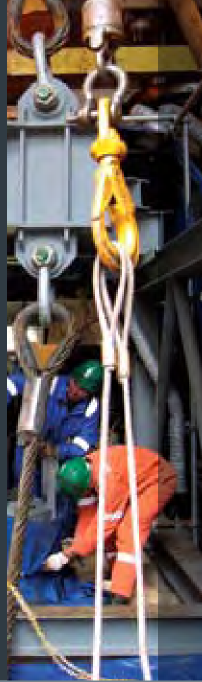


Annual Report 2008

Roc Oil Company Limited

ABN 32 075 965 856

ROC

2009 Strategy

>

ROC's underlying business is healthy, despite the current global financial crisis

ROC has a sound financial base, with its existing asset portfolio delivering an operating cash flow of US$182.5 million in 2008

ROC's 2P Reserves of 24.0 MMBOE and 2C Contingent Resources of 23.9 MMBOE provide a solid platform for future organic growth

ROC's focus for 2009 will be on

> delivering its operating budget

> meeting production targets

> stewarding financial resources

> progressing developments such as the BMG Phase 2 Gas and Beibu Gulf Oil Projects

▲ Exploration

- Australia*
- New Zealand
- Mauritania
- Equatorial Guinea*
- Angola*
- Mozambique Channel*

■ Appraisal/Development

- Basker Manta Gummy Phase 1 Oil Project*
- Basker Manta Gummy Phase 2 Gas Project*
- Zhao Dong Oil Fields*
- Beibu Gulf Oil Project*
- Mauritania

● Production

- Cliff Head Oil Field*
- Basker Manta Gummy Oil and Gas Fields*
- Zhao Dong Oil Fields*
- Blane Oil Field
- Enoch Oil and Gas Field
- Chinguetti Oil Field

* ROC operated/technically managed

Contents

>

Mr Andrew Love
Chairman

Chairman

To say that the year in review has been one of stark contrasts is an understatement.

>

2008 has very much been a year of vastly differing halves. Your Company has had to navigate from a period of buoyant optimism into one of uncertain times and acute pessimism as to the future economic outlook.

We have been faced with: a collapse in oil prices; management dislocation through the untimely passing of our founder and Chief Executive Officer ('CEO'), Dr John Doran; the acquisition of Anzon; management of a high level of activity and development on existing projects; and the collapse in world financial markets on an unprecedented scale.

This has had the effect of constraining credit on a scale not seen for decades. Notwithstanding this extreme environment, the core of our business is in good shape.

The landscape we have encountered referred to above together with the significant reported loss through material asset impairments has, to a degree, masked achievements made during the year as well as important steps taken by your Board and management.

We announced a new CEO, Bruce Clement, who has been with the Company for 11 years; this followed the passing of Dr John Doran. We have a competent and experienced senior management team who report to you later in this Annual Report.

In October, the China group concluded a major development with the commissioning of facilities for the Zhao Dong C4 Oil Field and Extended Reach Area ('ERA') of the C and D Oil Fields, offshore Bohai Bay.

Following the commissioning of this aspect of the project amongst financial and commodity markets turmoil, the company reached record daily production levels together with the inclusion of production from the newly acquired Basker Manta Gummy ('BMG') Project.

We completed a significant exploration programme which had mixed success in Angola.

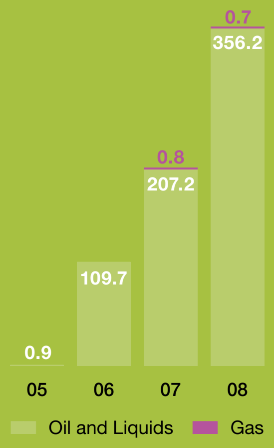
Importantly, we operated safely and achieved very commendable safety outcomes across all operations.

These were, to a large degree, overshadowed by the turmoil in world financial markets which was followed by the collapse in commodity prices in the second half of the year. The oil price alone fell 64% since the completion of the Anzon Australia Limited ('Anzon') acquisition in October.

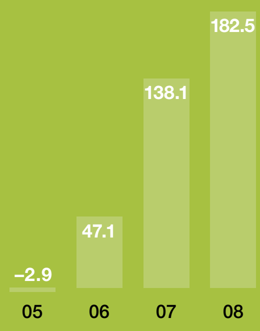
With these events, it quickly became apparent that the Company was going to be faced with a dramatically changed operating environment.

The "new reality" of our changed operating environment has necessitated a complete review of all aspects of our business and how we do business. This has progressed well and announcements have been made on an ongoing basis as to various aspects of our business.

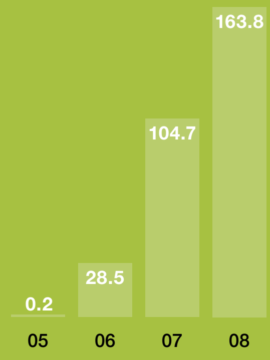
Sales Revenue (US$m)



Operating Cash Flow (US$m)



Trading Profit (US$m)



In the new oil price environment, there was a need to ensure the assets acquired as a result of the Anzon acquisition could be operated effectively in the light of this new reality. This has resulted in some recalibration of the BMG Project in consultation with our joint venture partners.

There has been a need to rebase the cost base of the business, through a reduction in staff levels and overhead costs.

Our key production fields are well positioned with generally low operating cost structures in the vicinity of US$15/BOE.

Exploration expenditure in the short term has been significantly reduced compared to previous years.

A key focus of these and other initiatives taken by management has been the imperative to ensure that the business can withstand a period of low oil prices.

Our short term objective is to efficiently and cost effectively develop the 2P Reserves and 2C Contingent Resources in our existing portfolio.

However, the Board is acutely aware of the need to rebuild value for our shareholders. To do this, we need a sound platform on which to grow; we believe we have this, together with recognition of what is needed to operate the business at an appropriate level while the existing global financial and commodity uncertainty remains.

To achieve this, we need to work closely with all stakeholders: employees, joint venture partners, suppliers, financiers and shareholders. To this end, I would like to thank all those parties who have worked with us positively and cooperatively over the last few months.

In particular, I would like to thank the senior management team and employees at all locations who have contributed tirelessly and cooperatively to deal with the new reality that I have outlined above.

I would also like to thank the Board of Directors for their support and counsel. During the year, two Directors retired: Adam Joliffe and Doug Schwebel. I thank them for their contributions and counsel while being on the Board.

I reiterate that the Board and senior management team are committed to ensuring that value is restored to the Company share price.

This will take time given the operating conditions as we find them at present. However, your Company is well positioned to manage the current environment.

Andrew Love
Chairman

Mr Bruce Clement
Chief Executive Officer

Chief Executive Officer

2008 was a challenging and, at times, difficult year for ROC. It was a year in which the Company lost its founding CEO, Dr John Doran, who will be greatly missed by the ROC family and by the international oil industry.

>

2008 saw the Company deliver record production volumes, record sales revenue and record cash flow, but also deliver a loss after tax of US$278 million. Oil prices reached record highs of over US$140/BBL before falling over 70% to nearly US$40/BBL by year end amid a global financial market in turmoil, with international banking failures and loss of confidence in financial institutions and markets.

In this troubled industry and financial environment, ROC has moved quickly to change its near term strategy and business plans to ensure the Company continues to operate on a sound financial basis.

The Board and management took a number of positive actions in the fourth quarter of 2008 and early 2009 to manage funding and cash flows for 2009 and 2010. These actions included reducing costs across ROC's operations, particularly in relation to exploration where the 2009 budget has been reduced to US$10 million.

In addition, development expenditures on projects such as the Zhao Dong Project in the Bohai Bay, offshore China, have been reduced and/or deferred. Funding plans have been put in place with a new US$35 million loan facility from Commonwealth Bank of Australia ('CBA') which, together with cash flow from production assets, will largely underpin development funding requirements for 2009.

The Company's focus for 2009 will be on delivering its operating budget, especially meeting production targets, and on moving the BMG Phase 2 Gas Project and Beibu Gulf Oil Project, offshore China, to final investment decisions later in the year. ROC's strategy will also include review of the asset portfolio to provide appropriate balance between the growth of the Company and its financial capacity.

This is expected to include the farm-out of some of ROC's African assets, where large equity positions are held in exploration acreage.

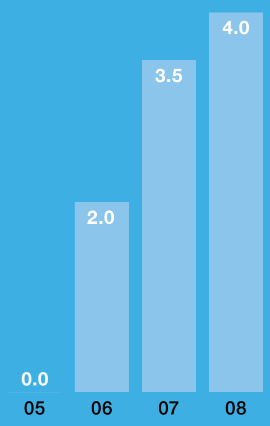
On the operating side of the business, 2008 was a successful year for ROC during which we continued to deliver on our plans and commitments. The Company's strong operating performance can be attributed to the hard work and talent of ROC's team of employees and contractors.

During the year, the Company operated and completed exploration drilling programmes offshore China, offshore Australia and onshore Angola and continued the Zhao Dong Development Project on schedule.

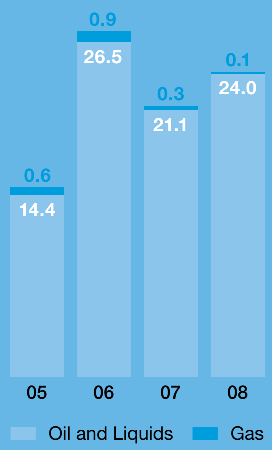
We achieved these operational goals with a Health, Safety, Environment and Community ('HSEC') record well ahead of average Australian industry performance despite the diverse and often very difficult range of environments in which the Company operates.

In October, the Company completed the takeover of Anzon, adding 7.7 MMBBL of oil to its 2P Reserves and a further 18.7 MMBOE to its 2C Contingent Resources, as well as increasing production in the fourth quarter by over 3,000 BOPD from the BMG Fields.

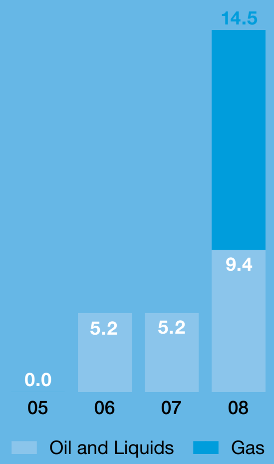
Total Production (MMBOE)



2P Remaining Reserves (MMBOE)



2C Contingent Resources (MMBOE)



"The Company's focus for 2009 will be on delivering its operating budget and production targets and on moving the BMG Phase 2 Gas Project and Beibu Gulf Oil Project to final investment decisions."

The BMG Project provides ROC with substantial opportunities to increase its reserve base through the development of oil and gas resources, particularly in relation to the large undrilled 3P Reserves potential within the existing fields.

As a result of successful development and production operations, at year end, ROC was producing over 13,000 BOEPD from six production assets and held 2P Reserves of 24.0 MMBOE and 2C Contingent Resources of a similar volume.

Despite operational success in development and production, ROC was unable to deliver value to its shareholders in 2008 through its share price.

The Company's exploration investment of US$115 million, including the drilling of eight exploration and six appraisal wells, has not delivered immediate commercial success.

This result, together with the steep decline in oil prices in the second half of the year, saw ROC's share price fall 83% in 2008 to close the year at A$0.50. We are all acutely aware that changes are required.

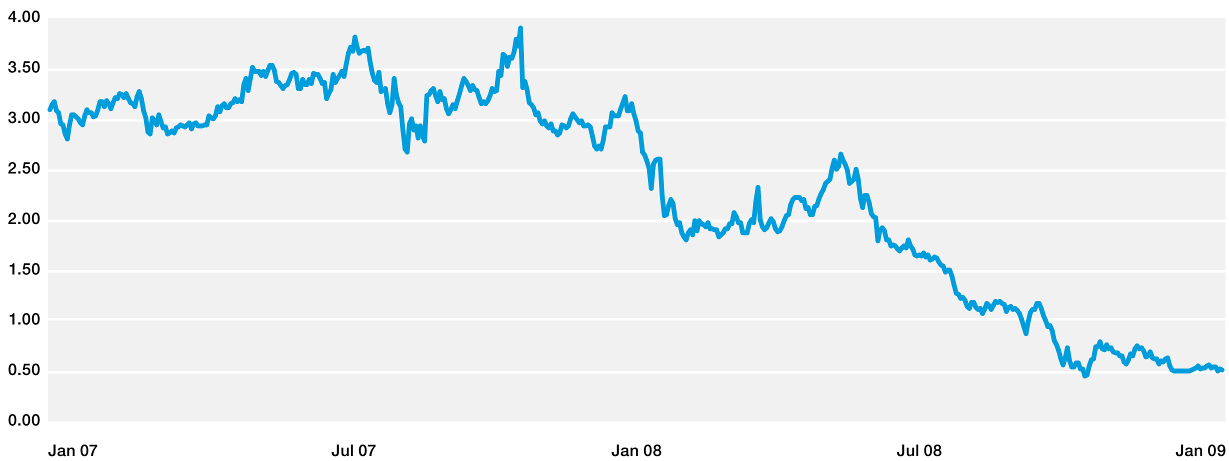
The Board and management are focused on improving the share price performance in 2009. This focus will include closely stewarding ROC's financial resources and targeting further development and production opportunities from within the existing asset portfolio.

We aim to capitalise upon significant cost reductions now appearing in the industry and to deliver savings into our business. We will continue to actively manage our asset portfolio to ensure ROC has the right asset balance, with particular regard to its exposure to exploration risk.

With a 2P Reserves base of 24.0 MMBOE and 2C Contingent Resources of 23.9 MMBOE, our aim is to position the Company in 2009 to benefit from improvements in the global economy and in oil prices when they occur.

Bruce Clement
Chief Executive Officer

ROC Share Price (A$)



Chief Financial Officer

ROC has a sound financial base, with its existing asset portfolio delivering an operating cash flow of US$182.5 million in 2008.

>

However, amid the volatile oil price environment of 2008, ROC reported a net loss after tax of US$278.4 million despite recording a trading profit of US$163.8 million. The loss was mainly caused by non-cash balance sheet asset impairments largely resulting from the fall in the oil price, which fell by 62% during the year and by 64% since the acquisition of Anzon. Total asset revaluations at year end resulted in non-cash write-downs and impairments of US$376.9 million (before tax).

ROC's normalised loss after tax for 2008 was US$66.5 million after adjusting for asset write-downs of US$290.7 million (after tax) and for unrealised gains on oil price hedging of US$78.8 million. The normalised loss still included an exploration expense of US$112.7 million for the year.

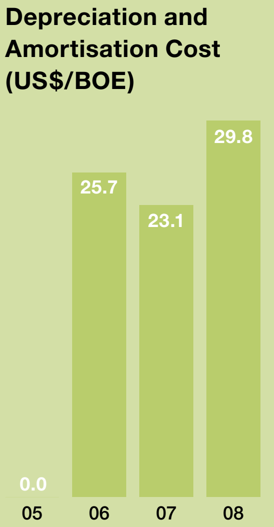
Underlying these results is a healthy business. Cash operating costs averaged US$10.98/BOE in 2008 and at year end ROC held oil price hedges for 2.7 MMBBL at an average price of US$67.26/BBL.

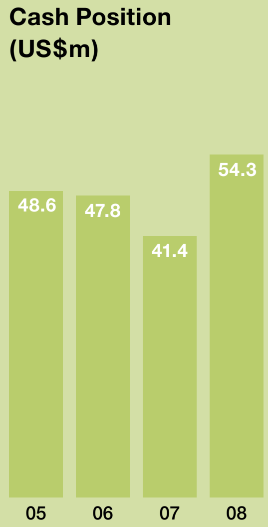
Importantly, in a period of global financial turmoil the funding for ROC's 2009 business plan is largely underpinned by operating cash flow and support from existing lenders. In particular, a new US$35 million bridge facility has been provided by CBA to support development activities in 2009 and the term of the existing US$30 million working capital facility from CBA has been extended to 30 June 2010.

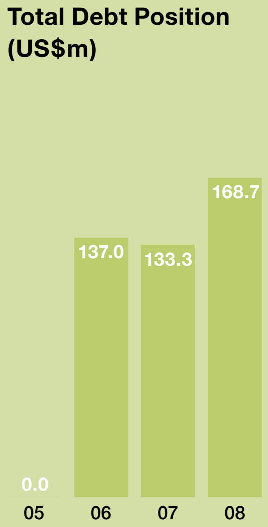
The following key results highlight ROC's solid underlying performance for the year:

Profit and Loss Summary

– Sales revenue of US$358.2 million (2007: US$208.5 million); up 72% on the previous year. Underpinned by sales volume of 3.9 MMBOE (2007: 3.0 MMBOE).
– Production of 4.0 MMBOE from six production assets in Australia, China, the UK and Africa; up 14% compared to 3.5 MMBOE produced from five assets in 2007.
– Trading profit of US$163.8 million (2007: US$104.7 million); up 56%. This includes:
  > average sales price of US$92.06/BBL (before hedging) (2007: US$70.16/BBL); a 5.3% discount to the Brent oil average price of US$97.26/BBL;
  > production costs of US$10.98/BBL (2007: US$8.64/BBL); up 27%. Totalling US$44.3 million (2007: US$30.5 million); and
  > amortisation expense of US$29.83/BBL (2007: US$23.07/BBL; up 29%. Totalling US$120.4 million (2007: US$81.4 million).
– EBITDAX (before impairments) of US$312.3 million (2007: $US112.3 million); up 178%.
– Net loss after income tax of US$278.4 million (2007: loss of US$84.4 million) including:
  > non-cash asset impairments of US$376.9 million;
  > exploration expensed of US$112.7 million; and
  > hedging gain of US$38.6 million.
– Normalised net loss after income tax of US$66.5 million (2007: loss of US$27.9 million) after adjusting for significant items.





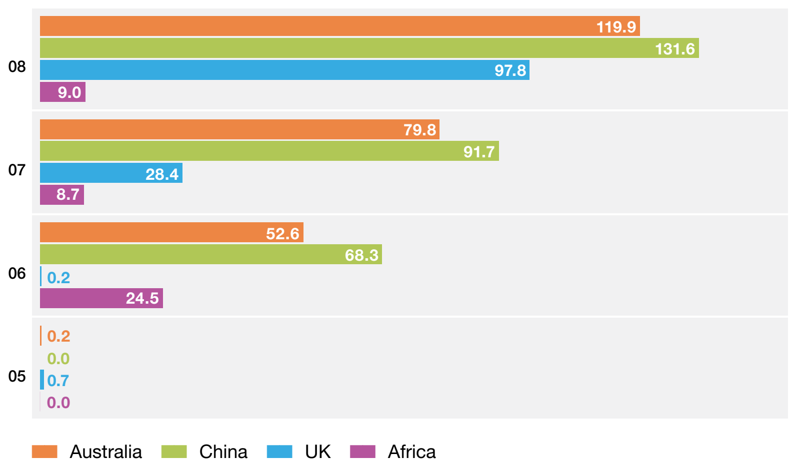


"Underlying the 2008 financial results is a healthy business."

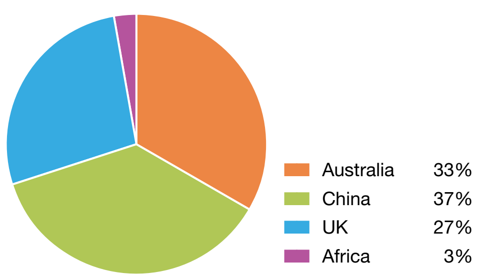
Balance Sheet and Cash Flow Summary

– Net cash flow from operations of US$182.5 million (2007: US$138.1 million); up 32%.
– Cash flow was reinvested into the business as follows:
  > exploration and appraisal expenditure incurred of US$115.2 million (2007: US$94.7 million) relating to:
    - eight exploration wells (one discovery at Coco-1, onshore Angola);
    - six appraisal wells;
    - three 3D seismic surveys; and
    - one aeromagnetic survey.
  > development expenditure incurred of US$76.3 million (2007: US$57.4 million) relating to:
    - construction, fabrication and installation of new facilities, as well as development drilling activities at Zhao Dong Block; and
    - ongoing expansion activity at BMG Oil and Gas Fields.
– Year end debt of US$168.7 million (2007: US$133.3 million), partially offset by cash of US$54.3 million (2007: US$41.4 million).
– Funding in 2009 will be largely underpinned by existing cash flow, existing bank loan facilities and new loan facilities established subsequent to year end.

Sales Revenue – Geographic (US$m)



Sales Revenue – Geographic Spread 2008 (US$m)



Mr Alan Linn
Chief Operating Officer

Chief Operating Officer

Over the past five years, ROC has worked diligently to build the organisation's operational competence within the exploration, development and production aspects of the business.

>

Today, ROC is an operator of choice for many of its joint venture partners around the world, from large national oil companies to Australian mid-sized oil and gas companies.

2008 represented a benchmark year for ROC operations, with three operated exploration drilling campaigns completed in the geographically diverse environments of offshore China, offshore Australia and onshore Angola. The installation and commissioning of facilities and pipelines associated with the Unit Development Plan ('UDP') of the C4 Oil Field, offshore China, were also completed and first production from the C4 Oil Field and ERA of the C and D Oil Fields was also achieved. The ROC-operated development activity in China was carried out on schedule despite the enormous challenges provided by the earthquake in May and the Olympics in September.

The Company acquired operatorship of the BMG Field. As a result of an engineering and operational review of the BMG development plan, the joint venture has agreed to progress with a staged approach to the Phase 2 Gas Project to more effectively manage reservoir and investment risks and reduce development costs.

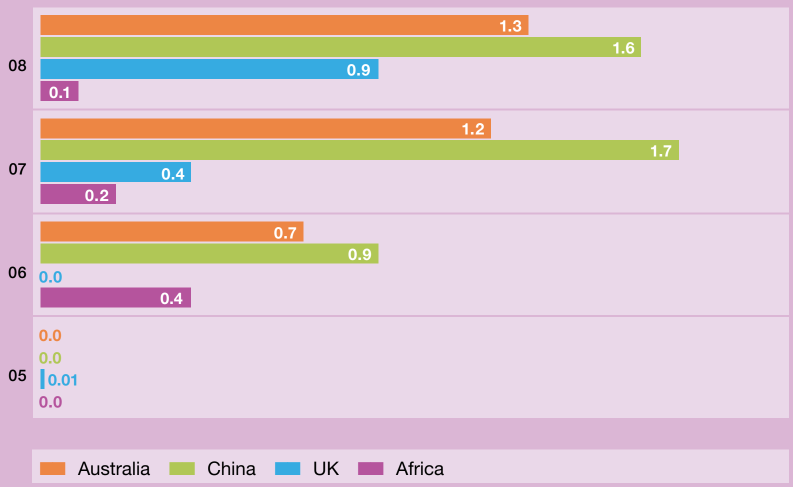
Production targets from the business were exceeded and production reliability was high. The Cliff Head Oil Field produced consistently through the year and continues to perform at the upper end of expectations. ROC anticipates that workover and reassessment of the geology of the field and the adjacent area will also deliver positive results.

During this period of exceptional operational activity across the range of business units, the HSEC performance of the business has been maintained at an extremely high level. With 4.8 million hours worked in 2008, the Lost Time Injury Frequency Rate ('LTIFR') per million hours worked was 0.83 and the Total Recordable Injury Frequency Rate ('TRIFR') was 2.51; an industry leading performance.

In addition, the environmental performance and ongoing relationships with the key communities, potentially impacted by our operational activity, have recorded no significant incidents. We are pleased to have maintained our established and extremely productive relationships with communities around Cabinda Province in Angola and the lobster fishing community based around Dongara in Western Australia.

Moving into 2009's challenging business environment, ROC's operational capabilities will be focused on production management and the optimisation and measured progression of planned developments.

Production – Geographic (MMBOE)



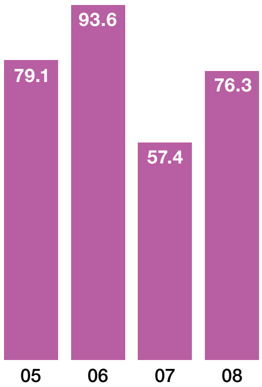
"ROC is now an operator of choice for many partners around the world, from large national oil companies to Australian mid-sized companies."

ROC Reserves and Resources Summary

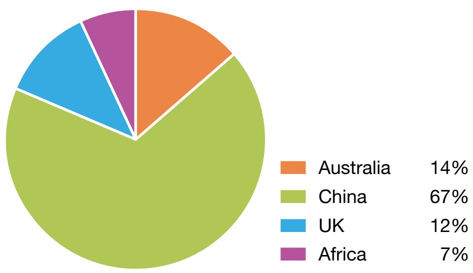
2P Remaining Reserves	(MMBBL)	(BCF)	(TOTAL MMBOE)
Summary Proved and Probable Working Interest Reserves			
Opening balance	21.1	1.7	21.4
Acquisitions	8.2	–	8.2
Reserves revisions	-1.3	-1.3	-1.5
Production	-4.0	-0.1	-4.0
Closing balance	**24.0**	**0.3**	**24.0**
Analysis of Proved and Probable Reserves			
Zhao Dong (C and D Fields)	7.7	–	7.7
Zhao Dong (C4 Field)	0.8	–	0.8
Cliff Head	3.6	–	3.6
Chinguetti	0.4	–	0.4
Blane	2.8	–	2.8
Enoch	1.0	0.3	1.0
Basker Manta Gummy	7.7	–	7.7
Closing balance	**24.0**	**0.3**	**24.0**
2C Contingent Resources			
Basker Manta Gummy	4.2	87	18.7
Beibu Gulf	5.2	–	5.2
Closing Balance	**9.4**	**87**	**23.9**

Note: 1 MMBOE = 6 BCF (subject to round-off)

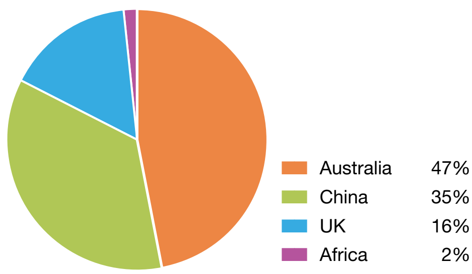
Development (US$m)



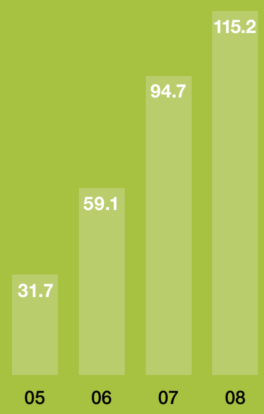
Development – Geographic Spread 2008 (US$m)



Reserves – Geographic Spread 2008 (MMBOE)



Exploration Incurred (US$m)



General Manager – Exploration

ROC continued intensive exploration and appraisal programmes throughout 2008.

>

This activity included drilling and geophysical data acquisition. With the exception of the Coco-1 discovery onshore Angola, the 2008 drilling results were disappointing.

Results from the five wells drilled in Angola during 2008 were mixed. The success of Coco-1 has highlighted the possibility of several other similarly sized accumulations on trend along the Lele Ridge. Following a two-well appraisal programme, the potential resource size of the Massambala heavy oil discovery has been confirmed and further appraisal work is unlikely.

The objective of the offshore seismic acquisitions in West Africa and Western Australia during 2008 is to identify high-grade drilling candidates for potential drilling in 2010.

The large aeromagnetic survey collected over the Belo Profond Block in the Mozambique Channel, offshore Madagascar, has provided further evidence of a possible large undrilled sedimentary section within the Channel.

ROC increased its acreage position in the Channel in 2008 with the award of the large Juan de Nova Maritime Profond permit.

Our focus in 2009 will be to rebuild a suite of prospects and leads to drill over the next few years – through a combination of reappraising existing acreage holdings and assessing new opportunities.

There are two essential challenges in 2009 for ROC's exploration activities:

– firstly, cost management is crucial to ensure long term exploration and appraisal opportunities can be maintained. This requires careful timing of operations and reducing exposure to intensive exploration activities through rationalisation of the existing portfolio; and
– secondly, portfolio management whereby ROC will continue to assess and develop new venture opportunities which will enable the Company to increase exploration activity over the next few years.

Since 1998, ROC has been active in several West African countries. Following mixed success, the exploration focus will shift from the West African region to the more accessible region of South East Asia and in particular, countries surrounding the South China Sea.

This change in focus makes strategic sense given ROC's existing and growing presence in offshore China and enables ROC to benefit from its considerable regional experience and operational contact network.

The Company's long term strategy is to negotiate material interests, preferably with operatorship, in Australian and South East Asian acreage during the early pre-operation stages of the exploration, appraisal and/or pre-development process.

The acreage will typically be in or adjacent to proven hydrocarbon provinces. This strategy provides ROC with leverage to farm down part of its interest once operations are initiated to minimise costs while retaining exposure to upside potential.

ROC has already allied with several mid-sized Australian companies to form study groups and consortia to pursue such opportunities. We are presently negotiating acreage positions in several South East Asian countries. The ultimate aim is to successfully develop an inventory of prospective targets for drilling in 2011 and beyond.

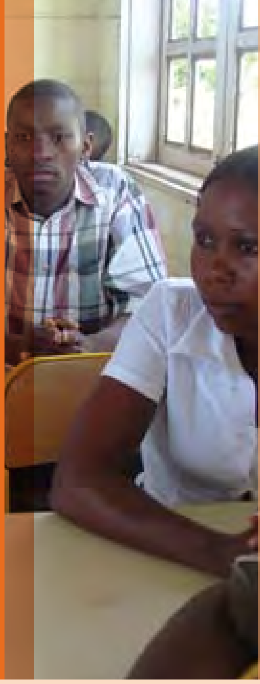
Mr John Mebberson
General Manager – Exploration

"The Company's long term strategy is to negotiate material interests, preferably with operatorship, in Australian and South East Asian acreage during the early pre-operation stages of the exploration, appraisal and/or pre-development process."

Exploration and Appraisal Wells Drilled in 2008

Country	Well Name	Field/ Prospect	ROC Acreage	Environment	Well Type	Spud Date	Rig Release Date	Measured Depth (m)	Result	Status	ROC Working Interest	ROC Contributing Interest	Operator
China	Wei 6-12W-1	Wei 6-12 West	China - Beibu 22/12	Offshore	Exploration	01 Jan	11 Feb	2,333	Dry	P&A	40.00%	40.00%	ROC
	Wei 6-12E-1, -1A	Wei 6-12 East	China - Beibu 22/12	Offshore	Exploration	12 Feb	21 Mar	2,510	Dry	P&A	40.00%	40.00%	ROC
Australia	Lilac-1	Lilac	Aust - WA-286-P	Offshore	Exploration	03 Feb	11 Feb	1,455	Dry	P&A	37.50%	37.50%	ROC
	Frankland-2	Frankland	Aust - WA-286-P	Offshore	Appraisal	12 Feb	20 Mar	2,330	Gas shows	P&A	37.50%	37.50%	ROC
	Dunsborough-2	Dunsborough	Aust - WA-286-P	Offshore	Appraisal	21 Mar	04 Apr	1,680	Oil shows	P&A	37.50%	37.50%	ROC
	Freshwater Point-1	Freshwater Point	Aust - EP413	Onshore	Exploration	11 May	29 May	1,817	Dry	P&A	0.25%	0.25%	Origin
Angola	Coco-1	123A (Chela)	Angola - Cabinda S	Onshore	Exploration	25 Mar	07 Jun	2,629	Oil	S	60.00%	75.00%	ROC
	Sésamo-1	113D	Angola - Cabinda S	Onshore	Exploration	22 Jun	28 Jul	3,013	Dry	P&A	60.00%	75.00%	ROC
	Arroz-1	124A2	Angola - Cabinda S	Onshore	Exploration	10 Aug	24 Sep	2,217	Dry	P&A	60.00%	75.00%	ROC
	Massambala-2	Massambala	Angola - Cabinda S	Onshore	Appraisal	16 Sep	29 Sep	455	Oil	P&A	60.00%	75.00%	ROC
	Massambala-3	Massambala	Angola - Cabinda S	Onshore	Appraisal	08 Oct	13 Oct	461	Dry	P&A	60.00%	75.00%	ROC
Mauritania	Khop-1	Khop	Mauritania - C6	Offshore	Exploration	17 Feb	30 Mar	4,265	Dry	P&A	5.00%	5.00%	Petronas
	Banda NW, NW ST-1	Banda	Mauritania - A, B	Offshore	Appraisal	02 Apr	03 May	2,934	Oil & gas	S	4.155%/ 3.693%	4.155%/ 3.693%	Petronas
	Banda East-1, -1A, -1B	Banda	Mauritania - A	Offshore	Appraisal	04 Oct	05 Dec	2,716	Oil & gas	S	4.155%	4.155%	Petronas

P&A Plugged and Abandoned **S** Suspended



HSEC

ROC is committed to continuously improving the health, safety, environment and community ('HSEC') aspects of the business.

>

Management and employees have a shared commitment to the effective management of HSEC issues. Throughout 2008, ROC conducted an in-depth internal review of its HSEC governance framework, policies and procedures.

The review was in response to ROC's changing operational risk profile and the increasing importance of addressing sustainability issues. HSEC is a priority, not an afterthought and ROC is committed to the following HSEC goals:

- zero harm to our employees, contractors and the community;
- minimise risks to the environment;
- integrate HSEC into all business activities; and
- demonstrate industry leadership in HSEC performance.

2008 performance and milestones

ROC achieved its 2008 objective to reduce HSEC incidents and achieved an overall TRIFR of 2.51. This is considerably better than global and domestic industry peers. Other HSEC milestones achieved during 2008 included:

- 4.8 million man-hours with a LTIFR of just 0.83;
- no fatalities of or serious injuries to any employees or contractors;
- no significant environmental or community related incidents;
- Zhao Dong Project recorded 914 days between Lost Time Injuries ('LTIs'): especially noteworthy because of the significant onshore and offshore construction activities under way during this period;
- on 29 August, the Zhao Dong Project reached two million man-hours without a LTI;
- on 22 September, the Cliff Head Oil Field produced a cumulative total of 7 MMBBL and was 975 days LTI-free;
- no LTI during a full year of very active onshore Angola drilling operations; and
- full rehabilitation of onshore Angola drilling sites.

2009 focus areas

ROC is committed to continual improvement in HSEC performance. Continual improvement is a key driver of our HSEC management system.

2009 key focus areas for HSEC will be:

- improving upon ROC's current high level of achievement;
- rolling out our updated HSEC management standards;
- encouraging HSEC leadership throughout the business; and
- maintaining effective process safety management across our operational facilities.

Community programmes

Being a good neighbour is a core ROC value. Of ROC's many community commitments, none is more important and rewarding than supporting training and educational opportunities.

During 2008, ROC sponsored a number of students from local villages within our area of operation in Cabinda, Angola to attend Vocational Training School. These men and woman successfully completed basic courses in civil and electrical construction and are now better equipped to take advantage of employment opportunities.

ROC also joined with Angola's Ministry of Education to deliver on the United Nation's Millennium Development Goal

Mr Andre Van Taak
Manager – Corporate HSEC

Mr Neil Seage
Chief Reservoir and Planning Engineer

"ROC achieved its objective of reducing HSEC incidents in 2008."

to ensure that children will be able to complete a full course of primary schooling by 2015. ROC sponsors the training of six primary school teachers from Cabinda villages. These future teachers are being trained to be cultural leaders in their communities as well as educators.

Since development commenced at the Cliff Head Oil Field, ROC has also made education scholarships available to indigenous land-owners.

Greenhouse gas emission issues

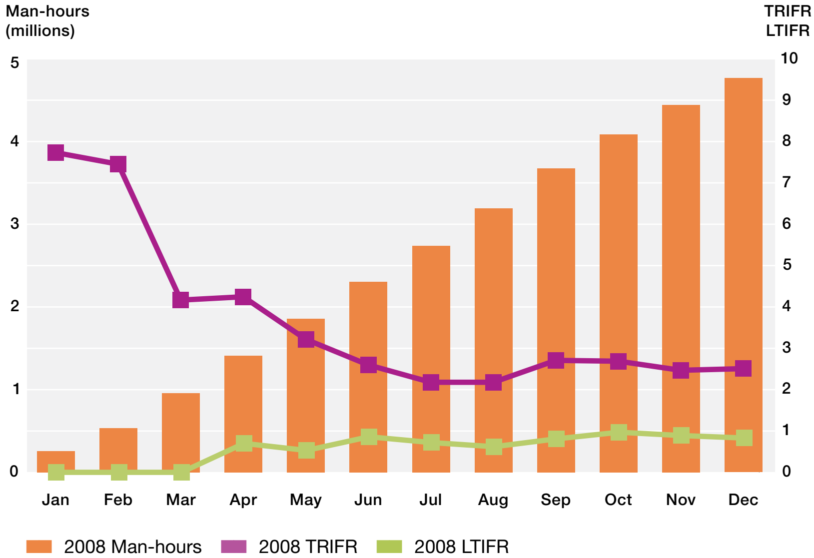
ROC recognises the need to mitigate the potential impact of greenhouse gas emissions into the environment. The Company has adopted internationally recognised greenhouse accounting methodologies to measure our greenhouse gas footprint and we are dedicated to driving energy efficiency and improving resource use in our design and operating practices.

ROC's assessment of greenhouse emissions across the Company's operated activities is presented in the table opposite. For the Australian operations, the Company is preparing for the first year of reporting under the Federal Government's National Greenhouse and Energy Reporting Legislation for the 2009 financial year.

Greenhouse gas emissions in ROC-operated facilities and drilling campaigns in 2008

	Total CO^2 Equivalent (tonnes)
Australia total	86,000
Australia (ROC share)	34,000
China total	160,200
China (ROC share)	40,200
Angola total	4,000
Angola (ROC share)	2,400
Total operated	250,200
ROC share	76,600

HSEC



Simon Daniel
Manager – Production and Development Australia

Australia Operations

Cliff Head

The Cliff Head Oil Field continued to be an outstanding asset for the Company in 2008. Gross oil production averaged 6,583 BOPD for the year and, based on this production performance, gross 2P Remaining Reserves at the end of 2008 were increased by 16% to 9.6 MMBBL.

Careful attention to HSEC performance delivered an incident-free year, with no lost time or reportable incidents.

Production at the Cliff Head Oil Field in 2008 exceeded budget, with the field and process systems performing above expectation, providing production uptime of 93%.

Production for the year was 2.4 MMBBL and cumulative production at year end was 7.6 MMBBL. Successful chemical treatment programmes to wash the downhole pumps in situ improved pump efficiencies.

Opportunities to further improve production performance and to increase the reserves potential of the field are being developed. These include platform-based workovers of existing wells to increase pump sizes and the remapping of the western side of the reservoir to assess the potential for additional oil volumes.

BMG

As a result of the Anzon acquisition, ROC assumed a 40% interest and operatorship of the BMG Oil and Gas Fields.

Following the failure to negotiate a contract for a new FPSO and termination of the Letter of Intent with BW Offshore in November, ROC and the joint venture were placed in the position of requiring a new development plan for production facilities for the project.

ROC set about identifying areas where substantial operating and capital savings could be implemented. ROC has now completed a full review of the project and, with the support of the joint venture, has taken the decision to decouple the Phase 2 Gas Project from the existing Phase 1 Oil Project. This will provide substantial flexibility to manage the timing of capital investments and the schedule for development.

ROC's review also identified areas where substantial operating and capital savings could be implemented to take advantage of cost reductions emerging in the industry during 2009. ROC also completed plans for the installation of a gas recovery package on the Crystal Ocean FPSO to minimise gas flaring. An extension to the flaring consent for the project has been obtained and is sufficient until this work is completed.

Operational performance

ROC has focused on the operation of the existing BMG Phase 1 Oil Project. Operating efficiencies were successfully introduced and no reportable HSEC incidents were experienced. HSEC is always a priority for ROC and in the offshore Bass Strait operational environment high quality safety and environmental performance is essential. Approximately 3 MMBBL of oil were produced from the BMG Field in 2008.

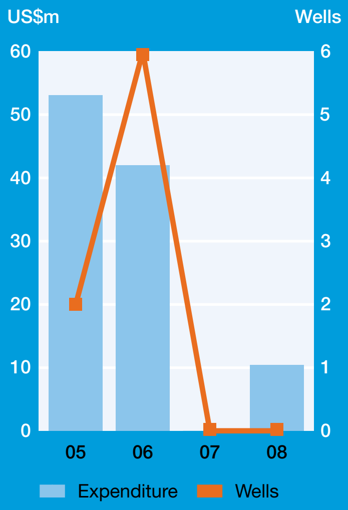
The Basker-6 sidetrack development well was successfully drilled, tied in and brought online, accessing additional reserves, with production partly offsetting the expected production decline arising from increasing water cuts in the Basker-3 and Basker-5 wells.

Associated gas continues to be reinjected into Basker-4 to minimise flaring and to store gas for future production.

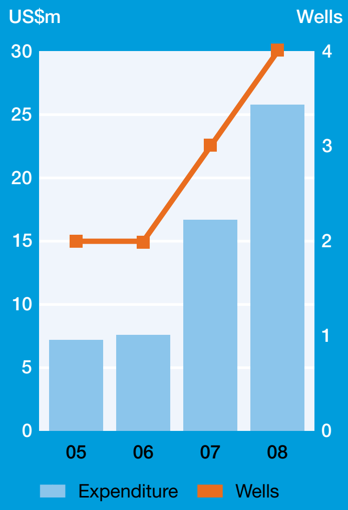
Whilst operating oil and gas fields in the harsh environment of the Bass Strait is a challenge, 2008 facility performance improved considerably, with uptime increasing from 69% to 87%.

Planned shut-downs in April/May (14 days) and November (12 days) were undertaken to complete maintenance programmes locally in Melbourne, providing substantial cost and schedule savings.

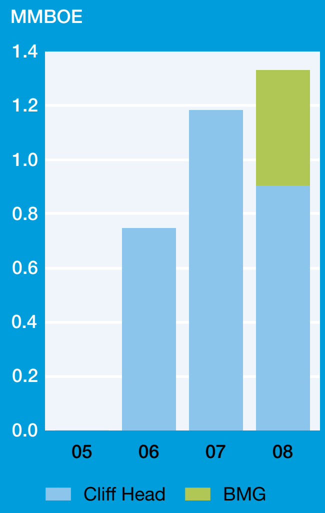
Development



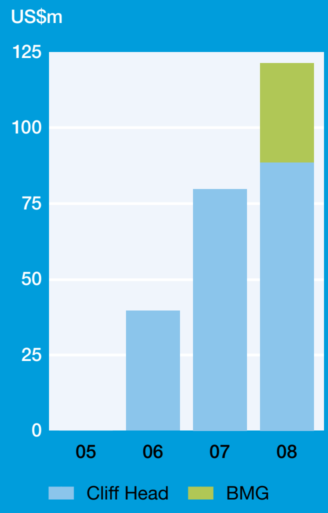
Exploration



Production



Sales Revenue



A review of 2008 operating costs has been completed with significant cost reduction opportunities identified for 2009.

An expanded condition-based maintenance strategy and facility integrity management plan was introduced in 2008.

Production from the existing well stock declined as expected and workovers are planned in 2009 to assist production delivery. The introduction of "smart completions" will also improve production flexibility.

Development overview

A field development strategy review was completed by ROC following the Anzon acquisition and the termination of the BW Offshore Letter of Intent. As a result, the following project improvement initiatives were implemented:

- completion of the Songa Venus/Ocean Patriot rig swap agreement, which has generated material savings in rig mobilisation costs and provided a more optimal drilling programme;
- review of the field development basis of design to encompass increased flexibility;
- rationalisation of the 2009 work programme, focusing on revenue generation activities; and
- rephasing of the gas development project to provide a more structured approach to risk and capital management, including the suspension of non-essential project activities and taking advantage of savings from lower industry costs.

Exploration

Vlaming Sub-basin (Perth Basin) – WA-381-P and WA-382-P

The reprocessing of vintage 2D seismic data was completed in 2008. This new data will allow for an evaluation in 2009 of the permits' exploration potential. Any resulting leads could be further defined with 2D or 3D seismic in late 2009, providing the potential to drill a well in each permit by May 2010.

Abrolhos Sub-basin (Perth Basin) – WA-286-P and WA-31-L

Exploration and appraisal drilling in first quarter 2008 did not define additional hydrocarbon resources in the Permian reservoir play fairway to the north of the Cliff Head Oil Field. Disappointingly, the Lilac-1, Frankland-2 and Dunsborough-2 wells were all plugged and abandoned without making a commercial discovery.

The Diana 3D seismic survey acquired in first quarter 2008 will enable the identification of prospects and leads for drilling. The prime Yungarra prospect is structurally similar to the Cliff Head Oil Field (60 km to the south east) with oil-in-place potential of up to 40 MMBBL. The West Flank of the Cliff Head Oil Field and the adjacent Updip Mentelle structure will be re-evaluated in 2009.

Carnarvon Basin – WA-351-P

The Aragon 3D seismic survey was acquired in second half 2008 and will be processed and interpreted in 2009, with the aim of maturing Triassic gas prospects for drilling in 2010.

Gippsland Basin – VICP/49

The Dusky prospect is a candidate for drilling in 2010 and has the potential to prove a 6 MMBBL extension to the ROC-operated Basker Field in VIC/L26. In deeper water, the large Leopard and Tiger leads within the Latrobe Group have been detailed by new seismic data and basin modelling will take place in 2009.

New Zealand (Canterbury Basin) – PEP38259

A 2D seismic survey over the Barque lead will be acquired in first quarter 2009 and there are plans to potentially drill the prospect in 2010. Barque is a significant gas-condensate prospect, with current estimate mean recoverable gas reserve exceeding 1.3 TCF and condensate reserves of 200 MMBBL.

China Operations

ROC's China operations in 2008 saw successful and safe development continue at Zhao Dong. A new daily production record was achieved for the Zhao Dong Project following the commissioning of new facilities and wells in the fourth quarter. Agreement was also achieved with CNOOC on pre-development plans for the Beibu Gulf Oil Project

Zhao Dong, offshore Bohai Bay

Highlights in ROC's operated C and D Oil Fields (24.5% interest) and C4 Oil Field (11.575% unitised interest) included:

- 914 days between LTIs;
- successful installation of three new offshore platforms: two under the Unit Development Pan ('UDP') and one under the Incremental Development Plan ('IDP');
- successful installation and commissioning of two pipelines linking the two new UDP platforms to existing facilities at Zhao Dong;
- first oil production from the C4 Oil Field and the ERA of the C and D Oil Fields;
- total oil production in 2008 of 7.1 MMBBL at an average rate of 19,385 BOPD; and
- increased oil production, including a new Zhao Dong daily production record of 35,340 BOPD on 26 November and an average rate in excess of 30,000 BOPD for the second half of November.

The development drilling programme of 22 wells at Zhao Dong (including the C4 Oil Field) was undertaken with two rigs, one located on the UDP wellhead platform and the other based on the Zhao Dong ODA drilling platform:

- four wells in the C4 Oil Field (two producing; two awaiting workovers);
- 10 producers in the C and D Oil Fields; and
- eight wells in the ERA.

The construction phase of the UDP facility development project which commenced in 2007, has now been successfully completed. Four wells have been drilled and a further 20 wells are planned to be drilled in the C4 Oil Field over the next three years to complete the overall field development.

The IDP facility development phase that also commenced in 2007, is nearing completion with only one further platform to install and commission. This project continues on schedule for completion in second quarter 2009.

The second drilling platform ('ODB') was installed at Zhao Dong in October. Drilling from the recently commissioned ODB is scheduled to begin in April 2009. The construction of the additional processing platform ('OPB') continues on schedule. Sail-out and installation of the OPB is expected to be completed by the end of second quarter and commissioning will take place in the third quarter of 2009. This will represent the conclusion of IDP facility development.

In 2009, ROC aims to maintain oil production from Zhao Dong at similar rates as 2008 and development operations include plans to:

- drill up to 17 wells; and
- install and commission the OPB, which will increase production fluid and gas handling capacity.

Beibu Gulf

Increased cooperation with CNOOC during 2008 yielded a very positive joint development strategy for the Wei 6-12 and Wei 12-8 Oil Fields.

Following the formal end to the exploration period for Block 22/12 on 30 September, an extension to the PSC was granted for areas covering the Wei 6-12 and Wei 12-8 discoveries to allow the completion of the development approval process.

Dennis Paterson
President – Roc Oil (China) Company

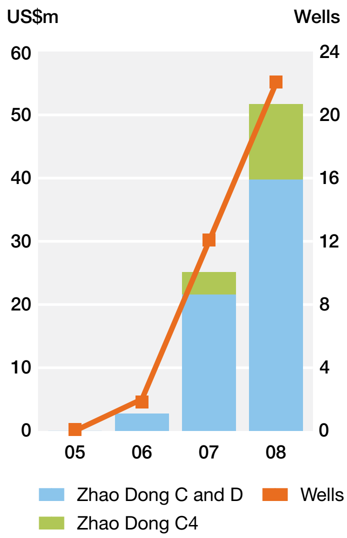
CNOOC and ROC are finalising the overall development plan ('ODP') that incorporates a new shared export pipeline for joint use by multiple offshore fields. This new joint operation with CNOOC will reduce development costs and improve the economics for Wei 6-12 and Wei 12-8.

Work on front end engineering design is expected to be conducted concurrently with the ODP. This should allow optimal timing of contract commitments to take advantage of anticipated lower construction and drilling costs. Pipeline and oil marketing agreements are also expected to be negotiated as part of ODP completion.

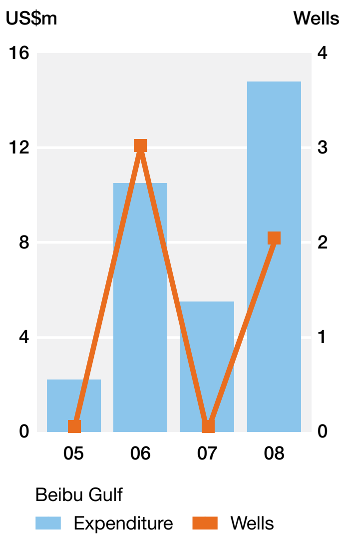
Final Chinese Government and joint venture approval is expected during second half 2009.

While the exact timing and completion of these projects will depend on prevailing economic conditions, the agreed fast-tracked approach to joint development with CNOOC is expected to achieve first oil production in 2011.

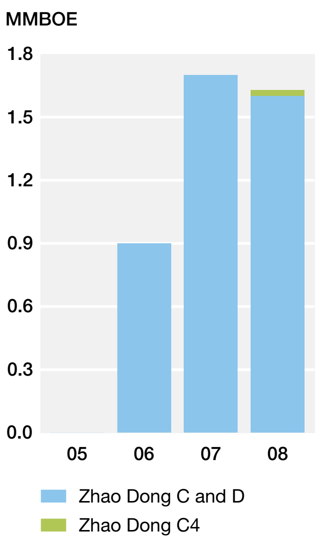
Development



Exploration

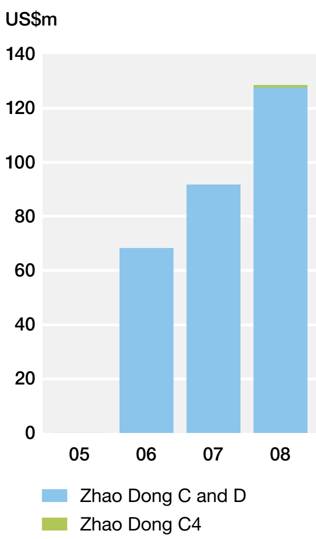


Production



ROC acquired the Zhao Dong Block effective 8 August 2006.

Sales Revenue




Africa Operations

Cabinda South Block, onshore Angola

The nine well exploration and appraisal drilling campaign began in May 2007 and was completed in October 2008. This was the first exploration drilling programme onshore Angola since the early 1970s.

The Milho-1 well, completed in March, was the first well to test the pre-salt section in the Block. The well, although dry, confirmed the existence of a world-class source rock in which significant oil and gas shows were encountered and intersected an underlying thick sand interval with oil shows and good reservoir quality.

Coco-1 was completed in June as an oil discovery. The well produced 26˚ API oil and associated gas to surface during open-hole drill-stem testing of two separate intervals in the pre-salt sequence.

The well was suspended with the intention that it be re-entered and tested more comprehensively to determine its commercial potential.

Similar structures have also been identified on trend from Coco on the Lele Ridge.

The 2007 Massambala shallow heavy oil discovery was appraised with two wells in 2008. Massambala-2 and Massambala-3. The field is not presently considered commercial.

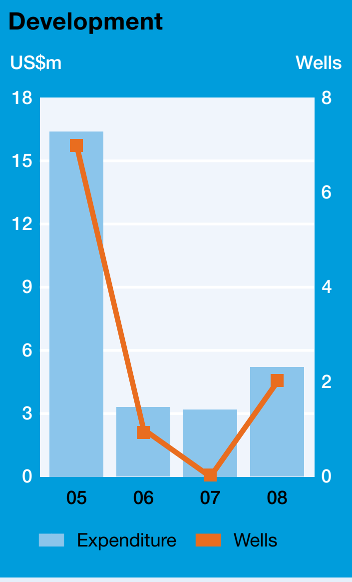
A one year extension to the exploration licence for the Cabinda South Block was granted extending the exploration term to 1 November 2009. In 2009, the joint venture and Sonangol are working on planning a test of Coco-1 and additional 3D seismic and gravity surveys to evaluate the Block's remaining prospectivity.

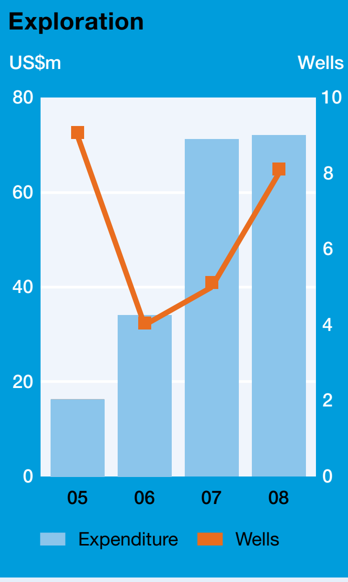
Block H, offshore Equatorial Guinea

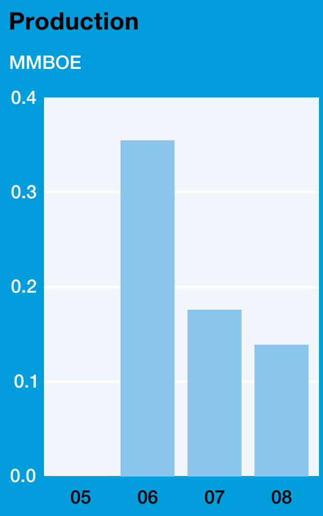
The dispute between the joint venture and Pioneer Natural Resources Equatorial Guinea Limited was settled in 2008.

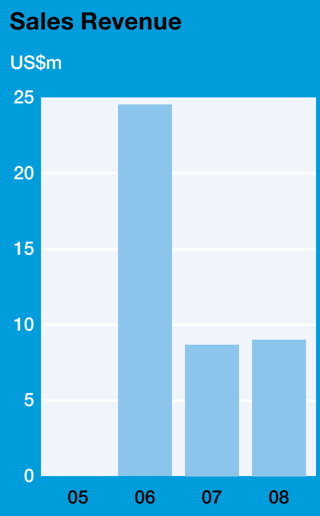
As a result, Pioneer withdrew from the Block and ROC's interest increased to 37.5%. The Government of Equatorial Guinea granted a one year extension to the exploration term of the Block.

The Aleta prospect has unrisked recoverable reserve potential of between approximately 170-540 MMBBL of oil and planning for drilling operations is in progress.









Belo Profond (Madagascar) and Juan de Nova Maritime Profond (France), offshore Mozambique Channel

The Mozambique Channel is a deep-water petroleum play with considerable exploration potential, comprising frontier basins of Jurassic to Tertiary age.

There is a proven Permo-Triassic petroleum system onshore and existing geological and geophysical ('G&G') data show the possible presence of several petroleum systems in the Channel.

Work in 2008 on Belo Profond focused on data acquisition and G&G studies. The Tropicbird aeromagnetic survey was acquired over the entire Block and interpretation is in progress.

An environmental permit for future seismic acquisition in the Block was issued in October. Seismic reprocessing and acquisition are planned for 2009.

On 30 December, the Government of France awarded the exploration permit, Juan de Nova Maritime Profond, to ROC and Marex International for a five year term.

The permit is in the French Exclusive Economic Zone off the coast of Juan de Nova Island in the Mozambique Channel and covers an area of 52,990 sq km. The work programme commitment for the first year consists of G&G studies. ROC will operate the permit with an initial working interest of 75%.

Mauritania

During 2008, two development wells were drilled and completed in the Chinguetti Oil Field and tied into the existing production operation. Oil production capacity was increased from approximately 10,000 to 17,000 BOPD. Development drilling activity has been completed for the present and the field performance will be studied during 2009 to evaluate further development drilling opportunities for 2010.

ROC participates in six PSCs offshore Mauritania operated by Petronas, Tullow and Dana.

Khop-1 was drilled from February to March in PSC C, Block 6. Despite the well encountering several thin sand packages with oil shows, the well was plugged and abandoned.

The Banda Gas and Oil Field was appraised by two wells in 2008. Banda North West-1 was drilled in April to appraise the gas/oil rim accumulation in PSC B. The well penetrated a gas column and was plugged back.

Banda North West ST-1 is interpreted as having intersected oil and gas pools in communication with Banda-1.

The eastern part of the field in Area A was appraised by Banda East-1 from October to December.

The well was cased and prepared for gas deliverability testing but was suspended following operational problems.

Preliminary indications are that the Banda Gas and Oil Field could contain over 900 BCF of gas-in-place.

The Tiof and Tevét oil and gas fields in PSC B are being reviewed for further appraisal activity. Recoverable reserves are subject to further planned studies in 2009. The combined initial oil-in-place is estimated to exceed 300 MMBBL.

UK Operations

ROC's UK assets continue to provide strong cash flow and to produce at the upper end of expectations.

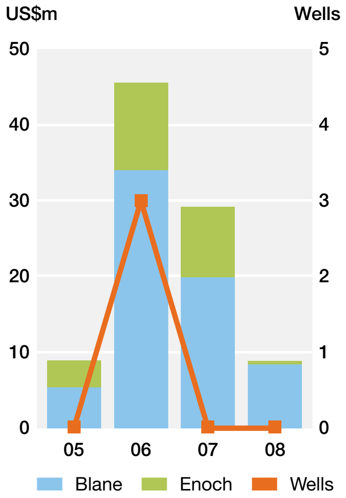
Blane, offshore North Sea

The Blane Oil Field performed better than anticipated in 2008, averaging 13,870 BOEPD. The Gas Compression Upgrade project on the Ula host platform was completed and commissioned in early 2009 and the Blane production wells have now commenced gas lift operations. Continuous water injection has also been initiated through a dedicated injection well and the reservoir has responded well with production levels reaching 15,000 BOEPD towards the end of the first quarter of 2009.

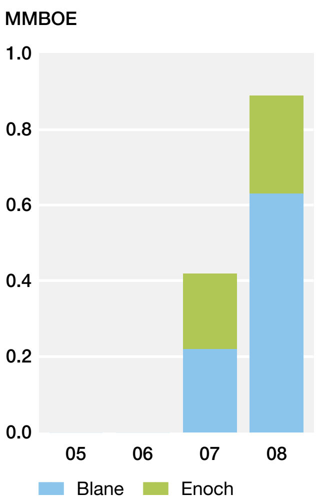
Enoch, offshore North Sea

Performance from the single Enoch production well in 2008 confirmed a smaller gas cap in the field than initially estimated. The gas cap is not considered to be in strong communication with the oil leg in the well completion and oil recovery should not be unduly restricted by gas production. As a result, at year end gross 2P Remaining Oil Reserves were increased by 25% to 8.3 MMBBL. The production well was successfully put on gas lift in January. The oil production capacity approached 7,500 BOPD, although average oil production for the year was 5,904 BOPD. The difference was due to planned and unplanned downtime on the Brae A host platform. Coming into 2009, oil production capacity has remained between 7,000 to 7,500 BOPD.

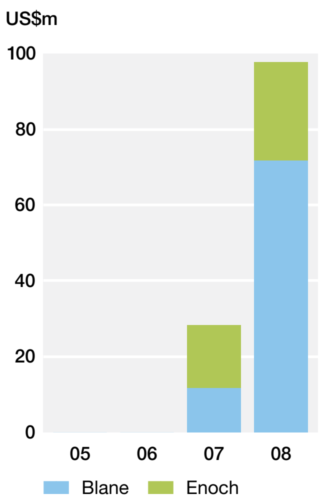
Development



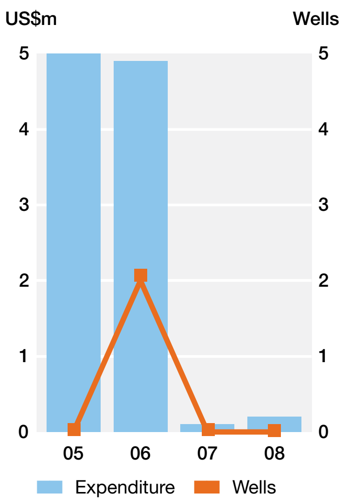
Production



Sales Revenue



Exploration



Corporate Governance Statement

This statement outlines the main corporate governance practices that the Company had in place throughout the financial year.

These comply with the ASX Corporate Governance Council recommendations ('ASX Recommendations') unless otherwise stated. Further details and copies of the Company's corporate governance policies mentioned in this statement are available on the Company's website.

Role of the Board

The Board has adopted a formal charter that sets out the functions and responsibilities of the Board. It 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 which are 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 the goals.

The responsibilities of the Board include:

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

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

Composition of the Board

As at the date of this report, the Board is comprised of six Directors, being two executive Directors and four non-executive Directors including the Chairman:

- Mr A J Love, Mr W G Jephcott, Mr S J Jansma Jr, Mr D Paterson, Mr B F Clement and Mr R C A Leon.

A number of changes were made to the composition of the Board during the reporting period:

- Dr R J P Doran, ceased to be a Director on 27 June 2008;
- Mr A Jolliffe, resigned on 3 December 2008;
- Dr D A Schwebel, resigned on 3 December 2008;
- Mr R C A Leon, appointed on 3 December 2008; and
- Mr B F Clement, appointed as Chief Executive Officer on 24 September 2008.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report. The number of Directors is specified in the Company's Constitution as a minimum of three Directors up to a maximum of 12. In addition, a Director (other than the Managing Director) may not retain office for more than three years without submitting to re-election. In effect, one third of the Directors in office (with the exclusion of the Chief Executive Officer) retire by rotation at each Annual General Meeting. Those retiring Directors must seek re-election by the shareholders. The Chairman must be considered to be independent and a non-executive.

Corporate Governance Statement continued

The Board usually meets at least 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. The non-executive 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 general meeting, remove or replace a Director.

Independence of Directors

All non-executive Directors of the Company, including the Chairman, are considered independent. The two executive Directors of the Company are not considered to be independent. The independence of Directors is assessed pursuant to the Company's Policy on Independence of Directors which is based upon the ASX Recommendations and is available on the Company's website. In relation to Director independence, materiality is determined on both a qualitative and quantitative basis.

Based on the assessment of independence of Directors conducted by the Board, four Directors are independent and two are not. Therefore, the Company satisfies the ASX Recommendation that the majority of Directors be independent.

A review of the Board's own performance is conducted annually with the assistance of the Remuneration and Nomination Committee. The evaluation aims to compare the Board's performance with the Charter and to set goals and objectives of the Board for the coming year.

Independent advice

Each Director may, with the approval of the Chair, obtain independent professional advice at the Company's cost, in relation to their position while acting as a Director of the Company. In addition, each Director has the right of access to all relevant Company information.

Board committees

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Remuneration and Nomination Committee, a Health, Safety and Environment Committee and an Audit and Risk Committee. These committees have written charters which are available on the Company's website.

Remuneration and Nomination Committee

The Board had previously established the Remuneration and Nomination Committee. It comprises Mr W G Jephcott (Chairman) and Mr A J Love.

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 in the Corporate Governance section of the Company's website.

The Committee is responsible for assisting in identifying potential Directors and assisting Directors understand their duties and responsibilities. The Committee also assists the Board in evaluating the performance of executives, Directors and members of Board Committees. The Committee is responsible for reviewing and making recommendations to the Board for the remuneration of the Chief Executive Officer and other key executives. A more detailed description of the process for evaluating the performance of senior executives and the remuneration policy for senior executives is set out in the Remuneration Report.

Audit and Risk Committee

The role of the Audit and Risk Committee is documented in a formal charter approved by the Board.

The primary role of the Audit and Risk Committee is to provide assistance to the Board in discharging its responsibilities in respect of financial affairs and related matters. The primary functions of the Audit and Risk Committee are to assist the Board in relation to the Company's:

- financial management;
- internal control systems;
- corporate risk management;
- review audit (internal and external); and
- consideration and implementation of the recommendations of advisors and management.

Under its Charter, the Audit and Risk Committee consists of at least three non-executive Directors. Mr W G Jephcott (Chairman), Mr A J Love and Mr R C A Leon are the current members of the Committee.

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.

Pursuant to the Charter, the Committee is responsible for assisting the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management systems and the internal and external audit functions. The roles, responsibilities, composition and membership requirements are documented in the Audit and Risk Committee Charter, which may be found on the Company's website.

The Audit and Risk 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, external reporting and considering risk management and compliance issues. The Committee's responsibilities include to review and oversee the risk profile of the Company and monitor the operational and financial risk aspects of the Company.

The Chief Executive Officer and Chief Financial Officer have stated in writing to the Board that for the financial year ended 31 December 2008, the financial reports present a materially true and fair view of the Company's financial condition and the operational results are in accordance with relevant accounting standards.

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

Trading in Company securities by Directors, officers and employees

In addition, the Board has adopted a Share Dealing Code and Share Trading Policy that regulates dealing by officers and employees in shares and other securities issued by the Company. 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 the UK and ensures integrity and market confidence.

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

For details of shares held by Directors, please refer to the Directors' Report and Note 36 to the 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.

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. 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 in the Corporate Governance section of the Company's website.

Respecting 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 communication strategy, available in the Corporate Governance section of 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 ASIC, ASX and AIM 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 auditor attends the Annual General Meeting. Shareholders are invited to submit written questions to the auditor (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.

Recognising and managing 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. The Board has established an Audit and Risk Committee 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.

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

The Audit and Risk Committee reports to the Board. Further details of the Company's risk management policy and internal compliance and control systems are available on the Company's website.

The Chief Executive Officer and Chief Financial Officer have stated in writing to the Board that for the financial year ended 31 December 2008, 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 system, to the extent that they relate to financial reporting, are operating effectively and efficiently, in all material respects.

Encouraging enhanced performance

The Remuneration and Nomination Committee is responsible for ensuring performance evaluation of the Board and key executives and for the implementation of induction procedures for new Board members. The Board has established a performance evaluation process. A performance evaluation for the Board and its members was undertaken during the last reporting period.

The Performance Evaluation Policy can be found in the Corporate Governance section of the Company's website.

Fair and responsible remuneration

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.

Executive remuneration is fixed by the Board and may comprise salary, bonuses and share participation.

Non-executive remuneration comprises fixed remuneration, including superannuation, which is set at a level that reflects the marketplace.

The total fees payable to Directors (including equity-based payments) must not be increased without the prior approval of members at a general meeting.

Further information on remuneration can be found in the Remuneration Report included as part of the Directors' Report and in the Remuneration and Nomination Committee Charter on the Company website.

Recognising the legitimate interests of stakeholders

The Company recognises that it has a responsibility to shareholders, employees 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 has adopted a Code of Conduct to guide Directors and officers in relation to the standards expected of them by the Company.

The Company has also adopted a Code of Conduct which reflects its commitment to business and corporate ethics and recognition of the interests of shareholders. The Code of Conduct includes the Company's whistleblower policies and procedures. Under these policies, any concerns may be reported to the Chairman of the Audit Committee of the Board, the Company Secretary or the Company's auditor. This Code can also be found on the Company's website.

Directors' Report and the Annual Financial Report

Contents

>

Directors' Report

The Directors of Roc Oil Company Limited ('Company' or 'ROC') have pleasure in submitting the Directors' Report for the financial year ended 31 December 2008.

Directors

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

Mr Andrew J Love *BCom, FCPA, MAICD* ***Age 55***
(Non-Executive Director, Chairman) - Appointed 5 February 1997

Mr Love is Chairman of the Board of Directors of ROC, a Fellow of The Institute of Chartered Accountants in Australia and a consultant with the firm of Ferrier Hodgson, Chartered Accountants. Appointed in July 2005, Mr Love is a non-executive director of Babcock & Brown Communities Limited (formerly Primelife Corporation Limited) and since April 2006 has been Deputy Chairman of Riversdale Mining Limited. Mr Love is also a director of the Museum of Contemporary Art. In the prior three years, Mr Love was a director of Principal Real Estate Investors (Aust) Limited. Mr Love is a member of the Remuneration and Nomination Committee and the Audit and Risk Committee.

Mr William G Jephcott *BCom, FCPA, FAICD* ***Age 58***
(Non-Executive Director, Deputy Chairman) - Appointed 5 February 1997

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

Mr Bruce F Clement *BSc, BEng (Hons), MBA* ***Age 52***
(Executive Director and Chief Executive Officer) - Appointed Executive Director on 1 July 2007 and Chief Executive Officer on 24 September 2008

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

Mr Sidney J Jansma, Jr *MBA* ***Age 65***
(Non-Executive Director) - Appointed 17 March 1998

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

Mr Dennis Paterson *BSc, MSc, DIC* ***Age 57***
(Executive Director and President, Roc Oil (China) Company) - Appointed 23 March 2007

Mr Paterson joined ROC in October 2006 in the capacity of President of Roc Oil (China) Company and was appointed as an Executive Director on 23 March 2007. Mr Paterson has more than 30 years of international oil and gas exploration and production experience in diverse areas including the Middle East, Central and South East Asia, Kazakhstan, Europe and North and West Africa. For the four year period prior to joining ROC, Mr Paterson consulted on projects in China, Libya and the Bahamas. Mr Paterson formed and managed Genting Oil and Gas. Prior to that, he was Managing Director of British Gas Malaysia and Country Manager, British Gas Indonesia. He also worked for British Gas in a variety of senior roles on the super-giant Karachaganak gas condensate field, and Caspi-shelf consortia in Kazakhstan. Mr Paterson has been a director of a number of small independent oil and gas exploration companies including BPC Limited, Ramco plc and Medusa Oil and Gas. Mr Paterson is a member of the Health, Safety and Environment Committee.

Mr Robert C A Leon Age 59
(Non-Executive Director) - Appointed 3 December 2008

Mr Leon is a French national with over 30 years of experience in business and government administration. From 2002 until the merger with ROC in 2008, Mr Leon was a non-executive director of Anzon Energy Limited and from 2007 until the successful takeover by ROC, he was a non-executive director of Anzon Australia Limited. Mr Leon is also a director of the Mandarin Oriental Group of Hotels. In 1996, Mr Leon co-founded Qualis, a diversified industrial group based in France of which he is a co-manager. He was Chief Executive Officer of Arnault Group between 1986 and 1997, during which time he managed numerous strategic acquisitions, disposals and financial transactions. Prior to a career in business, Mr Leon held several positions in the French Government administration. He holds degrees in political science and economics, and is a graduate of École Nationale d'Administration in France. Mr Leon is a member (since 1 January 2009) of the Audit and Risk Committee.

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

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

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

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

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

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

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

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

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

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

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

Directors' Report

Directors' Meetings

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

	Directors		Remuneration and Nomination Committee		Audit and Risk Committee		Health, Safety and Environment Committee	
	A	B	A	B	A	B	A	B
Mr A J Love	17	16	3	3	3	3	-	-
Mr W G Jephcott	17	15	3	3	3	3	-	-
Dr R J P Doran(1)	7	7	1(5)	1	-	-	1(5)	1
Mr B F Clement	17	17	1(5)	1	-	-	2(5)	2
Mr S J Jansma, Jr	17	14	-	-	-	-	2	2
Mr D Paterson	17	16	-	-	-	-	2	2
Mr Robert C A Leon(2)	2	2	-	-	-	-	1	1
Mr A C Jolliffe(3)	15	15	-	-	2	2	-	-
Dr D Schwebel(4)	15	14	-	-	-	-	1	1

A Number of meetings held during the time that the Director held office during the financial year.
B Number of meetings attended.
(1) Ceased to be a Director on 27 June 2008.
(2) Appointed 3 December 2008.
(3) Resigned 3 December 2008.
(4) Resigned 3 December 2008.
(5) Observer.

Principal Activities

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

Results

The net loss of the consolidated entity for the financial year after income tax was US$278.4 million (2007: US$84.4 million).

Dividends

No dividends have been paid or declared since the end of the prior financial year and no dividends have been recommended by the Directors in respect of the financial year ended 31 December 2008.

Review of Operations

A review of the consolidated entity's operations during the financial year and the results of those operations are included in the Discussion and Analysis of Financial Statements on pages 40 to 44.

Significant Changes in State of Affairs

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

Subsequent Events

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

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

Future Developments

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

Remuneration Report (Audited)

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

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

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

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

Remuneration packages typically include remuneration and performance-based incentives in the form of executive and/or employee share options.

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

Remuneration of Directors and Specified Executives

Australian and International Financial Reporting Standards and the Corporations Act 2001 require ROC to make disclosure regarding remuneration of 'Key Management Personnel'. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly. In addition, the Corporations Act 2001 requires ROC to make certain disclosures in respect of the five highest paid executives below Board level. In accordance with the above requirements, the remuneration paid to members of ROC's Executive Committee and Key Management Personnel ('Specified Executives') and Executive Directors in respect of the 2008 financial year is disclosed in this Report.

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

Remuneration Report (Audited) *continued*

Remuneration of Directors and Specified Executives *continued*

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

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

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

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

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

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

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

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

Non-Executive Directors' Remuneration

The Company's Constitution specifies that the aggregate remuneration of Non-Executive Directors will be determined by a general meeting. At the Annual General Meeting held in 2005, shareholders approved total remuneration for all Non-Executive Directors of up to US$419,300 per annum. Fees are set based on review of external market information in relation to fees paid to non-executive directors of comparable companies.

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

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

Remuneration Report (Audited) *continued*

Directors' Interests

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

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

Executive Directors' and Specified Executives' Remuneration

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

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

Remuneration consists of the following key elements:

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

Fixed Remuneration

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

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

Other than the Chief Executive Officer whose termination benefits are described on page 33, if employment of any Executive Director or Specified Executive terminates or the Executive Director or Specified Executive resigns within three months of a substantial diminution of the executive's job contract, status, responsibility or authority, the executive is entitled to a payment in lieu of notice equivalent to the aggregate base remuneration paid to the senior executive over the previous 12 months. A substantial diminution will be deemed to have occurred if the Company ceases to be listed on the ASX and the Executive Director or Specified Executive ceases to be part of the Senior Management Team. If the employment of the Executive Director or Specified Executive is terminated for cause, the Company will have no further obligations other than the amount of base pay due to the executive through to the termination date plus any unpaid amounts of accrued leave.

Service Agreement – B F Clement

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

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

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

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

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

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

Service Agreement – D Paterson

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

Variable Remuneration

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

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

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

Remuneration Report (Audited) *continued*

Variable Remuneration *continued*

TSR is the total of:

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

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

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

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

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

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

Remuneration packages for Executive Directors and Specified Executives may also include performance-based components in the form of cash bonuses. Cash bonuses are generally awarded at the end of each financial year at the discretion of the Remuneration and Nomination Committee and are generally related to an individual's contribution to achievement of particular objectives and/or the performance of the Company.

In the case of the Chief Executive Officer, specific goals are set at the commencement of each year and payment of a bonus is assessed against achievement of the specified goals. The goals which are set and reviewed annually relate to the performance objectives and goals of the Company. No cash bonuses were awarded to the Chief Executive Officer and Specified Executives in 2008.

Equity-based Remuneration

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

		GRANTED						VESTED AS AT 31 DEC 2008	
		No.	Grant Date	Weighted Average Fair Value per Option at Grant Date[1] A$	Weighted Average Exercise Price per Option[1] A$	Expiry Date	First Exercise Date	No.	% of Options Held
Executive Directors									
Dr R J P Doran[2]	**2008**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2007	300,000	10 May 07	1.34	3.43	10 May 13	10 May 09	–	–
Mr B F Clement	**2008**	**–**	**–**	**–**	**–**	**–**	**–**	**295,000**	**43.4**
	2007	–	–	–	–	–	–	90,000	11.8
Mr D Paterson	**2008**	**–**	**–**	**–**	**–**	**–**	**–**	**135,000**	**30.0**
	2007	–	–	–	–	–	–	–	–
Specified Executives									
Ms S Ford	**2008**	**150,000 30,000**	**23 Dec 08 19 May 08**	**0.22 1.14**	**0.73 2.28**	**23 Dec 14 19 May 14**	**23 Dec 10 19 May 10**	**252,900**	**42.0**
	2007	–	–	–	–	–	–	128,700	12.8
Dr K Hird	**2008**	**30,000**	**19 May 08**	**1.14**	**2.28**	**19 May 14**	**19 May 10**	**173,700**	**38.3**
	2007	–	–	–	–	–	–	58,500	12.8
Mr A Linn[3]	**2008**	**150,000 400,000**	**23 Dec 08 19 May 08**	**0.22 1.14**	**0.73 2.28**	**23 Dec 14 19 May 14**	**23 Dec 10 19 May 10**	**–** –	**–** –
Mr J Mebberson	**2008**	**150,000 30,000**	**23 Dec 08 19 May 08**	**0.22 1.14**	**0.73 2.28**	**23 Dec 14 19 May 14**	**23 Dec 10 19 May 10**	**52,000**	**15.2**
	2007	–	–	–	–	–	–	3,000	2.0
Mr A Neilson	**2008**	**150,000 20,000**	**23 Dec 08 19 May 08**	**0.22 1.14**	**0.73 2.28**	**23 Dec 14 19 May 14**	**23 Dec 10 19 May 10**	**–**	**–**
	2007	200,000	10 May 07	1.34	3.43	10 May 13	10 May 09	–	–
Mr C Way[4]	**2008**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	2007	–	–	–	–	–	–	111,000	30.9

(1) Note 28 to the financial statements.

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

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

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

Directors' Report

Remuneration Report (Audited) *continued*

Equity-based Remuneration *continued*

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

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

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

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

Shares under Option

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

As at the date of this Directors' Report, there were 18,216,500 options, comprising 5,625,600 employee share options and 12,590,900 executive share options granted over unissued ordinary shares of ROC under the Employee Share Option Plan and the Executive Share Option Plan. Refer to Note 28 to the financial statements for further details of options outstanding. During the financial year, no ordinary shares were issued as a result of exercise of options under the Employee Share Option Plan and 15,000 ordinary shares were issued as a result of exercise of options under the Executive Share Option Plan. Since the end of the financial year, no ordinary shares were issued as a result of exercise of share options and no options have lapsed or been cancelled.

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

Indemnification of Directors and Officers

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

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

Rounding

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

Corporate Governance

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

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

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

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

Audit and Risk Management

During the financial year, Mr W G Jephcott (Chairman), Mr A J Love and Mr A C Jolliffe (resigned 3 December 2008) were members of the Company's Audit and Risk Committee. It is responsible for monitoring the operational and financial aspects of the Company's activities and considers recommendations and advice of internal and external advisors on the operational and financial risks of ROC. The Committee evaluates senior management's assessment of risk and its recommendations in relation to the management of that risk, including hedging policies.

Environmental Performance

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

Auditor and Non-Audit Services

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year. During the financial year, ROC paid its auditor, Ernst & Young, Australia, the following amount for material non-audit services, excluding services for the June 2008 interim review:

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

Directors' Report

Corporate Governance *continued*

Auditor and Non-Audit Services *continued*

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

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the professional statement, including reviewing and auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 39.

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

On behalf of the Directors:

Mr A J Love
Chairman

Mr B F Clement
Director and Chief Executive Officer

Sydney, 26 February 2009

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

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

In relation to our audit of the financial report of Roc Oil Company Limited for the financial year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner

Sydney, 26 February 2009

Discussion and Analysis of Financial Statements

This discussion and analysis is provided to assist readers in understanding the financial statements for the financial year ended 31 December 2008.

FINANCIAL PERFORMANCE

Income Statement

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

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

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

Sales and Production Growth

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

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

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

Exploration Expensed

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

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

Financing Costs

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

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

Income Tax

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

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

Financial Ratios

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

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

Hedging

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

Balance Sheet

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

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

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

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

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

Cash Flow Statement

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

OPERATIONAL OVERVIEW

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

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

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

Discussion and Analysis of Financial Statements

OPERATIONAL OVERVIEW *continued*

Production and Development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exploration and Appraisal

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

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

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

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

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

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

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

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

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

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

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

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

Offshore Mauritania (ROC: 2.0%-5.49%)

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

The PSC for Block 8 was relinquished in January 2009.

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

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

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

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

Discussion and Analysis of Financial Statements

OPERATIONAL OVERVIEW *continued*

Exploration and Appraisal *continued*

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

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

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

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

Income Statement

For the financial year ended 31 December 2008

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

Balance Sheet

As at 31 December 2008

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

Cash Flow Statement

For the financial year ended 31 December 2008

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

Statement of Changes in Equity

For the financial year ended 31 December 2008

	CONSOLIDATED				
	Share Capital US$'000	Accumulated Losses US$'000	Other Reserves US$'000	Minority Interest US$'000	Total US$'000
Balance at 1 January 2007	434,953	(104,659)	43,815	–	374,109
Foreign currency translation differences	–	–	8,939	–	8,939
Net unrealised loss on cash flow hedges	–	–	(12,742)	–	(12,742)
Tax benefit on cash flow hedges	–	–	(531)	–	(531)
Transfer from cash flow hedge reserve to Income Statement	–	–	(458)	–	(458)
Total income and expenses for the year recognised directly in equity	**–**	**–**	**(4,792)**	–	**(4,792)**
Net loss	–	(84,422)	–	–	(84,422)
Total income and expenses for the year	**–**	**(84,422)**	**(4,792)**	–	**(89,214)**
Share issue costs	(126)	–	–	–	(126)
Exercise of share options	963	–	–	–	963
Share-based payments	–	–	3,001	–	3,001
Balance at 31 December 2007	**435,790**	**(189,081)**	**42,024**	**–**	**288,733**
Minority interest arising on business combination	–	–	–	106,670	106,670
Purchased minority interest	–	–	–	(110,600)	(110,600)
Loss on purchase of minority interest	–	(3,930)	–	3,930	–
Foreign currency translation differences	–	–	(34,867)	–	(34,867)
Tax expense on cash flow hedges	–	–	(449)	–	(449)
Transfer from cash flow hedge reserve to Income Statement	–	–	(1,385)	–	(1,385)
Total income and expenses for the year recognised directly in equity	**–**	**(3,930)**	**(36,701)**	**–**	**(40,631)**
Net loss	–	(278,385)	–	–	(278,385)
Total income and expenses for the year	**–**	**(282,315)**	**(36,701)**	**–**	**(319,016)**
Issue of share capital	234,123	–	–	–	234,123
Exercise of share options	29	–	–	–	29
Share-based payments	–	–	3,391	–	3,391
Balance at 31 December 2008	**669,942**	**(471,396)**	**8,714**	**–**	**207,260**

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

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

The financial statements were authorised for issue on 26 February 2009 by the Board.

(b) Statement of compliance

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the reporting period ending 31 December 2008 and are not expected to have a material impact.

(c) Basis of consolidation

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

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

(d) Oil and gas assets

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

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

(e) Exploration and evaluation expenditure

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

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

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

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

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

(f) Property, plant and equipment

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

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

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

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

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

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

(g) Oil and gas stock and materials inventory

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

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

(h) Under/overlift

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

(i) Available-for-sale securities

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

(j) Investments

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

(k) Provision for restoration

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

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

(l) Cash and cash equivalents

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

(m) Investment in associate companies

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

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

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

(n) Trade and other receivables

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

(o) Impairment

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

Calculation of recoverable amount

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

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

(p) Provisions

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

(q) Revenue

Sales

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

Sales revenue represents amounts invoiced, excluding goods and services tax or value added taxes, in respect of sales to purchasers.

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

Interest

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

Dividends

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

(r) Finance costs

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

(s) Share-based payment transactions

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

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

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

The costs of these equity-settled transactions with employees are measured by reference to the fair value at the date at which the share options are granted. The fair value is determined by an external valuer using a Monte Carlo simulation technique.

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

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

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

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

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

(t) Income tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

Tax consolidation

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

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

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies *continued*

(u) Goods and services tax

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

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

(v) Derivative financial instruments

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

Cash flow hedges

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

Amounts deferred in equity are transferred to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

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

(w) Foreign currency translation

Functional and presentation currency

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

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

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

Transactions and balances

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

Group companies

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

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

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

(x) Employee benefits

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

Provisions for annual leave and long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(y) Interest in joint venture operations

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

(z) Goodwill

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

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

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

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

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

(aa) Change in accounting policy

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

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

Notes to the Financial Statements

Note 2. Significant Accounting Judgements, Estimates and Assumptions

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

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

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

(a) Significant accounting judgements

Exploration and evaluation

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

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

(b) Significant accounting estimates and assumption

Impairment of assets

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

The carrying value of oil and gas assets as at 31 December 2008 is US$366.6 million (2007: US$423.5 million).

Restoration obligations

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

Reserve estimates

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

Note 3. Financial Risk Management Objectives and Policies

Overview

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

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

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

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

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

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

Credit risk

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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

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

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

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

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

Liquidity risk

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

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

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

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and through the monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities (refer to Note 39).

Market risk

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

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

Foreign currency risk

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

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

Interest rate risk

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

A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit and loss for the year by US$1.5 million (2007: US$0.9 million). This analysis assumes that all other variables remain constant. As a result, the Group's exposure to interest rate risk is minimal.

Commodity price risk

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

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

At 31 December 2008, the Group had a US$14.1 million derivative asset (2007: US$58.6 million liability) arising from 2.7 MMBBL of oil price swaps which represents approximately 11% of its proved and probable reserves.

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

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

Fair value of financial instruments

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

The fair values are determined as follows:

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

Capital management

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

Note 4. Sales Revenue

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

Note 5. Operating Costs

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

Notes to the Financial Statements

Note 6. Other Income

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

Note 7. Exploration Expensed and Impaired

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Angola	61,340	62,361	–	–
Australia	25,781	16,885	–	–
China	12,340	5,006	–	–
Equatorial Guinea	437	300	–	–
Madagascar	3,643	2,353	–	–
Mauritania	6,767	832	–	–
United Kingdom	162	114	–	–
Other	2,258	1,097	2,258	1,097
Exploration expensed	**112,728**	**88,948**	**2,258**	**1,097**
Angola	9,974	–	–	–
China	60,172	–	–	–
Mauritania	7,667	–	–	–
Impairment of exploration	**77,813**	**–**	**–**	**–**
Exploration expensed and impaired	**190,541**	**88,948**	**2,258**	**1,097**

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Note 8. Impairment of Goodwill				
Goodwill acquired at acquisition of AEL	43,790	–	–	–
Impairment of goodwill	(43,790)	–	–	–
	–	–	–	–

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

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Note 9. Other Costs				
Operating lease expenses	1,255	979	1,131	906
Loss from sale of assets	20	41	6	4
Net foreign currency losses	–	670	–	14,775
Depreciation	803	802	630	622
Impairment of non-current intercompany receivables	–	–	91,145	151,407
Impairment of investments in controlled entities	–	–	180,860	–
Other administration costs	9,026	7,068	2,528	4,220
Share-based payments	3,391	3,001	3,391	3,001
Net derivative losses	–	69,226	–	–
	14,495	**81,787**	**279,691**	**174,935**

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Note 10. Finance Costs				
Interest expensed on bank loans	5,593	10,645	–	–
Unwinding of discount – restoration provision	1,092	845	–	–
Other finance costs	1,408	1,555	35	50
	8,093	**13,045**	**35**	**50**

Note 11. Income Tax

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
(a) Composition of income tax				
Income tax charge – current period	(78,038)	(29,395)	–	–
Deferred income tax – current period	110,219	13,747	6,051	875
Deferred income tax – change in Chinese tax rates	–	21,417	–	–
Deferred tax – PRRT	(3,913)	(1,141)	–	–
Income tax benefit	**28,268**	**4,628**	**6,051**	**875**
(b) Amounts transferred from equity				
Tax effect on cash flow hedges	(448)	(531)	–	–

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 31 December relates to the following:

	BALANCE SHEET CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
(i) *Deferred tax assets*				
Accelerated depreciation for tax purposes	(595)	(45,116)	(595)	(404)
Recognition of tax losses	–	49,841	–	4,368
Provisions	611	3,626	611	810
Derivatives	–	691	–	–
Others	–	588	–	–
Net deferred tax assets	**16**	**9,630**	**16**	**4,774**
(ii) *Deferred tax liabilities*				
Accelerated depreciation for tax purposes	(45,518)	(63,795)	–	–
Provisions	9,899	1,871	–	–
Derivatives	(980)	–	–	–
PRRT	(17,482)	(1,141)	–	–
Recognition of tax losses	3,445	–	–	–
Other	227	–	–	–
Net deferred tax liabilities	**(50,409)**	**(63,065)**	**–**	**–**
Total net deferred tax (liability)/asset	**(50,393)**	**(53,435)**	**16**	**4,774**

	2008		2007	
	Provision for Current Income Tax US$'000	Deferred Income Tax US$'000	Provision for Current Income Tax US$'000	Deferred Income Tax US$'000
Consolidated				
Opening balance	(4,730)	(53,435)	(5,663)	(73,719)
Acquisition	(30,205)	(59,642)	–	–
(Charged)/credited to income	(78,038)	106,306	(29,395)	34,023
Cash payments	39,671	–	16,556	–
Utilisation of tax losses	51,394	(51,394)	13,335	(13,335)
Translation gain/(loss)	4,675	7,772	437	(404)
	(17,233)	**(50,393)**	**(4,730)**	**(53,435)**
Company				
Opening balance	–	4,774	–	8,506
(Charged)/credited to income	–	6,051	–	875
Utilisation of tax losses	–	(10,809)	–	(5,225)
Translation gain/(loss)	–	–	–	618
	–	**16**	**–**	**4,774**

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

Notes to the Financial Statements

Note 11. Income Tax *continued*

(e) Income tax reconciliation

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

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

(f) Tax consolidation

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

Note 12. Cash Assets

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Cash and cash equivalents	54,260	41,437	6,760	11,804
	54,260	**41,437**	**6,760**	**11,804**

Included in cash assets is US$2,510,441 (2007: US$2,479,885) which is subject to a charge in favour of PC Mauritania I Pty Ltd relating to liabilities arising under the contract for lease of the *Berge Helene* floating production storage and offloading vessel to be used for production from the Chinguetti Oil Field.

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

Notes to the Financial Statements

Note 13. Current Trade and Other Receivables

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Trade receivables	12,287	16,241	–	–
Other receivables	15,618	11,890	7,288	7,634
Stock underlift	1,330	2,079	–	–
	29,235	**30,210**	**7,288**	**7,634**

Note 14. Financial Assets Available for Sale

Shares in listed entity at cost	63,830	–	–	–
Impairment of assets	(30,527)	–	–	–
Exchange loss	(9,172)	–	–	–
	24,131	**–**	**–**	**–**

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

Note 15. Derivatives

At fair value:				
Oil price swaps	10,872	(58,628)	–	–
Oil price puts	3,267	–	–	–
Net assets/(liabilities)	**14,139**	**(58,628)**	**–**	**–**
Assets – current assets	16,517	–	–	–
– non-current assets	2,170	–	–	–
Total assets	18,687	–	–	–
Liabilities – current liabilities	–	(24,115)	–	–
Non-current liabilities	(4,548)	(34,513)	–	–
Total liabilities	(4,548)	(58,628)	–	–
Total	**14,139**	**(58,628)**	**–**	**–**

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

At 31 December 2008, the Group's oil hedge position was summarised as follows:

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

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Note 16. Inventories				
Materials inventory	–	68	–	–
Oil and gas stock	10,562	7,088	–	–
	10,562	**7,156**	**–**	**–**

Note 17. Non-Current Trade and Other Receivables

Amount owing by controlled entities	–	–	474,566	446,008
Less impairment	–	–	(372,997)	(281,852)
	–	**–**	**101,569**	**164,156**

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

Note 18. Other Non-Current Financial Assets

Shares in unlisted controlled entities, at cost	–	–	304,642	58,566
Less impairment	–	–	(180,860)	–
	–	**–**	**123,782**	**58,566**

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

Notes to the Financial Statements

Note 19. Oil and Gas Assets

	CONSOLIDATED			COMPANY
	Producing Assets US$'000	Assets under Development US$'000	Total US$'000	Total US$'000
Costs				
Balance at 1 January 2007	394,604	113,802	508,406	–
Transfer of assets under development to producing assets	68,005	(68,005)	–	–
Development expenditure incurred	53,926	3,496	57,422	–
Translation gain	10,565	–	10,565	–
Disposal of assets	(308)	–	(308)	–
Costs at 31 December 2007	**526,792**	**49,293**	**576,085**	**–**
Transfer of assets under development to producing assets	49,293	(49,293)	–	–
Assets acquired through business combinations	247,369	–	247,369	–
Development expenditure incurred	76,274	–	76,274	–
Translation loss	(37,616)	–	(37,616)	–
Increase in restoration asset	404	–	404	–
Costs at 31 December 2008	**862,516**	**–**	**862,516**	**–**
Accumulated amortisation				
Balance at 1 January 2007	(52,478)	–	(52,478)	–
Charge for the year	(81,423)	–	(81,423)	–
Disposal of assets	308	–	308	–
Impairment of assets (see note (a) below)	(17,307)	–	(17,307)	–
Translation loss	(1,709)	–	(1,709)	–
Accumulated amortisation at 31 December 2007	**(152,609)**	**–**	**(152,609)**	**–**
Charge for the year	(120,361)	–	(120,361)	–
Impairment of assets (see note (b) below)	(224,796)	–	(224,796)	–
Translation gain	1,807	–	1,807	–
Accumulated amortisation at 31 December 2008	**(495,959)**	**–**	**(495,959)**	**–**
Net book value at 31 December 2008	**366,557**	**–**	**366,557**	**–**
Net book value at 31 December 2007	374,183	49,293	423,476	–

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

(b) The impairment is attributable to:

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

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

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

Note 20. Exploration and Evaluation Expenditure

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

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

Note 21. Property, Plant and Equipment

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Costs				
Opening balance	7,473	6,930	5,779	4,954
Expenditure incurred	812	626	799	626
Disposals	(870)	(455)	(855)	(173)
Translation gain	–	372	–	372
Costs at 31 December	**7,415**	**7,473**	**5,723**	**5,779**
Accumulated depreciation				
Opening balance	(5,045)	(4,331)	(4,188)	(3,468)
Charge for the year	(803)	(802)	(630)	(622)
Disposals	848	355	848	169
Translation loss	–	(267)	–	(267)
Accumulated depreciation at 31 December	**(5,000)**	**(5,045)**	**(3,970)**	**(4,188)**
Net book value	**2,415**	**2,428**	**1,753**	**1,591**

Notes to the Financial Statements

Note 22. Bank Loans

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
(a) Current				
Secured bank loan – (1)	50,000	–	–	–
Secured bank loan – (2)	30,000	–	30,000	–
(b) Non-current				
Secured bank loan – (1)	88,736	133,304	–	–
Total	**168,736**	**133,304**	**30,000**	**–**

(c) Terms and conditions

Secured bank loan – (1)

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

The interest rate is USD LIBOR plus a fixed margin. The effective interest rate is 4.2% per annum.

Secured bank loan – (2)

During the period the parent company entered into a one year US$30 million working capital loan facility, maturing on 7 September 2009, provided by Commonwealth Bank of Australia. The effective interest rate is 3.5% per annum.

(d) Financing facilities available

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

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Total loan facilities:				
Secured bank loans	170,000	190,000	–	–
Facilities used at reporting date:				
Secured bank loans	170,000	135,000	–	–
Facilities unused at reporting date:				
Secured bank loan	–	55,000	–	–

(e) Assets pledged as security

Secured bank loan – (1)

The Company has guaranteed the performance of Roc Oil (Finance) Pty Limited and other ROC subsidiaries giving security in relation to the loan facility from Commonwealth Bank of Australia, BOS International (Australia) Limited and Société Genérale Australia Branch. Roc Oil (Finance) Pty Limited has granted charges over all its assets and ROC has granted a 'featherweight' charge in favour of Commonwealth Bank of Australia as security trustee. In addition, the shares of the following ROC subsidiaries have been pledged to CBA Corporate Services (NSW) Pty Ltd, which are the entities that hold the producing assets: Roc Oil (WA) Pty Limited, Roc Oil (Bohai) Company and Roc Oil (GB) Limited. The net book value of Roc Oil (Finance) Pty Limited and the entities in which shares have been pledged is US$235.5 million.

Secured bank loan – (2)

The shares of the following ROC subsidiaries have been pledged: AZA, AEL and Anzon Investments Limited. The net book value of the entities in which the shares have been pledged is US$76 million.

(f) Interest rate, foreign exchange and liquidity risks

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

(g) Fair value

The fair value of the Group borrowing is US$167,200,000 (2007: US$135,000,000).

Note 23. Controlled Entities

Name of Entity	Country of Incorporation	Ownership and Voting Interest 2008 %	Ownership and Voting Interest 2007 %
Parent entity			
Roc Oil Company Limited	Australia	100	100
Controlled entities			
Roc Oil (Gobi) Pty Limited	Australia	100	100
Roc Oil (WA) Pty Limited	Australia	100	100
Roc Oil (China) Pty Limited	Australia	100	100
Roc Oil (Madagascar) Pty Limited (formerly Roc Oil (New Zealand) Pty Limited)	Australia	100	100
Roc Oil Australia Holdings Pty Limited	Australia	100	100
Roc Oil International Holdings Pty Limited	Australia	100	100
Elixir Corporation Pty Ltd	Australia	100	100
Roc Oil (Finance) Pty Limited	Australia	100	100
Anzon Energy Limited	Australia	100	–
Anzon Australia Limited	Australia	100	–
Roc Oil (Exploration No 1) Pty Ltd (formerly Anzon Exploration (No. 1) Pty Ltd)	Australia	100	–
Anzon Energy Mauritius	Mauritius	100	–
Anzon Investments Ltd	Mauritius	100	–
Anzon Africa Ltd	Mauritius	100	–
PT Anzon Energy Indonesia	Indonesia	100	–
Roc Oil (New Zealand) Limited (formerly Anzon New Zealand Limited)	New Zealand	100	–
Anzon Energy Nigeria	Nigeria	100	–
Hercules Resources Limited	Hong Kong	100	–
China Oil Shale Development Company Limited	Hong Kong	100	50
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) Limited	Cayman Islands	100	100
Lacula Oil Company Limited	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 Canada Inc (dissolved 15 January 2009)	Canada	100	100
Roc Oil (Chinguetti) BV	Netherlands	100	100

Notes to the Financial Statements

Note 24. Current Trade and Other Payables

	CONSOLIDATED 2008 US$'000	CONSOLIDATED 2007 US$'000	COMPANY 2008 US$'000	COMPANY 2007 US$'000
Trade payables	30,604	21,257	728	391
Deferred income	–	6,289	–	–
Accrued liabilities	7,332	14,464	418	692
Amount owing to controlled entities	–	–	–	600
Amount owing to associate companies	684	965	–	–
Other	153	153	153	153
	38,773	**43,128**	**1,299**	**1,836**

Note 25. Provisions

	CONSOLIDATED Employee Benefits US$'000	CONSOLIDATED Restoration US$'000	CONSOLIDATED Total US$'000	COMPANY Employee Benefits US$'000	COMPANY Total US$'000
Balance at 1 January 2008	2,207	12,928	15,135	2,207	2,207
Acquired in business combination	–	20,413	20,413	–	–
Additions during the year	314	404	718	314	314
Unwinding of discount	–	1,092	1,092	–	–
Utilised	(844)	–	(844)	(844)	(844)
Translation adjustments	–	(3,096)	(3,096)	–	–
Balance at 31 December 2008	**1,677**	**31,741**	**33,418**	**1,677**	**1,677**
Current – 2008	1,091	–	1,091	1,091	1,091
Non-current – 2008	586	31,741	32,327	586	586
Total 2008	**1,677**	**31,741**	**33,418**	**1,677**	**1,677**
Current – 2007	1,427	–	1,427	1,427	1,427
Non-current – 2007	780	12,928	13,708	780	780
Total 2007	**2,207**	**12,928**	**15,135**	**2,207**	**2,207**

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

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

Note 26. Share Capital

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

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

The Company has two employee share option plans under which options to subscribe for Company shares have been granted to employees and executives. Refer to Note 28.

Note 27. Other Reserves

CONSOLIDATED

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

COMPANY

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

Note 28. Employee Benefits

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

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

Employee Share Option Plan

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

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

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

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

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

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

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

Executive Share Option Plan

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

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

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

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

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

Fair value of options

The weighted average fair value of the share options granted during the financial year is A$0.52 per share. Options were valued using the Monte Carlo simulation technique. Under this technique, the share price is randomly simulated under risked neutral conditions and parameters. The simulation is repeated numerous times to produce a distribution of the option payoff at expiry. The option value is taken as the average payoff amounts calculated discounted back to the valuation date. Options carry no voting rights or rights to dividends.

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

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

(b) Superannuation plans

During the 2008 financial year, the Company contributed to accumulation type benefit funds administered by fund managers. The funds cover all Australian domiciled employees of the Company. Employee and employer contributions are based on a fixed percentage of cash salary. The current contribution is 9% (2007: 9%) of employee cash remuneration.

(c) Employee benefits expensed

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

Note 29. Earnings per Share

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

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

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

	2008 Number of Shares	2007 Number of Shares
Weighted average number of ordinary shares for basic loss per share	373,252,930	298,398,215
Effect of dilution:		
Share options	–	–
Adjusted weighted average number of ordinary shares for diluted loss per share	373,252,930	298,398,215
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted loss per share	–	–
Weighted average number of shares that were not included in the calculation of loss per share as they are anti-dilutive	63,766	1,625,587

Note 30. Segment Information

Primary reporting - geographical segments

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

Secondary reporting - business segments

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

Segment accounting policies

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

Composition of each geographical segment

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

	United Kingdom US$'000	Australia US$'000	China US$'000	Africa US$'000	Unallocated US$'000	Total US$'000
For the financial year ended 31 December 2008						
Sales revenue	97,766	119,899	131,552	9,013	–	358,230
Segment result						
Profit/(loss) before income tax	69,678	(90,872)	(125,036)	(98,084)	(62,339)	(306,653)
Income tax benefit	–	–	–	–	28,268	28,268
Net profit/(loss)	**69,678**	**(90,872)**	**(125,036)**	**(98,084)**	**(34,071)**	**(278,385)**
As at December 2008						
Segment assets/liabilities						
Assets	83,713	219,973	148,962	28,310	39,625	520,583
Liabilities	(10,047)	(37,741)	(3,802)	(17,239)	(244,494)	(313,323)
Other segment information						
Expenditure incurred on exploration and evaluation	162	25,781	14,822	72,187	2,258	115,210
Expenditure incurred on oil and gas assets	8,921	10,383	51,748	5,222	–	76,274
Depreciation	173	–	–	–	630	803
Amortisation	19,794	34,148	62,397	4,022	–	120,361
Exploration expensed	162	25,781	12,340	72,187	2,258	112,728
Impairment of exploration	–	–	60,172	17,641	–	77,813
Impairment of goodwill	–	43,790	–	–	–	43,790
Impairment of oil and gas assets	–	99,921	119,711	5,164	–	224,796
For the financial year ended 31 December 2007						
Sales revenue	28,351	79,821	91,656	8,685	–	208,513
Segment result						
(Loss)/profit before income tax	18,067	32,201	16,842	(70,104)	(86,056)	(89,050)
Income tax benefit	–	–	–	–	4,628	4,628
Net (loss)/profit	**18,067**	**32,201**	**16,842**	**(70,104)**	**(81,428)**	**(84,422)**
As at December 2007						
Segment assets/liabilities						
Assets	105,077	98,942	331,327	46,631	25,087	607,064
Liabilities	(18,136)	(10,863)	(14,234)	(10,334)	(264,764)	(318,331)
Other segment information						
Expenditure incurred on exploration and evaluation	114	16,724	5,480	71,319	1,097	94,734
Expenditure incurred on oil and gas assets	29,193	32	25,040	3,157	–	57,422
Depreciation	180	–	–	–	622	802
Amortisation	10,182	26,272	40,603	4,366	–	81,423
Exploration expensed	114	16,885	5,006	65,846	1,097	88,948
Impairment of oil and gas assets	–	–	17,307	–	–	17,307

Notes to the Financial Statements

Note 31. Related Party Disclosures

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

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

- Note 17 as to amounts owing by controlled entities;
- Notes 18 and 23 as to investments in controlled entities;
- Note 24 as to amounts owing to controlled entities and associate companies;
- Note 34 as to investments in associate companies; and
- Note 36 as to disclosures relating to Key Management Personnel.

Note 32. Commitments for Expenditure

	CONSOLIDATED		COMPANY	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
(a) Capital commitments				
Not longer than one year				
Joint ventures	62,038	46,855	–	–
Longer than one year but not longer than five years				
Joint ventures	6,482	622	–	–
	68,520	47,477	–	–
(b) Operating lease rental commitments				
Not longer than one year	12,202	3,259	697	857
Longer than one year but not longer than five years	7,629	9,118	843	1,960
	19,831	12,377	1,540	2,817

Note 33. Joint Ventures

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

Country	Block	Principal Activities	Interest 2008 %	Interest 2007 %
Australia	WA-286-P	Oil and gas exploration	37.50	37.50
	WA-31-L (Cliff Head)	Oil production	37.50	37.50
	TP/15	Oil and gas exploration	–	20.00
	WA-351-P	Oil and gas exploration	20.00	20.00
	EP413	Oil and gas exploration	–	0.25
	L14 (Jingemia)	Oil production	0.25	0.25
	WA-381-P	Oil and gas exploration	20.00	20.00
	WA-382-P	Oil and gas exploration	20.00	20.00
	VIC/L26	Oil production	40.00	–
	VIC/L27	Oil production	40.00	–
	VIC/L28	Oil production	40.00	–
	VIC/P49	Oil and gas exploration	20.00	–
New Zealand	PEP38259	Oil and gas exploration	15.00	–
Equatorial Guinea	Block H	Oil and gas exploration	37.50	18.75
Mauritania	Area A	Oil and gas exploration	4.16	4.16
	Area B (Chinguetti)	Oil and gas exploration/production	3.69/3.25(1)	3.69/3.25(1)
	Area C Block 2	Oil and gas exploration	5.49	5.49
	Area C Block 6	Oil and gas exploration	5.00	5.00
	Block 1	Oil and gas exploration	2.00	2.00
	Block 7	Oil and gas exploration	4.95	4.95
	Block 8 (surrendered 21 January 2009)	Oil and gas exploration	5.0 (at 31 Dec 2008)	5.00
Mozambique Channel	Belo Profond (Madagascar)	Oil and gas exploration	75.00	75.00
	Juan de Nova Maritime Profond (France)	Oil and gas exploration	75.00	–
Angola	Cabinda South Block	Oil and gas exploration	60.00	60.00
China	Beibu Gulf Block 22/12	Oil and gas pre-development	40.00	40.00
	Zhao Dong Block (C and D Fields/C4 Field)	Oil development/production	24.50/11.58(2)	24.50/11.58(2)
Onshore UK	PEDL002 (relinquished 3 April 2008)	Oil and gas exploration	–	5.00
	PEDL030 (to be relinquished 17 March 2009)	Oil and gas exploration	100.00	100.00
UK North Sea	P111 (Block 30/3a Upper) (Blane)	Oil and gas development	15.24/12.50(3)	15.24/12.50(3)
	P219 (Block 16/13a) (Enoch)	Oil and gas development	15.00/12.00(3)	15.00/12.00(3)

(1) Post-government back-in in Chinguetti Oil Field.
(2) Unitised interest in the C4 Field subject to redetermination following commencement of production.
(3) Unitised interest in producing Blane and Enoch Fields.

Notes to the Financial Statements

Note 33. Joint Ventures *continued*

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

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

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

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

Note 34. Associate Companies

Details of investments in associate companies are as follows:

Name of Associate Company	Country where Incorporated	Principal Activity	Balance Date	Beneficial Interest in Ordinary Shares at 31 December 2008 %	2007 %	Book Value of Ordinary Shares at 31 December 2008 US$'000	2007 US$'000	Contribution to Consolidated Loss 2008 US$'000	2007 US$'000
Croft (UK) Limited	UK	Holding company	31 December	50	50	–	–	–	–
Croft Oil & Gas plc	UK	Holding company	31 December	50	50	–	–	–	–
Croft Exploration Limited	UK	Dormant	31 December	50	50	–	–	–	–
Croft Offshore Oil Limited	UK	Dormant	31 December	50	50	–	–	–	–

Note 35. Remuneration of Auditors

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

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

Note 36. Key Management Personnel Disclosures

(a) Details of Key Management Personnel

Mr A J Love	Chairman (Non-Executive)
Mr W G Jephcott	Deputy Chairman (Non-Executive)
Dr R J P Doran	Executive Director and Chief Executive Officer (ceased to be a director and officer on 27 June 2008)
Mr B F Clement	Executive Director and appointed Chief Executive Officer on 24 September 2008
Mr S J Jansma, Jr	Director (Non-Executive)
Mr D Paterson	Executive Director and President, Roc Oil (China) Company
Mr R C Leon	Director (Non-Executive) (appointed 3 December 2008)
Mr A C Jolliffe	Director (Non-Executive) (resigned 3 December 2008)
Dr D Schwebel	Director (Non-Executive) (resigned 3 December 2008)
Ms S Ford	General Counsel and Company Secretary
Dr K Hird	General Manager Business Development
Mr A Linn	Chief Operating Officer (appointed October 2008)
Mr J Mebberson	General Manager Exploration
Mr A Neilson	Chief Financial Officer

Notes to the Financial Statements

Note 36. Key Management Personnel Disclosures *continued*

(b) Remuneration

(i) Remuneration policy

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

The Company has an Executive Share Option Plan. Under this Plan, executives are issued options to subscribe for ordinary shares in the Company at the discretion of the Directors. The Plan provides an incentive to the executive team to achieve significant long term growth in the Company's share price. For details, refer to Note 28 and the Directors' Report.

(ii) Remuneration of Key Management Personnel

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

	CONSOLIDATED		COMPANY	
	2008 US$	2007 US$	2008 US$	2007 US$
Short term employee benefits	3,902,535	3,900,863	2,655,670	2,661,054
Post-employment benefits	275,109	277,739	207,145	208,564
Termination payments	2,248,470	–	2,248,470	–
Share-based payments	704,699	783,004	573,227	653,660
	7,130,813	**4,961,606**	**5,684,512**	**3,523,278**

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

(c) Optionholdings

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

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

(d) Shareholdings

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

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

Notes to the Financial Statements

Note 36. Key Management Personnel Disclosures *continued*

(d) Shareholdings *continued*

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

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

(e) Loans and other transactions

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

Note 37. Contingent Liabilities

Under a sale and purchase agreement dated 29 December 1997, by which Roc Oil (GB) Limited acquired an interest in the Blane Oil Field (Block 30/3a), a royalty of 22% of the company's share of production from the field is payable. No royalty becomes payable on any oil produced from the field until the total cumulative production has reached 15 MMBBL of oil and thereafter royalty is due on the company's share of oil produced in excess of 2,000 BOPD (gross). The company is not yet liable to pay this royalty due to the contingent nature of production reaching the threshold rates in the future; however, the company has estimated a potential contingent liability of US$11.6 million at 31 December 2008 (2007: US$7.0 million).

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

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

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

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

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

Note 38. Business Combinations

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

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

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

Notes to the Financial Statements

Note 38. Business Combinations *continued*

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

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

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

Note 39. Subsequent Events

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

Note 40. Additional Company Information

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

The registered office and principal place of business is:

Level 14, 1 Market Street
Sydney NSW 2000
Australia.

Directors' Declaration

The Directors declare that:

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

(b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001;

(d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

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

On behalf of the Directors:

Mr A J Love
Chairman

Mr B F Clement
Director and Chief Executive Officer

Sydney, 26 February 2009

Ernst & Young

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

INDEPENDENT AUDIT REPORT TO MEMBERS OF ROC OIL COMPANY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Roc Oil Company Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Roc Oil Company Limited is in accordance with the *Corporations Act 2001*, including:
   - i giving a true and fair view of the financial position of Roc Oil Company Limited and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 36 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner

Sydney, 26 February 2009

Additional Information

ROC RESERVES ANALYSIS (UNAUDITED)

Summary Proved and Probable Working Interest Reserves	MMBBL	BCF	Total MMBOE
Opening balance	21.1	1.7	21.4
Acquisitions	8.2	–	8.2
Reserve revisions	(1.3)	(1.3)	(1.5)
Production	(4.0)	(0.1)	(4.0)
Closing balance	**24.0**	**0.3**	**24.0**

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

Note:

1 MMBOE = 6 BCF

Analysis of Contingent Resources	MMBBL	BCF	Total MMBOE
Basker Manta Gummy	4.2	87	18.7
Beibu Gulf	5.2	–	5.2
Closing balance	**9.4**	**87**	**23.9**

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

ROC LICENCES AT 31 DECEMBER 2008 (UNAUDITED)

Country	Block	Field/Discovery	ROC Interest %	Operator
Australia	WA-286-P	Frankland, Dunsborough	37.50	Roc Oil (WA) Pty Limited
	WA-31-L	Cliff Head	37.50	Roc Oil (WA) Pty Limited
	WA-351-P		20.00	BHP Billiton Petroleum Pty Limited
	L14	Jingemia	0.25	Origin Energy Developments Pty Ltd
	WA-381-P		20.00	Roc Oil (WA) Pty Limited
	WA-382-P		20.00	Roc Oil (WA) Pty Limited
	VIC/L26	Basker Manta Gummy	40.00	Anzon Australia Limited
	VIC/L27	Basker Manta Gummy	40.00	Anzon Australia Limited
	VIC/L28	Basker Manta Gummy	40.00	Anzon Australia Limited
	VIC/P49		20.00	Nexus Energy Australia NL
New Zealand	PEP38259		15.00	AWE (New Zealand) Pty Ltd
Equatorial Guinea	H/15 and H/16		37.5	Roc Oil (Equatorial Guinea) Company (Technical Operator)
Mauritania	Area A	Banda	4.16	PC Mauritania I Pty Ltd
	Area B	Chinguetti, Tiof, Tiof West, Tevét	3.69/3.25(1)	PC Mauritania I Pty Ltd
	Area C Block 2		5.49	Tullow Mauritania Limited
	Area C Block 6		5.00	PC Mauritania I Pty Ltd
	Block 1		2.00	Dana Petroleum (E&P) Limited
	Block 7	Pelican	4.95	Dana Petroleum (E&P) Limited
	Block 8		5.00(4)	Dana Petroleum (E&P) Limited
Mozambique Channel	Belo Profond (Madagascar)		75.00	Roc Oil (Madagascar) Pty Limited
	Juan de Nova Maritime Profond (France		75.00	Roc Oil Company Limited
Angola	Cabinda South Block		60.00	Roc Oil (Cabinda) Company
China	Beibu Gulf Block 22/12	Wei 6-12, Wei 12-8	40.00	Roc Oil (China) Company
	Zhao Dong Block	C and D Fields, C4 Field	24.50/11.58(2)	Roc Oil (Bohai) Company
Onshore UK	PEDL030	Cloughton	100.00	Roc Oil (GB) Limited
UK North Sea	P111 (Block 30/3a Upper)	Blane	15.24/12.50(3)	Talisman Energy (UK) Limited
	P219 (Block 16/13a & e)	Enoch, J1	15.00/12.00(3)	Talisman North Sea Limited

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

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

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

(4) Relinquished in January 2009.

Shareholder Information

1. Ordinary Share Capital

As at 13 March 2009, the Company had on issue 588,031,673 fully paid ordinary shares held by 24,770 shareholders.

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

2. Options

As at 13 March 2009, the Company had the following unquoted options: 5,596,100 options under the Employee Share Option Plan held by 129 optionholders and 12,290,900 options under the Executive Share Option Plan held by 54 optionholders.

During the year ended 31 December 2008:

- 67,500 employee share options and 753,200 executive share options lapsed or were cancelled; and
- nil options issued under the Employee Share Option Plan and 15,000 options under the Executive Option Scheme were exercised.

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

3. Distribution of Share and Option Holders

Holding as at 13 March 2009	Shareholders	Employee Options	Executive Options
1 – 1,000	6,447	–	–
1,001 – 5,000	9,640	26	–
5,001 – 10,000	4,142	17	–
10,001 – 100,000	4,262	73	12
Over 100,000	279	13	42
Total	24,770	129	54
Shareholders holding less than a marketable parcel	1,316	–	–

4. 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	33,854,526	7.07

5. Twenty Largest Shareholders as at 13 March 2009

Shareholder	Number Held	%	Rank
Computershare Clearing Pty Ltd	61,974,609	10.54	1
HSBC Custody Nominees (Australia) Limited	58,738,699	9.99	2
National Nominees Limited	57,041,729	9.70	3
J P Morgan Nominees Australia Limited	47,181,162	8.02	4
Citicorp Nominees Pty Limited	37,695,601	6.41	5
ANZ Nominees Limited	26,803,184	4.56	6
Stilix Services Limited	8,844,000	1.50	7
Leman Engineering Ltd	5,582,445	0.95	8
Rak Petroleum Pcl	5,016,000	0.85	9
HSBC Custody Nominees (Australia) Limited	4,118,123	0.70	10
Lippo Securities Ltd	3,983,000	0.68	11
Cogent Nominees Pty Limited	3,770,655	0.64	12
Mr Steven Joseph Koroknay	2,793,970	0.48	13
Neweconomy Com Au Nominees Pty Limited	2,708,974	0.46	14
Victoria Park Investments Pty Limited	2,640,000	0.45	15
Queensland Investment Corporation	2,532,772	0.43	16
Merrill Lynch (Australia) Nominees Pty Limited	2,217,850	0.38	17
Anzon Australia Ltd	1,683,235	0.29	18
Australian Reward Investment Alliance	1,657,050	0.28	19
Citicorp Nominees Pty Ltd	1,585,641	0.27	20
	338,568,699	57.58	

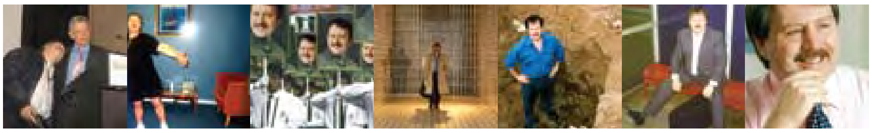
Glossary and Definitions

AUD/A$ or **cents**	Australian currency.
A-IFRS	Australian equivalents to International Financial Reporting Standards.
AIM	Alternative Investment Market of the London Stock Exchange.
API	The American Petroleum Institute unit of measurement that denotes how heavy or light (the gravity) a petroleum liquid is compared to water - the lower the API number the heavier the oil.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
AEL	Anzon Energy Limited
AZA	Anzon Australia Limited
BBL(s)	Barrel(s), oil barrel is equivalent to 0.159 cubic metres.
BCF	One billion cubic feet of natural gas.
BOE	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time.
BOEPD	Barrel of oil equivalent per day.
BOPD	Barrel of oil per day inclusive of NGLs.
CNOOC	China National Offshore Oil Corporation.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
EBITDAX	Earnings before interest, taxes, depreciation, depletion and amortisation, and exploration expenses.
FPSO	Floating production, storage and offloading vessel.
GST	Goods and services tax.
km	Kilometres.
m	Metre.
MCF	One thousand cubic feet of natural gas.
MM	Millions.
MMBBL/MMBO	One million barrels of oil.
MMBOE	One million barrels of oil equivalent.
MMBOOIP	One million barrels of oil originally in place.
MMBOPD	One million barrels of oil per day inclusive of NGLs.
MMSCFD	One million standard cubic feet of natural gas per day.
NGL	Natural gas liquid.
pound or **£**	UK pounds.
probable reserves	Probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not. Note that probable reserves have not been risked.
proved reserves	Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions. Current economic conditions include prices and costs prevailing at the time of the estimate. Proved reserves may be developed or undeveloped.
PSA	Production sharing agreement.
PSC	Production sharing contract.
ROC	Roc Oil Company Limited.
sq km	Square kilometres.
TCF	One trillion cubic feet of natural gas.
UK	United Kingdom.
USD/US$	United States dollars.
2C	Best estimate scenario of Contingent Resources.
2D	Two dimensional.
3D	Three dimensional.
4D	Four dimensional.
2P	Proved and probable reserves.
3P	The sum of proved plus probable plus possible reserves. Possible reserves are those additional reserves which analysis of geoscience and engineering date indicate are less likely to be recoverable than probable reserves.

Notes

Dr John Doran 1946–2008

>



John and I first met in 1980, when he and his young family arrived in Sydney from Norway.

In Norway, he was sent a postcard of Sydney and it was off the back of this sparkling image that he and his family moved to Australia. Upon arriving in Sydney, he worked for the Connolly brothers, as Exploration Manager at Sydney Oil Company.

I was on the Board of Sydney Oil Company and our company, NOMECo, was involved in drilling activities with them. It didn't take me long to realise that John had a unique ability to lead others and have them want to work with him – an ability I have not seen matched since.

Our working relationship kicked up a gear when John was about to accept a high-profile job with a large oil company in Sydney, quite a tribute for someone aged 38. However, as fate would have it, I arrived in his office just as he was about to accept and told him that NOMECo's representative was leaving and had to be replaced.

NOMECo was a poor-boy operation in a one-man office above the Gallipoli Club. The next morning at 6:30 my phone rang and John's exact words were:"To heck with the prestige, I'd rather work for you". That fortuitous moment changed both our lives for the better.

John took our one-man show and turned it into a joint venture, which later went public and sold in 1996 for A$377 million. John then improved my life some more. He called one day and said he wanted me to join him, Andrew Love, Will Jephcott and Ross Dobinson and start Roc Oil Company. I was so delighted I didn't even ask what my role would be.

John was the best communicator I've known. He took ROC from a single employee to over 200 employees marked by a truly international mix of diverse ethnic backgrounds. John made ROC the employer of choice in our industry – he attracted good people who genuinely wanted to work for him.

John was very demanding, but no one minded because he worked tirelessly and set the example. His communicative personality kept everyone informed, and he was constantly available on his cell phone at all hours. He returned the shareholders' calls personally.

I recall, at a recent AGM, a stockholder from Queensland saying how pleased he was to get a call from John at 10pm, returning his call from earlier in the day.

It's difficult to describe John.

He was charismatic, inspirational, a selfless man and so much more.

Anyone fortunate enough to cross paths with John never forgot him. Those who didn't really know him felt as though they did, so infectious was his charisma, charm and good humour.

He touched people's lives around the world, most certainly mine. He was like a brother. John hugged me in a lot of airports and I was totally comfortable with it.

John had a joy for life that was truly contagious and also, a deep love for his family.

Despite his incredible success and commitment to ROC, John always had time for his family.

I'm truly thankful he included me in that circle. Dolores, Gareth, Siobhan, her husband Daley and their son Felix are wonderful people who will carry on John's traditions and honour his deep appreciation for life and self-made happiness.

Dick Burgess
ROC Director 1997–2007

Directory

>

BOARD OF DIRECTORS

Mr Andrew J Love – Chairman

Mr William G Jephcott – Deputy Chairman

Mr Bruce F Clement – Chief Executive Officer and Executive Director

Mr Sidney J Jansma Jr – Director

Mr Dennis Paterson – Executive Director

Mr Robert C A Leon – Director

ADVISOR TO THE BOARD

Mr Richard J Burgess

COMPANY SECRETARY

Ms Sheree Ford

ASSISTANT COMPANY SECRETARY

Ms Leanne Nolan

SENIOR MANAGEMENT AND KEY PERSONNEL

Mr Renato Azevedo, General Manager – Angola

Mr Bruce Clement, Chief Executive Officer and Executive Director

Mr Simon Daniel, Manager – Production and Development – Australia

Ms Sheree Ford, General Counsel and Company Secretary

Mr Olivier Gentizon, Equatorial Guinea/ Madagascar Representative

Mr Matthew Gerber, Manager – Investor Relations and External Affairs

Mr Alan Linn, Chief Operating Officer

Mr John Mebberson, General Manager – Exploration

Mr Ron Morris, General Manager – Beibu Operations

Mr Anthony Neilson, Chief Financial Officer

Mr Dennis Paterson, President – Roc Oil (China) Company and Executive Director

Mr Neil Seage, Chief Reservoir and Planning Engineer

AUSTRALIA

Sydney

Roc Oil Company Limited
Level 14, 1 Market Street
Sydney NSW 2000
Australia
Tel: +61 2 8023 2000
Fax: +61 2 8023 2222

Perth

Roc Oil (WA) Pty Limited
Level 2, 201 Adelaide Terrace
East Perth WA 6004
Australia
Tel: +61 8 9219 7111
Fax: +61 8 9219 7199

Dongara

Arrowsmith Stabilisation Plant
27753 Brand Highway
Arrowsmith WA 6525
Australia
Tel: +61 8 9955 9111
Fax: +61 8 9955 9110

EQUATORIAL GUINEA

Roc Oil (Equatorial Guinea) Company
Caracolas, Malabo
Equatorial Guinea
Tel: +240 096 333
Fax: +240 096 170

MADAGASCAR

Roc Oil (Madagascar) Pty Limited
Immeuble ASSIST – 4eme etage
B.P. 12057
Ivandry
Antananarivo 101
Madagascar
Tel: +261 20 22 433 65 / 66
Fax: +261 20 22 433 62

CHINA

Beijing

Roc Oil (Bohai) Company
Suite 2302-2312 Silver Tower
2 Dongsanhuan North Road
Chaoyang District
Beijing 100027
PR China
Tel: +86 106 410 7988
Fax: +86 106 410 7989

Shenzen

Roc Oil (China) Company
11th Floor
Coastal City Building East
Hai De San Dao
Nanshan District
Shenzen 518009
PR China
Tel: +86 755 8627 1045
Fax: +86 755 8627 1046

ANGOLA

Luanda

Roc Oil (Cabinda) Company
Rua Murtala Mohamed
frente ao Bar Miami Beach
Ilha de Luanda
Angola
Tel: +244 222 309 302
Fax: +244 222 309 219

Cabinda

Roc Oil (Cabinda) Company
1&2 Floor BCI Building, Macau Street
Cabinda Province
Angola
Tel: +244 231 220 972
Fax: +244 231 220 976

REGISTERED OFFICE

Level 14, 1 Market Street
Sydney NSW 2000
Australia

SHARE REGISTRAR

Australia

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Australia

UK

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
England

STOCK EXCHANGES

ASX Limited
20 Bridge Street
Sydney NSW 2000
Australia
ASX code: ROC

Alternative Investment Market ('AIM') of the London Stock Exchange
10 Paternoster Square
London EC4M 7LS
England
AIM code: ROC

AIM NOMINATED ADVISOR AND BROKER

Oriel Securities Limited
125 Wood Street
London EC2V 7AN
England
Tel: +44 207 710 7600
Fax: +44 207 710 7609

WEBSITE

www.rocoil.com.au