Company	Cayman Islands	100	100
Roc Oil (Mauritania) Company	Cayman Islands	100	100
Roc Oil (Casamance) Company	Cayman Islands	100	100
Roc Oil (Equatorial Guinea) Company	Cayman Islands	100	100
Roc Oil (Angola) Ltd	Cayman Islands	100	100
Lacula Oil Company Ltd	Cayman Islands	100	100
Roc Oil (Maboque) Company	Cayman Islands	100	100
Roc Oil (Falklands) Limited	United Kingdom	100	100
Roc Oil (Europe) Limited	United Kingdom	100	100
Roc Oil (GB Holdings) Limited	United Kingdom	100	100
Roc Oil (GB) Limited	United Kingdom	100	100
Roc Oil (North Sea) Limited	United Kingdom	100	-
Roc Oil (Chinguetti) B.V.	Netherlands	100	100

Note 21. Current Trade and Other Payables

	2010 US$'000	2009 US$'000
Trade payables	12,867	13,609
Accrued liabilities	6,331	4,752
Amount owing to associate companies	685	758
Stock overlift	3,125	2,264
Other	2,171	153
	25,179	**21,536**

Note 22. Provisions

	Employee Benefits US$'000	Office Rent US$'000	Suspension Costs US$'000	Restoration US$'000	Total US$'000
Balance at 1 January 2010	2,305	627	-	43,552	46,484
Additions during the year	642	-	13,300	29,254	43,196
Unwinding of discount	-	-	-	2,932	2,932
Utilised	(1,076)	(606)	-	(261)	(1,943)
Translation adjustments	332	(21)	-	-	311
Balance at 31 December 2010	**2,203**	**-**	**13,300**	**75,477**	**90,980**
Current – 2010	1,369	-	13,300	16,826	31,495
Non-current – 2010	834	-	-	58,651	59,485
Total 2010	**2,203**	**-**	**13,300**	**75,477**	**90,980**
Current – 2009	1,363	-	-	-	1,363
Non-current – 2009	942	627	-	43,552	45,121
Total 2009	**2,305**	**627**	**-**	**43,552**	**46,484**

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

The office rent provision relates to the lease contract of an unoccupied office where no rental income is being received. The lease was surrendered during 2010.

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. The additions during the year primarily include US$9.4 million relating to Zhao Dong as a result of a change in government legislation and US$17.7 million in relation to additional costs in BMG.

The provision for suspension relates to BMG and the decision for the field to enter into the non-production phase. It largely consists of remaining contractual costs which have crystallised as a result of early termination of production.

Note 23. Share Capital

	2010 Number of Shares	2009 Number of Shares	2010 US$'000	2009 US$'000
Balance at beginning of financial year	713,154,560	588,031,673	744,201	669,942
Shares issued	-	125,122,887	-	74,259
Balance at end of financial year	**713,154,560**	**713,154,560**	**744,201**	**744,201**

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

Note 24. Employee Benefits

(a) Long Term Incentive Plan ('LTI')

The LTI is an "at risk" equity-based incentive plan designed to generate performance-based awards of share rights that may be converted into fully paid ordinary shares in the Company on satisfaction of performance conditions and Board approval.

Features of the LTI include:

- the grant of rights to acquire fully paid ordinary shares in the Company, at no cost to a participant;
- the number of rights granted is based on an employee's level in the Company and individual and/or Company performance;
- the rights will only become exercisable if certain performance conditions are met within defined periods;
- there will be three tiers of rights with separate vesting criteria:
  - Tier One - vesting will occur subject to the satisfaction of the performance condition which relates to the Total Shareholder Return ('TSR') growth of ROC measured over the performance period,
  - Tier Two - vesting will occur subject to the satisfaction of the performance condition which relates to a relative TSR test over the performance period against a subset of conventional oil and gas companies, and
  - Tier Three - vesting will be subject to a participant being continuously employed by the Group throughout the performance period. The number of rights granted under Tier Three cannot exceed 20% of the total grant;
- there is no re-testing of performance conditions; and
- the rights lapse when a participant ceases to be employed by ROC other than in certain circumstances relating to death, injury, permanent disability, redundancy, retirement or sale of business.

A summary of the rights granted under the LTI is as follows:

Grant Date	Vesting Date	Opening Balance 1 Jan 10	Granted	Exercised	Cancelled	Closing Balance 31 Dec 10	ROC Share Price at Date of Issue A$
29 March 2010	29 March 2012	-	2,073,000	-	(30,000)	2,043,000	$0.36
12 November 2010	12 November 2013	-	5,195,000	-	-	5,195,000	$0.43
12 November 2010	12 May 2011	-	250,000	-	-	250,000	$0.43
		-	7,518,000	-	(30,000)	7,488,000	

The fair value of the rights has been calculated using the at the grant date and allocated to each reporting period from grant date to vesting date. The rights outstanding at 31 December 2010 have a fair value in the range of A$0.24 and A$0.32, and a weighted average remaining contractual life of 2.3 years.

Note 24. Employee Benefits *continued*

(a) Long Term Incentive Plan ('LTI') *continued*

The fair value of the rights has been calculated using the Monte Carlo simulation technique with the following assumptions for each grant date:

	29 March 2010	12 November 2010
Share price	A$0.36	A$0.43
Share price volatility	60%	60%
Risk free rate per annum	5.0%	5.2%
6 month risk free rate per annum	N/A	4.8%
Dividend yield per annum	0%	0%
Share price correlation between companies	30%	30%

The rights granted during the year are subject to service conditions and non-market performance conditions. Non market performance conditions are not taken into account in the grant date fair value measurement.

(b) 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. These plans have been replaced in 2010 by the LTI and no new issues under either option plans will occur. The details of the option plans are set out below:

Employee Share Option Plan

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

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

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

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

	Number of Options	2010 Weighted Average Exercise Price A$	Number of Options	2009 Weighted Average Exercise Price A$
Balance at beginning of financial year	4,011,500	1.26	5,596,100	1.36
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(400,000)	1.06	(1,539,600)	1.59
Lapsed	-	-	(45,000)	1.48
Balance at end of financial year	**3,611,500**	**1.29**	**4,011,500**	**1.26**
Exercisable	**3,611,500**	**1.29**	**881,500**	**3.05**

The range of exercise prices at the end of the financial year is between A$0.54 and A$3.10 per share, with a weighted average remaining contractual life of 2.4 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 volume weighted average price for sale of ROC 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.

	2010 Number of Options	2010 Weighted Average Exercise Price A$	2009 Number of Options	2009 Weighted Average Exercise Price A$
Balance at beginning of financial year	7,787,100	2.78	12,290,900	2.84
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(1,179,400)	2.89	(4,503,800)	2.94
Lapsed	(936,200)	1.58	-	-
Balance at end of financial year	**5,671,500**	**2.96**	**7,787,100**	**2.78**
Exercisable	**2,200,000**	**2.94**	**1,377,400**	**2.48**

The weighted average share price for share options exercised in 2010 was nil (2009: nil).

The range of exercise prices at the end of the financial year is between A$0.65 and A$4.25 per share, with a weighted average remaining contractual life of 2.2 years.

(c) Superannuation plans

The Company makes contributions to complying accumulation type superannuation plans nominated by individual employees. The Company contributes at least the amount required by law. The amount recognised as an expense was US$1,176,000 for the financial year ended 31 December 2010 (2009: US$1,204,000).

(d) Employee benefits expensed

	2010 US$'000	2009 US$'000
Salaries and wages	14,740	12,895
Share-based payments	571	498
Other associated personnel costs	2,441	3,311
	17,752	**16,704**

Salaries and wages and other associated personnel costs are allocated to various income statement categories based on the nature of the expenditure.

Note 25. Loss per Share

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

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

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

	2010 Number of Shares	2009 Number of Shares
Weighted average number of ordinary shares for basic loss per share	713,154,560	646,173,601
Effect of dilution:		
Share options/rights	-	-
Adjusted weighted average number of ordinary shares for diluted loss per share	713,154,560	646,173,601
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	2,320,668	-

Note 26. Segment Information

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

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

For the financial year ended 31 December 2010

US$'000	BMG Australia	Cliff Head Australia	Blane UK	Enoch UK	Chinguetti Africa	Zhao Dong China	Exploration	Other	Total
Sales revenue	21,363	43,210	35,023	15,313	8,113	112,417	-	(11)	235,428
Production costs	29,621	11,674	5,126	1,378	3,164	16,727	-	18	67,708
Amortisation	6,189	9,987	9,191	3,258	1,467	46,826	-	3	76,921
Segment results(1)	(17,091)	21,549	20,262	10,003	2,327	32,101	-	(31)	69,120
Impairment/(write-back) of oil and gas assets	44,248	-	-	-	-	(36,638)	-	-	7,610
Capital expenditure incurred	1,405	-	(336)	(162)	(11)	27,640	25,630	-	54,166
Segment assets	2,106	50,374	44,236	9,765	5,147	150,303	4,867	16,693	283,491
Non-current restoration provision	26,618	7,440	3,521	2,092	9,318	9,662	-	-	58,651

(1) Total segment results ('trading profit') is reconciled to net profit before income tax on the Consolidated Statement of Comprehensive Income.

For the financial year ended 31 December 2009

US$'000	BMG Australia	Cliff Head Australia	Blane UK	Enoch UK	Chinguetti Africa	Zhao Dong China	Exploration	Other	Total
Sales revenue	30,569	30,273	30,740	16,290	6,254	90,243	-	114	204,483
Production costs	31,505	9,567	3,400	1,602	3,226	15,616	-	19	64,935
Amortisation	15,744	9,740	11,362	5,208	3,285	45,616	-	4	90,959
Segment results[1]	(18,192)	10,966	17,001	9,499	(645)	16,690	-	91	35,410
Impairment/(write-back) of oil and gas assets	98,780	-	-	-	10,139	(26,764)	-	-	82,155
Capital expenditure incurred	40,859	-	294	(4)	284	22,307	8,524	-	72,264
Segment assets	22,352	59,610	54,243	14,650	3,211	108,782	16,129	-	278,977
Non-current restoration provision	24,516	6,985	3,902	1,649	6,500	-	-	-	43,552

(1) Total segment results ('trading profit') are reconciled to the loss before income tax on the Consolidated Statement of Comprehensive Income.

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

During the financial year ended 31 December 2010, all oil and gas sales have been made to various international oil companies. For each segment, with the exception of Chinguetti, sales have been made to individual customers.

Reconciliation of segment operating assets to total assets:

	2010 US$'000	2009 US$'000
Segment operating assets	283,491	278,977
Cash assets	76,781	61,947
Receivables	18,976	8,381
Deferred tax assets	-	1,266
Property, plant and equipment	1,975	1,386
Stock overlift	3,125	2,264
Total assets per the Consolidated Statement of Financial Position	**384,348**	**354,221**

Note 27. Related Party Disclosures

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

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

- Note 20 as to investments in controlled entities;
- Note 21 as to amounts owing to associate companies;
- Note 30 as to investments in associate companies; and
- Note 32 as to disclosures relating to Key Management Personnel.

Note 28. Commitments for Expenditure

	2010 US$'000	2009 US$'000
(a) Capital commitments		
Not longer than one year		
Joint ventures	11,870	20,257
Longer than one year but not longer than five years		
Joint ventures	-	11,458
	11,870	**31,715**
(b) Operating expenditure commitments		
Not longer than one year	3,356	11,762
Longer than one year but not longer than five years	5,680	6,260
Longer than five years	2,239	-
	11,275	**18,022**

Note 29. Joint Ventures

The Group has an interest (rounded to two decimal places) in the following joint ventures as at 31 December 2010:

Country	Block	Principal Activities	Interest 2010 %	Interest 2009 %
Australia	WA-286-P	Oil and gas exploration	-	37.50
	WA-31-L (Cliff Head)	Oil production	37.50	37.50
	WA-351-P	Oil and gas exploration	- [(1)]	20.00
	L14 (Jingemia)	Oil production	0.25	0.25
	VIC/L26; VIC/L27; VIC/L28 (BMG)	Oil production	30.00	30.00
	VIC/P49	Oil and gas exploration	-	20.00
New Zealand	PEP38259	Oil and gas exploration	15.00	15.00
	PEP38524	Oil and gas exploration	20.00	-
	PEP52181	Oil and gas exploration	50.00	-
Equatorial Guinea	Block H	Oil and gas exploration	37.50	37.50
Mauritania	Area A	Oil and gas exploration	4.16	4.16
	Area B (Chinguetti)	Oil and gas exploration/production	3.69/3.25[(2)]	3.69/3.25[(2)]
	Area C Block 2	Oil and gas exploration	5.49	5.49
	Area C Block 6	Oil and gas exploration	5.00	5.00
	Block 1	Oil and gas exploration	2.00	2.00
	Block 7	Oil and gas exploration	4.95	4.95
Mozambique Channel	Belo Profond (Madagascar)	Oil and gas exploration	75.00	75.00
	Juan de Nova Maritime Profond (France)	Oil and gas exploration	75.00	75.00
Angola	Cabinda South Block	Oil and gas exploration	10.00	10.00
China	Beibu Gulf Development Areas (formerly Block 22/12)	Oil and gas pre-development	40.00/19.6[(3)]	40.00
	Zhao Dong Block (C and D Fields/C4 Field)	Oil development/production	24.50/11.58[(4)]	24.50/11.58[(4)]
UK North Sea	P111 (Block 30/3a Upper) (Blane)	Oil and gas production	15.24/12.50[(5)]	15.24/12.50[(5)]
	P219 (Block 16/13a and 16/13e) (Enoch)	Oil and gas production	15.00/12.00[(5)]	15.00/12.00[(5)]

Note:

(1) Sold subject to joint venture and government approval.

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

(3) Interest in field development post-government back-in.

(4) Unitised interest in the C4 Field.

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

The Group's share of net working interest production from the above joint ventures during the financial year was 3,096,414 BOE (2009: 3,662,349 BOE).

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

Note 29. Joint Ventures *continued*

	2010 US$'000	2009 US$'000
Current assets	4,179	5,364
Non-current assets	252,431	260,758
Total assets	**256,610**	**266,122**
Current liabilities	37,940	10,691
Non-current liabilities	58,651	43,552
Total liabilities	**96,591**	**54,243**

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 28 and Note 33 respectively.

Note 30. Associate Companies

Details of investments in associate companies are as follows:

				Beneficial Interest in Ordinary Shares at 31 December		Book Value of Ordinary Shares at 31 December		Contribution to Consolidated Loss	
Name of Associate Company	Country of Incorporation	Principal activity	Balance Date	2010 %	2009 %	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'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 31. Remuneration of Auditors

	2010 US$	2009 US$
Amounts due to and recoverable by the auditor of the parent entity:		
Audit and review of the financial report	292,098	338,052
Tax compliance and accounting advice	400,327	376,583
	692,425	714,635
Amounts due to related practices of Ernst & Young, Australia for:		
Audit and review of the financial report	34,586	53,442
	727,011	**768,077**

Ernst & Young, Australia was the auditor for the Company in 2010.

Note 32. Key Management Personnel Disclosures

(a) Details of Key Management Personnel

Mr A J Love	Chairman (Non-Executive)
Mr W G Jephcott	Deputy Chairman (Non-Executive)
Mr B F Clement	Executive Director and Chief Executive Officer (resigned 29 October 2010)
Mr S J Jansma, Jr	Director (Non-Executive)
Mr R C A Leon	Director (Non-Executive)
Mr G D Mulligan	Director (Non-Executive) (appointed 7 September 2010)
Mr C C Hodge	Director (Non-Executive) (appointed 7 September 2010)
Mr A S Linn	Chief Operating Officer, Acting Chief Executive Officer (appointed 29 October 2010) and Chief Executive Officer (appointed 23 February 2011)
Mr J Mebberson	General Manager Exploration (resigned 12 November 2010)
Ms L Nolan	General Counsel and Company Secretary (appointed as General Counsel on 12 November 2010)
Mr R Morris	President, Roc Oil (China) Company
Mr A Neilson	Chief Financial Officer
Mr D Minns	General Counsel and Joint Company Secretary (appointed 7 April 2010, resigned 12 November 2010).

(b) Remuneration

(i) Remuneration policy

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

The Company has a LTI and a Short Term Incentive Plan ('STI'). Under these plans, executives are issued performance rights to subscribe for ordinary shares in the Company at the discretion of the Directors and can be awarded cash bonuses under the STI. These plans provide an incentive to the Senior Management Team to achieve significant long term growth in the Company's share price. Previously, options were issued under the Executive Share Option Plan. This plan has now been discontinued. For details, refer to Note 24 and the Directors' Report.

(ii) Remuneration of Key Management Personnel

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

	2010 US$	2009 US$
Short term employee benefits	3,841,342	4,614,362
Post-employment benefits	236,901	238,450
Share-based payments	290,729	85,098
Termination payments	741,449	151,319
	5,110,421	**5,089,229**

Remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs AUS 5.4 to AUS 25.7.2 are disclosed in the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

Note 32. Key Management Personnel Disclosures *continued*

(c) Option/Right holdings

2010	1 Jan 2010 Balance at Beginning of Financial Year	Rights Granted as Remuneration	Options/Rights Exercised	Rights/Options Lapsed	31 Dec 2010 Balance at End of Financial Year	Vested at 31 Dec 2010	Exercisable at 31 Dec 2010
Mr B F Clement	680,000	-	-	(130,000)	550,000	550,000	225,000
Mr A S Linn	550,000	1,620,000	-	-	2,170,000	165,000	82,500
Mr A Neilson	370,000	520,000	-	-	890,000	171,000	85,500
Mr J Mebberson	330,000	-	-	(330,000)	-	-	-
Ms L Nolan	220,000	470,000	-	(40,000)	650,000	166,000	113,000
Mr R Morris	200,000	640,000	-	-	840,000	200,000	200,000
Mr D Minns	-	-	-	-	-	-	-
	2,350,000	**3,250,000**	**-**	**(500,000)**	**5,100,000**	**1,252,000**	**706,000**

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

(d) Shareholdings

2010	1 Jan 2010 Balance at Beginning of Financial Year	Change on Exercise of Options/Rights	Net Change from On-Market Transactions	31 Dec 2010 Balance at End of Financial Year
Mr A J Love	589,521	-	-	589,521
Mr W G Jephcott	1,117,300	-	-	1,117,300
Mr B F Clement	181,126	-	100,000	281,126(1)
Mr S J Jansma, Jr	644,641	-	1,355,359	2,000,000
Mr R C A Leon	1,221,212	-	288,788	1,510,000
Mr G D Mulligan	-	-	25,000	25,000
Mr C C Hodge	-	-	50,000	50,000
Mr A S Linn	-	-	-	-
Mr J Mebberson	10,500	-	-	10,500(1)
Ms L Nolan	-	-	-	-
Mr R Morris	-	-	300,000	300,000
Mr A Neilson	5,000	-	6,500	11,500
Mr D Minns	-	-	-	-(1)
	3,769,300	-	2,125,647	5,894,947

(1) At date of resignation.

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

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

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

(e) Loans and other transactions

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

Note 33. Contingent Liabilities

Under a sale and purchase agreement dated 29 December 1997, by which Roc Oil (GB) Limited acquired an interest in the Blane Oil Field (Block 30/3a), a royalty of 22% of the company's share of production from the field is payable. No royalty becomes payable on any oil produced from the field until the total cumulative production has reached 15 MMBBL (produced to date 13.9MMBBL) of oil and thereafter the 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$13.0 million at 31 December 2010 (2009: US$10.6 million).

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.

Note 34. Subsequent Events

On 23 February 2011, Mr Alan Linn was appointed as Chief Executive Officer.

No other 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.

Note 35. Additional Company Information

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

The registered office and principal place of business is:

Level 18, 321 Kent Street
Sydney NSW 2000
Australia.

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 2010 and of its performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b);

(c) 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

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2010.

On behalf of the Directors:

Mr A J Love
Chairman

Mr W G Jephcott
Deputy Chairman

Sydney, 24 February 2011

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Independent auditor's report
to the 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 consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 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 and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

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

Auditor's Opinion

In our opinion:

1. the financial report of Roc Oil Company Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the year ended on that date; and

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

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

Auditor's Opinion

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

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner

Sydney, 24 February 2011

Additional Information

ROC RESERVES ANALYSIS (UNAUDITED)

Summary Proved and Probable Working Interest Reserves	MMBBL	BCF	Total MMBOE
Opening balance	13.9	0.2	13.9
Reserve revisions	5.4	(0.2)	5.4
Production	(3.1)	-	(3.1)
Closing balance	16.2	-	16.2

Analysis of Proved and Probable Reserves	MMBBL	BCF	Total MMBOE
Zhao Dong (C and D Fields)	5.7	–	5.7
Zhao Dong (C4 Field)	0.4	–	0.4
Beibu	4.7	-	4.7
Cliff Head	2.8	–	2.8
Chinguetti	0.2	–	0.2
Blane	1.8	–	1.8
Enoch	0.6	-	0.6
Closing balance	16.2	-	16.2

Note:
1 MMBOE = 6 BCF

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

ROC LICENCES AT 31 DECEMBER 2010 (UNAUDITED)

Country	Block	Field/Discovery	ROC Interest %	Operator
Australia	WA-31-L	Cliff Head	37.50	Roc Oil (WA) Pty Limited
	L14	Jingemia	0.25	Origin Energy Developments Pty Ltd
	VIC/L26, VIC/L27, VIC/L28	BMG	30.00	Roc Oil (VIC) Pty Limited
New Zealand	PEP38259		15.00	AWE (New Zealand) Pty Ltd
	PEP38524		20.00	AWE (New Zealand) Pty Ltd
	PEP52181		50.00	Roc Oil (Taranaki) Pty Limited
Equatorial Guinea	Block H		37.50	Roc Oil (Equatorial Guinea) Company (Technical Operator)
Mauritania	Area A	Banda	4.16	PC Mauritania I Pty Ltd
	Area B	Chinguetti, Tiof, Tiof West, Tevét	3.69/3.25[(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
Mozambique Channel	Belo Profond (Madagascar)		75.00	Roc Oil (Madagascar) Pty Limited
	Juan de Nova Maritime Profond (France)		75.00	Roc Oil Company Limited
Angola	Cabinda South Block		10.00	Pluspetrol Angola Corporation
China	Beibu Gulf Development Areas	WZ 6-12, WZ 12-8	40.00/19.6[(2)]	Roc Oil (China) Company/ CNOOC Limited
	Zhao Dong Block	C and D Fields, C4 Field	24.50/11.58[(3)]	Roc Oil (Bohai) Company
UK North Sea	P111 (Block 30/3a Upper)	Blane	15.24/12.50[(4)]	Talisman Energy (UK) Limited
	P219 (Block 16/13a and e)	Enoch, J1	15.00/12.00[(4)]	Talisman North Sea Limited

Note:

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

(2) Interest in field development post-government back-in.

(3) Unitised interest in the C4 Field.

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

Shareholder Information

1. Ordinary Share Capital

As at 7 March 2011, the Company had on issue 713,154,560 fully paid ordinary shares held by 22,145 shareholders.

All issued fully paid ordinary shares carry one vote per share.

2. Options

As at 7 March 2011, the Company had the following unquoted options: 3,411,500 options under the Employee Share Option Plan held by 76 optionholders and 5,474,000 options under the Executive Share Option Plan held by 27 optionholders.

During the year ended 31 December 2010:

- 400,000 employee share options and 2,115,600 executive share options lapsed or were cancelled; and
- nil options issued under the Employee Share Option Plan and nil options under the Executive Option Scheme were exercised.

Options do not carry any voting rights or rights to dividends.

3. Performance Rights

As at 7 March 2011, the Company had granted 8,958,000 performance rights under the Long Term Incentive Plan to 64 employees. Rights do not carry any voting rights or rights to dividends.

4. Distribution of Share and Option Holders

Holding as at 7 March 2011	Shareholders	Employee Options	Executive Options
1 – 1,000	5,853	–	–
1,001 – 5,000	7,367	16	–
5,001 – 10,000	3,523	11	–
10,001 – 100,000	5,028	41	6
Over 100,000	374	8	21
Total	**22,145**	**76**	**27**
Shareholders holding less than a marketable parcel	6,324	–	–

5. Substantial Shareholders

Substantial shareholders as disclosed in substantial shareholder notices given to the Company are as follows:

Shareholder	Number Held (Fully Paid Ordinary Shares)	% of Class Held
Orbis Investment Management (Aust) Pty Ltd	131,091,808	18.38

6. Twenty Largest Shareholders as at 7 March 2011

Shareholder	Number Held	%	Rank
JP Morgan Nominees Australia Limited	125,522,257	17.60	1
HSBC Custody Nominees (Australia) Limited	122,809,425	17.22	2
National Nominees Limited	99,532,954	13.96	3
Citicorp Nominees Pty Limited	30,248,560	4.24	4
JP Morgan Nominees Australia Limited <Cash Income A/C>	16,880,292	2.37	5
Stilix Services Limited	8,844,000	1.24	6
Merrill Lynch (Australia) Nominees Pty Limited <Pact A/C>	3,664,017	0.51	7
Queensland Investment Corporation	3,315,960	0.46	8
Lippo Securities Ltd <Lippo Securities Clients A/C>	2,294,000	0.32	9
Berne No 132 Nominees Pty Ltd <376804 A/C>	2,200,000	0.31	10
AMP Life Limited	1,905,658	0.27	11
Mr Steven Joseph Koroknay	1,900,000	0.27	12
Troca Enterprises Pty Ltd <Coulson Super A/C>	1,650,000	0.23	13
Berne No 132 Nominees Pty Ltd <152417 A/C>	1,608,626	0.23	14
Investsoft SA	1,600,000	0.22	15
HSBC Custody Nominees (Australia) Limited - A/C 2	1,520,684	0.21	16
Merrill Lynch (Australia) Nominees Pty Limited	1,471,916	0.21	17
Mr Joseph Holland Moloney	1,363,388	0.19	18
Gascorp Australia Pty Ltd	1,200,000	0.17	19
Forty Traders Limited	1,187,126	0.17	20
	430,718,863	**60.40**	

Glossary and Definitions

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

Directory

Board of Directors

Mr Andrew J Love
Chairman

Mr William G Jephcott
Deputy Chairman

Mr Christopher C Hodge
Director

Mr Sidney J Jansma, Jnr
Director

Mr Robert C A Leon
Director

Mr Graham D Mulligan
Director

Company Secretary
Ms Leanne Nolan

Senior Management and Key Personnel

Mr Alan Linn
Chief Executive Officer

Mr Simon Daniel
Manager, Production and Development, Australia

Mr Olivier Gentizon
Equatorial Guinea/Madagascar Representative

Mr Matthew Gerber
General Manager,
Corporate Affairs and Planning

Mr Ron Morris
President, Roc Oil (Bohai) Company

Mr Anthony Neilson
Chief Financial Officer

Ms Leanne Nolan
Company Secretary and
General Counsel

Mr Rolf Stork
General Manager, Operations

Mr Bill Billingsley
Chief Reservoir Engineer

Ms Lynne Evans
Corporate Manager,
Human Resources and Administration

Mr Graham Griffin
Corporate Manager, Health,
Safety and Environment

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