Directors' Report and the Annual Financial Report

CONTENTS

The Directors of Roc Oil Company Limited ('Company' or 'ROC'), a listed Australian public company, have pleasure in submitting the Directors' Report for the financial year ended 31 December 2004.

Directors

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

***Mr Andrew J Love** BCom, FCA, MAICD*
(Non-Executive Director, Chairman), 51 - Appointed 5 February 1997

Mr Love is Chairman of the Board of ROC, a Fellow of The Institute of Chartered Accountants in Australia and a Senior Partner in the firm of Ferrier Hodgson, Chartered Accountants. In the prior three years, Mr Love was a director of Principal Real Estate Investors (Aust) Limited. Mr Love is also a non-executive director of a number of other public companies.

***Mr William G Jephcott** BCom, FCPA, FAICD*
(Non-Executive Director, Deputy Chairman), 54 - 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. Mr Jephcott is currently Vice Chairman, Mergers and Acquisitions, Merrill Lynch International (Australia) Limited and also non-executive Chairman of Mobile Innovations Limited. He was previously a director of Parbury Limited.

***Dr R John P Doran** BSc, MSc, PhD, FAICD*
(Executive Director and Chief Executive Officer), 58 - Appointed 14 October 1996

Dr Doran is Chief Executive Officer and a founder Director of ROC. He has 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, South and East Asia, West Africa and Australia.

***Mr Richard J Burgess** BSc*
(Non-Executive Director), 73 - Appointed 27 May 1997

Mr Burgess is a geologist by training and was, until his retirement, President and Chief Executive Officer of CMS Nomeco Oil & Gas Co, a North American-based oil and gas exploration and production company. He has extensive exploration experience in North and South America, Australasia, East Asia and China. Mr Burgess is also a director of Gasco Energy, Inc and was previously a director of Miller Exploration Co.

***Mr Ross Dobinson** BBus*
(Non-Executive Director), 52 - Appointed 11 June 1997

Mr Dobinson has a corporate advisory and investment banking background. Since 1999, Mr Dobinson has been Managing Director of TSL Group Limited, a corporate advisory company specialising in establishing and advising biotechnology companies. Mr Dobinson is also a director of Starpharma Holdings Limited and Acrux Limited.

***Mr Sidney J Jansma, Jr** MBA*
(Non-Executive Director), 61 - Appointed 17 March 1998

Mr Jansma began his career in oil in 1959 working for his father's private oil company. In 1978, Mr Jansma purchased the entire company from his father and during the ensuing 19 years, the company grew to become the third largest gas producer in the State of Michigan. In 1996, Mr Jansma merged the assets of his company with Dominion Resources, Inc. In addition to dealing with broad industry issues at both state and national levels, Mr Jansma is also President and Chief Executive Officer of Wolverine Gas and Oil Corporation, his family-owned company, which is exploring for oil and gas in North America. Mr Jansma is a member of the Board of Governors of the Independent Petroleum Association of America and Chairman of its Environmental Committee. He also serves on the Board of Governors of the American Petroleum Institute.

Mr Adam C Jolliffe
(Non-Executive Director), 48 - Appointed 27 November 1998

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 their 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.

***Ms Sheree Ford** BA, LLB, GradDip (Resources Law), MBA*
(Company Secretary), 40

Ms Ford is General Counsel and Company Secretary of ROC. Prior to joining ROC, Ms Ford was employed as in-house counsel at BHP Billiton Limited, specialising in petroleum.

***Mr Bruce Clement** BSC (Hons), MBA*
(Company Secretary), 48

Mr Clement is Chief Operating Officer and Company Secretary of ROC. Mr Clement has 25 years' upstream oil and gas industry and banking experience. Mr Clement previously held a number of engineering and management positions within the industry, including with Exxon Corporation in Australia, Ampolex and AIDC Ltd.

Directors' Meetings

The following table sets out the number of Directors' meetings and meetings of committees of Directors held during the financial year and the number of meetings attended by each Director (while they were a Director):

	Directors	Audit Committee	Remuneration and Nomination Committee	Finance and Risk Management Committee	Occupational Health, Safety and Environment Committee	Continuous Disclosure Committee
Number of meetings held	14	3	1	2	2	2
Number of meetings attended						
Mr A J Love	12	2	1	2	N/A	N/A
Mr W G Jephcott	14	3	1	2	N/A	N/A
Dr R J P Doran	14	N/A	1	N/A	N/A	2
Mr R J Burgess	14	N/A	N/A	2	N/A	N/A
Mr R Dobinson	14	N/A	N/A	N/A	2	N/A
Mr S J Jansma, Jr	11	N/A	N/A	2	2	N/A
Mr A C Jolliffe	12	3	N/A	2	N/A	N/A

Principal Activities

The consolidated entity's principal activities in 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 $38.8 million (2003: net profit $3.0 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 2004.

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 Annual Financial Report on pages 8 to 11.

Significant Changes in State of Affairs

Changes in the state of affairs of the Company including the Rights Issue, AIM listing and sale of Saltfleetby are described in the Annual Report in more detail. There are no other significant changes in the nature of activities or state of affairs of the consolidated entity.

Subsequent Events

Since the end of the financial year, the significant events referred to in Note 36 to the Annual Financial Report have occurred.

Except for the matters referred to in Note 36, 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 2004.

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.

Directors' Remuneration

Details of the nature and amount of each element of the remuneration for the financial year of each Director of the Company are:

	Directors' Fees $	Salary and Other Related Benefits including Fringe Benefits Tax $	Bonuses $	Superannuation Contributions $	Total $
Non-Executive Directors					
Mr A J Love	65,000	–	–	–	65,000
Mr W G Jephcott	45,000	–	–	4,050	49,050
Mr R J Burgess	35,000	–	–	–	35,000
Mr R Dobinson	35,000	–	–	3,150	38,150
Mr S J Jansma, Jr	35,000	–	–	–	35,000
Mr A C Jolliffe	35,000	–	–	–	35,000
Executive Director					
Dr R J P Doran	60,000(1)	471,382	25,000	45,885	602,267

Note:

(1) These fees are paid by Roc Oil (UK) Limited, a controlled entity of the Company, for Dr Doran's position as Executive Chairman of that company.

The rates of Directors' fees currently being paid are as follows:

Chairman	$65,000 per annum;
Deputy Chairman	$45,000 per annum; and
Non-Executive Director	$35,000 per annum.

Directors' Interests

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

	Ordinary Shares (Fully Paid)
Directors	
Mr A J Love	542,712
Mr W G Jephcott	1,031,888
Dr R J P Doran	4,701,501
Mr R J Burgess	589,870
Mr R Dobinson	1,221,659
Mr S J Jansma, Jr	1,897,151
Mr A C Jolliffe	133,230

At the end of the financial year, none of the Directors have options over ordinary shares of the Company.

Directors' and Officers' Remuneration

Remuneration levels are competitively set to attract, motivate and retain appropriately qualified and experienced Board members and senior executives capable of discharging their respective responsibilities. The Remuneration and Nomination Committee is responsible for determining and reviewing the appropriate level and structure of remuneration for senior executives. Executive remuneration is set at levels and structured to attract, motivate, reward and retain performers to drive the business effectively.

Remuneration packages of senior executives include performance-based components in the form of bonuses. Non-executive directors do not receive any performance related remuneration. Senior executives may receive options under the Executive Share Option Scheme. The ability to exercise options is subject to continuity of employment and certain share and industry peer group performance hurdles.

Details of the nature and amount of each element of the remuneration for the financial year of each of the specified executives of the Company receiving the highest remuneration are:

	Position	Base Remuneration[1] $	Bonuses $	Superannuation Contributions $	Options $	Total $
Mr C Way	General Manager Operations	309,000	–	27,810	47,989	384,799
Mr B Clement	Chief Operating Officer	320,000	–	28,800	31,626	380,426
Dr K Hird	General Manager Business Development	263,142	10,000	–	20,557	293,699
Mr W Jamieson	General Manager Exploration	250,000	–	22,500	42,168	314,668
Ms S Ford	General Counsel and Company Secretary	235,000	–	17,095	43,811	295,906

Notes:

(1) Base remuneration includes base salary.

(2) The terms 'director' and 'officer' have been treated as mutually exclusive for the purpose of this disclosure.

The Company has adopted the Australian Securities and Investments Commission guidelines on valuing options for Directors and executives and accordingly has calculated the attributable value of options for the year using the Black-Scholes option pricing model. The options value has been calculated as at the date of issue using the following assumptions: risk-free rate of interest, 5.2%; volatility of share price, 36%; dividend yield, nil; expected life of the options from grant date to expiry date, six years; and it is assumed that 50% of the options which related to Company performance will eventually vest. The value of options are amortised over the vesting period of the option.

Options over Unissued Ordinary Shares

Details of the Employee Share Option Plan and Executive Share Option Plan are disclosed in Note 21(b) to the Annual Financial Report.

During or since the end of the financial year, 1,694,000 options (2003: Nil) were issued to the specified executives of the Company as follows:

	Number of Executive Share Options issued during financial year	Issuing entity	Total number of options held at date of this report
Mr C Way	370,000	ROC	450,000
Mr B Clement	300,000	ROC	650,000
Dr K Hird	195,000	ROC	381,000
Mr W Jamieson	400,000	ROC	500,000
Ms S Ford	429,000	ROC	429,000

During or since the end of the financial year, the Company granted a total of 3,377,000 options over unissued ordinary shares of ROC, comprising 194,000 options under the Employee Share Option Plan and 3,183,000 options under the Executive Share Option Plan.

Options over Unissued Ordinary Shares *(continued)*

As at the date of this Directors' Report, there were 5,464,700 options, comprising 2,281,700 employee share options and 3,183,000 executive share options, (representing 2.9% of the issued fully paid ordinary shares of the Company) granted over unissued ordinary shares of ROC under the Employee Share Option Plan and the Executive Share Option Plan. Refer to Note 21(b) of the Financial Statements for further details of options outstanding. During the financial year, 192,200 shares were issued as a result of exercise of options under the Employee Share Option Plan. Since the end of the financial year, 175,600 shares were issued as a result of exercise of options under the Employee Share Option Plan.

There remain 3,473,265 options available for issue under the Employee Share Option Plan and Executive Share Option Plan (representing 1.9% of the issued fully paid ordinary shares of the Company) after taking into account 367,800 employee share options that were exercised to the date of this Directors' Report.

Optionholders do not have any right, by virtue of the option, 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 indemnity agreement has been entered into between an insurance company and the current Directors of the Company named earlier in this Directors' Report and with the full time executive officers, directors and secretaries of all Australian group companies. Under this agreement, 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 contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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 comprised of one Executive Director and six Non-Executive Directors including the Chairman. In accordance with the Company's Constitution and 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.

The Directors have considered the written management representations received from the Chief Executive Officer and General Manager Finance of the Company in accordance with ASX Corporate Governance Council 'Principles of Good Corporate Governance and Best Practice Recommendations'. Further details of the Company's corporate governance practices are set out in the Corporate Governance statement in the Annual Report.

Finance and Risk Management

Mr W G Jephcott (Chairman), Mr A J Love, Mr R J Burgess, Mr S J Jansma, Jr and Mr A C Jolliffe are members of the Company's Finance and Risk Management Committee. It is responsible for monitoring the operational and financial aspects of the Company's activities and considers recommendations and advice of internal and external advisers 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 and the nature and level of insurance cover.

Environmental Regulations

The consolidated entity is subject to significant environmental regulations under Commonwealth legislation. 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. The consolidated entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. There have been no known material breaches of the environmental obligations of the consolidated entity's contracts or licences. The Board has established an Occupational, 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 all relevant governments in the jurisdictions in which is operates.

Auditor

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, Deloitte Touche Tohmatsu, the following amounts for material non-audit services, excluding services for the June 2004 interim review:

- $40,000 associated with the Company's 3 for 5 Renounceable Rights Issue;
- $70,000 associated with listing of the Company on the Alternative Investment Market of London Stock Exchange.

The Directors are satisfied that the provision of these services is compatible with the general standards of auditor independence. The services were subject to terms and conditions of engagement to ensure that auditor independence was not compromised.

During the financial year, the Company agreed to indemnify its auditor, Deloitte Touche Tohmatsu, against all liabilities, claims, costs or expenses incurred by it in respect of any claim or action by a third party in connection with the provision by them of services in respect of the Company's renounceable rights issue and its admission to AIM.

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

Dr R J P Doran
Director and Chief Executive Officer

Sydney, 25 February 2005

This discussion and analysis is provided to assist readers in understanding the Annual Financial Report.

Key Points

The following section contains a discussion on the 2004 financial results. However, subsequent to the financial year end, ROC completed two transactions that have further strengthened the Company's financial position. The Saltfleetby Gas Field was sold for a net consideration of $109 million, realising an after tax profit of approximately $70 million, and a placement of 9,900,990 shares was completed which raised $19.8 million. A proforma statement of financial position as at 31 December 2004, including these transactions is provided in the table below. In particular, the effect of these transactions, had they been recorded in the 2004 financial position, would have been to increase cash assets by $128.6 million to $204.6 million.

	Actual Financial Position at 31 Dec 2004 $ million	Proforma Financial Position at 31 Dec 2004 $ million
Cash assets	76.0	204.6
Development expenditure	77.4	22.7
Other assets	123.5	123.4
Total Assets	**276.9**	**350.7**
Deferred tax liability	(17.9)	(3.3)
Other liabilities	(32.2)	(32.3)
Total Liabilities	**(50.1)**	**(35.6)**
Net Assets	**226.8**	**315.1**
Equity	**226.8**	**315.1**

For the 2004 financial year, the consolidated entity recorded a net loss after income tax of $38.8 million (compared with a net profit after income tax of $3.0 million for the prior financial year). The result included exploration expenditure expensed and written off of $46.9 million, net foreign currency losses of $2.0 million and an income tax benefit of $2.9 million on a loss before tax of $41.7 million.

At 31 December 2004, the consolidated entity was in a sound financial position with cash assets of $76.0 million and no interest bearing debt. On 30 July 2004, ROC repaid in full the outstanding loan balance of $19.6 million owing on its Syndicated Bank Loan Facility.

Sales revenue for the financial year was $38.3 million, with the majority received from the Saltfleetby Gas Field gas and condensate sales, down $19.0 million from the $57.3 million in the prior financial year.

Total production for the financial year was 1.1 million BOE (2,922 BOEPD). Gas production from the Saltfleetby Gas Field was 5.8 BCF of gas or 15.7 MMSCFD, significantly below the prior financial year production of 9.6 BCF of gas or 26.4 MMSCFD due to natural decline in field production and operational problems at the third party Theddlethorpe Gas Processing Terminal.

The $14.5 million cash flow from operating activities for the financial year represented a decrease of 55% from the corresponding prior financial year, primarily as a result of reduced gas production from the Saltfleetby Gas Field.

On 21 December 2004, ROC announced that it had entered into agreements with WINGAS GmbH for the sale of 100% of the share capital of two of its wholly-owned subsidiaries, the principal asset of which is the PEDL005 licence, which contains the Saltfleetby Gas Field, for a cash consideration of £44 million. This sale was completed on 21 January 2005 and as a result there will be no future revenue or cash flow accruing to ROC from Saltfleetby. ROC has retained all its other UK assets. The sale will result in a profit which will be reported in the Company's 2005 financial result.

During the financial year, ROC completed a fully underwritten 3 for 5 Renounceable Rights Issue, which raised net proceeds of approximately $88.2 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.

Subsequent to the end of the financial year, on 27 January 2005, ROC completed a placement of shares with two European-based institutions to raise US$15 million by the issue of 9,900,990 fully paid ordinary shares at a price of $2.00 per share, representing an approximate 11% premium to the previous 10 day average trading price preceding the placement. The shares represented approximately 5.3% of the enlarged issued share capital of the Company.

On 6 September 2004, ROC was admitted to trading on the Alternative Investment Market (AIM), a market operated by the London Stock Exchange in the United Kingdom. The listing did not involve the issue of any new ROC shares nor the raising of any capital.

On 30 December 2004, ROC announced it had acquired an option over up to 26% of the Ardmore Oil Field and surrounding acreage in the UK North Sea. Under an agreement with Acorn Oil & Gas Limited, ROC purchased the right to acquire up to 26% of the assets by investing £750,000 via a secured senior ranking loan and undertaking to pay up to 26% of future joint venture cash calls. If ROC chooses to exercise its option to convert its loan to direct equity, a payment of an effective option exercise fee of up to £1.9 million will be required.

During the financial year, ROC formally agreed with Sonangol, the national oil company of Angola, to trigger the production sharing agreement relating to the Cabinda South Block, onshore Angola, with an effective date of 1 November 2004. ROC holds a 60% interest in the block. Planning is underway for a seismic acquisition programme for mid-2005 and a possible drilling programme for 2006.

During the financial year, significant progress was made on the Cliff Head Oil Field Development. Front End Engineering and Design was completed in October 2004 and requests for tenders were issued and bids were received for the major construction contracts for the project. Pre-development work is continuing. A final investment decision is scheduled to be made by the WA-286-P Joint Venture partners in respect of the Cliff Head Oil Field Development in March 2005 following the drilling of the Cliff Head-5 and Cliff Head-6 wells. First oil from the field is scheduled for early 2006.

On 28 May 2004, the Mauritanian Government granted an Exclusive Exploitation Authorisation ('EEA') for 25 years over the Chinguetti Oil Field and the Woodside-operated PSC B Joint Venture approved the development plan and budget for the field. First oil is expected by the first quarter 2006. In addition, the Government of Mauritania exercised its right to participate for 12% in the Chinguetti Oil Field development. Once Government participation is finalised, ROC's interest in the Chinguetti EEA will decrease from 3.693% to 3.25%.

ROC participated in the drilling of nine exploration wells during 2004: four offshore Mauritania, two onshore UK, one in the Beibu Gulf, offshore China, one offshore Equatorial Guinea, which was ROC's first deepwater-operated offshore well, and one offshore Western Australia. The Company was successful with the discovery of the Tevét Oil Field, offshore Mauritania and Errington, a tight gas discovery, onshore UK. ROC also participated in the drilling of six appraisal wells during 2004, four in relation to the Tiof appraisal drilling offshore Mauritania and two in the Beibu Gulf, offshore China.

During 2004, ROC increased its exploration acreage portfolio in a number of areas:

- 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 PEP-38767 in the onshore Taranaki Basin in the North Island of New Zealand;
- 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;
- on 1 November 2004, ROC triggered the Cabinda South Block Production Sharing Contract, formalising its 60% equity interest in the block; and
- in Equatorial Guinea, a 20% participant of Block H15/16 notified the joint venture of its intention to withdraw from the PSC as of February 2005, the end of the current term. Once the transaction is finalised ROC's equity will increase from 15% to 18.75%, with the original 15% being free carried through the planned 2005 exploration well.

Consolidated Statement of Financial Performance

The consolidated entity recorded a net loss after income tax benefit of $38.8 million for the financial year, from a trading profit of $17.2 million, a loss before tax of $41.7 million and income tax benefit of $2.9 million.

The trading profit of $17.2 million for 2004 was achieved from sales revenue of $38.3 million. Operating costs totalled $21.1 million for the financial year, comprising production costs of $10.7 million and amortisation and restoration expenses of $10.4 million.

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

		2004 $ million	2003 $ million
Sales revenue		38.3	57.3
Trading profit		17.2	31.0
Net interest income		2.5	1.1
Net foreign currency losses		(2.0)	(5.8)
Exploration expenditure expensed and written off		(46.9)	(8.5)
Profit on sale of non-core UK assets		–	2.6
Profit on sale of non-current assets		0.1	0.8
Other (including administration costs and other provisions)		(12.6)	(10.1)
(Loss)/Profit before Income Tax Expense		(41.7)	11.1
Income tax expense	– current period	(2.5)	(9.4)
	– prior period	(0.1)	2.8
Deferred income tax	– current period	5.5	(1.5)
Total Income Tax Benefit/(Expense)		2.9	(8.1)
Net (Loss)/Profit after Income Tax Expense		(38.8)	3.0

Exploration expenditure expensed during the financial year primarily relates to the unsuccessful exploration wells drilled in the Perth Basin ($0.4 million), UK ($2.7 million), Mauritania ($1.5 million) and China ($2.4 million) and to exploration costs with respect to the Company's activities in Angola ($1.0 million).

Exploration expenditure written off relates to other capitalised exploration costs primarily in relation to areas of interest in the UK where no further exploration activity is planned ($27.4 million), in Equatorial Guinea ($10.6 million), where a proportion of equity was farmed out to Pioneer Natural Resources Company, and China ($0.5 million).

The income tax benefit ($2.9 million) relates exclusively to UK operations.

Consolidated Statement of Financial Position

During the financial year, total assets increased from $244.9 million to $276.9 million, total liabilities decreased from $71.3 million to $50.1 million and total equity increased from $173.7 million to $226.8 million. In addition to the changes resulting from production operations, the major net changes in the Statement of Financial Position resulted from development and exploration expenditure increase in cash assets as a result of the Rights Issue, repayment of its Syndicated Bank Loan Facility and movements in the foreign currency translation reserve.

Development expenditure reflected in the Consolidated Statement of Financial Position increased from $68.6 million to $77.4 million as a result of expenditure incurred of $8.1 million, transfers from exploration after the Chinguetti Oil Field discovery of $8.0 million and a $2.9 million increase related to foreign exchange adjustments, offset by the current year amortisation expense of $10.2 million.

The majority of the development expenditure was incurred in the following areas of interest:

- **United Kingdom ($1.6 million):** This cost was principally incurred on the Saltfleetby field and preliminary development work being completed on Blane and Enoch fields in the UK; and
- **Mauritania ($6.5 million):** Four Chinguetti production wells were drilled during the financial year as well as five injector wells. Costs are also being incurred on the facilities with first oil expected in the first quarter of 2006.

Exploration expenditure reflected in the Consolidated Statement of Financial Position decreased from $114.8 million to $101.8 million. Total expenditure incurred in the current financial year was $39.7 million. Exploration expenditure of $46.9 million was expensed and written off, $8.0 million was transferred to development and a $2.2 million increase was recorded due to foreign exchange adjustments.

The majority of the exploration expenditure was incurred in the following areas of interest:

- **The Perth Basin offshore Western Australia ($6.7 million):** Engineering and field work continued on the Cliff Head Oil Field, focusing on the Front End Engineering and Design. The Naomi 2D seismic survey was acquired during October/November 2004 over several leads in the WA-286-P permit. Interpretation of the results is still in progress at the end of the financial year. The Fiddich well was drilled in December 2004 in the WA-226-P permit. The well encountered good quality reservoir, but without significant hydrocarbon shows. The well was plugged and abandoned as a dry well;

- **Mauritania ($10.1 million):** Four appraisal wells were drilled on the Tiof Oil Field in Area B, offshore Mauritania, with all wells encountering hydrocarbons. The Tiof-3 well was suspended as a potential future oil development well. The Tiof-4 and Tiof-5 wells were plugged and abandoned as planned. The Tiof-6 well was suspended in January 2005 and was production tested in February 2005, flowing at rates of up to 12,400 BOPD. Four exploration wells were also drilled, one of which, Tevét-1, was plugged and abandoned as an oil and gas discovery;
- **Angola ($7.2 million):** The Cabinda South Block production sharing agreement was triggered on 1 November 2004. The majority of the costs incurred related to the signature bonus payable on the triggering of the production sharing agreement;
- **Equatorial Guinea ($0.3 million):** 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 Equatorial Guinea Limited and was carried through the well;
- **China ($5.3 million):** One unsuccessful exploration well, Wei 12-7-1, was drilled. This well intersected good oil reservoir, but was water bearing. Two appraisal wells were drilled. The Wei 12-8-3 appraisal well was drilled on the Wei 12-8 East discovery in Block 22/12 Beibu Gulf, offshore China. This appraisal well encountered highly viscous oil and technical work is being undertaken to evaluate the potential development of the field. The Wei 12-3-4 appraisal well was plugged and abandoned as a dry hole;
- **New Zealand ($1.1 million):** A 3D seismic survey was acquired in 2004, with the data still being processed at the end of the financial year. Planning has commenced for drilling in 2005; and
- **United Kingdom ($8.5 million):** Two exploration wells were drilled in the UK. The Old Hills exploration well, which was drilled in PEDL003, was plugged and abandoned as a dry well. The Errington-1 well was spudded on 6 November 2004 and suspended in February 2005 as a potential new tight gas discovery. 2D seismic was also conducted in PEDL027. Interpretation of the results has not yet begun.

The market capitalisation of the Company was $318.6 million as at 31 December 2004, based on the financial year end closing market price of $1.81 per fully paid ordinary share and 176,038,703 fully paid ordinary shares on issue.

Consolidated Statement of Cash Flows

Cash flow from operating activities was $14.5 million. The major cash flows from operating activities included gross receipts from the sale of oil, NGLs and gas in the UK of $45.9 million and payments to suppliers and employees of $24.5 million.

Cash assets increased by $34.5 million over the financial year and as at 31 December 2004 the consolidated entity held a cash and short term deposit balance of $76.0 million.

The consolidated entity's operating cash flow was primarily used to fund exploration and development activities, servicing and repayment of interest bearing liabilities and increasing cash assets.

Net cash used in investing activities was $41.6 million. The major investments during the financial year were the payments for development expenditure ($10.9 million) and payments for exploration expenditure ($32.8 million). Also included in investing activities was $4.0 million received from the sale of UK assets, which was recorded in the previous financial year.

Net cash generated from financing activities was represented by net proceeds from the rights issue of $88.2 million, offset by bank loan repayments of $19.6 million and loans to other entities of $6.8 million during the financial year.

Financial Ratios

Basic earnings per share for the financial year were (23.8) cents, based on a weighted average number of fully paid ordinary shares on issue of 162,812,727.

Cash flow from operating activities for the financial year was $14.5 million, or 8.9 cents per share.

Hedging

Oil and gas prices

The consolidated entity did not have any oil or gas price hedging in place at the end of the financial year.

Foreign exchange

The consolidated entity's foreign exchange hedging strategy is to hedge against specific future commitments and identified cash flow exposures where appropriate. The consolidated entity did not have any foreign exchange hedging in place at the end of the financial year.

Deloitte.

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ROC OIL COMPANY LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, accompanying Notes to the Financial Statements, and the Directors' Declaration for both Roc Oil Company Limited (the disclosing entity) and the consolidated entity, for the financial year ended 31 December 2004 as set out on pages 39 to 73. The consolidated entity comprises the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the disclosing entity are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the disclosing entity. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the disclosing entity's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of Roc Oil Company Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the disclosing entity's and consolidated entity's financial position as at 31 December 2004 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

J Duivenvoorde
Partner
Chartered Accountants
Sydney, 25 February 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 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; and

(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.

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

Dr R J P Doran
Director and Chief Executive Officer

Sydney, 25 February 2005

STATEMENT OF FINANCIAL PERFORMANCE

For the financial year ended 31 December 2004

	Note	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
Revenue from Ordinary Activities					
Revenue from operating activities	*2(a)*	42,053	59,835	2,506	14,734
Revenue from non-operating activities	*2(a)*	95	6,057	–	–
		42,148	65,892	2,506	14,734
Expenses from ordinary activities	*2(b)*	(83,547)	(54,008)	(25,864)	(17,585)
Borrowing costs expensed	*2(c)*	(343)	(804)	(78)	(35)
(Loss)/Profit from Ordinary Activities before Income Tax Expense		**(41,742)**	**11,080**	**(23,436)**	**(2,886)**
Income tax benefit/(expense) relating to ordinary activities	*4*	2,944	(8,104)	–	–
Net (Loss)/Profit after Income Tax Expense		**(38,798)**	**2,976**	**(23,436)**	**(2,886)**
Increase/(decrease) in foreign currency translation reserve arising on translation of foreign self-sustaining controlled operations recognised directly in equity	*22*	3,768	(13,175)	–	–
Total Changes in Equity other than Those Resulting from Transactions with Owners as Owners		**(35,030)**	**(10,199)**	**(23,436)**	**(2,886)**
Basic earnings per share (cents per share)	*23*	(23.8)	2.7		
Diluted earnings per share (cents per share)	*23*	(23.8)	2.7		

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2004

		CONSOLIDATED		COMPANY	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current Assets					
Cash assets	*26(a)*	76,035	41,553	66,626	20,329
Inventories	*5(a)*	990	2,025	–	–
Receivables	*6*	16,325	15,449	10,809	2,903
Other financial assets	*7*	14	14	–	–
Total Current Assets		93,364	59,041	77,435	23,232
Non-Current Assets					
Development expenditure	*8*	77,354	68,572	–	–
Exploration expenditure	*9*	101,751	114,839	–	–
Receivables	*10*	15	91	92,128	82,002
Other financial assets	*11*	28	103	102,920	102,995
Inventories	*5(b)*	43	78	–	–
Property, plant and equipment	*13*	4,366	2,198	2,160	811
Total Non-Current Assets		183,557	185,881	197,208	185,808
Total Assets		276,921	244,922	274,643	209,040
Current Liabilities					
Payables	*14*	20,729	17,948	1,165	1,769
Interest bearing liabilities	*15(a)*	180	18,094	180	–
Current tax liabilities	*16*	5,228	8,558	–	–
Provisions	*17*	925	637	925	637
Total Current Liabilities		27,062	45,237	2,270	2,406
Non-Current Liabilities					
Interest bearing liabilities	*15(b)*	932	–	932	–
Deferred tax liabilities	*18*	17,873	22,143	–	–
Deferred income		–	87	–	–
Provisions	*19*	4,264	3,800	330	252
Total Non-Current Liabilities		23,069	26,030	1,262	252
Total Liabilities		50,131	71,267	3,532	2,658
Net Assets		**226,790**	**173,655**	**271,111**	**206,382**
Equity					
Contributed equity	*21*	291,357	203,192	291,357	203,192
(Accumulated losses)/retained profits	*3*	(75,966)	(37,168)	(20,246)	3,190
Reserves	*22*	11,399	7,631	–	–
Total Parent Entity Interest and Total Equity		**226,790**	**173,655**	**271,111**	**206,382**

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

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2004

	Note	CONSOLIDATED Inflow/ (Outflow) 2004 $'000	CONSOLIDATED Inflow/ (Outflow) 2003 $'000	COMPANY Inflow/ (Outflow) 2004 $'000	COMPANY Inflow/ (Outflow) 2003 $'000
Cash Flows from Operating Activities					
Receipts from customers		45,927	66,802	–	–
Payments to suppliers and employees		(24,454)	(24,943)	(11,783)	(5,763)
Dividends received		–	–	–	13,885
Interest received		2,641	1,782	2,339	807
Interest paid and other costs of finance paid		(382)	(818)	(78)	(35)
Income taxes paid		(6,137)	(4,772)	–	–
Other taxes (paid)/refunded		(3,083)	(5,648)	361	(3)
Net cash provided by/(used in) operating activities	*26(b)*	**14,512**	**32,403**	**(9,161)**	**8,891**
Cash Flows from Investing Activities					
Net payment for plant and equipment		(1,968)	(1,378)	(746)	(559)
Net payment for development expenditure		(10,903)	(9,973)	–	(61)
Net payment for exploration expenditure		(32,751)	(36,079)	(697)	(303)
Payment for development studies		–	(772)	–	(707)
Net payment for operated joint venture exploration expenditure		–	(1,334)	–	–
Amounts received from associate company		–	13	–	–
Payment for the acquisition of controlled entities		–	(1,630)	–	–
Payment for materials inventory		–	(1,413)	–	–
Proceeds from sale of assets		3,993	1,862	–	–
Payment for security deposits on operating leases		–	(76)	–	(76)
Payment for listed and unlisted shares		–	(198)	–	(198)
Net cash used in investing activities		**(41,629)**	**(50,978)**	**(1,443)**	**(1,904)**
Cash Flows from Financing Activities					
Proceeds from share issues		92,566	–	92,566	–
Share issue expenses		(4,401)	–	(4,401)	–
Bank loan repayments		(19,617)	(12,100)	–	–
Reimbursement of funds from entities		430	–	23,245	13,444
Provision of funds to entities		(6,821)	–	(53,560)	(43,288)
Net cash generated from/(used in) financing activities		**62,157**	**(12,100)**	**57,850**	**(29,844)**
Net Increase/(Decrease) in Cash Held		**35,040**	**(30,675)**	**47,246**	**(22,857)**
Cash at beginning of financial year		41,553	81,538	20,329	50,978
Effect of exchange rate changes on the balance of cash held in foreign currencies		(558)	(9,310)	(949)	(7,792)
Cash at End of Financial Year	*26(a)*	**76,035**	**41,553**	**66,626**	**20,329**

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

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 Annual Financial Report. The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, relevant Australian Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

(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'. A list of controlled entities appears in Note 12. 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.

ROC and its wholly-owned Australian subsidiaries have made the decision to implement the tax consolidation legislation effective as of 1 January 2004. The Australian Taxation Office has not yet been notified of this decision. It will be notified prior to lodgement of the first consolidated tax return for the year ended 31 December 2004.

As a consequence, ROC as the head entity in the tax consolidated group recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian subsidiaries in this group as if those were its own, in addition to the current and deferred tax amounts arising from its own transactions, events and balances.

Entry into the tax consolidation regime has had no material impact on the 2004 Annual Financial Report.

(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.

Note 1. Statement of Accounting Policies *(continued)*

(e) Foreign currencies *(continued)*

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.

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:

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

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. Dividends and distributions are brought to account in the Statement of Financial Performance when declared by controlled entities.

(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 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. 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.

Equity-based compensation arrangements are not recognised in the financial statements.

(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.

Note 1. Statement of Accounting Policies *(continued)*

(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.

(s) Comparative amounts

Comparative amounts have been restated, where applicable, to ensure consistency with the current reporting period.

Note 2. Revenue, Expenses and Losses by Function

(Loss)/profit from ordinary activities before income tax includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance:

		CONSOLIDATED		COMPANY	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
(a) Revenue from ordinary activities					
Revenue from operating activities					
Sales revenue	– Oil	813	710	–	–
	– NGLs	2,938	4,238	–	–
	– Gas	34,541	52,356	–	–
		38,292	57,304	–	–
Other revenue		878	644	–	–
Interest income: controlled entities		–	–	92	–
Interest income: other entities		2,883	1,887	2,414	849
Dividends from controlled entities		–	–	–	13,885
Total revenue from operating activities		**42,053**	**59,835**	**2,506**	**14,734**
Revenue from non-operating activities					
Revenue on sale of development assets held for sale		–	261	–	–
Revenue on sale of non-core offshore UK assets		–	4,195	–	–
Revenue on disposal of other non-current assets		95	1,601	–	–
Total revenue from non-operating activities		**95**	**6,057**	**–**	**–**
Total revenue from ordinary activities		**42,148**	**65,892**	**2,506**	**14,734**
(b) Expenses					
Operating costs					
Production costs		10,673	10,950	–	–
Amortisation expense		10,206	15,028	–	–
Restoration expense		240	343	–	–
Total operating costs		21,119	26,321	–	–
Depreciation of non-current assets					
Plant and equipment		920	983	503	463
Leasehold improvements		158	51	158	51
Motor vehicles under finance lease		1	9	–	–
Total depreciation of non-current assets		1,079	1,043	661	514
Exploration expenditure written off					
China		459	–	–	–
Equatorial Guinea		10,592	–	–	–
United Kingdom		27,473	1,732	–	–
Total exploration expenditure written off		38,524	1,732	–	–

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 2. Revenue, Expenses and Losses by Function *(continued)*				
(b) Expenses *(continued)*				
Exploration expenditure expensed				
Angola	1,047	695	–	–
Australia	378	3,253	–	–
China	2,384	–	–	–
Mauritania	1,490	439	–	–
Mongolia	–	(192)	–	–
United Kingdom	2,682	2,332	–	–
Other	387	258	400	32
Total exploration expenditure expensed	8,368	6,785	400	32
Operating lease rental expenses	953	665	822	538
Net increase to provision: employee benefits	254	322	254	322
Cost of assets sold and associated transaction costs	55	2,604	–	–
Write off of drilling materials	1,519	–	–	–
Reversal of provision for write down on loan owing by other entities	–	(452)	–	(452)
Provision for write down on shares in unlisted entity to recoverable amount	76	138	76	138
Provision for write down of non-current intercompany receivables	–	–	14,327	3,415
Net foreign currency losses	2,009	5,841	2,672	7,379
General and administrative costs	9,591	9,009	6,652	5,699
Total Expenses from Ordinary Activities	**83,547**	**54,008**	**25,864**	**17,585**
(c) Borrowing costs expensed				
Interest expense on bank loan	257	606	–	–
Other borrowing costs	86	198	78	35
Total borrowing costs expensed	**343**	**804**	**78**	**35**
(d) Gains/(losses) on disposal of assets				
(Loss)/profit on sale of development assets held for sale	(33)	261	–	–
Profit on sale of non-core offshore UK assets	95	2,350	–	–
(Loss)/profit on disposal of other non-current assets	(22)	842	–	–
Total net gains on disposal of assets	**40**	**3,453**	**–**	**–**

Note 3. (Accumulated Losses)/Retained Profits				
(Accumulated losses)/retained profits at beginning of financial year	(37,168)	(40,144)	3,190	6,076
Net (loss)/profit attributable to members of Roc Oil Company Limited	(38,798)	2,976	(23,436)	(2,886)
(Accumulated losses)/retained profits at end of financial year	**(75,966)**	**(37,168)**	**(20,246)**	**3,190**

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
Note 4. Income Tax Benefit/(Expense)				
The prima facie income tax (benefit)/expense on pre-tax accounting (loss)/profit reconciles to income tax (benefit)/ expense in the financial statements as follows:				
(Loss)/profit from ordinary activities	(41,742)	11,080	(23,436)	(2,886)
Prima facie income tax (benefit)/expense calculated as 30% of (loss)/profit from ordinary activities	(12,523)	3,324	(7,031)	(866)
Tax effect of permanent and other differences				
Non-deductible expenses	(276)	121	60	120
Non-deductible amortisation	329	565	–	–
Non-deductible exploration write off	3,095	–	–	–
Overseas tax rate differential	(630)	2,618	–	–
Dividend income not assessable	–	–	–	(4,165)
Provision for capital gains tax no longer required	–	(3,617)	–	–
Capital gains tax on sale of UK North Sea assets	–	2,316	–	–
Provision for income tax no longer required	(209)	(239)	–	–
Provision for deferred income tax no longer required	–	(1,304)	–	–
Other	(95)	66	–	–
Timing differences and tax losses not brought to account as a future income tax benefit (refer note (a))	7,365	4,254	6,971	4,911
Income tax (benefit)/expense relating to ordinary activities	**(2,944)**	**8,104**	**–**	**–**
Income tax (benefit)/expense attributable to profit/(loss) from ordinary activities is made up of:				
Provision for income tax – current period	2,519	9,404	–	–
Provision for income tax – prior period	112	(2,762)	–	–
Deferred income tax liability – current period	(5,575)	1,462	–	–
Income tax (benefit)/expense relating to ordinary activities	**(2,944)**	**8,104**	**–**	**–**
Future income tax losses not taken to account	**28,709**	**23,453**	**18,125**	**14,419**

Note:

(a) The taxation benefit not brought to account will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Tax consolidation

Effective 1 January 2004, for the purposes of income taxation, ROC and its 100% owned Australian subsidiaries formed a tax consolidated group. As a consequence, ROC, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian subsidiaries in the group as if those were its own in addition to the current and deferred tax amounts arising from its own transactions, events and balances. As a consequence, members of the Australian group intend to enter into tax sharing and tax funding arrangements in order to allocate income tax expense to the wholly-owned subsidiaries on a pro rata basis. In addition, the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligation.

Entry into the tax consolidation regime has had no material impact on the 2004 Annual Financial Report.

ROC will formally notify the Australian Taxation Office of its adoption of the tax consolidation regime before lodging its 31 December 2004 consolidated tax return.

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 5. Inventories				
(a) Current				
Materials inventory, at cost	826	1,903	–	–
Oil and gas stock, at cost	164	122	–	–
	990	**2,025**	**–**	**–**
(b) Non-current				
Materials inventory, at cost	43	78	–	–
	43	**78**	**–**	**–**
Note 6. Current Receivables				
Trade receivables	5,656	7,719	1,685	139
Amount owing by controlled entities	–	–	6,971	1,573
Security deposits	147	208	147	208
Interest receivables	169	76	169	2
Employee advances	27	45	27	45
Prepayments	1,168	2,019	665	126
Other receivables (refer note (a))	9,158	5,382	1,145	810
	16,325	**15,449**	**10,809**	**2,903**

Note:

(a) Other receivables include an amount of $6,707,000 (2003: Nil) being a secured loan to Acorn Oil & Gas Limited and Acorn North Sea Ltd, which is secured on the shares and assets of the companies, including the Ardmore Field.

Note 7. Other Financial Assets				
Government bonds, at cost	14	14	–	–
	14	**14**	**–**	**–**

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
Note 8. Development Expenditure				
Areas in which production has commenced				
Balance at beginning of financial year	114,401	113,801	–	–
Expenditure incurred	915	12,144	–	–
Net foreign exchange gains/(losses) arising on translation of foreign self-sustaining controlled operations	2,640	(11,544)	–	–
	117,956	114,401	–	–
Accumulated amortisation	(63,278)	(53,074)	–	–
	54,678	61,327	–	–
Areas in development stage				
Balance at beginning of financial year	7,245	11,721	–	–
Expenditure incurred	7,159	11	–	–
Transfer from exploration expenditure (refer to Note 9)	7,967	–	–	–
Disposals	–	(2,716)	–	–
Net foreign exchange gains/(losses) arising on translation of foreign self-sustaining controlled operations	305	(1,771)	–	–
	22,676	7,245	–	–
Balance at end of financial year	**77,354**	**68,572**	–	**–**

Note 9. Exploration Expenditure				
Deferred expenditure in exploration and evaluation stages				
Balance at beginning of financial year	114,839	83,513	–	–
Acquisitions	–	17,813	–	–
Disposals	–	(106)	–	–
Expenditure incurred	31,212	21,702	–	–
Transfer to Development Expenditure (refer to Note 8)	(7,967)	–	–	–
Expenditure written off	(38,524)	(1,732)	–	–
Net foreign exchange gains/(losses) arising on translation of foreign self-sustaining controlled operations	2,191	(6,351)	–	–
Balance at end of financial year	**101,751**	**114,839**	**–**	**–**

Note 10. Non-Current Receivables				
Amount owing by controlled entities	–	–	151,804	127,350
Provision for write down to recoverable amount	–	–	(59,676)	(45,348)
	–	–	92,128	82,002
Other receivable	15	91	–	–
	15	**91**	**92,128**	**82,002**

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 11. Other Non-Current Financial Assets				
Shares in unlisted controlled entities, at cost	–	–	102,892	102,892
Shares in an unlisted entity, at cost (refer note (a))	321	333	321	333
Provision for write down on shares in unlisted entity to recoverable amount	(293)	(230)	(293)	(230)
	28	**103**	**102,920**	**102,995**

Note:

(a) Shares held in Osprey Oil and Gas Limited represent 13% of the issued share capital of that company. Dr R J P Doran is a non-executive director of Osprey Oil and Gas Limited.

Note 12. Controlled Entities

Name of Entity	Country of Incorporation	Ownership and Voting Interest 2004 %	Ownership and Voting Interest 2003 %
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 (New Zealand) Pty Limited(1)	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(2)	Australia	100	–
Roc Oil Holdings (Cayman Islands) 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(2)	Cayman Islands	100	–
Roc Oil (Falklands) Limited	United Kingdom	100	100
Roc Oil (Europe) Limited	United Kingdom	100	100
Roc Oil GB Holdings Limited(2)	United Kingdom	100	–
Roc Oil (GB) Limited(3)	United Kingdom	100	100
Roc Oil (UK) LImited	United Kingdom	100	100
Roc Oil (CEL) Limited	United Kingdom	100	100
Roc Oil (EMOG) Limited(4)	United Kingdom	100	100
Roc Oil (BEL) Limited(4)	United Kingdom	100	100
Roc Canada Inc	Canada	100	100
Roc Oil (Chinguetti) BV(2)	Netherlands	100	–

Notes:

(1) Roc Oil (Middle East) Limited changed its name to Roc Oil (New Zealand) Pty Limited during the financial year.

(2) Controlled entity incorporated during the financial year.

(3) Roc Oil (PPL) Limited changed its name to Roc Oil (GB) Limited during the financial year.

(4) In liquidation.

The Company's present intention is to provide the necessary financial support for Roc Oil (Gobi) Pty Limited, Roc Oil (WA) Pty Limited, Roc Oil (China) Pty Limited, Roc Oil (New Zealand) Pty Limited, Roc Oil Australia Holdings Pty Limited, Roc Oil International Holdings Pty Limited, Elixir Corporation Pty Ltd and Roc Oil (Finance) Pty Limited, whilst they remain controlled entities, as is necessary for each company to pay all debts as and when they become due and to pay all debts incurred in the foreseeable future.

The Company has provided a number of parent company guarantees for the obligations of Roc Oil (Europe) Limited, Roc Oil (Mauritania) Company, Roc Oil (Chinguetti) BV and Roc Oil (Falklands) Limited arising under respective contractual arrangements with third parties.

Note 13. Property, Plant and Equipment

	CONSOLIDATED			
	Plant and Equipment $'000	Plant and Equipment under Finance Lease $'000	Leasehold Improvements $'000	Total $'000
Gross carrying amount				
Balance as at 1 January 2004	5,772	42	332	6,146
Additions	1,985	–	1,247	3,232
Disposals	(44)	(43)	–	(87)
Net foreign exchange losses arising on translation of foreign self-sustaining controlled operations	80	1	–	81
Balance as at 31 December 2004	7,793	–	1,579	9,372
Accumulated depreciation				
Balance as at 1 January 2004	(3,586)	(36)	(326)	(3,948)
Depreciation expense	(920)	(1)	(158)	(1,079)
Disposals	43	38	–	81
Net foreign exchange gains arising on translation of foreign self-sustaining controlled operations	(59)	(1)	–	(60)
Balance as at 31 December 2004	(4,522)	–	(484)	(5,006)
Net book value				
As at 31 December 2004	**3,271**	**–**	**1,095**	**4,366**
As at 31 December 2003	**2,186**	**6**	**6**	**2,198**

	COMPANY		
	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Gross carrying amount			
Balance as at 1 January 2004	2,838	332	3,170
Additions	763	1,247	2,010
Balance as at 31 December 2004	3,601	1,579	5,180
Accumulated depreciation			
Balance as at 1 January 2004	(2,033)	(326)	(2,359)
Depreciation expense	(503)	(158)	(661)
Balance as at 31 December 2004	(2,536)	(484)	(3,020)
Net book value			
As at 31 December 2004	**1,065**	**1,095**	**2,160**
As at 31 December 2003	**805**	**6**	**811**

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 14. Current Payables				
Trade payables	3,884	4,129	813	129
Accrued liabilities	15,599	6,733	310	395
Amount owing to third party	–	5,062	–	–
Amount owing to associate company	1,246	2,024	–	–
Amount owing to controlled entities	–	–	42	1,245
	20,729	**17,948**	**1,165**	**1,769**
Note 15. Interest Bearing Liabilities				
(a) Current				
Bank loan	–	18,094	**–**	–
Operating lease – lease incentive	180	–	**180**	–
	180	**18,094**	**180**	**–**
(b) Non-current				
Operating lease – lease incentive	932	–	932	–
	932	**–**	**932**	**–**
Note 16. Current Tax Liabilities				
Income tax payable	5,228	8,558	–	–
	5,228	**8,558**	**–**	**–**
Note 17. Current Provisions				
Office restoration	112	–	112	–
Employee benefits	813	637	813	637
	925	**637**	**925**	**637**
Note 18. Deferred Tax Liabilities				
Deferred income tax	17,873	22,143	–	–
	17,873	**22,143**	**–**	**–**
Note 19. Non-Current Provisions				
Employee benefits	330	252	330	252
Restoration	3,934	3,548	–	–
	4,264	**3,800**	**330**	**252**

	CONSOLIDATED		COMPANY	
	Employee Benefits	Restoration	Employee Benefits	Restoration
Note 20. Provisions				
Balance at 1 January 2004	889	3,548	889	–
Additional provisions recognised	630	352	630	112
Reductions from payments/other sacrifices of future economic benefits	(376)	–	(376)	–
Net foreign exchange gains arising on translation of foreign self-sustaining controlled operations	–	145	–	–
Balance at 31 December 2004	**1,143**	**4,045**	**1,143**	**112**
Current (Note 17)	813	112	813	112
Non-current (Note 19)	330	3,934	330	–
	1,143	**4,046**	**1,143**	**112**

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 21. Contributed Equity				
176,038,703 (2003: 109,889,439) fully paid ordinary shares	291,357	203,192	291,357	203,192

	2004 Number of Shares	2003 Number of Shares	2004 $'000	2003 $'000
Movement in fully paid ordinary shares				
Balance at beginning of financial year	109,889,439	108,526,056	203,192	201,234
Shares issued	66,149,264	1,363,383	88,165	1,958
Balance at end of financial year	**176,038,703**	**109,889,439**	**291,357**	**203,192**

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

The market price of the Company's fully paid ordinary shares as at 31 December 2004 was $1.81 (2003: $1.53).

(a) Shares issued during the financial year

During the financial year, the Company issued 66,149,264 (2003: 1,363,383) fully paid ordinary shares.

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

During the financial year, options to purchase ordinary shares under the Employee Share Option Plan were issued to employees, exercised or expired as follows:

Note 21. Contributed Equity *(continued)*

(b) Employee Share Option Plan and Executive Share Option Plan *(continued)*

Grant Date	Expiry Date	Exercise Price $	Number of options at beginning of financial year	Number of options issued during financial year	Number of options exercised	Number of options cancelled or expired during financial year	Number of options at end of financial year
19 April 1999	15 January 2004	3.33	16,740	–	–	(16,740)	–
19 April 1999	15 January 2004	3.48	5,320	–	–	(5,320)	–
19 April 1999	29 July 2004	3.32	82,850	–	–	(82,850)	–
30 July 1999	15 July 2004	1.84	60,000	–	–	(60,000)	–
30 July 1999	19 July 2004	1.84	905,000	–	–	(905,000)	–
1 March 2000	1 March 2005	1.00	50,000	–	–	–	50,000
1 June 2000	1 June 2005	1.18	30,000	–	–	–	30,000
1 September 2000	1 September 2005	1.31	100,000	–	–	–	100,000
10 January 2001	10 January 2006	1.09	1,179,000	–	(103,000)	–	1,076,000
26 July 2001	26 July 2006	1.49	35,000	–	–	–	35,000
17 December 2001	17 December 2006	1.10	184,000	–	(21,000)	–	163,000
29 May 2002	29 May 2007	1.29	90,000	–	(10,000)	–	80,000
29 July 2002	29 July 2007	1.23	340,200	–	(58,200)	(10,500)	271,500
4 September 2002	4 September 2007	1.25	255,000	–	–	–	255,000
23 October 2002	23 October 2007	1.25	30,000	–	–	–	30,000
4 December 2002	4 December 2007	1.27	30,000	–	–	–	30,000
24 December 2002	24 December 2007	1.26	129,100	–	–	(16,800)	112,300
29 January 2003	29 January 2008	1.35	30,500	–	–	–	30,500
5 August 2004	5 August 2009	1.70	–	194,000	–	–	194,000
			3,552,710	**194,000**	**(192,200)**	**(1,097,210)**	**2,457,300**

After the Rights Issue the option exercise prices for options granted under the Employee Share Option Plan were adjusted in accordance with the rules of the Employee Share Option Plan and the ASX Listing Rules.

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. During the financial year 192,200 options were exercised (2003: Nil).

During the financial year, 3,183,000 options to purchase ordinary shares under the Executive Share Option Plan were issued to employees as follows:

Grant Date	Expiry Date	Type of option	Exercise price $	Number of options issued in current financial year	Number of options at end of financial year
23 July 2004	23 July 2010	Price	1.81	52,800	52,800
23 July 2004	23 July 2010	Price	1.92	52,800	52,800
23 July 2004	23 July 2010	Price	2.04	70,400	70,400
23 July 2004	23 July 2010	Performance	1.57	176,000	176,000
5 August 2004	5 August 2010	Price	1.82	424,650	424,650
5 August 2004	5 August 2010	Price	1.94	424,650	424,650
5 August 2004	5 August 2010	Price	2.06	566,200	566,200
5 August 2004	5 August 2010	Performance	1.59	1,415,500	1,415,500
				3,183,000	**3,183,000**

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.

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 their vesting period.

Options carry no voting rights or rights to dividends.

The total options offered under the Employee Share Option Plan and the Executive Share Option Plan shall not exceed 5% of the Company's issued share capital at any time. As at 31 December 2004, there was a total of 5,640,300 options on issue, comprising 2,457,300 options under the Employee Share Option Plan and 3,183,000 options under the Executive Share Option Plan. At 31 December 2004, options issued and exercised represented 3.3% of the issued fully paid shares of the Company.

No remuneration expense is recognised in respect of employee options issued under the Employee Share Option Plan or the Executive Share Option Plan.

(c) Shareholder Options

During the financial year 7,698,830 shareholder options pursuant to the Prospectus dated 21 June 1999 expired. At the end of the financial year there were no shareholder options on issue.

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 22. Reserves				
Foreign currency translation				
Balance at beginning of financial year	7,631	20,806	–	–
Translation of foreign self-sustaining controlled operations	3,768	(13,175)	–	–
Balance at end of financial year	**11,399**	**7,631**	**–**	**–**

Note:

(a) Exchange differences relating to the translation of foreign self-sustaining controlled operations are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1(e).

	CONSOLIDATED	
	2004	2003
Note 23. Earnings Per Share		
Basic earnings per share (cents per share)	(23.8)	2.7
Diluted earnings per share (cents per share)	(23.8)	2.7
Weighted average number of ordinary shares used in the calculation of basic earnings per share	162,812,727	108,787,527
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (refer note (a))	162,812,727	108,883,825

Notes:

(a) Earnings used for calculation of both basic and diluted earnings per share was net (loss)/profit after income tax for both 2004 and 2003 respectively.

At 31 December 2004, no options have a dilutive effect on the calculation of earnings per share as the consolidated entity had a net loss after income tax.

On 27 January 2005, ROC completed the placement of 9,900,990 shares. These may have a dilutive effect in subsequent periods.

Note 24. 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

Asia/other mainly comprises area of interest in China.

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

For the year ended 31 December 2004	United Kingdom $'000	Australia/ New Zealand $'000	Asia/Other $'000	West Africa $'000	Unallocated $'000	Total $'000
Segment revenue						
Sales revenue	38,208	84	–	–	–	38,292
Other revenue	973	–	–	–	2,883	3,856
Total revenue	**39,181**	**84**	**–**	**–**	**2,883**	**42,148**
Segment result						
Loss from ordinary activities before income tax	(13,123)	(536)	(3,133)	(13,334)	(11,616)	(41,742)
Income tax benefit	–	–	–	–	2,944	2,944
Net loss	**(13,123)**	**(536)**	**(3,133)**	**(13,334)**	**(8,672)**	**(38,798)**
As at 31 December 2004						
Segment assets/liabilities						
Segment assets	93,137	28,539	10,477	65,121	79,647	276,921
Segment liabilities	(8,244)	(2,236)	(44)	(11,784)	(27,823)	(50,131)
Other segment information						
Expenditure incurred on non-current assets	8,540	7,366	2,913	21,590	2,109	42,518
Depreciation	(218)	–	–	–	(861)	(1,079)
Amortisation	(10,206)	–	–	–	–	(10,206)
Exploration expenditure written off	(27,473)	(459)	–	(10,592)	–	(38,524)
Exploration expensed	(2,682)	(378)	(2,771)	(2,537)	–	(8,368)

For the year ended 31 December 2003	United Kingdom $'000	Australia/ New Zealand $'000	Asia/Other $'000	West Africa $'000	Unallocated $'000	Total $'000
Segment revenue:						
Sales revenue	57,287	17	–	–	–	57,304
Other revenue	4,496	512	1,662	31	1,887	8,588
Total revenue	**61,783**	**529**	**1,662**	**31**	**1,887**	**65,892**
Segment result						
Profit/(Loss) from ordinary activities before income tax	29,390	(3,248)	855	(1,212)	(14,705)	11,080
Income tax expense	–	–	–	–	(8,104)	(8,104)
Net profit/(loss)	**29,390**	**(3,248)**	**855**	**(1,212)**	**(22,809)**	**2,976**
As at 31 December 2003						
Segment assets/liabilities						
Segment assets	111,851	29,537	8,738	50,517	44,279	244,922
Segment liabilities	(11,931)	(2,994)	(128)	(7,419)	(48,795)	(71,267)
Other segment information						
Expenditure incurred on non-current assets	14,125	20,115	1,958	15,474	1,395	53,067
Depreciation	–	–	–	–	(1,043)	(1,043)
Amortisation	(15,028)	–	–	–	–	(15,028)
Exploration expenditure written off	(1,732)	–	–	–	–	(1,732)
Exploration expensed	(2,332)	(3,253)	192	(1,392)	–	(6,785)

Note 25. Related Party Disclosures

(a) Controlled entities

Interests in controlled entities are disclosed in Note 12.

Transactions with controlled entities and related entities:

(i) Overseas controlled entity transactions

Loans transacted by the Company with overseas controlled entities in the consolidated entity are on a commercial basis and are eliminated on consolidation. Loans are unsecured. Interest revenue brought to account by the Company in relation to these loans during the financial year is disclosed in Note 2.

During the financial year and the prior financial year, the Company provided accounting and technical services, at cost plus an appropriate mark-up, to the United Kingdom controlled entities.

During the financial year and the prior financial year, Roc Oil (Europe) Limited provided commercial services to the Company, at cost plus an appropriate mark-up.

The amount receivable from overseas controlled entities is set out in Note 6 and Note 10. These transactions are eliminated on consolidation.

(ii) Australian controlled entity transactions

During the financial year, the Company provided accounting and administration services, at no cost, to other entities in the wholly-owned Australian group.

Other transactions that occurred during the financial year between entities in the wholly-owned Australian group were advancement of intercompany loans at Nil interest rate and no fixed term for repayment. Loans are unsecured. These transactions are eliminated on consolidation. The amount receivable from controlled entities is set out in Note 10.

(b) Other related parties

Amounts receivable from, payable to and ordinary shares held in related companies are set out in Note 6, Note 14 and Note 29 respectively.

Interests in joint ventures are set out in Note 28.

(c) Remuneration and shareholdings

Directors' and specified executives' remuneration and shareholdings are disclosed in Note 32.

Note 26. Notes to the Statement of Cash Flows

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
(a) Reconciliation of cash				
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash	21,529	6,360	18,304	2,946
Short term deposits	54,506	35,193	48,322	17,383
Cash assets	**76,035**	**41,553**	**66,626**	**20,329**
(b) Reconciliation of net (loss)/profit after income tax to net cash flows provided by/(used in) operating activities				
Net (loss)/profit after income tax	(38,798)	2,976	(23,436)	(2,886)
Add/(less) non-cash items				
Amortisation expense	10,206	15,028	–	–
Depreciation of non-current assets	1,079	1,043	661	514
Provision for write down of non-current intercompany receivables	–	–	14,327	3,415
Provision for restoration	240	343	–	–
Provision for office restoration	112	–	112	–
Provision for employee benefits	254	322	254	322
Provision for write down of shares in unlisted entity to recoverable amount	76	138	76	138
Reversal of provision for write down on loan owing by other entities	–	(452)	–	(452)
Net foreign currency losses/(gains)	2,009	(2,135)	883	7,889
Write off of drilling materials	1,519	–	–	–
Decrease/(increase) in net deferred income tax liability	(5,575)	1,462	–	–
Net gains on disposal of assets	(40)	(3,453)	–	–
Items classified as investing/financing activities				
Exploration expenditure expensed	8,368	6,785	400	32
Exploration expenditure written off	38,524	1,732	–	–
Development studies expensed	–	747	–	746
Changes in net assets and liabilities				
(Increase)/decrease in assets:				
Current receivables	(3,792)	971	(2,658)	(819)
Other current assets	–	933	–	4
Non-current receivables/materials inventory	(619)	3	–	–
Increase/(decrease) in liabilities:				
Current trade payables/accrued liabilities	4,605	4,095	371	(12)
Current provisions	(3,656)	1,865	(151)	–
Net cash provided by/(used in) operating activities	**14,512**	**32,403**	**(9,161)**	**8,891**

Note:

Included in cash assets is $3,322,000 which is subject to a charge in favour of Woodside Mauritania Pty Ltd relating to the contract for Chinguetti Floating Production Storage and Offtake Facility.

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 27. Commitments for Expenditure				
(a) Capital commitments				
Not longer than one year				
Joint ventures	41,927	8,295	–	–
Other	4,618	2,694	–	–
Longer than one year but not longer than five years				
Joint ventures	6,181	2,125	–	–
Other	–	11,327	–	300
	52,726	24,441	–	300
(b) Operating lease rental commitments				
Not longer than one year	1,110	1,030	906	787
Longer than one year but not longer than five years	4,424	4,049	3,951	3,255
Longer than five years	1,514	2,337	1,076	1,886
	7,048	7,416	5,933	5,928

Note 28. Joint Ventures

The consolidated entity has an interest (rounded to two decimal places) in the following joint venture operations as at 31 December 2004:

Joint Venture Operation/Area	Principal Activities	Interest 2004 %	Interest 2003 %
Western Australia			
WA-286-P	Oil and gas exploration	37.50	37.50
WA-325-P	Oil and gas exploration	37.50	37.50
WA-327-P	Oil and gas exploration	37.50	37.50
WA-349-P	Oil and gas exploration	50.00	50.00
TP/15	Oil and gas exploration	20.00	20.00
WA-226-P	Oil and gas exploration	7.50	–
EP413	Oil and gas exploration/production	0.25	0.25
New Zealand			
PEP-38767	Oil and gas exploration	40.00	40.00
Asia			
China	Oil and gas exploration	40.00	40.00
West Africa			
Equatorial Guinea	Oil and gas exploration	15.00	35.00
Mauritania Blocks 1–8, Area A-C6	Oil and gas exploration/development	2.00–5.00	2.00–5.50
Angola	Oil and gas exploration	60.00	–
United Kingdom			
Humber/East Midlands Basin			
EXL251	Oil and gas exploration	97.50	97.50
EXL252	Oil and gas exploration	97.50	97.50
North Yorkshire			
PEDL002 (Eskdale)	Oil and gas exploration	5.00	5.00
UK North Sea			
P755 (Block 30/22b)	Oil and gas exploration	12.00	12.00
P219 (Block 16/13a) (Enoch and J1)	Oil and gas development	15.00	15.00
P111 (Block 30/3a) (Blane)	Oil and gas development	15.24	15.24

The consolidated entity's share of production from the above joint ventures during the financial year was 1,154 BBLs from EP413 (2003: 462 BBLs).

Note 28. Joint Ventures *(continued)*

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
The following amounts represent the consolidated entity's interest in assets and liabilities employed in the above joint venture operations. The amounts are included in the financial statements under their respective categories:				
Current Assets				
Cash assets	2,943	2,800	–	–
Trade receivables	542	104	–	–
Materials inventory	–	211	–	–
Total Current Assets	3,485	3,115	–	–
Non-Current Assets				
Development expenditure	15,739	2,401	–	–
Exploration expenditure	59,452	64,679	–	–
Total Non-Current Assets	75,191	67,080	–	–
Total Assets	78,676	70,195	–	–
Current Liabilities				
Trade payables	1,655	1,601	–	–
Accrued liabilities	6,735	2,060	–	–
Total Current Liabilities	8,390	3,661	–	–
Non-Current Liabilities				
Provision for restoration	2,576	2,474	–	–
Total Non-Current Liabilities	2,576	2,474	–	–
Total Liabilities	10,966	6,135	–	–
Net Assets	**67,710**	**64,060**	**–**	**–**

Note:

Exploration expenditure commitments and contingent liabilities in respect of joint venture operations are detailed in Note 27 and Note 33 respectively.

Note 29. Associate Companies

Details of investments in associate companies are as follows:

Name of Associate Company	Country where Business Carried on	Principal Activity	Balance Date	Beneficial Interest in Ordinary Shares at 31 December 2004	Beneficial Interest in Ordinary Shares at 31 December 2003	Book Value of Ordinary Shares at 31 December 2004	Book Value of Ordinary Shares at 31 December 2003	Contribution to Consolidated (Loss)/Profit 2004	Contribution to Consolidated (Loss)/Profit 2003
Croft (UK) Limited	UK	Holding company	31 December	50	50	–	–	–	–
Croft Oil and Gas plc	UK	Holding company	31 December	50	50	–	–	–	–
Croft Exploration Limited	UK	Dormant	31 December	50	50	–	–	–	–
Croft Onshore Oil Limited	UK	Dormant	31 December	50	50	–	–	–	–
China Oil Shale Development Company[(1)]	Hong Kong	Dormant	31 December	50	–	–	–	–	–

Note:

(1) Incorporated in the current financial year.

Note 30. Superannuation Plans

During the 2004 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% (2003: 9%) of employee cash remuneration.

In the United Kingdom, Roc Oil (UK) Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the consolidated entity in an independently administered fund. Roc Oil (UK) Limited contributes 10% (2003: 10%) salary of all staff members to the scheme.

	CONSOLIDATED		COMPANY	
	2004 $	2003 $	2004 $	2003 $
Note 31. Remuneration of Auditors				
(a) Auditor of the parent entity				
Auditing the financial report	69,000	65,000	69,000	58,000
Other services	148,240	46,000	148,240	46,000
	217,240	**111,000**	**217,240**	**104,000**
(b) Other auditors				
Auditing the financial report	118,724	116,362	–	–
Other services	–	–	–	–
	118,724	**116,362**	**–**	**–**

Note:

Remuneration of international associates of Deloitte Touche Tohmatsu, Australia is included under 'Other auditors'.

Note 32. Director and Executive Disclosures

(a) Details of Directors and specified executives

(i) Directors

Mr A J Love	Chairman (non-executive)
Mr W G Jephcott	Deputy Chairman (non-executive)
Dr R J P Doran	Director and Chief Executive Officer
Mr R J Burgess	Director (non-executive)
Mr R Dobinson	Director (non-executive)
Mr S J Jansma, Jr	Director (non-executive)
Mr A C Jolliffe	Director (non-executive)

(ii) Specified executives

Mr C Way	General Manager Operations
Mr B Clement	Chief Operating Officer
Dr K Hird	General Manager Business Development
Mr W Jamieson	General Manager Exploration
Ms S Ford	General Counsel and Company Secretary

Note 32. Director and Executive Disclosures *(continued)*

(b) Remuneration of Directors and specified executives

(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.

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, see Note 21 and the Directors' Report.

(ii) Remuneration of Directors and specified executives

	Primary			Post Employment	Equity Compensation	
	Salary and Fees $	Cash Bonus $	Non-monetary Benefits $	Superannuation $	Value of Share Options $	Total $
Directors						
Mr A J Love	65,000	–	–	–	–	65,000
Mr W G Jephcott	45,000	–	–	4,050	–	49,050
Dr R J P Doran	484,839	25,000	46,543	45,885	–	602,267
Mr R J Burgess	35,000	–	–	–	–	35,000
Mr R Dobinson	35,000	–	–	3,150	–	38,150
Mr S J Jansma, Jr	35,000	–	–	–	–	35,000
Mr A C Jolliffe	35,000	–	–	–	–	35,000
Total remuneration – Directors						
2004	734,839	25,000	46,543	53,085	–	859,467
2003	734,839	–	32,949	50,834	–	818,622
Specified executives						
Mr C Way	309,000	–	–	27,810	47,989	384,799
Mr B Clement	320,000	–	–	28,800	31,626	380,426
Dr K Hird	263,142	10,000	–	–	20,557	293,699
Mr W Jamieson	250,000	–	–	22,500	42,168	314,668
Ms S Ford	235,000	–	–	17,095	43,811	295,906
Total remuneration – specified executives						
2004	1,377,142	10,000	–	96,205	186,151	1,669,498
2003	1,264,606	–	–	124,401	48,245	1,437,252

Information for individual Directors and specified executives for the year ended 31 December 2003 is not shown as this is the first financial report prepared since the issue of AASB1046 'Director and Executive Disclosures by Disclosing Entities'.

(c) Remuneration options: granted during the year

During the financial year, options were granted under the Executive Share Option Plan as equity compensation to certain specified executives as disclosed below. Each option entitles the holder to subscribe for one fully paid ordinary share in the Company. For further information, refer to Note 21.

	Executive Share Options Granted	Grant Date	Average Value per Option at Grant Date $	Average Exercise Price per Share $	First Exercise Date	Last Exercise Date
Specified executives						
Mr C Way	370,000	5 Aug 2004	0.74	1.77	5 Aug 2006	5 Aug 2008
Mr B Clement	300,000	5 Aug 2004	0.74	1.77	5 Aug 2006	5 Aug 2008
Dr K Hird	195,000	5 Aug 2004	0.74	1.77	5 Aug 2006	5 Aug 2008
Mr W Jamieson	400,000	5 Aug 2004	0.74	1.77	5 Aug 2006	5 Aug 2008
Ms S Ford	352,000	23 Jul 2004	0.65	1.75	23 Jul 2006	23 Jul 2008
Ms S Ford	77,000	5 Aug 2004	0.74	1.77	5 Aug 2006	5 Aug 2008

The Company did not receive any consideration on the grant of the executive share options.

(d) Shares issued on exercise of remuneration options

There were no shares issued to the Directors or specified executives on the exercise of remuneration options.

(e) Option holdings of Directors and specified executives

	1 Jan 2004				31 Dec 2004	
	Balance at Beginning of Year	Executive Share Options Granted as Remuneration	Options Exercised	Options Lapsed	Balance at End of Year	Vested and Exercisable at 31 Dec 2004
Directors						
Shareholder options						
Mr A J Love	25,231	–	–	(25,231)	–	–
Mr W G Jephcott	54,691	–	–	(54,691)	–	–
Dr R J P Doran	20,829	–	–	(20,829)	–	–
Mr R J Burgess	25,150	–	–	(25,150)	–	–
Mr R Dobinson	152,751	–	–	(152,751)	–	–
Mr S J Jansma, Jr	999,640	–	–	(999,640)	–	–
Mr A C Jolliffe	47,671	–	–	(47,671)	–	–
Specified executives						
Employee options						
Mr C Way	80,000	370,000	–	–	450,000	80,000
Mr B Clement	600,000	300,000	–	(250,000)	650,000	350,000
Mr K Hird	201,000	195,000	–	(15,000)	381,000	186,000
Mr W Jamieson	230,000	400,000	–	(130,000)	500,000	100,000
Ms S Ford	–	429,000	–	–	429,000	–
	2,436,963	**1,694,000**	**–**	**(1,720,963)**	**2,410,000**	**716,000**

Note 32. Director and Executive Disclosures *(continued)*

(f) Shareholdings of Directors and specified executives

	1 Jan 2004 Opening balance	Net change from on-market transactions	31 Dec 2004 Balance at end of year
Directors			
Mr A J Love	645,690	(102,978)	542,712
Mr W G Jephcott	644,930	386,958	1,031,888
Dr R J P Doran	4,518,295	183,206	4,701,501
Mr R J Burgess	589,870	–	589,870
Mr R Dobinson	752,092	469,567	1,221,659
Mr S J Jansma, Jr	3,875,380	(1,978,229)	1,897,151
Mr A C Jolliffe	127,860	5,370	133,230
Specified Executives			
Mr C Way	5,800	3,600	9,400
Mr B Clement	–	–	–
Dr K Hird	259,240	–	259,240
Mr W Jamieson	1,600	–	1,600
Ms S Ford	–	–	–
	11,420,757	**(1,032,506)**	**10,388,251**

All equity transactions with Directors and specified executives 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.

(g) Loans and other transactions

No loans have been made to the Directors or any specified executive other than advances made for the purpose of meeting business expenses incurred in performing their duties. No interest is being charged on these amounts. There are no other transactions with the Directors or any specified executives.

	CONSOLIDATED		COMPANY	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Note 33. Contingent Liabilities				
Under the terms of a production sharing agreement to which Roc Oil (Cabinda) Company and Lacula Oil Company Limited are parties, a 'signature bonus' of US$4.5 million was payable to the Angolan Government:	–	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:	899	933	–	–
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. A 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:	128	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$250,000 within six months from the date of commercial production under the production sharing agreement:	321	467	–	–
Effective 1 April 2003, Roc Oil (WA) Pty Limited acquired ARC Energy NL's ('ARC') 7.5% interest in exploration permit 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 that company's 7.5% working interest in exploration permit WA-226-P in the Perth Basin. If a discovery is declared commercial, ROC will make a payment to Norwest of $375,000:	375	575	–	–

Note 33. Contingent Liabilities *(continued)*	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
Under a sale and purchase agreement with Conoco (UK) Theta Limited, Roc Oil (GB) 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:	2,246	2,333	–	–
Pursuant to the purchase agreements under which Roc Oil (Chinguetti) BV 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 commerciality being declared on a new discovery, the granting of an Exclusive Exploitation Authorisation ('EEA') by the Mauritanian Government, and when sustained production at a rate of 40,000 BOEPD (gross) over a 30 day period from the EEA is obtained:	729	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 34. Contingent Assets

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	COMPANY 2004 $'000	COMPANY 2003 $'000
Roc Oil (GB) 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 (GB) 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:	4,102	4,114	–	–
Roc Oil (GB) 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:	385	400	–	–

Note 35. Financial Instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Use of derivative financial instruments is subject to procedures and limits approved by the Directors of Roc Oil Company Limited.

(b) Foreign exchange risk

The consolidated entity's sales revenue is mainly denominated in UK pounds (gas sales) and United States dollars (sale of oil and NGLs). The exposure of sales revenue to fluctuations in \$/US\$ and \$/£ exchange rates is mitigated to some extent by the natural currency hedges that exist due to the consolidated entity holding part of its short term deposits in United States dollars and the consolidated entity's operating, development and exploration costs for the UK business being incurred primarily in pounds.

Hedging is undertaken against specific future commitments only. As at 31 December 2004 and 31 December 2003, the consolidated entity did not have any currency hedge instruments in place.

(c) Commodity price risk

Oil price

As at 31 December 2004, the consolidated entity did not have any oil price hedging in place (2003: Nil).

Gas price

There was no gas hedging in place as at 31 December 2004.

As at 31 December 2003, gas hedging comprised a gas price hedge covering 0.42 BCF (4.59 MMSCFD) of sales gas over the financial period from 1 January 2004 to 31 March 2004 at an average price of 27.35 pence per therm (equivalent to US\$5.36/\$7.14 per thousand cubic feet as at 31 December 2004 exchange rates).

(d) Interest rate risk

The consolidated entity's only material exposure to interest rate risk as at 31 December 2004 is cash (\$21.5 million) and short term deposits (\$54.5 million).

The average interest rate for the 2004 financial year was 4.50%.

The consolidated entity's only material exposure to interest rate risk as at 31 December 2003 was cash (\$6.4 million), short term deposits (\$35.2 million) and a US\$20.0 million Syndicated Bank Loan Facility (drawn down to US\$13.6 million) with a maturity of 31 July 2004 which attracted on average a variable interest rate of 3.1%, 2.3% and 2.4% per annum respectively.

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the 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 consolidated entity measures credit risk on a fair value basis.

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

(f) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in the financial statements. With the exception of interest bearing liabilities, financial assets and financial abilities mature within one year of the balance sheet date. The non-current interest bearing liability matures over a period of greater than five years.

(g) Economic dependency

The Directors believe there is no economic dependency.

Note 36. Subsequent Events

Since the end of the financial year, the following material events have occurred:

Tiof appraisal well

The Tiof-6 appraisal well was drilled subsequent to year end to a total depth of 2,963 metres. Preliminary interpretation indicate the well has intersected oil over a gross interval of approximately 124 metres. The Tiof-6 appraisal well was suspended as planned on 17 January 2005. Production testing took place during February 2005 with the well flowing at rates of up to 12,400 BOPD.

Completion of sale of Saltfleetby Gas Field

On 21 January 2005, ROC completed the sale of Roc Oil (UK) Limited and Roc Oil (CEL) Limited (which included the Saltfleetby Gas Field) to the WINGAS GmbH joint venture, which consists of Wintershall AG and OAO Gazprom for a cash consideration of £44 million ($109 million). Effective date of sale is 31 December 2004. The sale will have a material effect on ROC's future financial performance as there will be no future revenue (2004: $37.5 million) accruing to ROC from Saltfleetby Gas Field.

Errington exploration well

The Errington-1 wildcat exploration well in PEDL028 commenced drilling prior to the end of the financial year and reached a total depth of 2,200 metres on 22 January 2005. After running casing to a depth of 1,976 metres, the well was suspended as a new tight gas discovery, with the intention that it will be evaluated further later in 2005 as part of ROC's onshore UK tight gas strategy.

Share placement

On 27 January 2005, ROC completed the placement of 9,900,990 fully paid ordinary shares at a price of $2.00 per share to two established institutional investors. The placement price represented an approximate 11% premium to the weighted average price of ROC's shares traded during the 10 days prior to announcement and raised US$15 million.

Cliff Head appraisal well

The Cliff Head-5 appraisal well was drilled and reached total depth on 23 February 2005. The top of the reservoir was encountered approximately 56 metres low to prognosis coincident with the field wide oil-water contact. Well logs have been acquired and are being evaluated to assess the implications of the well results. The well has been plugged and abandoned as planned.

Note 37. Impact of Adopting AASB Equivalents to IFRS

The Australian Accounting Standards Board ('AASB') is adopting Australian equivalents of the International Financial Reporting Standards ('A-IFRS') for application to reporting periods beginning on or after 1 January 2005. The Company is currently reviewing the application of A-IFRS for first time adoption in the year ending 31 December 2005. ROC has allocated appropriate resources to plan for and monitor the transition to A-IFRS with updates being reported to the Audit Committee which is overseeing the transition.

ROC's adoption of A-IFRS will first be reflected in ROC's financial reports for the half year ending 30 June 2005 and the year ending 31 December 2005. When complying with A-IFRS, ROC will be required to restate its comparative financial statements to reflect the application of A-IFRS to the relevant comparative period.

This financial report has been prepared in accordance with Australian generally accepted accounting practice ('A-GAAP'). The differences between A-GAAP and A-IFRS identified as potentially having a significant effect on ROC's financial performance and financial position are summarised below. The differences have not yet been quantified; accordingly, there can be no assurance that the financial performance and financial position as disclosed in this report would not be materially different if determined in accordance with A-IFRS.

Accounting for income taxes

Under AASB112 'Income Taxes', the Company is required to use the balance sheet method which calculates temporary timing differences based on the carrying value of the entity's assets and liabilities in the Statement of Financial Position and their associated tax bases.

The calculation is performed for each tax jurisdiction and the net deferred tax liability, after taking into account any associated tax losses, is recognised. A deferred tax asset will only be recorded if its realisation is probable.

This is a change from the current accounting policy, under which deferred tax balances are recorded using the income statement method. Items under this method are only tax effected if they are included in the pre-tax accounting profit or loss and/or taxable income or loss.

Note 37. Impact of Adopting AASB Equivalents to IFRS *(continued)*

Share based payments

Under AASB2 'Share Based Payments', the Company will be required to determine the fair value of options issued to employees and recognise the expense in the Statement of Financial Performance in the period when the service is received.

This is a change from the current accounting policy where no expense is recognised.

Impairment of assets

Under AASB136 'Impairment of Assets' the recoverable amount of an asset is determined by the higher of 'fair value less cost to sell' or 'value in use' which is determined by using a discounted cash flow.

This is a change from ROC's current accounting policy where net cash flows are not discounted to present value.

Accounting for rehabilitation costs

Under AASB116 'Property Plant and Equipment' the estimated costs of dismantling and removing an asset and restoring a site is included in the cost of the asset to the extent that it is recognised as a provision under AASB137 'Provisions, Contingent Liabilities and Contingent Assets'. AASB137 requires the liability to be measured at the amount required to settle the present obligation at the balance sheet date.

ROC's current accounting policy requires the costs of dismantling and removing an asset to be provided for over the life of the assets on a unit-of-production basis.

Accounting for exploration and evaluation

There is no material change under the new AASB6 'Exploration for and Evaluation of Mineral Resources' compared to ROC's current accounting policies for exploration.

Financial instruments

Under AASB139 'Financial Instruments: Recognition and Measurement' certain financial instruments must be carried in the Statement of Financial Position at fair value.

ROC's current policy is to recognised any gain or loss on a financial instrument only when it is realised.

Note 38. Additional Company Information

(a) Roc Oil Company Limited is a public company listed in Australia on the ASX and in the UK on the Alternative Investment Market of the London Stock Exchange, 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.

(b) The number of employees as at 31 December 2004 was 57 (2003: 47) for Roc Oil Company Limited and 88 (2003: 83) for the consolidated entity. The number of employees includes both full time employees and part time employees measured on a full time equivalent basis.

SHAREHOLDER INFORMATION

1. Ordinary Share Capital

As at 21 March 2005, the Company had on issue 186,196,793 fully paid ordinary shares held by 10,701 shareholders.

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

2. Options

As at 21 March 2005, the Company had the following unquoted options:

- 2,297,200 options under the Employee Share Option Plan held by 49 optionholders and 3,868,000 options under the Executive Share Option Plan held by 28 optionholders;
- 7,698,830 options issued to shareholders under the Prospectus dated 21 June 1999 and held by 123 optionholders lapsed during the financial year;
- 1,097,210 employee share options lapsed or were cancelled.
- 449,300 options issued under the Employee Share Option Plan were exercised; and
- Options do not carry any voting rights or rights to dividends.

3. Distribution of Share and Option Holders

Holding	Shareholders	Employee Options	Executive Options
1 – 1,000	2,080	1	–
1,001 – 5,000	4,833	1	–
5,001 – 10,000	2,117	–	1
10,001 – 100,000	1,568	41	16
Over 100,000	103	6	11
Total	**10,701**	**49**	**28**
Shareholders holding less than a marketable parcel	**51**		

4. Substantial Shareholders as at 21 March 2005

The following shareholders have advised that they are a substantial shareholder:

Shareholder	Number Held (Fully Paid Ordinary Shares)	% of Class Held
J P Morgan Chase & Co	13,401,292	7.20
National Australia Bank	9,631,178	5.18
Commonwealth Bank of Australia	9,302,538	5.00

5. Twenty Largest Shareholders as at 21 March 2005

Shareholder	Number Held	%	Rank
Westpac Custodian Nominees Limited	18,620,773	10.00	1
ANZ Nominees Limited	11,122,904	5.97	2
National Nominees Limited	10,153,438	5.45	3
Citicorp Nominees Pty Limited	8,289,969	4.45	4
Mellon Nominees (UK) Limited	7,920,792	4.25	5
J P Morgan Nominees Australia Limited	6,207,964	3.33	6
AMP Life Limited	5,673,943	3.05	7
Citicorp Nominees Pty Limited (CFS W/Sale GBL Res Fund A/c)	4,480,149	2.41	8
Celtic Energy Pty Ltd	4,450,251	2.39	9
Cogent Nominees Pty Limited	3,074,433	1.65	10
The Bank of New York (Nominees) Limited	1,992,998	1.07	11
Mr Sidney John Jansma Jr	1,897,151	1.02	12
Mr Maximillian Francesco de Vietri	1,859,927	1.00	13
Equity Trustees Limited	1,458,363	0.78	14
ConocoPhillips Canada Resources Corporation	1,454,140	0.78	15
Espasia Pty Ltd	1,210,299	0.65	16
Mirrabooka Investments Limited	1,200,000	0.64	17
Mango Bay Enterprises Inc	950,000	0.51	18
Ladon Management Pty Ltd	912,782	0.49	19
Almargem Pty Ltd	880,000	0.47	20
Top 20 Total	**93,810,276**	**50.36**	

GLOSSARY AND DEFINITIONS

$ or **cents**	Australian currency.
acre	Unit of land measurement, 1 sq km is equivalent to 247.105 acres.
AIM	Alternative Investment Market of the London Stock Exchange.
ASX	Australian Stock Exchange Limited.
BBLS	Barrels, 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.
GST	Goods and services tax.
km	Kilometres.
m	Metre.
MCF	One thousand cubic feet of natural gas.
MM	Millions.
MMBO	One million barrels of oil.
MMBOE	One million barrels of oil equivalent.
MMSCFD	One million standard cubic feet of natural gas per day.
NGLs	Natural gas liquids.
pence	UK pence (£0.01).
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.
Rights Issue	3 for 5 Renounceable Rights Issue.
ROC	Roc Oil Company Limited
therm	Calorific heating value of gas.
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.

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Mr Richard J Burgess, Director
Mr Ross Dobinson, Director
Mr Sidney J Jansma Jr, Director
Mr Adam C Jolliffe, Director

Advisors to the Board
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Dr A A Al-Quaiti

Company Secretary
Ms Sheree Ford

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Managing Director (Roc Oil (UK) Limited)
Mr Bruce Clement,
Chief Operating Officer
Dr R John P Doran,
Chief Executive Officer and Director
Ms Sheree Ford,
General Counsel and Company Secretary
Dr Kevin Hird,
General Manager – Business Development
Mr Wes Jamieson,
General Manager – Exploration
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In 2004, ROC activated the Production Sharing Agreement for the Cabinda South Block, onshore Angola. As a result, ROC, as Operator of the Joint Venture, expects to start the first on-the-ground exploration activities in the block for more than 30 years in 2Q 2005.