

# Good Petroleum (International) Limited

International GAAP<sup>©</sup>

Illustrative financial statements

Based on International Financial Reporting  
Standards in issue at 31 March 2008

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## Introduction

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for Good Petroleum (International) Limited, a fictitious group of oil and gas companies.

Good Petroleum (International) Limited's activities include oil exploration and field development and production, together with pipeline transportation. This publication illustrates IFRS disclosures made by the oil and gas industry, rather than by companies in general.

Therefore, some commonly found transactions and their disclosures have been deliberately omitted or simplified because they are illustrated in other Ernst & Young illustrative financial statement publications, such as Good Group (International) Limited 2007. We refer readers to these other publications for a greater understanding of other presentation and disclosure requirements that are not specific to the oil and gas industry.

Exploration and production accounting is complex with a variety of accounting policy choices available to a company for assets within the Exploration and Evaluation phase. The challenge for the industry is to produce decision-useful financial statements through effective presentation and disclosure. Unfortunately differences in accounting policies and their application creates inconsistency and complexity.

IFRS prescribes minimum standards of disclosure, which means that it is important to provide additional disclosure to explain any unusual circumstances faced by an oil and gas industry company. In addition, accounting policy choices made by companies need to be disclosed in detail to aid the reader in comparing companies in the oil and gas industry.

This publication illustrates what we consider to be best practice disclosure and focuses on those areas of IFRS reporting that rely heavily on the professional judgement of management.

These illustrative disclosures are not the only acceptable form of presentation, but they reflect leading practices in the oil and gas industry. These illustrative financial statements do not take account of country or stock market regulations in any given jurisdiction. It is essential to refer to the relevant accounting standards and when necessary, to seek appropriate professional advice in case of doubt as to the requirements.

We hope you will find this a useful guide when preparing your next set of IFRS-based financial statements. If you require any further information on matters included in this publication, please contact your nearest Ernst & Young oil and gas professional.

### **Basis of preparation and presentation**

This publication is based on the requirements of IFRS standards and interpretations applicable to financial statements in issue at 31 March 2008. Details of which standards have been adopted, and the impact of new accounting standards not yet adopted has been included in the notes to these illustrative financial statements.

### **Background facts**

Good Petroleum is an oil exploration and production Company whose activities include upstream business and transportation of produced oil. All its operations are located in Petroland (a fictitious country). Due to a single main activity and one geographical area of operations, a single operating segment was identified.

### **Allowed alternative accounting treatments in the oil and gas industry**

In some cases, IFRS permits alternative accounting treatments for similar transactions, events and/or conditions. These alternative treatments have been highlighted within the illustrative financial statements for Good Petroleum (International) Limited as part of the accounting policies note commentary.

### **Financial review**

Many companies present a financial review by management in their annual report, which is outside the scope of the financial statements. IFRS does not require the presentation of such information, although IAS 1 paragraph 9 gives a brief outline of what may be included in such a report. Given the content of a financial review by management is usually jurisdiction specific, no financial review by management has been included in this publication.

## IFRS as at 31 March 2008

The standards applied in these consolidated financial statements are those that were in issue as at 31 March 2008. The measurement and recognition requirements of these standards have been applied in these consolidated financial statements. Standards applied in these consolidated financial statements are:

### International Financial Reporting Standards (IFRS)

IFRS 3	<i>Business Combinations</i>
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
IFRS 7	<i>Financial Instruments: Disclosures</i>

### International Accounting Standards (IAS)

IAS 1	<i>Presentation of Financial Statements</i>
IAS 2	<i>Inventories</i>
IAS 7	<i>Cash Flow Statements</i>
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10	<i>Events after the Balance Sheet Date</i>
IAS 12	<i>Income Taxes</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 17	<i>Leases</i>
IAS 18	<i>Revenue</i>
IAS 19	<i>Employee Benefits</i>
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 23	<i>Borrowing Costs</i>
IAS 24	<i>Related Party Disclosures</i>
IAS 27	<i>Consolidated and Separate Financial Statements</i>
IAS 31	<i>Interests in Joint Ventures</i>
IAS 32	<i>Financial Instruments: Presentation</i>
IAS 33	<i>Earnings per Share</i>
IAS 36	<i>Impairment of Assets</i>
IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38	<i>Intangible Assets</i>
IAS 39	<i>Financial Instruments: Recognition and Measurement</i>

### Interpretations

IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>

### The following Standards and Interpretations have not been illustrated in these financial statements:

IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 2	<i>Share-based Payment</i>
IFRS 4	<i>Insurance Contracts</i>
IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IFRS 8	<i>Operating Segments</i>
IAS 11	<i>Construction Contracts</i>
IAS 14	<i>Segment Reporting</i>
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
IAS 28	<i>Investments in Associates</i>

IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 34	<i>Interim Financial Reporting</i>
IAS 40	<i>Investment Property</i>
IAS 41	<i>Agriculture</i>
IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 11	<i>IFRS 2 - Group and Treasury Share Transactions</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 14	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
SIC 7	<i>Introduction of the Euro</i>
SIC 10	<i>Government Assistance - No Specific Relation to Operating Activities</i>
SIC 12	<i>Consolidation - Special Purpose Entities</i>
SIC 13	<i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>
SIC 15	<i>Operating Leases - Incentives</i>
SIC 21	<i>Income Taxes - Recovery of Revalued Non Depreciable Assets</i>
SIC 25	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>
SIC 27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
SIC 29	<i>Disclosure - Service Concession Arrangements</i>
SIC 31	<i>Revenue - Barter Transactions Involving Advertising Services</i>
SIC 32	<i>Intangible Assets - Web Site Costs</i>

We recommend users of this publication to verify that there has been no change in the requirements of IFRS between 31 March 2008 and their reporting date.

# **Good Petroleum (International) Limited**

## **Consolidated Financial Statements**

**30 June 2008**

## General Information

### Directors

M O'Driscoll (Chairman)

M P Boiteau (Chief Executive)

C P Müller

F van den Berg

S K Pinelli

M Evans

S E Sippo

C Smart

P R García

### Company Secretary

J Harris

### Registered Office

Homefire House

Ashdown Square

Petroville

### Solicitor

Solicitors & Co.

7 Scott Street

Petroville

### Bankers

Bank P.L.C.

George Street

Petroville

### Auditor

Chartered Accountants & Co.

17 Petroville High Street

Petroville

# Independent auditors' report to the shareholders of Good Petroleum (International) Limited

We have audited the accompanying financial statements of Good Petroleum (International) Limited and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 30 June 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants & Co.

28 July 2008

17 Petroville High Street

Petroville

## Commentary

The audit report has been prepared in accordance with ISA 700 (revised) 'The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements', effective for reports dated on or after 31 December 2006.



# Consolidated income statement

for the year ended 30 June 2008

Year ended	Notes	30 June 2008	30 June 2007	IAS 1.46(a), (b), (c)
		US\$ million	US\$ million	IAS 1.46(d), (e)
Revenue	6	3,828	2,917	IAS 1.81(a)
Cost of sales		(1,556)	(1,219)	IAS 1.88, IAS 1.92
<b>Gross profit</b>		<b>2,272</b>	<b>1,698</b>	IAS 1.83, IAS 1.92
Other income		52	65	IAS 1.92
Gain on derivative financial instruments	26	5	9	
Share of joint venture's net profit		70	25	
Other operating expenses		(205)	(128)	IAS 1.92
General and administrative costs		(210)	(205)	IAS 1.92
<b>Operating profit</b>	5	<b>1,984</b>	<b>1,464</b>	
Finance income	6	24	25	IAS 1.81(a)
Finance costs		(94)	(40)	IAS 1.81(b)
<b>Profit before income tax</b>		<b>1,914</b>	<b>1,449</b>	IAS 1.83
Income tax expense	7	(797)	(529)	IAS 1.81(d), IAS 12.77
<b>Net profit attributable to the equity holders of the parent</b>		<b>1,117</b>	<b>920</b>	IAS 1.83
Weighted average number of ordinary shares		1,564	1,564	
Basic and diluted earnings per ordinary share US\$	8	0.71	0.59	IAS 33.66

# Consolidated balance sheet

as at 30 June 2008

IAS 1.46(a),  
(b), (c)

Year ended		2008	2007	
	Notes	US\$ million	US\$ million	IAS 1.46(d), (e)
<b>Assets</b>				
<b>Non-current assets</b>				
				IAS 1.51
Exploration and evaluation assets	10	759	501	IAS 1.68(c)
Other intangible assets	13	11	7	IAS 1.68(c)
Oil and gas properties	11	4,943	3,706	IAS 1.68(a)
Other plant and equipment	12	238	227	IAS 1.68(a)
Goodwill	3, 13	42	-	IAS 1.68(c)
Equity-accounted investments in joint venture		114	98	IAS 1.68(e),
Deferred tax asset	7	83	57	IAS 1.68(n), IAS 1.70
		<b>6,190</b>	<b>4,596</b>	
<b>Current assets</b>				
				IAS 1.51, IAS 1.57
Cash and cash equivalents	18	508	539	IAS 1.68(i)
Accounts receivable	17	618	599	IAS 1.68(h)
Inventory	16	93	88	IAS 1.68(g)
Other financial assets	25	22	20	
		<b>1,241</b>	<b>1,246</b>	
<b>Total assets</b>		<b>7,431</b>	<b>5,842</b>	
<b>Equity and liabilities</b>				
<b>Shareholders' Equity</b>				
Share capital				IAS 1.68(p)
Issued and outstanding	19	1,564	1,564	IAS 1.68(p)
1,564,433,024 Ordinary Shares				
Retained earnings		3,202	2,435	IAS 1.68(p)
		<b>4,766</b>	<b>3,999</b>	
<b>Non-current liabilities</b>				
Pension benefit liability	15	20	18	IAS 1.68(k)
Long-term debt and payables	20	532	315	IAS 1.68(l)
Deferred tax liability	7	468	386	IAS 1.68(n), IAS 1.70
Provisions	21	610	373	IAS 1.68(k)
		<b>1,630</b>	<b>1,092</b>	
<b>Current liabilities</b>				
Pension benefit liability	15	2	2	IAS 1.68(k)
Accounts payable and accrued liabilities	22	567	516	IAS 1.68(j)
Taxes and royalties payable		365	166	IAS 1.68(m)
Current portion of long-term debt	20	82	51	IAS 1.68(l)
Provisions	21	19	16	
		<b>1,035</b>	<b>751</b>	
		<b>2,665</b>	<b>1,843</b>	
<b>Total liabilities and shareholders' equity</b>		<b>7,431</b>	<b>5,842</b>	

## Consolidated statement of changes in equity

for the year ended 30 June 2008

	Notes	Issued and fully paid shares US\$ million	Retained earnings US\$ million	Total Equity US\$ million	IAS 1.97(b), (c) IAS 1.46(d), (e)
<b>Balance at 1 July 2006</b>	19	<b>836</b>	<b>1,655</b>	<b>2,491</b>	
Net profit for the year		–	920	920	IAS 1.96(a)
<b>Total recognised income and expense</b>			<b>920</b>	<b>920</b>	
Issue of share capital	19	728	–	728	IAS 1.97(c)
Dividends paid	9	–	(140)	(140)	
<b>Balance at 1 July 2007</b>	<b>19</b>	<b>1,564</b>	<b>2,435</b>	<b>3,999</b>	
Net profit for the year		–	1,117	1,117	
<b>Total recognised income and expense</b>			<b>1,117</b>	<b>1,117</b>	
Dividends paid	9	–	(350)	(350)	
<b>Balance at 30 June 2008</b>	<b>19</b>	<b>1,564</b>	<b>3,202</b>	<b>4,766</b>	

# Consolidated statement of cash flow

for the year ended 30 June 2008

		30 June 2008	30 June 2007	
	Notes	US\$ million	US\$ million	
<b>Cash flows from operating activities</b>				IAS 7.10
Profit before income tax from operations		1,914	1,449	IAS 1.46(d), (e)
Adjustments to add (deduct) non-cash items				IAS 7.18(b)
Depreciation, depletion and amortisation	5	642	302	
Unrealised gain on derivative financial instruments		(3)	(5)	
Unwinding of fair value discount on decommissioning	21	27	28	IAS 7.20(b)
Impairment of oil and gas properties	5	33	9	
Gain on sale of oil and gas properties	5	(39)	(58)	
Impairment of exploration and evaluation assets	5	5	6	
Reversal of previously impaired exploration and evaluation expenditure	5	(16)	-	
Gain on sale of exploration and evaluation assets	5	(1)	-	
Other non-cash income and expenses	6	(3)	(1)	
Unsuccessful exploration and evaluation expenditures	10	90	75	
Add interest expense		67	12	
Deduct interest income relating to investing activity	6	(20)	(24)	IAS 7.20(a)
Working capital adjustments				IAS 7.20(a)
Change in trade and other receivables		(20)	(207)	
Change in inventories		(4)	(3)	
Change in trade and other payables relating to operating activities		24	144	
Income tax paid		(737)	(678)	IAS 7.35
<b>Net cash flows from operating activities</b>		<b>1,959</b>	<b>1,049</b>	
<b>Cash flows from investing activities</b>				
Investment in exploration and evaluation assets	10	(358)	(293)	IAS 7.21 IAS 7.16(a)
Expenditures on oil and gas assets	11	(1,108)	(1,434)	
Expenditures on other intangible assets	13	(4)	(3)	
Expenditures on other property, plant and equipment	12	(1)	(32)	
Acquisition of a subsidiary, net of cash acquired	3	(454)	-	IAS 7.39
Proceeds on disposal of exploration and evaluation assets	10	23	-	IAS 7.16(b)
Proceeds on disposal of oil and gas properties	11	109	98	
Proceeds on disposal of other property, plant and equipment assets	12	23	12	
Interest received		20	24	IAS 7.31
<b>Net cash used in investing activities</b>		<b>(1,750)</b>	<b>(1,628)</b>	
<b>Cash flow from financing activities</b>				IAS 7.21
Proceeds from issuance of shares	19	-	728	IAS 7.17(a)
Proceeds from loans and borrowings	20	331	-	IAS 7.17(c)
Payments of loan and borrowings		(114)	(32)	IAS 7.17(d)
Interest paid		(64)	(20)	IAS 7.31
Dividends paid	9	(350)	(140)	IAS 7.31
<b>Net cash used in financing activities</b>		<b>(197)</b>	<b>536</b>	
Increase (decrease) in cash		12	(43)	
Cash and cash equivalents, beginning of period		488	531	
<b>Cash and cash equivalents, end of period</b>		<b>500</b>	<b>488</b>	IAS 7.45

# Notes to the consolidated financial statements

## 1. Corporate information

IAS 1.103(a)

The consolidated financial statements of Good Petroleum (International) Limited ('the Company') for the year ended 30 June 2008 were authorised for issue in accordance with a resolution of the directors on 28 July 2008. Good Petroleum (International) Limited is a limited company incorporated and domiciled in Petroland whose shares are publicly traded.

IAS 1.46(b), (c)

IAS 10.17

IAS 1.126(a)

The principal activities of the Group are exploration and production of crude oil.

IAS 1.126(b)

## 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in dollars and all values are rounded to the nearest million (US\$million) except when otherwise indicated.

IAS 1.103(a)

IAS 1.108(a)

IAS 1.46(d), (e)

## Statement of compliance

The consolidated financial statements of Good Petroleum (International) Limited and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS).

IAS 1.14

## Basis of consolidation

IAS 27.12

The consolidated financial statements comprise the financial statements of Good Petroleum (International) Limited and its subsidiaries as at 30 June each year.

IAS 27.30

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

IAS 27.30

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

IAS 27.26, 28

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

IAS 27.24, 25

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

IAS 27.33

IAS 27.34

# Notes to the consolidated financial statements

## 2.2 Significant accounting judgments, estimates and assumptions

IAS 1.8(e)

### Estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

IAS 1.116

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

Note 7 - Income tax.

Note 11 - Oil and gas properties.

Note 14 - Impairment.

Note 15 - Pension benefits obligation.

Note 21 - Provisions for liabilities and charges.

Note 23 - Capital commitments and other contingencies.

### Judgements

In the process of applying the Group's accounting policies, the Directors have made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

IAS 1.113

### Reserves base

Oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved reserves determined in accordance with Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US\$70.00. The impact upon commercial reserves and the aggregate depletion charge for the year of a +/- US\$5.00 variation in the long-term Brent oil price assumption is shown in the table below. The carrying amount of oil and gas development and production assets at 30 June 2008 is shown in note 11.

Long-term Brent price	Commercial reserves million barrels	Depletion charge US\$ million
US\$65	400	(700)
US\$70	520	(760)
US\$75	550	(820)

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

### Commentary

Disclosure of reserve information is currently not covered by IFRS and industry practice generally when reporting under IFRS is to not include such information within financial statements. Similarly, reserves are not recognised as an asset on the balance sheet. However, IAS 1 paragraph 116 requires disclosure about key sources of estimation uncertainty: a paragraph on the uncertainties surrounding the estimation of remaining proved and probable reserves, and a description of the method used by the entity in estimating proved and probable reserves (e.g. Society of Petroleum Engineers or World Petroleum Council methodologies), will be covered in the respective note.

# Notes to the consolidated financial statements

## 2.2 Significant accounting judgments, estimates and assumptions *continued*

### *Carrying value of oil and gas assets*

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped mineral reserves.

The calculation of the unit-of-production rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- ▶ changes in proved reserves;
- ▶ the effect on proved reserves of differences between actual commodity prices and commodity price assumptions;
- ▶ unforeseen operational issues.

### *Impairment indicators*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of goodwill and tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

### *Decommissioning costs*

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

### *Income taxes*

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies

IAS 1.8(e)

### Interests in joint ventures

IFRS defines joint control as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

#### *Jointly controlled operations*

A jointly controlled operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity.

The Group recognises in its financial statements the assets that it controls and the liabilities that it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture. IAS 31.57  
IAS 31.15

#### *Reimbursement of the Joint Venture operator's costs*

When Good Petroleum acting as an operator receives reimbursement of direct costs recharged to the joint venture, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint venture and therefore have no effect on the income statement. IAS 31.52

In many cases Good Petroleum also incurs certain general overhead expenses in carrying out activities on behalf of the joint venture. As these costs can often not be specifically identified, joint venture agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year. Although the purpose of this recharge is very similar to the reimbursement of direct costs, Good Petroleum is not acting as an agent in this case. Therefore, the general overhead expenses and the overhead fee are recognised in the income statement as an expense and income, respectively.

#### *Jointly controlled assets*

A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture. IAS 31.57  
IAS 31.21

#### *Jointly controlled entities*

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the equity method. IAS 31.57  
IAS 31.30

### Commentary

Good Petroleum (International) Limited accounts for its interest in the jointly controlled entity using the equity method. However, IAS 31.30 also permits jointly controlled entities to be recognised using the proportionate consolidation. ED 9 Joint Arrangements proposes to abolish the proportionate consolidation and require application of the equity method.

### Foreign currency translation

The consolidated financial statements are presented in US Dollars, which is the Company's functional and reporting currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. IAS 1.46(d)  
IAS 21.11  
IAS 21.21  
IAS 21.23  
IAS 21.28  
IAS 21.32

Good Petroleum does not have any foreign operations.



# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Business Combinations and Goodwill

On the acquisition of a subsidiary, the purchase method of accounting is used whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

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

IFRS 3.51

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognises any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Group recognises the resulting gain in profit or loss on the acquisition date.

IFRS 3.56

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

IAS 36.80, 86

### Commentary

#### *Definition of a Business*

When an entity acquires an asset or a group of assets, careful analysis is required to identify whether what is acquired constitutes a business or represents only an asset or group of assets that does not constitute a business.

A business is defined by IFRS 3 as an integrated set of activities and assets conducted and managed for the purpose of providing:

- (a) a return to investors; or
- (b) lower costs or other economic benefits directly and proportionately to policyholders or participants.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

#### *Differences between asset purchase transactions and business combinations*

The main differences between accounting for an asset purchase and a business combination can be summarised as follows:

- ▶ goodwill only arises in business combinations;
- ▶ assets and liabilities are accounted for at fair value in a business combination, while they are assigned a carrying amount based on their relative fair values in an asset purchase transaction; and
- ▶ in an asset purchase transaction no deferred tax will arise in relation to acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under IAS 12 applies.

#### *Purchase price allocation and the treatment of goodwill*

Traditionally, many oil and gas companies and mining companies always assumed that the entire consideration paid for upstream assets should be allocated to the identifiable net assets acquired, i.e. any excess over the fair value would be included within mineral reserves acquired. However, goodwill could arise as a result of synergies, overpayment by the acquirer (in which case the goodwill may well be impaired immediately) or when IFRS requires that acquired assets and/or liabilities are measured at an amount that is not fair value (e.g. deferred taxation). Therefore it is not appropriate for oil and gas companies or mining companies to assume under IFRS that goodwill never arises in a business combination. Instead, mineral reserves acquired should be valued separately and any excess consideration over and above the value of the identifiable net assets (which include mineral reserves), should be allocated to goodwill.

Under IFRS, an entity is required to provide for deferred taxation on the temporary differences relating to all identifiable net assets acquired (including mineral reserves), but not on temporary differences related to goodwill. If an excess of the purchase consideration over the fair value of the identifiable assets were to be classified within mineral reserves, IAS 12 would give rise to a deferred tax liability on the temporary difference. In principle, that would result in an iterative calculation in which the deferred tax liability recognised would increase the amount attributed to mineral reserves, which would in turn give rise to an increase in the deferred tax liability. Given the very high marginal tax rates to which extractive activities are often subject (i.e. tax rates of 60 to 80% are not uncommon) the mineral reserves might end up being grossed up by a factor of 2½ to 5 (i.e.  $1/(1 - 60\%) = 2\frac{1}{2}$ ). This issue does not arise if the initial recognition of the deferred tax liability is accounted for as goodwill.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

#### Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

#### Exploration and evaluation costs

During the geological and geophysical exploration phase, costs are charged against income as incurred. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised.

#### Exploration and evaluation assets swaps

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at amortised cost. Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance if neither the assets given up nor the assets received can be reliably estimated.

#### Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

### Commentary

#### *Exploration, evaluation and development costs*

##### Successful efforts method

Within the context of a 'successful efforts' approach, only those costs that lead directly to the discovery, acquisition, or development of specific, discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Costs that are known at the time of incurrence to fail to meet this criterion are generally charged to expense in the period they are incurred, although some interpretations of the successful efforts concept would capitalise the cost of unsuccessful development wells.'

In accordance with IFRS 6 paragraph 17, once commercial viability is demonstrated the capitalised exploration costs should be transferred to property, plant and equipment or intangibles, as appropriate after being assessed for impairment. If commercial viability is uncertain or not immediately obvious then costs can remain capitalised while a company is still actively engaged in the exploration effort. If the exploration effort has ceased, but there is potential for future benefits, although this is subject to factors outside of this particular exploration effort, the exploration phase is over. The capitalised exploration costs should then be tested for impairment and reclassified into PP&E or Intangible assets.

##### *Other methods of accounting for exploration, evaluation and development costs*

##### Full cost method

The full cost method under most national GAAPs requires that 'all costs incurred in prospecting, acquiring mineral interests, exploration, appraisal, development, and construction are accumulated in large cost centres. For example, costs may be accumulated for each individual country, for groups of countries, or for the entire world. However, IFRS 6 does not permit application of the full cost method outside the Exploration and Evaluation phase.

There are several other areas in which application of the full cost method under IFRS is restricted because:

- ▶ while the full cost method under most national GAAPs requires application of some form of 'ceiling test', IFRS 6 requires - when impairment indicators are present - an impairment test in accordance with IAS 36 to be performed;
- ▶ IFRS 6 requires exploration and evaluation assets to be classified as tangible or intangible assets according to the nature of the assets. In other words, even when an entity accounts for Exploration and Evaluation costs in relatively large pools, it will still need to distinguish between tangible and intangible assets; and
- ▶ once the technical feasibility and commercial viability of extracting mineral resources are demonstrable, IFRS 6 requires exploration and evaluation assets to be tested for impairment under IAS 36, reclassified in the balance sheet and accounted for under IAS 16 or IAS 38. That means that it is not possible to account for successful and unsuccessful projects within one cost centre or pool.

For these reasons it is not possible to apply the full cost method of accounting under IFRS without making very significant modifications in the application of the method. An entity might want to use the full cost method as its starting point in developing its accounting policy for Exploration and Evaluation assets under IFRS. However, it will rarely be appropriate to describe the resulting accounting policy as a 'full cost method' because key elements of the full cost method are not permitted under IFRS.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Oil and gas properties and other property, plant and equipment

Oil and gas properties and other property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses.

IAS 16.73 (a)

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

#### **Depreciation**

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, and major inspection costs are amortised over three to five years which represents the estimated period before the next planned major inspection. Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life.

#### **Commentary**

##### **Reserves base for unit-of-production method of depreciation**

An important decision in applying the unit-of-production method is selecting the reserves base that will be used. The following reserves bases could in theory be used:

- (a) proved developed reserves;
- (b) proved developed and undeveloped reserves;
- (c) proved and probable reserves; and
- (d) proved, probable and possible reserves.

It is important that, whatever reserves base is chosen, the costs applicable to that category of reserves are included in the depreciable amount to achieve a proper matching of costs and production. For example, if the cost centre is not fully developed there may be costs that do not apply, in total or in part, to proved developed reserves, which may create difficulties in matching costs and reserves. In addition, some reserve categories will require future costs to bring them to the point where production may begin.'

##### **Reserves estimates**

The reserves estimate to be used for the purposes of applying the unit-of-production method of depreciation is the best estimate of the reserves at the beginning of the period. However, a revised and more accurate estimate is often available by the end of the period. It could therefore be argued that in order to take into account the most recent information, the opening reserves should be calculated by adding the 'closing reserves estimated at the end of the period' to the 'current period's production'. However, reserve estimates might change for a number of reasons: (a) more detailed knowledge about existing reserves (e.g. detailed engineering studies or drilling of additional wells); (b) new events that affect the physical quantity of reserves (e.g. explosion on the platform); and (c) changes in economic assumptions (e.g. higher commodity prices). It is generally not appropriate to take account of these events retrospectively. For example, changes in reserves estimates that result from events that took place after the balance sheet date (such as those under (b) and (c) above) are non-adjusting events that should be accounted for prospectively in accordance with IFRS. Changes in reserve estimates that result from 'new information or new developments' (such as those under (a) above) are not considered to be corrections of errors; instead they are changes in accounting estimates that should be accounted for prospectively under IFRS (paragraphs 32 to 38 of IAS 8). There is some existing industry practice to push the revised reserves estimates back to the beginning of the quarter that is currently being reported on.

##### **Development and production asset swaps**

Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the amount given up. Any gain or loss on derecognition of the asset given up is recognised in profit or loss.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### *Major maintenance and repairs*

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other maintenance costs are expensed as incurred.

### **Other intangible assets and goodwill**

Intangible assets are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses. Other intangible assets include computer software. IAS 38.24  
IAS 38.74

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. IAS 38.33  
IAS 38.59

Goodwill is tested for impairment annually. IFRS 3.54

### **Impairment of non-financial assets**

The Group conducts annual internal reviews of values of goodwill and indefinite life intangible assets. Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. IAS 36.9  
IAS 36.18  
IAS 36.22

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less cost to sell and value in use). IAS 36.59

Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation. IAS 36.60

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount. IAS 36.110  
IAS 36.114  
IAS 36.117  
IAS 36.119  
IAS 36.124

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Commentary

IAS 36.96 permits the annual impairment test for goodwill to be performed at any time during the year provided it is at the same time each year.

#### The level of cash generating units

A cash-generating unit (CGU) is defined by the standard as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In determining appropriate cash-generating units an entity will need to consider the following issues in particular:

- (a) is there an active market for intermediate products;
- (b) are there external users of the processing assets;
- (c) are there fields or mines that are operated as one 'complex' though the use of shared infrastructure; and
- (d) are there stand-alone fields or mines that operate on a portfolio basis.

In the upstream industry the field may be an appropriate cash-generating unit since in most cases it is the level at which separately identifiable cash flows are available.

Impairment calculation is based on proved reserves plus risk adjusted probable and possible reserves.

#### The prices to apply to future production

We would generally expect management to make use of prices that are observable in the market as observable market prices are generally more reliable. Inputs to impairment calculations and long-term prices used should be consistent with those used for investment appraisal purposes and will likely be linked to an internal long-term planning assumption.

#### Foreign exchange rates

In accordance with IAS 36, when calculating the value in use of the cash-generating unit, discounted cash flows denominated in a foreign currency must be translated at the spot rate at the time of the calculation.

#### Shared infrastructure

Shared infrastructure between fields can be dealt with in two ways consistent with the guidance in IAS 36 regarding corporate assets. Under the first approach shared infrastructure is allocated to the fields/CGUs in question and each field is tested for impairment individually when indicators of impairment exist. The second approach is to aggregate the CGUs to which the shared infrastructure is dependent and test the shared infrastructure for impairment at this combined level of CGUs. In the absence of a clear industry accounting practice both approaches are considered acceptable.

#### Reversal of impairment loss

Any impairment loss on an exploration and evaluation asset that has been recognised in accordance with IFRS needs to be reversed when the requirements specified in paragraphs 109 to 123 of IAS 36 have been met. In some circumstances when an entity recognises an impairment of an exploration and evaluation asset, it also needs to decide whether or not to derecognise the asset because no future economic benefits are expected. If an entity concludes that production is not technically feasible or commercially viable, that provides evidence that the related exploration and evaluation asset needs to be tested for impairment. Based on such evidence an entity may conclude that no future economic benefits are expected. Although IFRS does not specifically deal with derecognition of exploration and evaluation assets, the entity should derecognise the exploration and evaluation asset because (1) the asset is no longer in the exploration and evaluation phase and hence outside the scope of IFRS, and (2) other asset standards such as IAS 16 and IAS 38 would require derecognition under those circumstances. Subsequent to derecognition, the costs of an exploration and evaluation asset that has been written off cannot be recognised as part of a new exploration and evaluation asset.

### Financial assets

IFRS 7.21

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments

IAS 39.43

not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. Embedded derivatives are

IAS 39.10

separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

IAS 39.11A

The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. IAS 39.9  
IAS 39.46

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss. IAS 39.AG14  
IAS 39.55(a)

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. IAS 39.9  
IAS 39.46(a)  
IAS 39.56

### **Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. IAS 39.48A  
IFRS 7.27

### **Cash and cash equivalents**

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less. IAS 7.6  
IAS 7.45

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. IFRS 7.21  
IAS 39.43

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. IAS 39.47

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process. IAS 39.56

### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. IAS 39.9  
IAS 39.AG14  
IAS 39.55(a)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit and loss. IAS 39.11  
IAS 39.9(b)  
IFRS 7.8(e)

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. These contracts are accounted for as executory contracts. The Group recognises such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

IAS 39.5

### Commentary

For those financial instruments not specifically mentioned in the Good Petroleum accounting policy (for example, held to maturity financial assets), please refer to Good Group (International) Limited Illustrative Financial Statements.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses.

IAS 2.36(a)  
IAS 2.9  
IAS 2.10

Supplies are valued at cost to the group mainly using the weighted average cost method or net realisable value, whichever is the lower.

### Pipeline fill

Crude oil which is necessary to bring a pipeline into working order is treated as a part of the related pipeline on the basis that it is not held for sale or consumed in a production process, but is necessary to the operation of a facility during more than one operating cycle, and its cost cannot be recouped through sale (or is significantly impaired). This applies even if the part of inventory that is deemed to be an item of property, plant and equipment (PP&E) cannot be separated physically from the rest of inventory. Valuation is at cost and it is depreciated over the useful life of related asset.

IAS 2.6(c)

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

IFRIC 4.6  
IAS 17.8

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

IAS 17.20

For arrangements entered into prior to 1 January 2006, the date of inception is deemed to be 1 January 2006 in accordance with the transitional requirements of IFRIC 4.

### Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

IAS 17.8  
IAS 17.25

IAS 17.20  
IAS 17.25

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

IAS 17.27  
IAS 17.33

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.



# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### *Group as a lessor*

IAS 17.8  
IAS 17.52

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### *Embedded leases*

IFRIC 4.6

All take or pay contracts are reviewed for indicators of a lease on inception.

## **Provisions**

### *General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

IAS 37.14

IAS 37.53

IAS 37.54

IAS 37.45

IAS 37.47

IAS 37.60

### *Decommissioning liability*

Decommissioning liability is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

IAS 16.16(c)  
IAS 37.45

IAS 37.47

IAS 37.59

IFRIC 1.6(a)

IFRIC 1.8

The company recognises neither the deferred tax asset regarding the temporary difference on the decommissioning liability nor the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

## **Commentary**

There are two acceptable approaches as to whether a deferred tax on the temporary differences that arise from the initial recognition of the decommissioning asset and liability should be recognised:

Approach 1: The company recognises: (1) a deferred tax asset regarding the temporary difference on the decommissioning liability and (2) a deferred tax liability regarding the temporary difference on the decommissioning asset. On day 1, the deferred tax asset and deferred tax liability are equal and opposite and the criteria of offset contained in IAS 12 paragraphs 71 and 76 are met so the net amount recognised in the financial statements is zero. However, subsequently, the decommissioning asset will be amortised at a different rate than the underlying liability at which point a deferred tax asset or liability is recognised.

Approach 2: The company recognises neither the deferred tax asset regarding the temporary difference on the decommissioning liability nor the corresponding deferred tax liability regarding the temporary difference on the decommissioning asset. The initial recognition exemption of IAS 12 paragraphs 15 and 24 applies to each separately recognised element in the balance sheet with no subsequent recognition reassessment.

## **Taxes**

### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

IAS 12.46

IAS 12.47

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.



# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### **Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

IAS 12.5

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

IAS 12.24

IAS 12.39

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- ▶ where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

IAS 12.24

IAS 12.44

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

IAS 12.56

IAS 12.37

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

IAS 12.47

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

IAS 12.61

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

IAS 12.74

### **Production taxes**

IAS 18.8

In addition to corporate income taxes, the Group's consolidated financial statements also include and disclose as taxes on income typical taxes on net income however determined from oil and gas production.

IAS 12.2

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income - rather than based on quantity produced or as a percentage of revenue - after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

### **Production-sharing arrangements**

According to the production-sharing agreement, the share of the profit oil to which the government is entitled in any calendar year in accordance with the production sharing contract is deemed to include a portion representing the corporate income tax imposed upon and due by Good Petroleum, and which will be paid directly by the government on behalf of Good Petroleum to the appropriate tax authorities. This portion of income tax and revenue are presented net in the income statement.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Commentary

The oil & gas industry is subject to numerous fiscal regimes throughout the world. These fiscal regimes go by a number of names including royalties, production taxes, excise taxes, petroleum taxes, revenue taxes etc. One issue is identifying which of these fiscal regimes represent income taxes and are therefore subject to the accounting required in IAS 12 and which are not income taxes and therefore fall outside the scope of IAS 12.

Many PSAs provide that the income tax to which the contractor is subject is deemed to have been paid to the government as part of the payment of profit oil. Such "notional" income tax could be presented either net or gross. The disadvantage of presenting gross is that the combined production attributed to the entity and that attributable to the government exceeds the total quantity of oil that is actually produced. On the other hand, if (1) the host country has a well established income tax regime that falls under the authority of the Ministry of Finance, and (2) the production sharing contract requires an income tax return to be filed, then the entity would have a legal liability to pay the tax until the date on which the Ministry pays the tax on its behalf. In such cases, it may be appropriate to present revenue and income tax on a gross basis.

### Revenue recognition

Revenue from sale of oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

IAS 18.35(a)

IAS 18.14

Revenue from the production of oil in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant.

Sales between Group companies, as disclosed in the segment information, are based on prices generally equivalent to commercially available prices.

IAS 18.75

Revenue is stated after deducting sales taxes, excise duties and similar levies.

IAS 18.8

### Take or pay contracts

Under these contracts, the Group makes a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective (force majeure) and adjustment provisions. If a buyer has a right to get a 'make up' delivery at a later date revenue recognition is deferred if no such option exists according to the contract terms revenue is recognised when the take-or-pay penalty is triggered.

### Commentary

#### Overlift and underlift

The two methods of accounting for underlifts and overlifts that are commonly used in the oil and gas industry are (a) the sales method and (b) the entitlements method.

#### A Sales method

Under the *sales method*, revenue is the value of what a participant sells or the value of all product that has been transferred to its downstream activity. A drawback of the sales method is that when an imbalance occurs it gives rise to a mismatch between expenses and revenue. This mismatch arises because the participants' share of expenses for the period is often equal to its ownership percentage, while its revenues are based on actual sales. There are two approaches to dealing with the effects of such mismatches:

- (1) Accrue or defer expenses - An overlift participant should accrue for future expenses that are not matched by corresponding future revenues. Conversely, an underlift participant should defer expenses and match them against future catch-up production.
- (2) No adjustment - Not accounting for the effects of imbalances has been justified on the grounds that (1) the amounts involved are immaterial, or (2) operating costs for the period should be expensed as incurred because they relate to the period's production activity and not to the revenues recognised.

Under the sales method a liability is recognised only when the participant in an overlift position is unable to make up the imbalance from remaining reserves.

#### B Entitlements method

Under the *entitlements method*, revenue reflects the participant's share of production regardless of which participant has actually made the sale and invoiced the production. This is achieved by applying one of the following approaches in dealing with imbalances between actual sales and entitlements:

- (1) Adjusting revenue - The excess of product sold during the period over the participant's ownership share of production from the property is recognised by the overlift party as liability and not as revenue. Conversely, the underlift party would recognise an underlift asset and report corresponding revenue.
- (2) Adjusting cost of sales - This version of the entitlements method, which is the recommended approach under the UK OIAC SORP, requires the cost of sales to be adjusted to take account of an asset or liability that reflects the lifting imbalance.

# Notes to the consolidated financial statements

## 2.3 Summary of significant accounting policies *continued*

### Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are substantially ready for their intended use i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from such short term investments is also capitalised and reduced from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

IAS 23.11

IAS 23.15

IAS 23.17

### Pension benefit obligation

The Group operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date. These gains and losses are recognised over the expected average remaining working lives of the employees participating in the plan.

IAS

19.120A(b)

IAS 19.64

IAS

12.120A(a)

IAS 19.92

IAS 19.93

IAS 19.96

Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

IAS 19.54

IAS 19.58

## 2.4 Future changes in accounting policies

The following standards and interpretations have not been illustrated as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. We do not expect the impact of such changes on the financial statements to be material.

IAS 8.30

IAS 8.31

### IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*

This amendment to IFRS 2 was issued in January 2008 and becomes effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition of a vesting condition and prescribes the treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

### IFRS 3 (Revised) *Business Combinations*

IFRS 3 (Revised) Business Combinations was issued in January 2008 and will apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2008. Amongst other changes, the new Standard will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs to be recognised immediately in the income statement. Fair value gains or losses on existing investments in an acquired company will be recognised in the income statement at the date of acquisition.

### IFRS 8 - *Operating Segments*

In November 2006, the IASB issued IFRS 8, "*Operating Segments*", which specifies how an entity should report information about its operating segments in annual financial statements to require an entity to report selected information about its operating segments in interim financial reports. This statement also outlines the requirements for related disclosures about products and services, geographical areas, and major customers and is effective for annual periods beginning on or after January 1, 2009.

# Notes to the consolidated financial statements

## 2.4 Future changes in accounting policies *continued*

### **IAS 1 (Revised) - Presentation of Financial Statements**

In September 2007, the IASB issued a revised IAS 1 "Presentation of Financial Statements". The Group does not expect that the revised Standard will have a significant impact on its financial statements. The revised Standard is effective for annual periods beginning on or after January 1, 2009, with early application permitted.

### **IAS 23 - Borrowing Costs**

In March 2007, the IASB issued a number of amendments to IAS 23 "Borrowing costs". The amendments require that borrowing costs relating to the acquisition, construction or production of a qualifying asset be capitalised as part of the cost of the asset. All other borrowing costs should be expensed as incurred. The revised Standard is effective for annual periods beginning on or after January 1, 2009, with early application permitted. Retrospective application is not required.

### **IAS 27 (Revised) - Consolidated and Separate Financial Statements**

IAS 27 (Revised) 'Consolidated and separate financial statements' was issued in January 2008 and will be implemented at the same time as IFRS 3 (Revised). In respect of transactions with non-controlling interests in Group entities that do not result in a change of control, the revised Standard requires that the difference between the consideration paid or received and the recorded non-controlling interest is recognised in equity. In the case of divestment of a subsidiary, any retained interest will be remeasured to fair value and the difference between fair value and the previous carrying value will be recognised immediately in the income statement.

### **IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation**

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendments allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified features.

### **IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

IFRIC 14 becomes effective for annual periods beginning on or after 1 January 2008 and provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*.

## Notes to the consolidated financial statements

### 3. Business combinations – acquisitions

Good Petroleum has acquired 100% of the share capital of Desert, a company holding certain exploration and development licenses, on 1 February 2008. Significant exploration costs were acquired together with this purchase.

IFRS 3.66(a)  
IFRS 3.67(a),  
(b), (c)

The provisional fair values of identifiable assets and liabilities of Desert as at the date of acquisition were:

	<b>Carrying Value</b>	<b>Provisional fair value</b>	
	<b>US\$ millions</b>	<b>US\$ millions</b>	
Exploration and evaluation assets	61	72	
Oil and gas properties	358	487	
Other property, plant and equipment	20	29	
Inventories	8	1	
Other current assets	37	39	
Cash and cash equivalents	96	96	
		–	
Trade and other payables	(52)	(52)	
Deferred tax liabilities	(17)	(42)	
Provisions	(65)	(65)	
Long-term debt	(57)	(57)	
<b>Net assets</b>	<b>389</b>	<b>508</b>	
Goodwill		42	
<b>Total consideration</b>		<b>550</b>	IFRS 3.67(d)
<b>Consideration</b>			
Cash consideration		550	
Cash and cash equivalents acquired		(96)	
		<b>454</b>	

The fair values are provisional due to complexity of the acquisition and due to the inherently uncertain nature of the oil and gas industry and intangible exploration evaluation assets in particular. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest.

From the date of acquisition, Desert has contributed US\$25 million to the profit of Good Petroleum group.

IFRS 3.67(i)

The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the tax effect of the difference between the fair value of the assets and liabilities acquired and their tax bases.

If the acquisition of Desert had been completed on the first day of the financial year, group revenues for the year would have been US\$360 million and group profit would have been US\$120 million.

IFRS 3.70(b)  
IFRS 3.70(a)

#### Commentary

Traditionally, many oil and gas companies always assumed that the entire consideration paid for upstream assets should be allocated to the identifiable net assets acquired, i.e. any excess over the fair value would be included within mineral reserves acquired. However, goodwill could arise as a result of synergies, overpayment by the acquirer (in which case the goodwill would be impaired immediately) or when IFRS requires that acquired assets and/or liabilities are measured at an amount that is not fair value (e.g. deferred taxation). Therefore it is not appropriate for oil and gas companies to assume under IFRS that goodwill never arises in a business combination. Instead, mineral reserves acquired should be valued separately and any excess consideration over and above the value of the identifiable net assets (which include mineral reserves), should be allocated to goodwill.

Under IFRS, an entity is required to provide for deferred taxation on the temporary differences relating to all identifiable net assets acquired (including mineral reserves), but not on temporary differences related to goodwill. Therefore, if the excess of the purchase consideration over the fair value of the identifiable assets were to be classified within mineral reserves, IAS 12 would give rise to a deferred tax liability on the temporary difference. In principle, that would result in an iterative calculation in which the deferred tax liability recognised would increase the amount attributed to mineral reserves, which would in turn give rise to an increase in the deferred tax liability. Given the very high marginal tax rates to which extractive activities are often subject (i.e. tax rates of 60 to 80% are not uncommon) the mineral reserves might end up being grossed up by a factor of 2½ to 5 (i.e.  $1/(1 - 60\%) = 2\frac{1}{2}$ ). This instance would not exist if the recognition of the deferred tax liability were offset by the recognition of goodwill.

# Notes to the consolidated financial statements

## 4. Interests in joint ventures

### Interests in jointly controlled assets and operations

IAS 31.56

#### Jointly controlled pipeline

Good Petroleum jointly with other participants owns certain pipeline assets, which it mostly uses to transport its own oil to the nearest main oil line. Good Petroleum's share is 25%.

#### Farm-out arrangement

Good Petroleum entered into an agreement with Oilco to share costs and risks associated with exploration activities on field Grizzly. Oilco contributed US\$23 million and in return receives a 20% working interest in the field. Oilco will contribute 20% of operating costs and capital expenditure going forward and Good Petroleum has been appointed as operator.

IAS 31.15

#### Production-sharing agreement (PSA) for block A of Rock field

A PSA has been signed with the Oil and Gas Ministry of Petroland during the year. In accordance with this PSA, in any given year, Good Petroleum's entitlement to oil from the project will fluctuate, dependent upon factors including cumulative capital expenditure, inflation and oil prices, and is determined through a formula detailed in the PSA.

Summarised financial statement information for the group's share of jointly controlled assets and operations is disclosed below:

	<u>2008</u>	<u>2007</u>	
	US\$ millions	US\$ millions	
<b>Non-current assets</b>			
Exploration and evaluation assets	48	55	IAS 31.21
Oil and gas properties	229	206	
Other property, plant and equipment	<u>1</u>	<u>2</u>	
	<u>278</u>	<u>263</u>	
<b>Current assets</b>			
Accounts receivable	19	20	
Inventories	1	–	
Financial assets	<u>14</u>	<u>21</u>	
	<u>34</u>	<u>41</u>	

The aggregate of the Group's commitments through jointly controlled operations is:

IAS 31.55

	<u>2008</u>	<u>2007</u>
	US\$ millions	US\$ millions
Capital	20	30
Exploration and other commitments	48	51

### Interests in jointly controlled entities

Good Petroleum has a 50% interest in Vessel Limited, a jointly controlled entity which is involved in the transportation of oil and petroleum products. The interest in this joint venture is accounted using the equity accounting method.

Summarised financial statement information of the equity accounted joint venture entity is disclosed below:

	<u>2008</u>	<u>2007</u>
	US\$ millions	US\$ millions
Sales and other operating revenues	524	154
Finance costs and other finance expense	1	–
Profit before taxation	113	38
Taxation	42	13
Profit for the year	139	25
Non-current assets	284	110
Current assets	142	55
Total assets	426	165
Current liabilities	92	36
Non-current liabilities	108	42
Total liabilities	200	78

# Notes to the consolidated financial statements

## 4. Interests in joint ventures *continued*

### Commentary

In a farm-in situation the transferor retains a part of the property and continues to fund its share of future costs. Therefore a farm-in represents a disposal of a part of the transferor's oil & gas property in exchange for the funding of future costs and the funding of future costs represents a deferred acquisition cost to the transferee.

Farm-in and farm-out agreements could be structured in numerous ways, some including a fixed monetary amount while others may be more flexible and state, for example, that capital expenditures over the next 5 years will be paid for by the transferee regardless of what those amounts may be.

## 5. Operating (loss)/profit

Operating profit is stated after (charging)/crediting:

		<u>2008</u>	<u>2007</u>	
		US\$ millions	US\$ millions	
Employee benefits expense		(158)	(161)	IAS 1.93
Depreciation charge - oil and gas properties		(634)	(285)	IAS 1.93
Impairment of oil and gas properties	5.1	(33)	(9)	IAS 36.126(a)
Gain on sale of oil and gas properties		39	58	IAS 1.87
Pre-license expenditure	5.3	(13)	(9)	IFRS 6.23, IAS 36.126 (a)
Impairment of exploration and evaluation assets		(5)	(6)	IFRS 6.23, IAS 36.126 (b)
Reversal of previously impaired exploration and evaluation assets	5.2	16	-	IFRS 6.23
Exploration and evaluation costs written off		(90)	(75)	IAS 38.54
Gain on sale of exploration and evaluation assets	5.4	1	-	IAS 1.87
Depreciation of other property, plant and equipment		(7)	(8)	IAS 1.93
Amortisation of other intangible assets		(1)	-	IAS 38.118(d)
Operating lease payments		(43)	(20)	IAS 17.35(c)
Movement in oil inventory		5	3	IAS 2.36(d)
Major maintenance expenditure written-off		(12)	(11)	
Royalties paid		(182)	(181)	

### 5.1. Impairment of oil and gas properties

Floods have damaged certain isolated production facilities of Eagle field. During the year the Group carried out an impairment review of the related cash-generating unit. The review determined that the commercial viability of some of the units has been exhausted. As a result impairment was charged to the income statement. Please refer to the details in note 14 for description of the assumptions used in the impairment calculation. The impairment charge is included in other operating expenses.

### 5.2. Reversal of previously impaired capitalised exploration and evaluation expenditure

The Group has reversed some of the previously booked impairments related to field Sand. These reversals resulted from a positive change in the estimates used to determine the assets' recoverable amount since the impairment losses were initially recognised. The reversal of the previously booked impairment charge is included in other operating expenses.

### 5.3. Pre-license expenditure

The write-off of pre-license expenditure relates predominantly to the license areas Fox and Snake where Good Petroleum incurred geological and geophysical costs but where no rights have yet been granted by Petroland government.

### 5.4. Gain on sale of exploration and evaluation assets

The company entered into a farm-out agreement with Oilco to share costs and risks associated with exploration activities on Grizzly field as described in note 4. A gain on disposal of exploration assets of US\$ 1 million was recognised.

All profits and losses in the current and preceding year were derived from continuing operations.



# Notes to the consolidated financial statements

## 5. Operating (loss)/profit continued

### Commentary

The disposal of exploration and evaluation assets was recognised in accordance with the example 6 of ED 9, i.e. a farm-in arrangement is considered as a cost-sharing and risk-sharing arrangement whereby one party sells an interest in exploration assets to another party. The selling party would recognise a gain or loss on disposal of the exploration assets, while the buyer would recognise a joint asset.

Accounting policies for farm-in arrangements in the exploration and evaluation phase that are based on national GAAPs will often require that:

- ▶ the farmee recognises its expenditure under the arrangement in respect of its own interest and that retained by the farmor, as and when the costs are incurred. The farmee accounts for its expenditures under a farm-in arrangement in the same way as directly incurred E&E expenditure; and
- ▶ the farmor accounts for the farm-out arrangement as follows:
  - ▶ the farmor does not record any expenditure made by the farmee on its behalf;
  - ▶ the farmor does not recognise a gain or loss on the farm-out arrangement, but rather redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
  - ▶ any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

If an entity applies its previous GAAP accounting policy in respect of farm-in arrangements, it is required to also make the farm-in disclosures in accordance with its previous GAAP.

For the purposes of these illustrative financial statements where Good Petroleum is the farmor, any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

## 6. Revenue

	<u>2008</u>	<u>2007</u>	
	US\$ millions	US\$ millions	
<b>Revenue from crude oil sales</b>	<u>3,828</u>	<u>2,917</u>	IAS 18.35 (b)
<b>Interest income</b>	<u>24</u>	<u>25</u>	IFRS 7.20(b)

## 7. Income tax

The major components of income tax expense for the years ended 30 June 2008 and 2007 are: IAS 12.79

	<u>2008</u>	<u>2007</u>	
	US\$ millions	US\$ millions	
<b>Consolidated income statement</b>			
Current income tax:	810	618	IAS 12.80(a)
Current income tax charge			
Deferred income tax:			
Relating to origination and reversal of temporary differences	<u>(13)</u>	<u>(89)</u>	IAS 12.80(c)
<b>Income tax expense reported in the income statement</b>	<u>797</u>	<u>529</u>	

A reconciliation between tax expense and the product of accounting profit multiplied by Petroland's domestic tax rate for the years ended 30 June 2008 and 2007 is as follows: IAS 12.81 (c), (i)

	<u>2008</u>	<u>2007</u>
	US\$ millions	US\$ millions
<b>Accounting profit before income tax</b>	1,914	1,449
At Petroland's statutory income tax rate of 30% (2007: 30%)	574	434
Non-deductible expenses	68	30
Petroleum revenue tax (net of income tax benefit)	148	143
Under/ (over) provided in prior years	<u>7</u>	<u>(78)</u>
<b>At the effective income tax rate of 42% (2007: 37%)</b>	<u>797</u>	<u>529</u>
Income tax expense reported in the consolidated income statement	<u>797</u>	<u>529</u>



# Notes to the consolidated financial statements

## 7. Income tax continued

### Deferred income tax

Deferred income tax at 30 June relates to the following:

	Consolidated balance sheet		Consolidated income statement		IAS 12.81(g)(i)
	2008	2007	2008	2007	IAS 12.81(g)(ii)
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	
<b>Deferred tax liability</b>					
Accelerated depreciation for tax purposes	(111)	(146)	35	(18)	
Exploration and evaluation costs capitalised	(114)	(43)	(71)	8	
Fair value adjustment on acquisition	(42)	-	-	-	
Oil and gas properties	(201)	(197)	(3)	(25)	
	<u>(468)</u>	<u>(386)</u>			
<b>Deferred income tax assets</b>					
Pension plan deficit	1	1	-	(6)	
Losses available for offset against future taxable income	82	56	26	(48)	
	<u>83</u>	<u>57</u>			
<b>Deferred income tax income/(expense)</b>			<u>(13)</u>	<u>(89)</u>	
<b>Deferred tax liabilities net</b>	<u>(385)</u>	<u>(329)</u>			
Reflected in the balance sheet as follows					
Deferred tax assets	83	57			
Deferred tax liabilities	<u>(468)</u>	<u>(386)</u>			
<b>Deferred tax liabilities net</b>	<u>(385)</u>	<u>(329)</u>			

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised. IAS 12.81(e)

The Group has tax losses that are available indefinitely of US\$234 million (2007 US\$550 million) to carry forward against future taxable income of the subsidiaries in which the losses arose. IAS 12.87

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognised aggregate to US\$58 million (2007 US\$94 million).

## 8. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings. IAS 33.70(c)

	2008 US\$ millions	2007 US\$ millions	IAS 33.70(a) IAS 33.70(b) IAS 33.66
Net profit attributable to ordinary shareholders	1,117	920	
Weighted average number of ordinary shares	<u>1,564</u>	<u>958</u>	
Basic and diluted earnings per ordinary share US\$	<u>0.71</u>	<u>0.96</u>	

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. IAS 33.70(d)

# Notes to the consolidated financial statements

## 9. Dividends paid and proposed

	2008	2007	
	US\$ millions	US\$ millions	
Declared and paid during the year:			
Interim dividend current period	245	100	
Final dividend prior period	105	40	
<b>Total dividends paid in the year</b>	<b>350</b>	<b>140</b>	
	2008	2007	IAS 1.95
	US\$ millions	US\$ millions	
Weighted average number of ordinary shares	1,564	1,564	IAS 1.95
<b>Dividend per ordinary share</b>	<b>US\$0.22</b>	<b>US\$0.09</b>	
Final dividend proposed for approval at AGM (not recognised as liability as at 30 June) - US\$ 0.15per share (2007-US\$ 0.07 per share)	235	104	IAS 1.125(a)

## 10. Exploration and evaluation assets

	US\$ millions	
<b>Cost as at 1 July 2006</b>	<b>361</b>	IFRS 6.23
Additions	293	IFRS 6.25
Unsuccessful exploration expenditure derecognised	(75)	IFRS 6.24(b)
Transfer to oil and gas properties	(55)	
<b>Cost as at 30 June 2007</b>	<b>524</b>	
Additions	358	
Acquisition of Desert	72	
Farm-out of interest in Grizzly	(22)	
Unsuccessful exploration expenditure derecognised	(90)	
Transfer to oil and gas properties	(71)	
<b>Cost as at 30 June 2008</b>	<b>771</b>	
<b>Provision for impairment as at 1 July 2006</b>	<b>(17)</b>	
Impairment charge for the year	(6)	
Reversal of previously booked impairments	-	
<b>Provision for impairment as at 30 June 2007</b>	<b>(23)</b>	
Impairment charge for the year	(5)	
Reversal of previously booked impairments	16	
<b>Provision for impairment as at 30 June 2008</b>	<b>(12)</b>	
<b>Net book value as at 30 June 2007</b>	<b>501</b>	
<b>Net book value as at 30 June 2008</b>	<b>759</b>	

# Notes to the consolidated financial statements

## 10. Exploration and evaluation assets *continued*

### Commentary

Specifying the level at which E&E assets are assessed for impairment.

The IASB's original proposals in ED 6 - Exploration for and Evaluation of Mineral Resources - regarding the level at which E&E assets should be assessed for impairment attracted considerable comment. Consequently, the Board decided that, rather than introduce a special cash-generating unit for E&E assets as it had proposed, it would allow cash-generating units to be aggregated in a way consistent with the approach to goodwill in IAS 36. Therefore, an entity should determine an accounting policy for allocating E&E assets to cash-generating units or to groups of cash-generating units for the purpose of assessing such assets for impairment.

Depending on the segment reporting standard that an entity applies, IFRS 6 requires that each cash-generating unit or group of units to which an E&E asset is allocated should not be larger than an operating segment determined in accordance with IFRS 8 - Operating Segments, or if the entity is still applying IAS 14 - Segment Reporting - a segment based on either the entity's primary or secondary reporting format determined in accordance with IAS 14.

Hence, the level identified by an entity for the purposes of testing exploration and evaluation assets for impairment may be comprised of one or more cash-generating units.

Many entities applying IAS 14 identify only one business or geographical segment, which allows them to treat the entire entity as one cash-generating unit for the purposes of impairment testing of E&E assets. Adoption of IFRS 8 will usually result in the identification of additional operating segments, which will require such entities to apply a more granular approach towards impairment testing of their E&E assets.

### Reversal of impairment losses

Any impairment loss on an E&E asset that has been recognised in accordance with IFRS 6 needs to be reversed when the requirements specified in paragraphs 109 to 123 of IAS 36 have been met.

In some circumstances when an entity recognises an impairment of an E&E asset, it also needs to derecognise the asset if no future economic benefits is expected.

## 11. Oil and gas properties

	<u>US\$ millions</u>	
		<i>IAS 1.75(a)</i>
<b>Cost as at 1 July 2006</b>	<b>3,728</b>	
Additions	1,460	<i>IAS 16.73(e)</i>
Transferred from exploration and evaluation assets	55	
Change in decommissioning provision	179	
Disposals	(115)	
Deletions	(31)	
<b>Cost as at 30 June 2007</b>	<b>5,276</b>	
Additions	1,154	
Acquisition of Desert	487	
Transferred from exploration and evaluation assets	71	
Change in decommissioning provision	230	
Disposals	(72)	
Deletions	(12)	
<b>Cost as at 30 June 2008</b>	<b>7,134</b>	
<b>Depletion and impairment as at 1 July 2006</b>	<b>(1,339)</b>	<i>IAS 16.73(d)</i>
Charge for the year	(285)	
Provision for impairment	(9)	
Disposals	32	
Deletions	31	
<b>Depletion and impairment as at 30 June 2007</b>	<b>(1,570)</b>	
Charge for the year	(634)	
Provision for impairment	(33)	
Disposals	34	
Deletions	12	
<b>Depletion and impairment as at 30 June 2008</b>	<b>(2,191)</b>	
<b>Net book value as at 30 June 2007</b>	<b>3,706</b>	<i>IAS 16.73(d)</i>
<b>Net book value as at 30 June 2008</b>	<b>4,943</b>	

## Notes to the consolidated financial statements

### 11. Oil and gas properties *continued*

Borrowing costs relating to drilling of development wells, that have been capitalised within oil and gas properties during the period amount to US\$10 million (2007: US\$1 million), at a weighted average interest of 5.8% (2007: 5.7%). IAS 23.29(c)

The net book value at 30 June 2008 includes US\$756 million (2007: US\$865 million), in respect of development assets under construction which are not being depreciated. IAS 16.74(b)

Cash outflow for the purchases of oil and gas properties was US\$1,108 million (2007: US\$1,134 million).

Please refer to note 14 for the details on impairment testing of oil and gas properties.

### 12. Other property, plant and equipment

	Freehold land & buildings	Other plant & equipment	Total	
	US\$ millions	US\$ millions	US\$ millions	
Cost				IAS 1.75(a)
<b>At 1 July 2006</b>	87	220	307	IAS 16.73(d)
Additions	21	11	32	
Disposals	(10)	(50)	(60)	
<b>At 30 June 2007</b>	98	181	279	
Additions	0	1	1	
Acquisition with subsidiary	10	19	29	
Disposals	(4)	(9)	(13)	
<b>At 30 June 2008</b>	104	192	296	
Depreciation				
<b>At 1 July 2006</b>	(19)	(62)	(81)	IAS 16.73(d)
Depreciation charge for the year	(5)	(3)	(8)	
Disposals	6	31	37	
<b>At 30 June 2007</b>	(18)	(34)	(52)	
Depreciation charge for the year	(2)	(5)	(7)	
Disposals	0	1	1	
<b>At 30 June 2008</b>	(20)	(38)	(58)	
<b>Net book value:</b>				
<b>At 30 June 2007</b>	<b>80</b>	<b>147</b>	<b>227</b>	IAS 16.73(d)
<b>At 30 June 2008</b>	<b>89</b>	<b>154</b>	<b>238</b>	

#### Useful Lives

The useful lives of the assets are estimated as follows:

	2007-2008	2006-2007	
Buildings	20 years	20 years	IAS 16.73(c)
Plant and equipment	5 to 15 years	5 to 15 years	

Included in plant and equipment at 30 June 2008 was an amount of US\$ 3million (2007: US\$ 46million) relating to expenditure for a facility in the course of construction. IAS 16.74(b)

Cash outflow for the purchases other property, plant and equipment was US\$1 million (2007: US\$32 million).

# Notes to the consolidated financial statements

## 13. Other intangible assets and goodwill

	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>	
	<b>US\$ millions</b>	<b>US\$ millions</b>	<b>US\$ millions</b>	
Cost:				IAS
At 1 July 2006	-	5	5	38.118(c)
Additions	-	4	4	IAS
At 30 June 2007	-	9	9	38.118(e)
Additions	-	4	4	
Acquisition with subsidiary (Note 3)	42	-	42	
<b>At 30 June 2008</b>	<b>42</b>	<b>13</b>	<b>55</b>	IFRS 3.75
Amortisation and impairment:				
At 1 July 2006	-	(1)	(1)	
Amortisation charge for the year	-	(1)	(1)	
At 30 June 2007	-	(2)	(2)	
Amortisation charge for the year	-	-	-	
<b>At 30 June 2008</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>	
<b>Net book value:</b>				
At 30 June 2007	-	7	7	
At 30 June 2008	42	11	53	

Other intangible assets mostly represent computer software which is being amortised over their useful economic lives of three years.

IAS 38.118(a)

## 14. Impairment losses

### Impairment testing of goodwill

The balance of goodwill represents the provisional value acquired through acquisition of Desert and therefore as at 30 June 2008 this goodwill is not subject to any impairment testing.

### Impairment testing of other non-current assets

	<b>2008</b>	<b>2007</b>	
	<b>US\$ millions</b>	<b>US\$ millions</b>	
Impairment losses			
Exploration and evaluation assets	(5)	(6)	IAS 36.126(a)
Oil and gas properties	(33)	(9)	
Other property, plant and equipment	-	-	
Impairment reversals			IAS 36.126(b)
Exploration and evaluation assets	16	-	

During the year ended 30 June 2008, a net reversal on impairment of exploration and evaluation assets was recognised. The main element was a US\$16 million credit for reversals of previously recorded impairments relating to the Sand field. These reversals resulted from a positive change in the estimates used to determine the assets' recoverable amount since the impairment losses were recognised. This was partially offset by impairment losses totaling US\$5 million. The major element was a charge of US\$3 million against exploration and evaluation assets relating to field Gravel which was triggered by downward reserves revisions.

IAS 36.130

Total impairment charges of US\$33 million were recognised in respect of producing oil and gas properties. The major element of this was a charge of US\$20 million relating to fields in the isolated areas of Petroland. The triggers for the impairment tests were primarily the effect of flooding, which extensively damaged certain offshore and onshore production facilities, leading to repair costs and higher estimates of the eventual cost of decommissioning the production facilities and, in addition, reduced estimates of the quantities of hydrocarbons recoverable from some of these fields. The recoverable amount was based on management's estimate of fair value less costs to sell consistent with recent transactions in the area.

# Notes to the consolidated financial statements

## 14. Impairment losses *continued*

In assessing whether an impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. Assets are tested for impairment either individually or as part of a cash generating unit. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value in use. The Group generally estimates value in use using a discounted cash flow model.

The calculation of value in use is most sensitive to the following assumptions:

IAS  
36.130(g)

- ▶ Production volumes;
- ▶ Discount rates;
- ▶ Commodity prices

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10% for the whole of the next 15 years, this would not be sufficient to reduce the excess of recoverable amount over the carrying amounts of the individual cash generating units to zero. Consequently, management believes no reasonably possible change in the production assumption would cause the carrying amount of goodwill and other non-current assets to exceed their recoverable amount.

The Group generally estimates value in use using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 10% (2007 10%). This discount rate is derived from the group's post-tax weighted average cost of capital. Management also believes that currently there is no reasonably possible change in discount rate which would reduce the Group's headroom to zero.

It is estimated that the long-term price of Brent crude oil that would cause the total recoverable amount to be equal to the total carrying amount of non-current assets for individual cash-generating units, would be in the range of \$43 per barrel.

## 15. Pension benefit obligation

The Group has an average salary defined benefit pension scheme covering all of its employees in Petroland. Contributions are made to a separately administered fund.

IAS 19.120A(b)

The amounts recognised in other operating expenses line in the income statement are as follows:

	2008	2007
	US\$ million	US\$ million
Current service cost	14	14
Past service cost	1	1
Interest cost on benefit obligation	8	10
Expected return on plan assets	(9)	(9)
<b>Total net defined benefit pensions costs</b>	<b>14</b>	<b>14</b>

IAS  
19.120A(g)

The actual return on plan assets amounted to US\$ 10million (2007: US\$ 5million).

IAS 19.120A(m)  
IAS 19.120A(f)

The amounts recognised in the balance sheet at the balance sheet date are as follows:

	2008	2007
	US\$ million	US\$ million
Present value of the defined benefit obligation	49	44
Fair value of plan assets	(26)	(23)
<b>Net defined benefit obligation</b>	<b>23</b>	<b>21</b>
Unrecognised past service cost	(1)	(1)
<b>Total net defined benefit obligation</b>	<b>22</b>	<b>20</b>

# Notes to the consolidated financial statements

## 15. Pension benefit obligation *continued*

The expected recovery or settlement of the defined benefit obligation is as follows:

	<u>2008</u>	<u>2007</u>	
	US\$ million	US\$ million	
Current*	2	2	IAS 19.109
Non-current	20	18	IAS 19.110
<b>Net defined benefit obligation</b>	<b><u>22</u></b>	<b><u>20</u></b>	

\*Expected recovery or settlement within 12 months from the balance sheet date.

The movement in the defined benefit obligation is as follows:

	<u>2008</u>	<u>2007</u>	
	US\$ million	US\$ million	
<b>At 1 July</b>	<b>44</b>	<b>35</b>	
Current service cost	19	20	
Past service cost	1	1	
Interest cost	3	3	
Contributions by plan participants	1	-	
Benefits paid	(18)	(15)	
<b>At 30 June</b>	<b><u>50</u></b>	<b><u>44</u></b>	IAS 19.120A(c)

The movement in the plan assets is as follows:

	<u>2008</u>	<u>2007</u>	
	US\$ million	US\$ million	
<b>At 1 July</b>	<b>23</b>	<b>18</b>	
Expected return on plan assets	2	2	
Contributions by employer	17	17	
Contributions by plan participants	1	-	
Benefits paid	(18)	(15)	
Actuarial gains and losses	1	1	
<b>At 30 June</b>	<b><u>26</u></b>	<b><u>23</u></b>	IAS 19.120A(e)

The Group expects to contribute US\$16 million to the defined benefit plan in 2008-2009.

The distribution of the plan assets at balance sheet date is as follows:

	<u>2008</u>	<u>2007</u>	
	US\$ million	US\$ million	
Treasury bills	1	1	
Equities	24	21	
Corporate bonds	1	1	
Properties	-	-	
<b>Total plan assets</b>	<b><u>26</u></b>	<b><u>23</u></b>	IAS 19.120A(j)

The expected rate of returns are as follows:

	<u>2008</u>	<u>2007</u>	
	%	%	
Treasury bills	4.1	4.0	
Equities	13.2	12.2	
Corporate bonds	4.5	4.3	
Properties	10.2	9.5	
<b>Total plan assets</b>	<b><u>4</u></b>	<b><u>4</u></b>	IAS 19.120A(l)

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns.

# Notes to the consolidated financial statements

## 15. Pension benefit obligation *continued*

The principal actuarial assumptions used in determining the pension benefit obligation for the Group's plan are as follows. IAS 19.120A(n)

	<u>2008</u>	<u>2007</u>
	%	%
Rate of increase in salaries	4.5	4.0
Rate of increase in pensions	3.0	2.8
Inflation assumption	2.9	2.8
Discount rate	6.5	6.4
Expected return on plan assets	8.0	7.5

The discount rate is the assumption that has the largest impact on the value of the liability. A 1% increase in this rate would reduce the liability by US\$ 1 million.

The post-retirement mortality base table used for these schemes is PM/FA92. Post-retirement mortality improvements are allowed for through a reduction in the discount rate of 20 basis points which is considered a best estimate. However, the extent of future improvement in longevity is subject to considerable uncertainty and judgment is required in setting this assumption. Increasing the allowance by 5 basis points to a 25 basis point reduction in the discount rate would increase the liability by US\$ 4 million.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	
	US\$	US\$	US\$	US\$	US\$	
	million	million	million	million	million	IAS 19.120A(p)
Defined benefit obligation	50	44	36	40	39	
Plan assets	26	23	18	20	20	
Deficit	(24)	(21)	(18)	(20)	(20)	
Experience adjustments on plan liabilities	-	-	-	-	-	
Experience adjustments on plan assets	1	1	1	1	1	

## 16. Inventories

	<u>2008</u>	<u>2007</u>	
	US\$	US\$	
	million	million	IAS 2.36(b)(c)
Oil and condensate inventories	<u>93</u>	<u>88</u>	

## 17. Trade and other receivables

	<u>2008</u>	<u>2007</u>	
	US\$	US\$	
	million	million	IAS 1.75(b) IFRS 7.6
Trade receivables	537	548	
Other receivables and prepayments	48	51	
Joint venture receivables and prepayments	33	-	
	<u>618</u>	<u>599</u>	

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

Joint Venture receivables and prepayments for the Group include an amount in respect of outstanding cash calls of US\$29.7 million (2007: nil) receivable from the Grizzly joint venture partner Oilco. The overdue cash calls are not considered impaired based on credit worthiness of the counterparty. Management is currently pursuing payment of this amount.



## Notes to the consolidated financial statements

### 17. Trade and other receivables *continued*

As at 30 June 2008, trade receivables at nominal value of US\$6.2 million (2007: US\$6.1 million) were impaired and fully provided for. Movements in allowance for impairment of receivables were as follows:

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
At 1 July	6	5
Charge for the year	6	4
Amounts written off	(3)	(1)
Unused amounts reversed	(3)	(2)
At 30 June	<u>6</u>	<u>6</u>

IFRS 7.16

As at 30 June 2008, the analysis of trade receivables that were past due but not impaired is as follows:

IFRS 7.37(a)

	Neither past due nor impaired		Past due but not impaired					
			Total	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
<b>2008</b>	537	236	188	70	27	11	5	
<b>2007</b>	548	368	113	42	16	6	3	

In determining the recoverability of a trade or other receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

### 18. Cash and cash equivalents

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
Cash at banks and on hand	76	111
Short-term deposits	432	428
	<u>508</u>	<u>539</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is US\$508 million (2007: US\$539 million).

IFRS 7.34(a)

The Group only deposits cash surpluses with major banks of high quality credit standing.

For the purpose of consolidated cash flow statements, cash and cash equivalents comprise the following at 30 June:

IAS 7.45

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
Cash at banks and on hand	76	111
Short-term deposits	432	428
	508	539
Bank overdrafts	(8)	(51)
	<u>500</u>	<u>488</u>

At 30 June 2008, the Group had available US\$10.5 million (2007: US\$10.5 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

IAS 7.50

# Notes to the consolidated financial statements

## 19. Issued capital

Authorised

	2008	2007	
	US\$ million	US\$ million	
<b>Ordinary share capital (of US\$1 each share)</b>	1,564	1,564	IAS 1.75(e) IAS 1.76(a)(i) IAS 1.97(c)
<i>Ordinary shares issued and fully paid</i>	<i>Thousands</i>	<i>US\$ million</i>	IAS 1.76(a)(ii) IAS 1.76(a)(iv)
At 1 July 2006	836,458	836	
Issued on 1 November 2006 for cash	727,975	728	
At 1 July 2007	1,564,433	1,564	
<b>At 30 June 2008</b>	<b>1,564,433</b>	<b>1,564</b>	

## 20. Interest-bearing loans and borrowings

Current	Effective interest rate		2008	2007	
	%	Maturity	US\$ million	US\$ million	
Bank overdrafts	EURIBOR +1.0	On demand	8	51	IFRS 7.6
Other loans:					IFRS 7.8(f)
US\$ 75,000,000 bank loan (2007: US\$ 75,000,000)	EURIBOR +0.5	1-Nov-08	74	-	
			<b>82</b>	<b>51</b>	
<b>Non-current</b>					
10% debentures	10.2	2010-2017	108	77	
US\$ 75,000,000 bank loan (2007: US\$ 75,000,000)	EURIBOR +0.5	1-Nov-08	-	71	
US\$ 450,000,000 bank loan	EURIBOR +1.0	31-Mar-10	424	167	
			<b>532</b>	<b>315</b>	

### Bank overdrafts

The bank overdrafts are secured by a floating charge over all assets of the Group.

IFRS 7.7

### US\$ 75 million bank loan

This loan is repayable in full on 1 November 2008.

### 10% debentures

The 10% debentures are repayable in equal annual instalments of US\$ 35 million commencing on 1 January 2010.

### US\$ 450 million bank loan

This loan is repayable in full on 31 March 2010.

Total interest expense for the year was US\$ 64 million (2007: US\$ 20 million).

## 21. Provisions for liabilities and charges

	Decommissioning	Other	Total	
	US\$ million	US\$ million	US\$ million	
<b>At 1 July 2007</b>	<b>388</b>	<b>1</b>	<b>389</b>	IAS 37.84(a)
Acquisition of a subsidiary	55	10	65	
Arising during the year	183	-	183	IAS 37.84(b)
Write-back of unused provisions	(1)	-	(1)	IAS 37.84(e)
Disposals	(32)	-	(32)	IAS 37.84(c)
Unwinding of discount	27	-	27	IAS 37.84(d)
Utilisation	(2)	-	(2)	
<b>At 30 June 2008</b>	<b>618</b>	<b>11</b>	<b>629</b>	
Of which				
Current	17	2	19	
Non-current	601	9	610	

# Notes to the consolidated financial statements

## 21. Provisions for liabilities and charges *continued*

IAS 37.85

### *Decommissioning provision*

The group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2025. These provisions have been created based on Good Petroleum internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

### *Other provisions*

Other provisions include mostly provisions for litigation claims. Included within these provisions is a provision for a legal claim in respect of the incident occurred on a newly acquired subsidiary Desert (total claimed compensation is US\$ 10 million).

## 22. Accounts payable and accrued liabilities

	<u>2008</u>	<u>2007</u>
	<u>US\$</u>	<u>US\$</u>
	<u>million</u>	<u>million</u>
Trade payables	509	442
Other payables	26	20
Payables and accruals to joint venture partner	32	54
	<u><b>567</b></u>	<u><b>516</b></u>

Terms and conditions of the above financial liabilities:

IFRS 7.39

- ▶ Trade payables are non-interest bearing and are normally settled on 60-day terms.
- ▶ Other payables are non-interest bearing and have an average term of six months.

Payables and accruals to joint venture partner mainly represent the excess of oil sold during the period over the Group's ownership share of the joint venture's production.

# Notes to the consolidated financial statements

## 23. Capital commitments and other contingencies

### Operating lease commitments - Group as Lessee

IAS 17.35(d)

The Group has entered into leases for buildings, motor vehicles and various items of plant and machinery. These leases have an average life of 5 years (2007: 17 years) with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancelable operating leases as at 30 June are as follows:

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
Within one year	50	17
After one year but not more than five years	101	23
More than five years	20	11
	<b>171</b>	<b>51</b>

### Capital commitments

#### Capital commitments (excluding those related to joint ventures)

IAS 16.74(c)

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
Contracted capital expenditure: oil and gas exploration	248	169
Other commitments	75	62

#### Capital commitments related to joint ventures

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
	<b>million</b>	<b>million</b>
Capital commitments incurred by the Group	20	30
Capital commitments incurred jointly with other venturers (Good Petroleum share)	39	16

IAS 31.55

### Contingencies

At 30 June 2008 contingent liabilities amounting to US\$79 million (2007: US\$85 million) existed in respect of performance guarantees for committed work programmes. The amount of the liability is uncertain due to uncertainty relating to the ability of the company to meet performance guarantees and the long-term character of the program.

IAS 37.86

## 24. Related party disclosures

IAS 24.12

The financial statements include the financial statements of Good Petroleum (International) Limited and the subsidiaries listed in the following table:

	<b>Country of incorporation</b>	<b>% equity interest</b>	
		<b>2008</b>	<b>2007</b>
Desert Limited	Petroland	100	-

IAS 24.14

### Joint venture in which the parent is a venturer

IAS 1.126(e)

#### Vessels Limited

IAS 24.12

The Group has a 50% interest in Vessels Limited (2007: 50%).

Good Petroleum (International) is the ultimate Petroland parent entity and the ultimate parent of the Group is O.C. Limited.

During the year, the Group entered into the following transactions, in the ordinary course of business, with related parties:

# Notes to the consolidated financial statements

## 24. Related party disclosures *continued*

US\$million	Sales	Purchases	Other revenue	Accounts payable	Accounts receivable	IAS 24.17
<b>Vessels Limited</b>						
2008	2	34	1	-	-	
2007	-	57	-	-	-	

### Compensation of key management personnel of the Group

	2008	2007	
	US\$ million	US\$ million	
Short-term employee benefits	25	26	IAS 24.16(a)
Post-employment pension and medical benefits	6	6	IAS 24.16(b)
Total compensation paid to key management personnel	<u>31</u>	<u>32</u>	

There are no other related party transactions.

## 25. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise accounts payable, bank loans and overdrafts, and debentures. The main purpose of these financial instruments is to manage short term cash flow and raise finance for the Group's capital expenditure program. The Group has various financial assets such as accounts receivable and cash and short-term deposits, which arise directly from its operations.

IFRS 7.33

It is, and has been throughout the year ended 30 June 2008 and 2007, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are commodity price risk, cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments.

The sensitivity has been prepared for periods ended 30 June 2008 and 2007 using the amounts of debt and other financial assets and liabilities held as at those balance sheet dates.

### Commodity price risk

IFRS 7.33

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces. The Group's policy is to manage these risks through the use of contract based prices with customers and derivative commodity contracts and to keep between 20% and 40% of its production on fixed price.

The table below summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on income as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading.

The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$7.60/bbl (2007 - US\$7.2-/bbl), with all other variables held constant.

# Notes to the consolidated financial statements

## 25. Financial risk management objectives and policies *continued*

<b>Increase/decrease in crude oil prices</b>	<b>Effect on profit before tax for the year ended 30 June 2008 US\$ millions</b>	<b>Effect on profit before tax for the year ended 30 June 2007 US\$ millions</b>	<i>IFRS 7.40(a)</i>
--	--	--	---------------------

Increase US\$7.60/bbl (2007 - US\$7.20/bbl)	(2)	(1)	
Decrease US\$7.60/bbl (2007 - US\$7.20/bbl)	2	2	

### **Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

*IFRS 7.33*

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 20% and 55% of its borrowings at fixed rates of interest.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and cash and cash equivalents.

<b>Increase/decrease interest rate</b>	<b>Effect on profit before tax for the year ended 30 June 2008 US\$ millions</b>	<b>Effect on profit before tax for the year ended 30 June 2007 US\$ millions</b>	<i>IFRS 7.40(a)</i>
--	--	--	---------------------

+1.5%	-	(3)	
-1.0%	1	4	

*IFRS 7.33*

### **Foreign currency risk**

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the respective functional currency. The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately 7% of the Group's sales are denominated in currencies other than the functional currency, whereas 4% of costs are denominated in the Group's functional currency.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities.

<b>Increase/decrease in foreign exchange rate</b>	<b>Effect on profit before tax for the year ended 30 June 2008 US\$ millions</b>	<b>Effect on profit before tax for the year ended 30 June 2007 US\$ millions</b>	<i>IFRS 7.40(a)</i>
---	--	--	---------------------

+5%	2	1	
- 5%	(2)	(1)	

# Notes to the consolidated financial statements

## 25. Financial risk management objectives and policies *continued*

### Liquidity risk

The Group monitors its risk to a shortage of funds by monitoring its debt rating and the maturity dates of existing debt.

IFRS 7.33

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 30 June 2008, the Group had available €10.5 million (2007: €10.5 million) of undrawn committed borrowing facilities available. The Group's policy is that not more than 35% of borrowings should mature in the next 12 month period. 13% of the Group's debt will mature in less than one year at 30 June 2008 (2007: 14%) based on the balances reflected in the financial statements.

IFRS 7.39(b)

Petroland Investors Service made no change to the Group's long-term credit rating of B+.

The table below summarises the maturity profile of the Group's financial liabilities at 30 June 2008 based on contractual undiscounted payments.

Year ended 30 June 2008	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total	IFRS 7.39(a) IFRS 7.B14
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	
Interest bearing loans and borrowings	8	74	424	52	56	614	
Accounts payable and accrued liabilities	26	541	-	-	-	567	
	<b>34</b>	<b>615</b>	<b>424</b>	<b>52</b>	<b>56</b>	<b>1,181</b>	
Year ended 30 June 2007	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total	IFRS 7.39(a) IFRS 7.B14
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	
Interest bearing loans and borrowings	51	-	148	32	135	366	
Accounts payable and accrued liabilities	20	177	319	-	-	516	
	<b>71</b>	<b>177</b>	<b>467</b>	<b>32</b>	<b>135</b>	<b>882</b>	

### Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

IFRS 7.33  
IFRS 7.36

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, short term investments and derivative financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

IAS 1.124A

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 30 June 2008 and 30 June 2007.

IAS  
1.124B(a)

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio between 5% and 20%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short term deposits.

# Notes to the consolidated financial statements

## 25. Financial risk management objectives and policies *continued*

	2008	2007	<i>IAS 1.124B(b)</i>
	US\$ millions	US\$ millions	
Interest bearing loans and borrowings	614	366	
Accounts payable and accrued liabilities	567	516	
Less cash and short term deposits	(508)	(539)	
Net debt	673	343	
Equity	4,766	3,999	
<b>Capital and net debt</b>	<b>5,439</b>	<b>4,342</b>	
Gearing ratio	12%	8%	

### Commentary

IAS 1.124A and B require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. Good Petroleum (International) Limited has disclosed a gearing ratio as this is the measure the Group uses to monitor capital. However, other measures may be more suitable for other entities.

## 26. Derivatives and financial instruments

### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements: *IFRS 7.25*  
*IFRS 7.26*

	Financial Instrument Classification	Carrying amount		Fair value		<i>IFRS 7.8</i>
		2008	2007	2008	2007	
		US\$ million	US\$ million	US\$ million	US\$ million	
<b>Financial assets</b>						
Cash	Held for trading	508	539	508	539	
Accounts Receivable	Loans and receivables	618	599	618	599	
Derivative financial instruments	Held for trading	22	20	22	20	
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities	Loans & receivables	567	516	567	516	<i>IFRS 7.25, 26</i>
Interest-bearing loans and borrowings:						
Floating rate borrowings	Held for trading	506	289	506	289	
Fixed rate borrowings	Loans and receivables	108	77	111	81	

### Derivative Financial Instruments

The Group has entered into the following derivative commodity contracts that have not been designated as hedges: *IFRS 7.22*

Fixed Price Swap	Financial Instrument Classification	Term	Bbs/day	US\$ per bbl	Fair Value at 30 June 2008
					US\$ million
Dated Brent Oil	Held for trading	February 2008 - June 2008	800	72	9
Dated Brent Oil	Held for trading	August 2008 - January 2009	800	74	7
Dated Brent Oil	Held for trading	February 2009 - July 2009	800	75	6



# Notes to the consolidated financial statements

## 26. Derivatives and financial instruments *continued*

Fixed Price Swap	Financial Instrument Classification	Term	Bbs/day	US\$ per bbl	Fair Value at 30 June 2007 US\$ million
Dated Brent Oil	Held for trading	August 2007 - January 2008	800	70	8
Dated Brent Oil	Held for trading	February 2008 - June 2008	800	72	12

The resulting US\$ 22 million (2006 - US\$ 20 million) fair market value of these contracts has been recognised on the balance sheet as other financial assets. These amounts are neither past due nor impaired. The maximum credit exposure with other financial assets is the carrying value and the Group mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

*IFRS 7.6*  
*IFRS 7.36*  
*IFRS 7.20(a)(i)*

The change in the fair value of these commodity price derivatives of US\$ 5 million gain (2007 - US\$ 9 million gain) has been recognised in the income statement during the year as gain on derivative financial instruments.

### Physical Commodity Contracts

The Group also enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are measured at cost.

*IAS 39.BC24*

## 27. Events after the balance sheet date

On 20 July 2008, the Group performed annual valuation of reserves. Valuation showed that total proved reserves of Sand field are 15 mln tons (according to the previous valuation performed in June 2007 proved reserves were 11 mln tons). The Group believes that the change in mineral reserves is a change in estimate under IAS 8 and the related asset on depreciation and impairment is accounted for prospectively from the date the new information becomes available.

*IAS 10.21*  
*IAS 10.10*

The directors, in their meeting held on 26 July 2008, approved a proposal to be put before the annual general meeting of shareholders to be held on 20 August 2008, for the payment of a final dividend of USD 235 mln for the year ended 30 June 2008 (15 cents dividend per share) to all ordinary shareholders registered at 26 July 2008. The amount is not recognised as a liability at 30 June 2008.

# Appendix 1 - First time adoption of IFRS

## Commentary

This note to the financial statements illustrates how a company could disclose the impact of its transition to IFRS. The format illustrated is based on Example 11 in IFRS 1. While suggesting a format for disclosure, this example does not illustrate every GAAP difference that a company may need to disclose.

The illustrative disclosures below are based on the financial statements of Good Petroleum (International) Limited. Therefore, they should not be read in conjunction with the balance sheet, income statement, statement of changes in equity nor cash flow statement. The illustration is not a comprehensive list of GAAP differences.

In all cases, companies should ensure that the disclosure of the transition to IFRSs, and the explanation of differences are consistent with other communications issued by the entity, such as its Transition Statement or Interim Report.

*Items in italics indicate IFRSs and guidance that has not been incorporated into this illustrative IFRS 1 conversion note.*

## Explanation of the transition

*IFRS 1.43* If an entity did not present financial statements for previous periods, its first IFRS financial statements shall disclose that fact.

IFRS 1.38 An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.

IFRS 1.42 IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts IFRSs. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements.

## IFRSs in historical summaries

*IFRS1.37* Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information under IFRSs. This IFRS does not require such summaries to comply with the recognition and measurement requirements of IFRSs. Furthermore, some entities present comparative information under previous GAAP as well as the comparative information required by IAS 1. In any financial statements containing historical summaries or comparative information under previous GAAP, an entity shall:

- ▶ label the previous GAAP information prominently as not being prepared under IFRSs; and
- ▶ disclose the nature of the main adjustments that would make it comply with IFRSs. An entity need not quantify those adjustments.

## Transition to IFRSs

For all periods up to and including the year ended 30 June 2007, Good Petroleum (International) Limited, "the Group" prepared its financial statements in accordance with Petroland generally accepted accounting principles (GAAP). These financial statements, for the year ended 30 June 2008, are the first the Group prepares in accordance with International Financial Reporting Standards (IFRSs).

The Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 July 2007 and the significant accounting policies meeting those requirements are described in note 2.4.

The Group has prepared its IFRS opening balance sheet as at 1 July 2006, its date of transition to IFRSs. The Group identified some adjustments as part of this process that do not arise from a GAAP difference and have therefore been classified as previous GAAP adjustments, rather than IFRS reclassifications or re-measurements. Therefore, this note also explains the principal adjustments made by the Group in restating its previous GAAP balance sheet as at 1 July 2006 and its previously published previous GAAP financial statements for the year ended 30 June 2007.

## Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for June 2008 year ends retrospectively. The Group has taken the following exemptions:

- ▶ IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2006, the Group's date of transition.
- ▶ IFRS 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 July 2006. For cash-settled share-based payment arrangements, the Group has not applied IFRS 2 to liabilities that were settled before 1 July 2006.
- ▶ Under IFRS 1, entities may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRS 1. Therefore, the Group has decided to take advantage of this exemption and therefore has not applied IAS 19 retrospectively. As such, cumulative actuarial gains and losses on pensions and other post employment benefits are recognised in full in equity at the date of transition to IFRS.

## Appendix 1 - First time adoption of IFRS

- ▶ The Group has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such the Group has re-measured the provisions as at 1 July 2006 under IAS 37, estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortisation under IFRS.

### Business combinations

IFRS 1 B1 A first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations and shall also apply IAS 36 Impairment of Assets (as revised in 2004) and IAS 38 Intangible Assets (as revised in 2004) from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002, it shall restate all business combinations that occurred between 30 June 2002 and the date of transition to IFRSs, and it shall also apply IAS 36 (as revised in 2004) and IAS 38 (as revised in 2004) from 30 June 2002.

### Cumulative Translation Adjustments

IFRS 1.21 IAS 21 The Effects of Changes in Foreign Exchange Rates requires an entity:

- (a) to classify some translation differences as a separate component of equity; and
- (b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the income statement as part of the gain or loss on disposal.

IFRS 1.22 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

### Designation of previously recognised financial assets and liabilities

IFRS 1.43A An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or as available for sale in accordance with IFRS 1.25A. The entity shall disclose the fair value of any financial assets or financial liabilities designated into each category and the classification and carrying amount in the previous financial statements.

### Fair value of assets deemed as cost on transition

IFRS 1.44 If an entity uses fair value in its opening IFRS balance sheet as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see IFRS 1.16 and 18), the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS balance sheet:

- ▶ the aggregate of those fair values; and
- ▶ the aggregate adjustment to the carrying amounts reported under previous GAAP.

### Assets and liabilities of subsidiaries, associates and joint ventures

If a subsidiary, associate or joint venture adopts IFRS later than its parent it measures its assets and liabilities in its individual accounts, at either

- (a) the carrying amounts that would be included in the IFRS consolidated financial statements based on the parent's transition date, before consolidation and business combination adjustments
- (b) the carrying amounts required by the rest of IFRS 1

If a parent adopts IFRS later than its subsidiary, associate or joint venture it measures the subsidiary in the consolidated financial statements at the same carrying amounts as in the separate IFRS financial statements of the subsidiary after adjusting for consolidation or equity accounting adjustments and the effects of the business combination.

### Leases

IFRS 1.25F A first-time adopter may apply the transitional provisions in IFRIC 4 'Determining whether an Arrangement contains a Lease'. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

## Appendix 1 - First time adoption of IFRS

### Share-based payments

IFRS 1.25B A first-time adopter is encouraged, but not required, to apply IFRS 2 '*Share-based Payment*' to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005.

**Author's note** Neither IFRS 1 nor IFRS 2 clearly indicate the appropriate treatment of costs recorded under pre-transition GAAP by a first-time adopter in relation to transactions subject to the IFRS 1 transitional relief. There are mixed views on this issue in different jurisdictions, some of which are being driven by previous regulatory expectations. One view is that a first-time adopter must either:

- (a) apply IFRS 2 in full to all transactions, or
- (b) take advantage of the transitional arrangements with the result that transactions subject to those arrangements effectively cease to exist for recognition and measurement purposes.

However, the other view is that the costs recognised under pre-transition GAAP in relation to such transactions should not be reversed on the basis that such treatment would not result in more relevant and reliable information for users.

# Appendix 1 - First time adoption of IFRS

## Transition to IFRS *continued*

Group reconciliation of equity as at 1 July 2006	Previous GAAP	IFRS 6 Adjustments 1	IAS 16 Adjustments 2	Decommissioning Adjustments 3	Other IFRS Adjustment 4	Total IFRS Adjustments	IFRSs
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Non-current assets</b>							
Exploration and evaluation assets	-	344	-	-	-	344	344
Other intangible assets	4	-	-	-	-	-	4
Oil and gas properties	3,182	(705)	(98)	10	-	(793)	2,389
Other plant and equipment	226	-	-	-	-	-	226
Equity-accounted investments in joint venture	105	-	-	-	-	0	105
Deferred tax assets	10	-	-	-	-	0	10
	<u>3,527</u>	<u>(361)</u>	<u>(98)</u>	<u>10</u>	<u>-</u>	<u>(449)</u>	<u>3,078</u>
<b>Current assets</b>							
Cash and cash equivalents	531	-	-	-	-	-	531
Trade and other receivables	392	-	-	-	-	-	392
Inventories	85	-	-	-	-	-	85
Other financial assets	28	-	-	-	-	-	28
	<u>1,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,036</u>
<b>Total assets</b>	<b><u>4,563</u></b>	<b><u>(361)</u></b>	<b><u>(98)</u></b>	<b><u>10</u></b>	<b><u>-</u></b>	<b><u>(449)</u></b>	<b><u>4,114</u></b>
<b>Shareholders' equity</b>							
Share capital - common shares	836	-	-	-	-	-	836
Retained earnings	2,072	(361)	(98)	(37)	79	(417)	1,655
	<u>2,908</u>	<u>(361)</u>	<u>(98)</u>	<u>(37)</u>	<u>79</u>	<u>(417)</u>	<u>2,491</u>
<b>Non-current liabilities</b>							
Pension benefit liability	13	-	-	-	3	3	16
Long-term debt and payables	302	-	-	-	-	-	302
Deferred tax liability	372	-	-	-	(81)	(81)	291
Provisions	249	-	-	47	-	47	296
	<u>936</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>(78)</u>	<u>(31)</u>	<u>905</u>
<b>Current liabilities</b>							
Pension benefit liability	1	-	-	-	-	-	1
Accounts payable and accrued liabilities	390	-	-	-	1	1	391
Income tax payable	201	-	-	-	-	-	201
Current portion of long term debt	32	-	-	-	-	-	32
Current portion of deferred tax liability	7	-	-	-	(7)	(7)	-
Provisions	88	-	-	-	5	5	93
	<u>719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>718</u>
Total liabilities	1,655	-	-	47	(79)	(32)	1,623
<b>Total liabilities and shareholders' equity</b>	<b><u>4,563</u></b>	<b><u>(361)</u></b>	<b><u>(98)</u></b>	<b><u>10</u></b>	<b><u>-</u></b>	<b><u>(449)</u></b>	<b><u>4,114</u></b>

# Appendix 1 - First time adoption of IFRS

## Transition to IFRS *continued*

Group reconciliation of equity as at 30 June 2007	Previous GAAP	Previous GAAP Adjustments 3	IFRS 6 Adjustments 1	IAS 16 Adjustments 2	Decommissioning Adjustments 3	Other IFRS Adjustments 4	Total IFRS Adjustments	IFRSs
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Non-current assets</b>								
Exploration and evaluation assets	(0)	-	501	-	-	-	501	501
Other intangible assets	7	-	-	-	-	-	-	7
Oil and gas properties	4,689	-	(952)	(41)	10	-	(983)	3,706
Other plant and equipment	227	-	-	-	-	-	-	227
Equity-accounted investments in joint venture	98	-	-	-	-	-	-	98
Deferred tax assets	57	-	-	-	-	-	-	57
	5,078	-	(451)	(41)	10	-	(482)	4,596
<b>Current assets</b>								
Cash and cash equivalents	539	-	-	-	-	-	-	539
Trade and other receivables	599	-	-	-	-	-	-	599
Inventories	88	-	-	-	-	-	-	88
Other financial assets	20	-	-	-	-	-	-	20
	1,246	-	-	-	-	-	-	1,246
<b>Total assets</b>	<b>6,324</b>	<b>-</b>	<b>(451)</b>	<b>(41)</b>	<b>10</b>	<b>-</b>	<b>(482)</b>	<b>5,842</b>
<b>Shareholders' equity</b>								
Share capital	1,564	-	-	-	-	-	-	1,564
Retained earnings	2,886	(6)	(451)	(41)	(34)	81	(445)	2,435
	4,450	(6)	(451)	(41)	(34)	81	(445)	3,999
<b>Non-current liabilities</b>								
Pension benefit liability	13	-	-	-	-	5	5	18
Long-term debt and payables	315	-	-	-	-	-	-	315
Deferred tax liability	471	-	-	-	-	(85)	(85)	386
Provisions	323	6	-	-	44	-	44	373
	1,122	6	-	-	44	(80)	(36)	1,092
<b>Current liabilities</b>								
Pension benefit liability	2	-	-	-	-	-	-	2
Accounts payable and accrued liabilities	516	-	-	-	-	-	-	516
Income tax payable	166	-	-	-	-	-	-	166
Current portion of long term debt	51	-	-	-	-	-	-	51
Current portion of deferred tax liability	8	-	-	-	-	(8)	(8)	-
Provisions	9	-	-	-	-	7	7	16
	752	-	-	-	-	(1)	(1)	751
Total liabilities	1,874	6	-	-	44	(81)	(37)	1,843
<b>Total liabilities and shareholders' equity</b>	<b>6,324</b>	<b>-</b>	<b>(451)</b>	<b>(41)</b>	<b>10</b>	<b>-</b>	<b>(482)</b>	<b>5,842</b>

# Appendix 1 - First time adoption of IFRS

## Transition to IFRS *continued*

Group reconciliation of profit and loss for the period ended 30 June 2007	Previous GAAP	Previous GAAP Adjustments 3	IFRS 6 Adjustments 1	IAS 16 Adjustments 2	Decommissioning Adjustments 3	Other IFRS Adjustments 5	Total IFRS Adjustments	IFRSs
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Revenue	2,917	-	-	-	-	-	-	2,917
Cost of Sales	(1,212)	(5)	(90)	57	31	-	(2)	(1,219)
<b>Gross profit</b>	<b>1,705</b>	<b>(5)</b>	<b>(90)</b>	<b>57</b>	<b>31</b>	<b>-</b>	<b>(2)</b>	<b>1,698</b>
Other income	65	-	-	-	-	-	-	65
Gain on derivative financial instruments	9	-	-	-	-	-	-	9
Share of joint venture's net profit/loss	25	-	-	-	-	-	-	25
Other expenses	(130)	-	-	-	-	2	2	(128)
General and administrative costs	(203)	-	-	-	-	(2)	(2)	(205)
<b>Operating profit (loss)</b>	<b>1,471</b>	<b>(5)</b>	<b>(90)</b>	<b>57</b>	<b>31</b>	<b>-</b>	<b>(2)</b>	<b>1,464</b>
Finance income	25	-	-	-	-	-	-	25
Finance costs	(12)	-	-	-	-	(28)	(28)	(40)
<b>Profit before income tax</b>	<b>1,484</b>	<b>(5)</b>	<b>(90)</b>	<b>57</b>	<b>31</b>	<b>(28)</b>	<b>(30)</b>	<b>1,449</b>
Income tax expense	(531)	-	-	-	-	2	2	(529)
<b>Profit for the year</b>	<b>953</b>	<b>(5)</b>	<b>90</b>	<b>57</b>	<b>31</b>	<b>(26)</b>	<b>(28)</b>	<b>920</b>

# Appendix 1 - First time adoption of IFRS

## Notes to the restatement of equity and reported income from previous GAAP to IFRS

The narrative attached to these statements has been included to give an indication of the level of disclosure that would be expected in the first IFRS financial statements to comply with the requirements of IFRS 1.

In practice, these disclosures would be based on the IFRS transition statement already published by the entity. It would not be acceptable to merely refer to the earlier IFRS announcement because IFRS 1 requires the disclosures to appear in the financial statements. Also, depending on the level of detail provided in the original IFRS announcement it may be possible to summarise or it may be required to elaborate on that information.

### Reconciliations

IFRS 1.38	An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.
IFRS 1.39	To comply with IFRS 1.38, an entity's first IFRS financial statements shall include: <ul style="list-style-type: none"><li>▶ reconciliations of its equity reported under previous GAAP to its equity under IFRSs for both of the following dates:<ul style="list-style-type: none"><li>(i) the date of transition to IFRSs; and</li><li>(ii) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP;</li></ul></li><li>▶ a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period; and</li><li>▶ if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS balance sheet, the disclosures that IAS 36 Impairment of Assets would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRSs.</li></ul>
IFRS 1.40	The reconciliations required by IFRS 1.39 shall give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement.  If an entity presented a cash flow statement under its previous GAAP, it shall also explain the material adjustments to the cash flow statement.
IFRS 1.41	If an entity becomes aware of errors made under previous GAAP, the reconciliations required by IFRS 1.39 shall distinguish the correction of those errors from changes in accounting policies.

## Restatement of equity from Previous GAAP to IFRS

### 1. IFRS 6 adjustments

#### a) Pre-licence costs

Costs incurred prior to obtaining the legal right to explore an area were capitalised under previous GAAP. Under IFRS, these costs may no longer be capitalised. As such, US\$ 26 million pre-licence costs incurred prior to 1 July 2006 have been written off through opening retained earnings. For the year ended 30 June 2007, US\$ 9 million costs relating to pre-licence costs have been expensed through the income statement.

#### b) Licence and acquisition costs

Under previous GAAP, licence and acquisition costs not associated with proved reserves are assessed for indicators of impairment. Where such indicators exist, the related costs would be transferred to the depletable pool, which was subject to a separate impairment test. The Group has adopted accounting policies under IFRS that requires each property to be reviewed on an annual basis to confirm that there are no facts or circumstances that suggest it may be impaired. If no future activity is planned or the property is otherwise impaired, the remaining balance of the licence and property acquisition costs is written off to the income statement. As a result, the Group has reclassified US\$ 131 million of intangible exploration costs that were included in oil and gas properties under previous GAAP. These costs have been assessed for impairment on conversion to IFRS resulting in US\$ 3.2 million written off to retained earnings at the opening balance sheet date and US\$ 6 million in the year ended 30 June 2007.

#### c) Exploration costs

Costs associated with geological and geophysical expenditures and unsuccessful exploration and evaluation were capitalised within the oil and gas assets full cost pool in accordance with previous GAAP. Under the Group's successful efforts accounting policies, geological and geophysical costs are expensed as incurred, while exploratory well costs are initially capitalised as an intangible asset and, if subsequently determined to have not found sufficient reserves to justify commercial production or show economic viability, are charged to the income statement under other expenses. As under Local GAAP oil and gas assets included intangible exploration costs, as well as successful and unsuccessful well costs, the Group has reclassified US\$ 548 million relating to intangible exploration costs from oil and gas properties and has written off US\$ 303 million relating to geological and geophysical costs and unsuccessful exploration and evaluation costs in the opening IFRS balance sheet and US\$ 75 million in the year ended 30 June 2007.

### Comment

In these illustrative financial statements, the Group has determined to follow successful efforts accounting with the write-off of all geological and geophysical expenses and unsuccessful exploration costs. Please note that other alternative treatments are allowed under IFRS 6 and refer to commentary discussion within the Good Petroleum (International) Limited accounting policy notes for alternative accounting policy treatments available under IFRS 6.



# Appendix 1 - First time adoption of IFRS

## 2. IAS 16 Adjustments

### a) Revisions to carrying values

Under previous GAAP, the Group did not recognise gains or losses on farm in arrangements, asset exchanges and the disposal of oil and gas properties unless such dispositions would change the depletion rate by 20 percent or more. This has resulted in a US\$ 103 million decrease to the carrying value of oil and gas properties as at 1 July 2006 and US\$ 58 million gain on disposal recorded for the year ended 30 June 2007.

#### Comment

In these illustrative financial statements, the Group has determined to recalculate the carrying value of property, plant and equipment under IAS 16. Alternatively, a company could utilise the IFRS 1.44 exemption to use fair value in its opening IFRS balance sheet as deemed cost on certain items.

### b) Property impairment adjustments

Under previous GAAP, the Group applied a two part impairment test to the net carrying amount of oil and gas assets, whereby the first step compared the net carrying value of the asset to the aggregate of estimated undiscounted future net cash flows from production of proved reserves and the cost of unproved properties less impairment. If the net carrying value of the oil and gas assets exceeded the amount ultimately recoverable, the amount of impairment was determined through the performance of the second part of the test as the deficit, if any, of the discounted estimated future cash flows from proved and probable reserves plus the cost of unproved properties, net of impairment allowances, less the book value of the related assets.

Under IFRS, the recoverable amounts have been determined based on the higher of value-in-use calculations and fair values less costs to sell at the level of cash-generating units and individual assets as described in the Group's accounting policies as set out in note 2.4. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. This resulted in a US\$ 27 million impairment charge as at 1 July 2006 and US\$ 9 million for the year ended 30 June 2007.

### c) Depreciation, depletion and amortisation adjustments

Under previous GAAP, Depreciation, depletion and amortisation is calculated on a unit-of-production basis for oil and gas properties that is now applied on a field-by-field basis, with certain fields within development areas being combined where appropriate as per accounting policy note 2.4 and components whose useful life is shorter than the lifetime of the field depreciated using a straight-line method as appropriate. The Group has also adjusted depreciation, depletion and amortisation charges for the comparative period to reflect the revised carrying values of oil and gas properties as a result of the IAS 16 and IFRS 6 adjustments noted above. This resulted in a US\$ 32million adjustment to accumulated depreciation, depletion and amortisation as at 1 July 2006, as well as a US\$ 8 decrease in depletion expense for the year ended 30 June 2007.

#### Comment

The Group has elected to take the exemption from retrospective restatement on the decommissioning provisions available under IFRS 1.25E. However, an entity that has (1) a shorter history or (2) has the required detailed information available could instead choose retrospective restatement. Where differences between previous GAAP and IFRS are minimal, an entity would likely choose this option.

## 3. Decommissioning adjustments

### a) Previous GAAP adjustments

In confirming the computation of the decommissioning provisions under previous GAAP for the purposes of the IFRS conversion, an error in the previous unwinding of the discount calculation was identified. This resulted in an US\$ 5 million understatement of decommissioning provisions and accretion expense as at the year ended 30 June 2007. There was no impact on the 1 July 2006 balance sheet.

### b) Decommissioning adjustments

Consistent with IFRS, decommissioning provisions have been previously measured based on the estimated cost of decommissioning, discounted to its net present value upon initial recognition. However, adjustments to the discount rate are not reflected in the provisions or the related assets under previous GAAP unless it caused an upward revision in the future costs estimates. The Group has elected to apply the exemption from full retrospective application as allowed under IFRS 1. As such the Group has re-measured the decommissioning liability as at 1 July 2006 under IAS 37, estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortisation under IFRS.

In addition, under previous GAAP the unwinding of the discount was included with depreciation, depletion and amortisation expense, and has been reclassified to finance costs as required under IFRS.

# Appendix 1 - First time adoption of IFRS

## Comment

The Group has elected to take the exemption from retrospective restatement on the decommissioning provisions available under IFRS 1.25E. However, an entity with a shorter history or who has the required detailed information available could instead choose retrospective restatement. Where differences between previous GAAP and IFRS are minimal, an entity would likely choose this option.

## 4. Other adjustments

### a) Pension scheme assets

Under previous GAAP, the Group employed a calculated value method of valuing listed investments which resulted in amortising the gains and losses on investments over a 5 year period. Under IAS 19, plan assets are valued at fair value based on market price information. The Group has adjusted the value of the defined benefit pension scheme assets from the calculated value to fair value, the impact being US\$ 3 million (1 July 2006) and US\$ 5 million (30 June 2007) to the net defined benefit pension liability.

### b) Short-term employee benefits

Under previous GAAP, the Group accrued for holiday pay where this was expected to be paid as a cash sum or where the employee was entitled to carry forward holidays earned indefinitely. However, the Group did not accrue for holiday pay that was earned and the holiday entitlement was expected to be taken in the financial year. Under IAS 19 'Employee Benefits', the Group is required to accrue for all short-term accumulated absences as holiday entitlement earned but not taken at the balance sheet date.

The impact of IAS 19 on the Group's transition to IFRS is to increase the holiday pay accrued by US\$ 5 million. There is also a charge of US\$ 2 million to the year ended 30 June 2007 income statement reflecting the increase in the holiday pay accrual for the year.

### c) Overhead charges

When the Group acts as operator they charge an overhead fee based on a fixed percentage of total costs as prescribed by certain joint venture agreements. These recharges made by the Group as operator were recorded as a reduction in general and administrative costs under previous GAAP. Under IFRS, as the Group is not acting as an agent with respect to these general recharges, it recognises the general overhead expenses and the overhead fee in the income statement as expense and income respectively.

### d) Deferred tax

Under previous GAAP deferred taxation assets were classified between current and non current based on the classification of the underlying assets and liabilities that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non current assets.

Additionally, deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first time adoption of IFRS as discussed above.

## 5. Statement of other comprehensive income

Previous GAAP included a statement of other comprehensive income which would have included items such as unrealised gains and losses on financial assets classified as available-for-sale, unrealised translation gains and losses arising from self-sustaining foreign operations net of hedging activities and changes in the fair value of the effective portion of cash flow hedging instruments. Under IFRS, these amounts are recorded directly in equity. This transition item had no effect on the reported equity by the Group as nil amounts were recorded under previous GAAP and IFRS as at 1 July 2006 and 30 June 2007.

## 6. Restatement of cash flow statement from previous GAAP to IFRS

The transition from previous GAAP to IFRS has had no effect upon the reported cash flows generated by the Group. The reconciling items between the previous GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

## Notes to the restatement of cash flow statement from previous GAAP

*IFRS 1.40* If an entity presented a cash flow statement under its previous GAAP, it shall also explain the material adjustments to the cash flow statement.

## Appendix 1 - First time adoption of IFRS

### *b) Short-term employee benefits*

Under Local GAAP, the Group accrued for holiday pay where this was expected to be paid as a cash sum or where the employee was entitled to carry forward holidays earned indefinitely. However, the Group did not accrue for holiday pay that was earned and the holiday entitlement was expected to be taken in the financial year. Under IAS 19 'Employee Benefits', the Group is required to accrue for all short-term accumulated absences as holiday entitlement earned but not taken at the balance sheet date.

The impact of IAS 19 on the Group's transition to IFRS is to increase the holiday pay accrued by US\$ 1 million. There is also a charge of US\$ 2 million to the year ended 30 June 2007 income statement reflecting the increase in the holiday pay accrual for the year.

### *c) Overhead charges*

When the Group acts as operator they charge an overhead fee based on a fixed percentage of total costs as prescribed by certain joint venture agreements. These recharges made by the Group as operator were recorded as a reduction in general and administrative costs under Local GAAP. Under IFRS, as the operator is not acting as an agent with respect to these general recharges, the operator should recognise the general overhead expenses and the overhead fee in the income statement as expense and income respectively.

### *d) Deferred tax*

Under Local GAAP deferred taxation assets were classified based on the nature of the underlying items that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non current assets.

Additionally, deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first time adoption of IFRS as discussed above.

## **6. Restatement of cash flow statement from Local GAAP to IFRS**

The transition from Local GAAP to IFRS has had no effect upon the reported cash flows generated by the Group. The reconciling items between the Local GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

### **Notes to the restatement of cash flow statement from previous GAAP**

IFRS 1.40 If an entity presented a cash flow statement under its previous GAAP, it shall also explain the material adjustments to the cash flow statement.

## Glossary

A glossary of oil and gas specific terminology and abbreviations used in the publication:

<i>Carried interest</i>	An agreement by which an entity that contracts to operate a mineral property and, therefore, agrees to incur exploration or development costs (the carrying party) is entitled to recover the costs incurred (and usually an amount in addition to actual costs incurred) before the entity that originally owned the mineral interest (the carried party) is entitled to share in revenues from production.
<i>Carried party</i>	The party for whom funds are advanced in a carried interest arrangement.
<i>Carrying party</i>	The party advancing funds in a carried interest agreement.
<i>Cost recovery oil</i>	Oil revenue paid to an operating entity to enable that entity to recover its operating costs and specified exploration and development costs from a specified percentage of oil revenues remaining after the royalty payment to the property owner.
<i>Development well</i>	A well drilled to gain access to oil or gas classified as proved reserves.
<i>Exploratory well</i>	A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.
<i>Farm out and farm in</i>	An agreement by which the owner of operating rights in a mineral property (the farmor) transfers a part of that interest to a second party (the farmee) in return for the latter's paying all of the costs, or only specified costs, to explore the property and perhaps to carry out part or all of the development of the property if reserves are found.
<i>Full cost method</i>	An accounting concept by which all costs incurred in searching for, acquiring, and developing mineral reserves in a cost centre are capitalised, including dry hole costs.
<i>Geological and geophysical costs (G&amp;G)</i>	Costs of topographical, geological, geochemical, and geophysical studies.
<i>Overlift or underlift</i>	Overlift is the excess of the amount of production that a participant in a joint venture has taken as compared to that participant's proportionate share of ownership in total production. Underlift is the shortfall in the amount of production that a participant in a joint venture has taken as compared to that participant's proportionate share of ownership in total production.
<i>Production sharing agreement (PSA)</i>	A contract between a national oil company or the government of a host country and a contracting entity (contractor) to carry out oil and gas exploration and production activities in accordance with the terms of the contract, with the two parties sharing mineral output.
<i>Profit oil</i>	Revenue in excess of cost recovery oil and royalties.
<i>Royalty</i>	A portion of the proceeds from production, usually before deducting operating expenses, payable to a party having an interest in a lease.
<i>Sales method</i>	A method of revenue recognition by which a joint venturer records revenue based on the actual amount of product it has sold (or transferred downstream) during the period. No receivable or other asset is recorded for undertaken production (underlift) and no liability is recorded for overtaken production (overlift), unless, in the case of the party in a cumulative overlift position only, sufficient reserves do not remain to "make-up" the overtaken volumes, at which time a liability related to the amount overtaken in excess of remaining reserves would be recorded.
<i>Successful efforts method</i>	An accounting concept that capitalises only those upstream costs that lead directly to finding, acquiring and developing mineral reserves, including delay rentals, geological and geophysical costs and exploratory dry holes, are charged to expense.
<i>Take-or-pay contracts</i>	An agreement between a buyer and seller in which the buyer will still pay some amount even if the product or service is not provided. If the purchaser does not take the minimum quantity, payment is required for that minimum quantity at the contract price. Normally, deficiency amounts can be made up in future years if purchases are in excess of minimum amounts.
<i>Upstream activities</i>	Exploring for, finding, acquiring, and developing mineral reserves up to the point that the reserves are first capable of being sold or used, even if the entity intends to process them further.

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