

## **ROC OIL COMPANY LIMITED**

### **30 JUNE 2004 HALF YEAR FINANCIAL STATEMENTS**

#### **RECONCILIATION OF AUSTRALIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The consolidated financial statements of Roc Oil Company Limited are prepared in accordance with generally accepted accounting principles in Australia ("A-GAAP"), which differ in certain material respects from International Financial Reporting Standards ("IFRS").

The directors have considered the material differences between A-GAAP and IFRS in force as at 30 June 2004 as applicable to Roc Oil Company Limited in order to determine whether material adjustments are required to the reviewed financial statements to comply with IFRS.

The directors have provided below a description of the material differences between A-GAAP and IFRS and the impact upon the financial information. It should be noted that this has been prepared solely for information purposes in accordance with the Company's proposed admission to the Alternative Investment Market of the London Stock Exchange. The figures below are unaudited and are not intended to represent the figures that will be presented when the Company transitions to Australian equivalents of IFRS for the half-year ended 30 June 2005.

For the purposes of this reconciliation the transition date to IFRS is 1 January 2002. Roc Oil Company Limited has not applied IAS 22 'Business Combinations' retrospectively to business combinations prior to 1 January 2002.

A description of the material differences between A-GAAP and IFRS and the impact of each of the material adjustments to net profit (loss) after income tax expense and equity for the half year ended 30 June 2004 is set out below.

|  | <b>30 June 2004</b> |
|--|---------------------|
|  | <b>\$'000</b>       |
| Net Profit (Loss) after Income Tax Expense under A-GAAP  | (15,156)            |
| Accounting for Income Taxes                              | <u>(1,249)</u>      |
| Net Profit (Loss) after Income Tax Expense under IFRS    | (13,907)            |
| <br>   |                     |
| Earnings per ordinary share under IFRS (cents per share) | (11.1)              |
| Diluted earnings per share under IFRS (cents per share)  | (11.1)              |
| <br>   |                     |
| Equity reported under A-GAAP                             | 254,252             |
| Accounting for Income Taxes                              | (33,650)            |
| Accounting for Rehabilitation and Restoration Costs      | <u>1,796</u>        |
| Equity under IFRS  | 222,398             |

### *Accounting for Exploration and Evaluation*

No accounting standard currently exists under IFRS for the extractive industries. An exposure draft ED 6 *Exploration for and Evaluation of Mineral Resources* was issued during January 2004 by the International Accounting Standards Board (IASB), setting out a limited revision to the relevant existing accounting framework pending the completion of a more wide-ranging review. It is expected that the interim IFRS standard on extractive industries will not be issued until late 2004.

The IASB proposals in the area of exploration and evaluation expenditure may have a material impact on the Company's accounting policies. The IASB is still considering the responses received to the exposure draft and current indications are that the original proposals will be amended. As a consequence, the eventual requirements of the resulting IFRS standard remain uncertain at this point in time.

It is likely that the IFRS standard will require companies to apply impairment tests to exploration and evaluation assets where there is an indication of impairment. Where an indication of impairment exists, the recoverable amount of the exploration and evaluation assets would be required to be determined and compared to the carrying amount of the assets. IAS 36 *Impairment of Assets* (IAS 36) requires the recoverable amount of an asset to be determined as the higher of its value in use and fair value less cost to sell. If the requirements of IAS 36 were applied without modification, it is possible that a significant impairment of exploration and evaluation assets could result. However, the IASB has recognised the difficulties of applying IAS 36 impairment test to exploration and evaluation assets in the future.

The effect of the IASB's proposals and its subsequent redeliberation of them currently indicate that in the Australian context, existing national GAAP on accounting for exploration and evaluation will be 'grandfathered'. Due to these developments and the continued uncertainty surrounding the final proposals, the company accordingly continues to apply its A-GAAP accounting policy that conforms to AASB 1022 "Accounting for the Extractive Industries". AASB 1022 allows exploration and evaluation costs to be carried forward as exploration and evaluation assets, where rights of tenure are current, as long as:

- (i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) Exploration and evaluation activities in the area of interest have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing

### *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 asset is only recognised if its realisation is probable.

As a result of this treatment at 30 June 2004 an additional deferred tax liability of \$33.7 million (31 December 2003: \$32.4 million) would be recognised. This arises primarily from the recognition of a book carrying value for exploration and evaluation expenditure that has tax base cost of \$nil. A corresponding future income tax benefit is only recognised where its realisation is viewed as probable in respect of the jurisdictions involved. In addition a deferred income tax liability has been recognised on United Kingdom exploration, development and production assets where fair value adjustments recognised when accounting for the business combination have increased the carrying amounts of these assets above their original tax cost in the acquired entity.

#### *Accounting Rehabilitation and Restoration Cost*

Under IAS 16 *Property, Plant and Equipment* the estimated costs of dismantling and removing an asset and restoring an asset 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. As a result of this treatment at 30 June 2004 a net increase in equity of \$1.8 million (31 December 2003: \$1.8 million) would be recognised.