



**Directors' Report and Financial Report
for the Financial Half Year Ended 30 June 2004**

ROC OIL COMPANY LIMITED

ABN 32 075 965 856

DIRECTORS' REPORT

The Directors of Roc Oil Company Limited ("ROC" or the "Company") have pleasure in submitting the financial report and Directors' Report for the financial half year ended 30 June 2004. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of the Directors of the Company during or since the end of the financial half year are:

Mr Andrew J Love (Non-Executive Director, Chairman)

Mr William G Jephcott (Non-Executive Director, Deputy Chairman)

Dr R John P Doran (Executive Director and Chief Executive Officer)

Mr Richard J Burgess (Non-Executive Director)

Mr Ross Dobinson (Non-Executive Director)

Mr Sidney J Jansma Jr (Non-Executive Director)

Mr Adam C Jolliffe (Non-Executive Director).

All directors held office for the whole financial half year.

Review and Results of Operations

The principal activities of the consolidated entity during the financial half year were oil and gas exploration, development and production.

A review of the consolidated entity's operations during the financial half year and the results of those operations are included in the half year financial report on pages 2 to 5.

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 financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

This Directors' Report is made in accordance with a resolution of the Board of Directors made on 26 August 2004.

On behalf of the Directors:



Mr A J Love

Chairman

Sydney, 26 August 2004

DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

This discussion and analysis is provided to assist readers in understanding the half year financial report.

Key Points

The consolidated entity recorded a net loss after income tax expense of \$15.1 million (compared with a net profit after income tax expense of \$0.9 million for the corresponding prior financial half year). The result included net foreign currency gains of \$1.0 million, exploration expenditure expensed and written off of \$20.4 million and an income tax credit of \$1.9 million on a loss before tax of \$17.0 million.

At 30 June 2004, the consolidated entity was in a sound financial position with net cash assets of \$99 million, after accounting for cash assets of \$120 million and interest bearing liabilities of \$21 million.

The \$8.1 million cash flow from operating activities for the financial half year represented a decrease of 65% over the corresponding prior financial half year primarily as a result of reduced gas production from the Saltfleetby Gas Field due to operational problems at the Theddlethorpe Gas Processing Terminal and the subsequent loss of production from two wells in the field. At the end of the period preparation work was in progress for workover and drilling activity at Saltfleetby in the second half of 2004 aimed at increasing production from the field.

Total production for the financial half year was 559,065 BOE (3,072 BOEPD). Gas production from the Saltfleetby Gas Field was 3.0 BCF of gas or 16.5 MMSCFD, significantly below the prior corresponding financial half year production of 5.1 BCF of gas or 28.3 MMSCFD.

The average price received from Saltfleetby (including hedging) was \$5.92 per MCF compared with \$5.85 per MCF in the corresponding financial half year. During the financial half year, approximately 55% of gas was sold under the contract with Innogy plc ("Innogy"), with the remainder sold to Innogy under spot and forward contracts. During the financial half year, the contract sales price for Saltfleetby gas was renegotiated with Innogy and the new gas price agreed for the year from 1 October 2004 to 30 September 2005 represented an increase of approximately 18% on the existing contract gas price.

Sales revenue for the financial half year was \$19.0 million, with the majority received from the Saltfleetby Gas Field gas and condensate sales. Sales revenue was down from the \$31.9 million in the corresponding prior financial half year as a result of lower sales volumes and a stronger AUD/GBP foreign exchange rate, partially offset by higher realised prices from the Saltfleetby Gas Field.

During the financial half year, ROC completed a fully underwritten 3 for 5 renounceable rights issue, which raised gross proceeds of \$92.3 million. The proceeds from the rights issue are planned to be used to fund the Company's proposed development activities in Mauritania and Australia, as well as exploration and appraisal activities in China, West Africa, Australia and the UK.

In Mauritania, on 28 May 2004 the Mauritanian Government granted an Exclusive Exploitation Authorisation for 25 years over the Chinguetti Oil Field and the Woodside-operated PSC B Joint Venture approved the development of the field with an expected

gross capital cost in the order of US\$600 million. ROC holds a 3.693% interest in the field and first oil is expected by the first quarter 2006.

Acquisition of a 2,000 sq km 3D seismic survey over the Tanit area, west of the Tiof/Tiof West discovery, in PSC Area B, was completed after 30 June 2004 in preparation for the planned drilling campaign.

During 2003, ROC secured options to increase its interest in Blocks 7 and 8 offshore Mauritania from 2% to 5.5% and from 2% to 5% respectively. ROC exercised the Block 7 option on 19 January 2004. ROC's equity in these blocks may be reduced by up to 0.55% under the terms of an option agreement between the Joint Venture and Woodside Petroleum Limited.

During the financial half year, ROC, participated in the drilling of one exploration (Wei 12-7-1) and two appraisal wells (Wei 12-8-3 and Wei 12-3-4) in Block 22/12, Beibu Gulf, offshore China. The Wei 12-8-3 appraisal well was drilled on the Wei 12-8-1 discovery. This appraisal well encountered a gross 11 metre oil column, all of which is net oil pay. However, the results of the well showed the oil to be highly viscous and technical work is being undertaken to evaluate the potential development of the field. The Wei 12-7-1 exploration well and the 12-3-4 appraisal wells were plugged and abandoned as dry holes.

In the offshore Perth Basin, Western Australia, front end engineering and design work on the Cliff Head Oil Field was in progress at the end of the period. ROC holds a 37.5% interest in the field and is operator for the Joint Venture. Marketing, environmental studies, 3D seismic acquisition and interpretation and reservoir engineering were undertaken during the period. A final investment decision for the project is expected to be made in the fourth quarter of 2004.

On 11 March 2004 ROC exercised its option to acquire a 7.5% interest in WA-226-P in consideration for the payment of \$200,000 to Norwest Energy NL. ROC will participate in the Fiddich-1 exploration well, which is expected to be drilled in the fourth quarter of 2004.

Extended production testing on the Jingemia-1 well, in the Jingemia Oil Field, EP-413, Perth Basin, (ROC: 0.25%) was completed during the half-year. The well was completed and shut-in as a future production well. On 28 June 2004 the WA Department of Industry and Resources granted a 21 year Production Licence over the Jingemia Field.

On 6 January 2004 the offshore Perth Basin permit WA-349-P was awarded to Voyager PB Limited for a six year term and ROC subsequently exercised an option to acquire a 50% interest in and operatorship of the permit.

On 4 February 2004, the Government of New Zealand, awarded ROC a 40% interest in PEP38767 in the onshore Taranaki Basin in the North Island of New Zealand.

In Equatorial Guinea (ROC: 15%), ROC as technical manager for the Block H15/16 Joint Venture, drilled the Bravo-1 exploration well in 1500 metres of water. The well was plugged and abandoned as a dry hole. Prior to drilling the well, on 6 June 2004, ROC farmed out 20% of its interest in the block to Pioneer Natural Resources Company and was carried through the well.

On 25 June 2004 ROC entered into an agreement to acquire an additional 20% interest in the Cabinda South Block, onshore Angola, from Force Petroleum Limited, for consideration of US\$0.166 million, subject to Angolan government approval.

In the United Kingdom, the Old Hill exploration well was plugged and abandoned as a dry well during the half year.

Consolidated Statement of Financial Performance

The consolidated entity recorded a net loss after income tax expense of \$15.1 million for the financial half year, from a trading profit of \$7.3 million, a loss before tax of \$17.0 million and income tax credit of \$1.9 million.

The trading profit of \$7.3 million was achieved from sales revenue of \$19.0 million. Operating costs totalled \$11.7 million for the financial half year, comprising production costs of \$6.4 million and amortisation and restoration expenses of \$5.3 million.

A summary of the key items contributing to the result is provided as follows:

	30 June 2004 \$ million	30 June 2003 \$ million
Sales revenue	19.0	31.9
Trading profit	7.3	17.3
Sundry income	–	0.3
Net interest income	0.7	0.5
Net foreign currency gains (losses)	1.0	(3.5)
Exploration expenditure expensed	(4.9)	(4.7)
Exploration expenditure written off	(15.5)	(0.3)
Profit on sale of non-core UK assets	–	0.3
Other (including administration costs and other provisions)	(5.6)	(5.3)
(Loss) Profit before Income Tax Expense	(17.0)	4.6
Income tax credit (expense)	1.8	(6.2)
Provision for income tax no longer required	–	1.5
Provision for deferred income tax no longer required	–	1.0
Reduction in capital gains tax on non-core UK asset sales	0.1	–
Total Income Tax Credit (Expense)	1.9	(3.7)
Net (Loss) Profit after Income Tax Expense	(15.1)	0.9

A net foreign currency gain before income tax expense of \$1.0 million was recorded, which was primarily attributable to net foreign currency gains of \$1.2 million on foreign currency

cash assets, receivables and payables. A further foreign currency gain of \$0.2 million on the revaluation of the US\$ syndicated bank loan in the UK resulting from the favourable movement in the British pound against the United States dollar (from £1:US\$1.7810 as at 31 December 2003 to £1:US\$1.8058 as at 30 June 2004) was offset by hedging losses of \$0.4 million in relation to this loan.

Exploration expenditure expensed primarily related to expenditure incurred on unsuccessful exploration and appraisal wells drilled in the UK (Old Hills - \$1.4 million) and China (Wei 12-7-1 and Wei 12-3-4 - \$2.4 million) as well as expenditure in Angola (\$0.5 million) where the PSA was not yet triggered.

Exploration expenditure written off comprises capitalised expenditure in the Humber Basin for licences in which no further exploration activity is anticipated (\$15.0 million) and expenditure in China which related to the dry holes at Wei 12-7-1 and Wei 12-3-4 (\$0.5 million).

Income tax (credit) expense relates exclusively to income tax on UK operations. Whilst the trading profit generated in the UK is subject to UK income tax (30% UK Corporation Tax plus the supplementary tax of 10% on UK oil company profits), the majority of other costs, provisions and write offs (other than UK related write offs) included in the statement of financial performance are not immediately tax deductible as they were incurred in, or relate to, jurisdictions other than the UK, where the consolidated entity has no income against which to offset the expenditure.

Exploration expensed and written off in the UK has given rise to a release in deferred income tax liability of \$3.9 million. However, part of the write off includes \$6.4 million related to uplift in asset values on acquisition and therefore no deferred income tax liability is released on the write off of those costs.

The loss after income tax expense of \$15.1 million was impacted by a number of one-off items which were recorded during the financial half year. Following is a calculation of an adjusted profit after income tax expense, after removing the effect of these one-off items.

	30 June 2004 \$ million	30 June 2003 \$ million
Net (Loss) Profit after Income Tax Expense	(15.1)	0.9
Adjusted for after tax effect of:		
Net foreign currency (gains) losses	(1.1)	3.7
Exploration expenditure expensed and written off	16.4	4.4
Provision for income tax no longer required	–	(1.5)
Provision for deferred income tax no longer required	–	(1.0)
Reduction in capital gains tax on non-core UK asset sales	(0.1)	–
Adjusted Profit after Income Tax Expense	0.1	6.5

DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

During the financial half year, total assets increased from \$245 million to \$331 million, total liabilities increased from \$71 million to \$77 million and total equity increased from \$174 million to \$254 million. In addition to the changes resulting from production operations, the major net changes in the statement of financial position resulted from an increase in cash following a 3 for 5 renounceable rights issue that raised gross proceeds of \$92.3 million, development and exploration expenditure and foreign currency movements.

Current assets at 30 June 2004 include a receivable of US\$9.1 million in relation to ROC's farmout of a 20% interest in Equatorial Guinea.

Exploration expenditure of \$12.4 million was incurred during the financial half year, with major expenditure in the following areas of interest:

- China (\$5.2 million), the consolidated entity participated in the drilling of the Wei 12-7-1 exploration well and the Wei 12-8-3 and Wei 12-3-4 appraisal wells. Technical analysis of possible development scenarios continued to the end of the half-year;
- Perth Basin (\$2.0 million), the consolidated entity completed the Front End Engineering Design of the Cliff Head Oil Field with final documentation in progress. Marketing and environmental studies, 3D seismic interpretation, and reservoir engineering modelling was also in progress at the end of the half-year. Other Perth Basin activity related to processing and interpretation of seismic and aeromagnetic data previously acquired along with well and seismic planning activities;
- Mauritania (\$1.7 million), the consolidated entities share of costs primarily related to development studies on the Chinguetti Oil Field and the Tanit 3D seismic costs;
- The United Kingdom (\$2.4 million), the consolidated entity drilled the Old Hills exploration well and undertook technical studies and preparation work for a drilling programme planned for the second half of the year;
- Angola (\$0.5 million), the consolidated entity continued a review of the technical database of the South Cabinda Block in preparation for commencement of ground operations.

Additions to development expenditure of \$0.7 million were incurred during the financial half year in the UK. This expenditure relates primarily to final Saltfleetby-7 well costs at the Saltfleetby Gas Field.

Following the approval of the development of the Chinguetti Oil Field \$7.9 million of capitalised exploration costs were transferred to development as at 30 June 2004.

The following production and development areas of interest were capitalised as at 30 June 2004:

	30 June 2004 \$ million	31 December 2003 \$ million
Saltfleetby	63.0	61.3
Chinguetti	7.9	–
Blane	3.8	3.5
Enoch	2.8	2.5
J1	1.4	1.3
TOTAL	78.9	68.6

The following exploration areas of interest were capitalised as at 30 June 2004:

	30 June 2004 \$ million	31 December 2003 \$ million
United Kingdom	19.1	30.2
Perth Basin	28.9	26.9
Equatorial Guinea	22.8	22.5
Mauritania	21.4	27.2
China	10.3	8.0
New Zealand	0.1	–
TOTAL	102.6	114.8

Interest bearing liabilities of \$21.0 million as at 30 June 2004 relates to the US\$ syndicated bank loan in the UK (US\$13.6 million) which is secured against the UK assets and a \$1.2 million lease incentive. This loan was repaid in full on 30 July 2004.

The market capitalisation of the Company was \$269.1 million as at 30 June 2004, based on the financial half year end closing market price of \$1.53 per fully paid ordinary share and 175,907,503 fully paid ordinary shares on issue.

Consolidated Statement of Cash Flows

Cash flow from operating activities was \$8.1 million. The major cash flows from operating activities included gross receipts from the sale of oil, NGLs and gas in the UK of \$25.3 million and payments to suppliers and employees of \$11.9 million.

Cash assets increased by \$78.3 million over the financial half year and as at 30 June 2004 the consolidated entity held a cash and short term deposit balance of \$120 million.

The consolidated entity's cash flow was primarily used to fund exploration and development activities.

Net cash used in investing activities was \$20.3 million. The major investments during the financial half year were the payments for exploration expenditure (\$18.0 million), payments for development expenditure (\$3.2 million) and plant and equipment (\$2.6 million), offset by receipts from sale of UK assets (\$3.9 million) and receipt of a lease incentive (\$1.3 million).

Consolidated Statement of Cash Flows *(continued)*

Net cash provided by financing activities was represented by net proceeds raised in the 3 for 5 renounceable rights issue of \$88.0 million during the financial half year.

Financial Ratios

Basic earnings per share for the financial half year were (10.2) cents, based on a weighted average number of fully paid ordinary shares on issue of 148,616,304.

Cash flow from operating activities for the financial half year was \$8.1 million, or 5.5 cents per share, down \$15.1 million on the prior financial half year.

The debt to equity ratio as at 30 June 2004 was 8%. Based on cash assets of \$120 million and interest bearing liabilities of \$21 million, the consolidated entity held net cash assets of \$99 million as at 30 June 2004.

Hedging

Oil price

As at 30 June 2004, the consolidated entity did not have any oil price hedging in place.

Gas price

The UK subsidiaries of ROC sell gas production from the Saltfleetby Gas Field under a fixed price, take or pay contract with Innogy and as spot and forward market sales into the UK domestic gas market.

The contract with Innogy fixes the contract price for the period to 30 September 2005 and provides the consolidated entity with a gas price hedge over that period. Approximately 55% of the consolidated entity's gas production during the financial half year was sold under the contract at the contract price.

In addition to the Innogy contract, the consolidated entity entered into gas price hedging contracts and forward block contracts for the financial half year for a total volume of 0.4 BCF of gas. The hedging contracts and forward block contracts were settled monthly and receipts under the contracts totalled \$306,596 during the financial half year.

Foreign exchange

The consolidated entity's foreign exchange hedging strategy is to hedge against specific future commitments and identified cash flow exposures. At 30 June 2004, the consolidated entity held a combination of USD in cash (US\$6.5 million) along with a forward contract to purchase USD (US\$7.1 million) which were held against the outstanding balance of the USD syndicated bank loan in the UK (US\$13.6 million).

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF ROC OIL COMPANY LIMITED

Scope

We have reviewed the financial report of Roc Oil Company Limited for the half-year ended 30 June 2004 as set out on pages 7 to 23. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Roc Oil Company Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



J Duivenvoorde
Partner
Chartered Accountants

Sydney, 26 August 2004

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 consolidated entity; and
- (c) 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.

This Directors' Declaration is made in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors:

A handwritten signature in black ink, appearing to read 'A J Love', written over a faint, light-colored rectangular stamp or watermark.

Mr A J Love

Chairman

Sydney, 26 August 2004

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the financial half year ended 30 June 2004

	Note	CONSOLIDATED	
		30 June 2004 \$'000	30 June 2003 \$'000
Revenue from Ordinary Activities			
Revenue from operating activities	2(a)	20,018	33,233
Revenue from non-operating activities	2(a)	148	287
		20,166	33,520
Expenses from ordinary activities	2(b)	(36,889)	(28,455)
Borrowing costs expensed	2(c)	(320)	(471)
(Loss) Profit from Ordinary Activities before Income Tax Expense		(17,043)	4,594
Income tax credit (expense) relating to ordinary activities	3	1,888	(3,683)
Net (Loss) Profit after Income Tax Expense		(15,155)	911
Increase (Decrease) in foreign currency translation reserve arising on translation of foreign self-sustaining controlled operations		7,760	(10,279)
Total Revenue and Expense Adjustments Attributable to Members of Roc Oil Company Limited and Recognised Directly in Equity		7,760	(10,279)
Total Changes in Equity other than Those Resulting from Transactions with Owners as Owners		(7,395)	(9,368)
Basic earnings per share (cents per share)	6	(10.2)	0.8
Diluted earnings per share (cents per share)	6	(10.2)	0.8

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2004

	Note	CONSOLIDATED	
		30 June 2004 \$'000	31 December 2003 \$'000
Current Assets			
Cash assets		119,841	41,553
Inventories		2,850	2,025
Receivables		19,441	13,430
Other financial assets		15	14
Other		1,109	2,019
Total Current Assets		143,256	59,041
Non-Current Assets			
Development expenditure	4	78,893	68,572
Exploration expenditure	5	102,613	114,839
Receivables		1,922	91
Other financial assets		78	103
Inventories		54	78
Property, plant and equipment		4,354	2,198
Total Non-Current Assets		187,914	185,881
Total Assets		331,170	244,922
Current Liabilities			
Payables		22,614	17,948
Interest bearing liabilities		20,131	18,094
Current tax liabilities		6,634	8,558
Provisions		908	637
Total Current Liabilities		50,287	45,237
Non-Current Liabilities			
Interest bearing liabilities		1,022	–
Deferred tax liabilities		21,118	22,143
Deferred income		162	87
Provisions		4,329	3,800
Total Non-Current Liabilities		26,631	26,030
Total Liabilities		76,918	71,267
Net Assets		254,252	173,655
Equity			
Contributed equity		291,184	203,192
Accumulated losses		(52,323)	(37,168)
Reserves		15,391	7,631
Total Parent Entity Interest and Total Equity		254,252	173,655

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial half year ended 30 June 2004

	CONSOLIDATED	
	Inflows (Outflows) 30 June 2004 \$'000	Inflows (Outflows) 30 June 2003 \$'000
Cash Flows from Operating Activities		
Receipts from customers	25,331	39,377
Payments to suppliers and employees	(11,939)	(12,112)
Tariffs and other receipts	26	43
Interest received	939	1,021
Interest paid	(187)	(364)
Bank charges	(79)	(105)
Income taxes paid	(4,118)	(1,045)
Other taxes paid	(1,864)	(3,574)
Net cash provided by operating activities	8,109	23,241
Cash Flows from Investing Activities		
Payment for plant and equipment	(2,550)	(1,025)
Payment for development expenditure	(3,211)	(636)
Payment for exploration expenditure	(18,019)	(14,413)
Payment for development studies	(117)	(327)
Payment for operated joint venture exploration expenditure	(3,431)	(5,636)
Reimbursement from operated joint venture operations	3,849	2,646
Amounts paid to associate company	(396)	–
Amounts received from associate company	416	–
Payment for materials inventory	(763)	(282)
Proceeds from sale of non-core onshore UK assets	3,897	–
Proceeds from disposal of other non-current assets	11	27
Payment for security deposits on operating leases and production storage facility	(1,678)	(2)
Loan repayment from other entities	410	–
Office fitout lease incentive	1,263	–
Payment for unlisted shares	–	(198)
Net cash used in investing activities	(20,319)	(19,846)
Cash Flows from Financing Activities		
Proceeds from share issues (gross)	92,414	–
Share issue expenses	(4,423)	–
Bank loan repayments	–	(6,401)
Net cash provided by (used in) financing activities	87,991	(6,401)
Net Increase (Decrease) in Cash Held	75,781	(3,006)
Cash at Beginning of Financial Period	41,553	81,538
Effect of exchange rate changes on the balance of cash held in foreign currencies	2,507	(7,328)
Cash at End of Financial Period	119,841	71,204

The accompanying notes form an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

Note 1. Statement of Accounting Policies

The principal accounting policies adopted by ROC and its controlled entities are stated below to assist in a general understanding of the half year financial report. The half year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB1029 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2003 Annual Financial Report.

(a) Historical cost

Unless otherwise stated in the notes to the financial statements, the financial statements have been prepared in accordance with the historical cost convention and do not take into account changing money values.

(b) Consolidation

The consolidated financial statements have been prepared by combining the financial statements of all entities that comprise the consolidated entity, being ROC ('parent entity') and its controlled entities as defined by AASB1024 'Consolidated Accounts'. 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 consolidated entity are eliminated in full.

(c) Sales

Sales are recognised in the financial period during which hydrocarbons are produced, provided 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 ('GST') or value added taxes, in respect of sales to purchasers.

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

(d) Income tax

Income tax has been brought to account using the liability method of tax effect accounting. The income tax expense or credit shown in the statement of financial performance is represented by the tax on accounting profit or loss after allowing for permanent differences between accounting profit or loss and taxable income or tax loss.

The tax effect of unrecouped exploration expenditure and timing differences, which occur when items are included or allowed for income tax purposes in a different financial period than for accounting purposes, is retained in the deferred income tax

liability and future income tax benefit accounts calculated at the tax rates expected to be applied when the expenditure is recouped and/or the differences reverse.

Future income tax benefits relating to timing differences and tax losses are only brought to account where realisation of the benefit can be regarded as being assured beyond reasonable doubt and, for tax losses, when their realisation is virtually certain.

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes mandatory and elective elements, is applicable to Roc Oil Company Limited.

Those entities within the consolidated entity that are wholly-owned Australian resident entities will be taxed as a single entity from 1 January 2004. The adoption of the tax consolidation system has not yet been formally notified to the Australian Taxation Office. The head entity within the consolidated group for the purposes of the tax consolidation system is Roc Oil Company Limited.

There is no financial effect in respect of the implementation of the elective elements of the tax consolidation system on Roc Oil Company Limited.

(e) Foreign currencies

Transactions denominated in foreign currencies have been brought to account at the exchange rates ruling at the time of the transactions. At balance date, foreign currency receivables and payables are converted to Australian currency at exchange rates ruling at balance date.

Exchange differences are brought to account in the statement of financial performance in the financial period in which they arise.

Financial statements of foreign self-sustaining controlled operations are translated into Australian currency using the current rate method, whereby assets and liabilities are translated at rates of exchange current at balance date. Profit and loss accounts are translated at a weighted average rate of exchange. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Financial statements of foreign integrated controlled entity operations are translated at balance date using the temporal method and resulting exchange differences are brought to account by entries made directly to the statement of financial performance in the financial period in which the exchange rate changes.

(f) Acquisitions

Where assets including oil and gas reserves are acquired from a third party, the cost of acquiring those assets (being the fair value) is included in the statement of financial position as development expenditure, exploration expenditure, other assets and liabilities.

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined at the date of acquisition plus costs incidental to the acquisition.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

Note 1. Statement of Accounting Policies

(continued)

In the event that settlement of all or part of the cash consideration given in the acquisition is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value at the date of acquisition.

(g) Exploration and development expenditure

The consolidated entity adopts the area of interest method whereby all exploration and evaluation expenditure is charged against the statement of financial performance as incurred, except in the case of areas of interest where rights to tenure are current and where:

- (i) the carrying amount is expected to be recouped through the successful development and exploitation of the area or by farming out or selling all or part of the consolidated entity's interest; or
- (ii) at balance date, exploration and evaluation activities in, or in relation to, the area of interest have not reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant exploration activity for the area is continuing.

In these cases, the expenditure is capitalised.

When an area of interest is abandoned or if the Directors consider the expenditure to be of reduced or no further value, capitalised exploration expenditure is written down or written off in the financial period in which such a decision is made.

Proceeds on sale or farm-out of an area within an exploration area of interest are offset against the carrying value of the particular area involved. Where the total carrying value of an area has been recouped in this manner, the balance of farm-out proceeds is brought to account as non-operating activities revenue.

Where it is established that economically recoverable reserves exist in a particular area of interest, the carrying amount attributable to that area is classified as a development and production interest. 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 in each area of interest, on a unit-of-production basis. Subject to the Directors' satisfaction that economically recoverable reserves exist and where commercial production has not yet commenced, costs incurred in an area in relation to those reserves are accumulated and amortised when commercial operations begin.

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

Costs of borrowing for major development projects are capitalised in accordance with AASB1036 'Borrowing Costs' until the commencement of production and are then amortised over the life of the field on a unit-of-production basis.

(h) Property, plant and equipment

Depreciation is provided on property, 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 consolidated entity.

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

- Plant and equipment 2 – 10 years;
- Motor vehicles under finance leases 2 – 5 years; and
- Leasehold improvements Term of the respective operating leases.

Depreciation of onshore facilities is calculated using a unit-of-production basis, which will proportionately amortise the assets over the life of the reserves of the area of interest.

Leases of plant and equipment, under which the consolidated entity 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 consolidated entity.

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

(i) 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, restoration 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 and the remainder utilising an average cost basis.

(j) Investments

Investments are carried at cost or, where the Directors believe the carrying amount of an investment is greater than its recoverable amount, then that investment is written down, via a provision, to its recoverable amount.

Investments in associate companies have been accounted for using the equity method in the consolidated financial statements.

(k) Recoverable amount of non-current assets

The statement of financial position categories of development expenditure, exploration expenditure, receivables, other financial assets, materials inventory, property, plant and equipment and deferred tax asset are each considered separate classes of non-current assets.

Exploration expenditure is capitalised and carried forward in accordance with AASB1022 'Accounting for the Extractive Industries' as detailed in Note 1(g) above.

Deferred tax assets are carried forward in accordance with AASB1020 'Accounting for Income Tax (Tax-Effect Accounting)' as detailed in Note 1(d) above.

In accordance with AASB1010 'Recoverable Amount of Non-Current Assets', the carrying value of each asset in each of the non-current classes of assets, except for exploration expenditure, is reviewed by the Directors every six months to determine whether it is in excess of its recoverable amount. Where the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The net cash inflows from the continued use and subsequent disposal of each such asset have been used in determining the recoverable amount of each non-current asset. The relevant cash flows have not been discounted to their present values.

(l) Employee entitlements

Liability to employees for annual leave and long service leave is provided for when it is probable that settlement will be required and they are 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. Provision for annual leave in respect of services provided by employees up to balance date expected to be settled within 12 months, is measured using remuneration levels expected to apply at the time of settlement.

Provision for long service leave which is not expected to be settled within 12 months is measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to balance date.

In accordance with AASB1028 'Employee Benefits', the provision for annual leave is calculated using the remuneration rate expected to apply at the time of settlement, rather than the remuneration rate that applies at balance date.

(m) Provision for restoration

A provision for significant abandonment and restoration is accumulated by charging to the statement of financial performance the expected expenditure to be incurred on cessation of each area of interest. The provision is calculated so that at the end of operations the provision will be adequate to meet net abandonment and restoration costs, including the required removal of facilities, the abandonment of wells and the restoration

of affected areas. Such provision recognises the estimated future abandonment and restoration obligations incrementally over the life of the proved and probable reserves on a unit-of-production basis. Estimates of the future restoration obligation are based on current legal requirements and technology and are determined in current dollars on an undiscounted basis. The adequacy of the provision for abandonment and restoration is reassessed every six months. Changes in cost estimates do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

(n) Joint ventures

Interests in joint venture operations have been reported in the financial statements by including the consolidated entity's share of assets employed in joint venture operations, the share of liabilities incurred in relation to joint venture operations and the share of any expenses incurred in relation to joint venture operations in their respective classification categories.

(o) Financial instruments included in assets

Trade receivables are initially recorded at the amount of contracted sale proceeds. All other receivables are recorded at amounts due. Receivables are recognised inclusive of applicable GST and value added taxes.

The net amount of GST and value added taxes recoverable from the relevant taxation authority is included as part of receivables.

Marketable securities are carried at the lower of cost and net realisable value.

(p) Financial instruments included in liabilities

Borrowings are recorded at their principal amount. Interest is charged as an expense as it accrues at the contracted rate.

Trade payables and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services, whether or not invoiced. Payables are recognised inclusive of applicable GST and value added taxes.

The net amount of GST and value added taxes payable to the relevant taxation authority is included as part of payables.

(q) Financial instruments included in equity

Equity instruments are classified as equity in accordance with the substance of the contractual arrangement.

Contributed equity is recorded at the value of consideration paid. The costs of issuing shares are offset against contributed equity.

(r) Statement of cash flows

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

Cash flows are included in the statement of cash flows on a gross basis.

Cash flows have been allocated among operating, investing and financing activities. These categories appropriately classify the consolidated entity's activities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

	CONSOLIDATED	
	30 June 2004 \$'000	30 June 2003 \$'000
Note 2. Revenue, Expenses and Losses by Function		
Profit (loss) from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance:		
(a) Revenue from Ordinary Activities		
Revenue from operating activities		
Sales revenue		
– Oil	391	364
– NGLs	1,331	2,311
– Gas	17,235	29,216
– EP 413 test oil	29	8
Other revenue	18,986	31,899
Interest income: other entities	–	340
	1,032	994
Total revenue from operating activities	20,018	33,233
Revenue from non-operating activities		
Proceeds on sale of development assets held for sale (refer Note 2(e))	109	261
Proceeds on disposal of inventory	28	–
Proceeds on disposal of other non-current assets	11	26
Total revenue from non-operating activities	148	287
Total Revenue from Ordinary Activities	20,166	33,520
(b) Expenses		
Operating costs (Cost of sales)		
Production costs	6,390	6,049
Amortisation expense	5,103	8,473
Restoration expense	122	61
EP 413 test oil production costs (refer (i) below)	29	8
Total operating costs	11,644	14,591
Depreciation of non-current assets		
Plant and equipment	508	464
Leasehold improvements	65	7
Motor vehicles under finance lease	2	5
Total depreciation of non-current assets	575	476

Note:

- (i) Revenue from sale of test oil production from the well in EP 413 pending a development decision had been credited to sales revenue and an amount based on such revenue had been charged to cost of sales and credited against exploration expenditure expensed, so as to record a zero net margin on such production.

	CONSOLIDATED	
	30 June 2004 \$'000	30 June 2003 \$'000
Note 2. Revenue, Expenses and Losses by Function <i>(continued)</i>		
(b) Expenses <i>(continued)</i>		
Exploration expenditure expensed		
Australia	29	3,374
China	2,390	–
United Kingdom	1,759	1,195
Other	758	149
Transfer of test oil sales revenue to exploration expenditure expensed (refer (i) above)	(29)	(8)
Total exploration expenditure expensed	4,907	4,710
Exploration expenditure written off		
China	459	–
United Kingdom	15,025	306
Total exploration expenditure written off	15,484	306
Operating lease rental expenses	408	321
Transfer to provision: employee entitlements	109	292
Provision for write down on shares in unlisted entity to recoverable amount	34	72
Provision for end of lease office restoration	191	–
Net foreign currency (gains) losses (refer Note 2(d))	(1,047)	3,479
General and administrative costs	4,584	4,208
Total Expenses from Ordinary Activities	36,889	28,455
(c) Borrowing Costs Expensed		
Interest expense – on bank loan	231	369
Other borrowing costs	89	102
Total borrowing costs expensed	320	471
(d) Gains (Losses)		
Net foreign currency gains (losses)		
US\$ syndicated bank loan in the UK	(180)	879
Other (including cash and short term deposits)	1,227	(4,358)
Total net foreign currency gains (losses)	1,047	(3,479)
Profit on sale of development assets held for sale (refer Note 2(e))	62	261
Net profit (loss) on disposal of other non-current assets	(30)	17
(e) Significant Items		
Sale of development assets held for sale (refer (i) below)		
Proceeds on sale	109	261
Cost of development assets sold	47	–
Associated transaction costs	–	–
Profit on sale of development assets held for sale	62	261

Note:

(i) During the year ended 31 December 2003, Roc Oil (UK) Limited entered into an agreement with a third party to sell its interest in Licences P272, P273 and P317, which contained ROC's interest in the undeveloped Etrick Oil and Gas Field. This transaction was completed in the half year ended 30 June 2004 and a working capital adjustment of \$62,000 was received.

(f) Revision of Accounting Estimates

During the financial half year the average amortisation rate was \$9.29 per BOE (30 June 2003: \$9.09 per BOE).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

	CONSOLIDATED	
	30 June 2004 \$'000	30 June 2003 \$'000
Note 3. Income Tax Expense		
The prima facie income tax expense on pre-tax accounting (loss) profit reconciles to income tax expense in the financial statements as follows:		
<i>(Loss) Profit from ordinary activities</i>	(17,043)	4,594
Prima facie income tax (credit) expense calculated as 30% of profit from ordinary activities	(5,113)	1,378
<i>Tax effect of permanent and other differences</i>		
Non-deductible expenses	890	54
Non-deductible amortisation	171	366
Non-deductible exploration write off	1,926	–
Overseas tax rate differential	(410)	1,545
Capital gains tax on sale of UK North Sea assets	99	–
Provision for income tax no longer required	–	(1,503)
Provision for deferred income tax no longer required	(207)	(976)
Other	(87)	(307)
Quarantined expenditure	214	(77)
Timing differences and tax losses not brought to account as a future income tax benefit	629	3,203
Income tax (credit) expense relating to ordinary activities	(1,888)	3,683

	CONSOLIDATED	
	30 June 2004 \$'000	31 December 2003 \$'000
Note 4. Development Expenditure		
<i>Areas in which production has commenced</i>		
Balance at beginning of financial period	114,401	113,801
Expenditure incurred	658	12,144
Net foreign exchange gains (losses) arising on translation of foreign self-sustaining controlled operations	6,126	(11,544)
	121,185	114,401
Accumulated amortisation	(58,171)	(53,074)
	63,014	61,327
<i>Areas in development stage</i>		
Balance at beginning of financial period	7,245	11,721
Expenditure incurred	26	11
Disposals	–	(2,716)
Transfers from exploration	7,856	–
Net foreign exchange gains (losses) arising on translation of foreign self-sustaining controlled operations	752	(1,771)
	15,879	7,245
Balance at end of financial period	78,893	68,572

	CONSOLIDATED	
	30 June 2004 \$'000	31 December 2003 \$'000
Note 5. Exploration Expenditure		
<i>Deferred expenditure in exploration and evaluation stages</i>		
Balance at beginning of financial period	114,839	83,513
Acquisitions	–	17,813
Disposals	–	(106)
Expenditure incurred	7,507	21,702
Expenditure written off	(15,484)	(1,732)
Transfers to development	(7,856)	–
Net foreign exchange gains (losses) arising on translation of foreign self-sustaining controlled operations	3,607	(6,351)
Balance at end of financial period	102,613	114,839

	CONSOLIDATED	
	30 June 2004	30 June 2003
Note 6. Earnings Per Share		
Basic earnings per share (cents per share)	(10.2)	0.8
Diluted earnings per share (cents per share)	(10.2)	0.8
Weighted average number of ordinary shares used in the calculation of basic earnings per share	148,616,304	108,526,056
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (refer note (a))	148,616,304	108,526,056

Note:

- (a) Earnings used for calculation of both basic and diluted earnings per share were net profit after tax for both 30 June 2004 and 30 June 2003 respectively. At 30 June 2004 no options were potential ordinary shares as the consolidated entity had a net loss after tax. As at 30 June 2003 no options were potential ordinary shares as they had an exercise price in excess of market value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

Note 7. Segment Information

Primary Reporting – Geographical Segments

The consolidated entity'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 consolidated entity operates predominantly in one business, namely exploration, development and production of hydrocarbons.

Segment Accounting Policies

Segment accounting policies are the same as the consolidated entity's policies.

Composition of Each Geographical Segment

East Asia comprises areas of interest in China (30 June 2003: China and Mongolia).

West Africa comprises areas of interest in Equatorial Guinea, Mauritania and Angola (30 June 2003: Equatorial Guinea, Mauritania, Angola and Senegal).

Segment Revenue	United Kingdom \$'000	Australia \$'000	East Asia \$'000	West Africa \$'000	Unallocated \$'000	Total \$'000
30 June 2004						
Sales to customers outside the consolidated entity	18,957	29	–	–	–	18,986
Other revenue from entities outside the consolidated entity	137	–	–	–	1,043	1,180
Total segment revenue	19,094	29	–	–	1,043	20,166
30 June 2003						
Sales to customers outside the consolidated entity	31,891	8	–	–	–	31,899
Other revenue from entities outside the consolidated entity	261	271	40	17	1,032	1,621
Total segment revenue	32,152	279	40	17	1,032	33,520

Segment Results	United Kingdom \$'000	Australia \$'000	East Asia \$'000	West Africa \$'000	Unallocated \$'000	Total \$'000
30 June 2004						
Segment Results	(9,417)	(8)	(3,188)	(522)	–	(13,135)
Interest income	–	–	–	–	1,032	1,032
Borrowing costs expensed	–	–	–	–	(320)	(320)
Net foreign currency gains	–	–	–	–	1,047	1,047
Other expenditure (including general and administrative costs)	(20)	–	–	–	(5,647)	(5,667)
Consolidated entity loss from ordinary activities before income tax expense	(9,437)	(8)	(3,188)	(522)	(3,888)	(17,043)
Income tax credit	–	–	–	–	1,888	1,888
Consolidated entity loss from ordinary activities after income tax expense	(9,437)	(8)	(3,188)	(522)	(2,000)	(15,155)
Extraordinary items	–	–	–	–	–	–
Net loss	(9,437)	(8)	(3,188)	(522)	(2,000)	(15,155)

30 June 2003						
Segment Results	16,032	(3,364)	247	(357)	–	12,558
Interest income	–	–	–	–	994	994
Borrowing costs expensed	–	–	–	–	(471)	(471)
Net foreign currency (losses) gains	–	–	–	–	(3,479)	(3,479)
Other expenditure (including general and administrative costs)	–	–	–	–	(5,008)	(5,008)
Consolidated entity profit (loss) from ordinary activities before income tax expense	16,032	(3,364)	247	(357)	(7,964)	4,594
Income tax expense	–	–	–	–	(3,683)	(3,683)
Consolidated entity profit (loss) from ordinary activities after income tax expense	16,032	(3,364)	247	(357)	(11,647)	911
Extraordinary items	–	–	–	–	–	–
Net profit (loss)	16,032	(3,364)	247	(357)	(11,647)	911

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2004

Note 8. Changes in the Composition of the Consolidated Entity

On 30 January 2004, Roc Oil Falklands Limited, acquired 100% of the issued capital of Roc Oil (Chinguetti) B.V. The consideration paid was US\$3.8 million:

	CONSOLIDATED	
	30 June 2004 \$'000	31 December 2003 \$'000
Note 9. Contingent Liabilities		
Under the terms of a production sharing contract to which Roc Oil (Cabinda) Company is a party, a 'signature bonus' of US\$6.0 million is payable to the Angolan Government by the Company upon agreement between the contractor group and the Government that it is appropriate to commence on-the-ground exploration activities in the production sharing agreement area:	8,710	6,000
Roc Oil (Cabinda) Company acquired a 45% interest in the Cabinda South Block from Fina Oil and Gas Cabinda BV, an affiliate of TotalFinaElf ('TFE'). Under the terms of the agreement with TFE, Roc Oil (Cabinda) Company will be liable for a payment of approximately US\$0.7 million once production from the Block commences:	1,005	933
In a related transaction to the acquisition of the 45% interest in the Cabinda South Block from Fina Oil and Gas Cabinda BV, Roc Oil (Cabinda) Company entered into an agreement to pay Calymene Petroleum International Limited \$100,000 on trigger of the Cabinda South production sharing agreement along with certain overriding interest royalties on production:	100	100
Roc Oil (Cabinda) Company acquired the 15% participating interest held via Lacula Oil Company Limited in the Cabinda South Block onshore Angola production sharing agreement during the 2003 financial year. The prime consideration was a cash payment of US\$125,000 at completion. A further payment of US\$100,000 will be made to the vendor if approval is received for the first development plan submitted under the production sharing agreement:	145	133
Under an Option and Purchase Agreement dated 20 June 2003 between Roc Oil (Cabinda) Company and private parties in North America, the private parties have agreed to transfer and convey an overriding royalty attaching to the 15% participating interest held via Lacula Oil Company Limited to Roc Oil (Cabinda) Company upon the payment of US\$100,000 within 14 days of the Cabinda South Block production sharing agreement being triggered and a further US\$250,000 within six months from the date of commercial production under the production sharing agreement:	508	467
Roc Oil (Cabinda) Company entered into an agreement to acquire the 20% participating interest, held by Force Petroleum Limited, in the Cabinda South Block onshore Angola Production Sharing Agreement on 25 June 2004. Payment of US\$166,000 is payable to Force Petroleum Limited upon triggering of the production sharing agreement along with certain net profit interest royalties on production:	241	–
Under the terms of a production sharing contract to which Roc Oil (Equatorial Guinea) Company is a party, a 'discovery bonus' of US\$1.5 million is payable to the Equatorial Guinea Government on declaration of a commercial discovery within the production sharing contract area. Roc Oil (Equatorial Guinea) Company's share is:	871	2,000
Under the terms of the Beibu Block 22/12 Petroleum Contract to which Roc Oil (China) Company is a party, a 'signature bonus' of US\$0.5 million is payable to the China National Offshore Oil Company by the Block 22/12 Joint Venture within 30 days of approval of an Overall Development Plan. ROC's share is therefore US\$200,000:	290	267

Note 9. Contingent Liabilities *(continued)*

	CONSOLIDATED	
	30 June 2004 \$'000	31 December 2003 \$'000
Effective 1 April 2003, Roc Oil (WA) Pty Limited acquired ARC Energy NL's ('ARC') 7.5% interest in WA-286-P. In addition to the initial consideration paid, additional payments up to a maximum of \$3.75 million are payable to ARC subject to certain 2P reserve levels being achieved:	3,750	3,750
Roc Oil (WA) Pty Limited agreed with Norwest Energy NL ('Norwest') to acquire an option over that company's 7.5% working interest in WA-226-P in the Perth Basin, in consideration for funding its share of the Macallan 3D seismic survey and permit fees up to a maximum net cost of \$525,000. Roc Oil (WA) Pty Limited has exercised its option and will pay Norwest a further cash payment of \$200,000 prior to the drilling of the next well in that permit. If a discovery is declared commercial, ROC will make a final payment to Norwest of \$375,000:	575	575
Under a Sale and Purchase Agreement with Conoco (U.K.) Theta Limited, Roc Oil (UK) Limited has a contingent liability to Conoco (UK) Theta Limited to make a payment of up to US\$1.75 million on production of the nine millionth barrel of oil from the Chestnut Oil Field:	2,540	2,333
Pursuant to the Purchase Agreement under which Roc increased its interests in the Mauritanian assets following the Agip pre-emption, ROC may be required to make additional payments of up to US\$568,029. This payment would be triggered in three equal increments upon declaration of commerciality of a new discovery, grant of an Exclusive Exploitation Authorisation (EEA) by the Mauritanian government in relation to that discovery, and through sustained production at a rate of 40,000 BOE per day (gross) over a 30 day period from that EEA:	825	757

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

Note 10. Contingent Assets

	CONSOLIDATED	
	30 June 2004 \$'000	31 December 2003 \$'000
Roc Oil (UK) Limited will receive a £750,000 production payment, subject to the further development of the Chestnut Oil Field, from the purchaser of its interest in that field. No part of the £750,000 production payment has been included in the Statement of Financial Performance at this time, given it is contingent on the development of the Chestnut Oil Field. Roc Oil (UK) Limited will also potentially receive up to US\$1.7 million on production of the nine millionth barrel of oil from the Chestnut Oil Field, increasing up to US\$1.75 million on production of 9.2 million barrels of oil from the Chestnut Oil Field:	4,506	4,114
Roc Oil (UK) Limited will receive a US\$300,000 production payment from EnCana (UK) Limited, subject to commencement of production from the Ettrick Oil Field prior to 1 January 2006:	436	400

DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

Note 11. Impact of Adopting AASB Equivalents to IASB Standards

Roc Oil Company Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of these procedures ROC has assessed the materiality of these assessments and allocated resources accordingly. These assessments are being reported to the Audit Committee which is overseeing the transition.

As ROC has a 31 December year end, an opening IFRS has been prepared in accordance with AASB equivalents to IFRS as at 1 January 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when ROC prepares its first fully IFRS compliant financial report for the year ended 31 December 2005. Set out below are the key areas where accounting policies will change and may have an impact on the financial reports of ROC.

The opening balance sheet must be prepared in accordance with AASB equivalents of IFRS in force at the reporting date, which have been issued by the AASB under their "stable platform" program. As this "stable platform" does not yet cover all the requisite standards, particularly with respect to accounting for exploration and evaluation, the Company is not yet able to reliably quantify the impacts on the financial report.

Accounting for Exploration and Evaluation

No accounting standard exists under IFRS for the extractive industries. The International Accounting Standards Board (IASB) proposal in the area of exploration and evaluation expenditure is likely to have a material impact on the Company's accounting policies. An exposure draft ED 6 "Exploration for and Evaluation of Mineral Resources" was issued during January 2004 by IASB, setting out a limited revision to the relevant existing accounting framework pending the completion of a more wide-ranging review. The IASB is still considering the responses received to the exposure draft, with an international standard not expected to be available before the end of December 2004. As a consequence, the eventual requirements of the resulting international standard remain uncertain at this point in time.

The International Accounting Standards Board has exempted exploration and evaluation activities from the hierarchy of IAS 8 "Net Profit or Loss for the Period, Changes in Fundamental Estimates and Changes in Accounting Policy". It is expected that an extractive industries specific accounting standard will be issued in late 2004. Such a standard may result in significant impairment of exploration assets under the current standard IAS 36 "Impairment of Assets". How impairment testing may apply to exploration and evaluation assets in the future is uncertain. Until an extractive industries standard is released the International Accounting Standards Board is permitting companies to fully grandfather existing national GAAP on accounting for exploration and evaluation. On this basis the Company will continue to apply its AGAAP accounting policy that conforms to AASB 1022 "Accounting for the Extractive Industries".

Impairment of Assets

Roc Oil Company Limited determines the recoverable amount of assets, except exploration expenditure, as the higher of sales value or the undiscounted future cash flows. Under IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined by the higher of "fair value less costs to sell" or "value in use". In determining "value in use" discounted cash flows are calculated using asset specific pre-tax discount rates. Under the new accounting policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Under IAS 36 impairment losses are reversible, except to the extent that they relate to the "unwinding" of the discount in a net present value calculation. This is likely to result in volatility in recognition of both impairment losses and reversals. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Accounting for Income Taxes

Under IAS 12 "Income Taxes" the Company is required to use a balance sheet liability method that focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statements of Financial Position or a tax-based balance sheet. Under IAS 12 a deferred tax assets is only recorded if its realisation is probable. The most significant impact will be the recognition of a deferred tax liability in relation to capitalised exploration and evaluation costs where there is no offsetting recognition of a future income tax benefit because realisation of the future income tax benefit is not probable. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as there is no IFRS that deals with accounting for exploration and evaluation. In addition a deferred income tax liability will be recognised where a book value greater than the tax amortisable value of an asset has been recorded on acquisition of an asset. Previously this uplift in value on acquisition was not recognised.

Accounting for Rehabilitation and Restoration Cost

Under IAS 16 "Property, Plant and Equipment" the estimated costs of dismantling and removing an asset and restoring the site should be included in the cost of the asset to the extent that it is recognised as a provision under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IAS 37 requires the liability, both initially and subsequently, to be measured at the amount required to settle the present obligation at the balance sheet date, reflecting a current market-based discount rate. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the future rehabilitation and restoration obligations are not yet known.

Amortisation

Under IAS 16 "Property, Plant and Equipment" future capital expenditure is not taken into account when calculating amortisation of a production asset. Currently under AASB 1022 "Accounting for the Extractive Industries" future capital expenditure on a production asset is taken into account when calculating amortisation. This change in accounting policy is likely to result in greater volatility in amortisation charges and, where a production assets will require future capital expenditure, result

Note 11. Impact of Adopting AASB Equivalents to IASB Standards *(continued)*

in lower amortisation charges early in the life of the asset and greater amortisation charges later in the life of the asset.

An exposure draft ED 6 "Exploration for and Evaluation of Mineral Resources" had been issued during January 2004 by IASB, which has a scope exemption for IAS 16, which may allow for considering future capital expenditure when calculating amortisation charges for production assets in the extractive industries. The IASB is still considering the responses received to the exposure draft, with an international standard not expected to be available before the end of December 2004. As a consequence, the eventual requirements of the resulting international standard remain uncertain at this point in time.

Classification of Financial Instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will in turn, determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, held to maturity – measured at amortised cost, held for trading – measured at fair value with fair value changes charged to net profit or loss, available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

Hedge Accounting

Under AASB 139 Financial Instruments: Recognition and Measurement in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This will result in a change in the entity's current accounting policy which applies hedge accounting to forward sales of oil and gas which are not recognised until the hedge is settled. Under AASB 139 these hedges will be designated as cash flow hedges and the deferred gain or loss on the hedge will be recognised in equity.

Share Based Payments

Under AASB2 Share Based Payments, The company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of the future equity based remuneration plans are unknown.

Note 12. Subsequent Events

Since the end of June 2004, the following material events have occurred:

Debt Repaid

On 30 July 2004 Roc Oil (UK) Limited repaid in full the outstanding balance of US\$13.6 million (\$20 million) owing to a syndicate of banks led by Halifax Bank of Scotland.

AIM Listing

On 6 August 2004 Roc Oil Company Limited lodged an application for ROC shares to be admitted to trading on the Alternative Investment Market ("AIM"), a market operated by the London Stock Exchange plc in the United Kingdom. The listing will take place during early September 2004 via the "fast track" admission for overseas applicants already listed on certain designated markets, one of which is the Australian Stock Exchange. The listing will not involve the issue of any new ROC shares nor the raising of any fresh capital.

Angola

During August 2004 the Company confirmed with the Angolan government its intention to trigger the Cabinda South Block production sharing agreement. Triggering of the PSA is subject to Angolan government approval.

Equatorial Guinea

Subsequent to year end ROC received a cash payment of US\$8.5 million as partial payment of the Bravo-1 well costs from Pioneer Natural Resources Company pursuant to the Block H15/16 farmout agreement. The well costs were recorded as a current receivable at 30 June 2004.

The financial effect of these events has not been recognised in the financial statements for the financial half year ended 30 June 2004 other than as noted above.

GLOSSARY AND DEFINITIONS

\$ or cents	Australian currency.
Adjusted Profit After Income Tax Expense	Profit (loss) after income tax expense after excluding net foreign currency losses, exploration expenditure expensed and written off and one-off adjustment to income tax provision and deferred income tax liability.
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.
GST	Goods and Services Tax.
Innogy	Innogy plc.
km	Kilometres.
MCF	One thousand cubic feet of natural gas.
MMSCFD	One million standard cubic feet of natural gas per day.
NGLs	Natural gas liquids.
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.
trading profit	Sales revenue net of production costs, amortisation expense and restoration expense.
sq km	Square kilometres.
UK	United Kingdom.
US\$	United States dollars.
3D	Three dimensional.
2P	Proved and probable reserves.