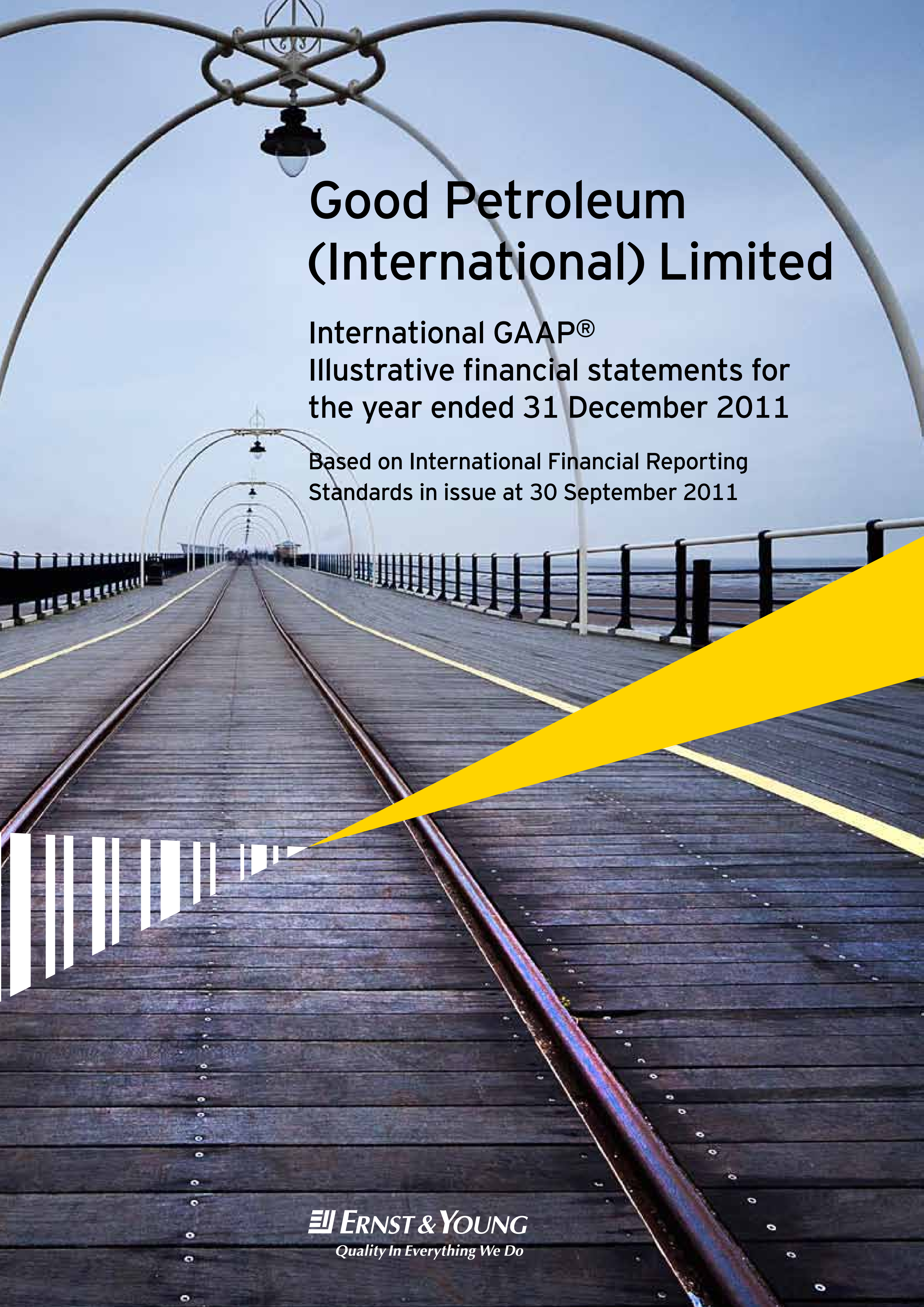

Good Petroleum (International) Limited

International GAAP®
Illustrative financial statements for the year ended 31 December 2011

Based on International Financial Reporting Standards in issue at 30 September 2011

Ernst & Young
Quality In Everything We Do

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Abbreviations and key

The following styles of abbreviation are used in this set of IFRS Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) Interpretation No. 4, paragraph 6
IAS 39.IG.G.2	International Accounting Standard 39— Guidance on Implementing IAS 39 Section G: Other, paragraph G.2
IAS 39.AG71	International Accounting Standard 39— Appendix A — Application Guidance, paragraph AG71
ISA 700.25	International Standard on Auditing No. 700, paragraph 25
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure.
GAAP	Generally Accepted Accounting Principles/Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC))
SIC	Standing Interpretations Committee

Introduction

This publication contains an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for Good Petroleum (International) Limited (Good Petroleum), a fictitious group of oil and gas companies for the year ended 31 December 2011.

Objective

This set of illustrative statements is one of many prepared by Ernst & Young to assist you in preparing your own financial statements. The series of model accounts currently available comprises:

- Good Group (International) Limited
- Good Group (International) Limited - *Illustrative interim condensed consolidated financial statements*
- Good First-time Adopter (International) Limited
- Good Bank (International) Limited
- Good Insurance (International) Limited
- Good Real Estate Group (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Mining (International) Limited
- Good Construction Group (International) Limited

Good Petroleum's activities include oil exploration and field development and production and refining petroleum products. This publication illustrates IFRS disclosures specific to the oil and gas sector, rather than for 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 2011. 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 sector.

Accounting for extractive activities 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 sector is to produce decision-useful financial statements through effective presentation and disclosure. Unfortunately, differences in accounting policies and their application makes comparability more difficult and increases complexity.

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

This publication illustrates what we consider to be best practice, relevant disclosures 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 sector. They 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/or specific jurisdictional requirements and, when necessary, to seek appropriate professional advice in case of doubt as to the requirements.

Notations shown on the right hand side of each page are IFRS paragraphs where the specific disclosure requirements can be located. We trust 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 as issued by the IASB in issue at 30 September 2011 and effective for periods commencing 1 January 2011. Details of which standards and interpretations have been adopted, have been included in the notes to these illustrative financial statements. The impact of new accounting standards and interpretations issued but not yet effective, which may apply to Good Petroleum and its subsidiaries (the Group) at some point in the future, have been included in these illustrative financial statements as appropriate. For details of other standards and interpretations issued, but not yet effective, which may apply to your particular entity, we refer readers to either the commentary sections contained herein, or to Good Group (International) Limited 2011 illustrative financial statements, for the details of such and the appropriate illustrative disclosures.

Introduction *continued*

Background facts

The Group's activities include both upstream and downstream businesses and transportation of produced oil and petroleum products. All its operations are located in Petroland (a fictitious country).

International Financial Reporting Standards

The abbreviation IFRS is defined in IAS 1.7 and IAS 8.5 "Standards and Interpretations issued by the International Accounting Standards Board (IASB)". They comprise:

- International Financial Reporting Standards
- International Accounting Standards
- IFRIC Interpretations

And

- SIC Interpretations

Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire hierarchy of pronouncements sanctioned by the IASB.

International Accounting Standards Boards (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB members (currently 15 full-time members) are responsible for the development and publication of IFRS, including the IFRS for Small and Medium Entities and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows a due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component.

The IFRS Interpretations Committee

The IFRS Interpretations Committee (Interpretations Committee) (formerly the International Financial Reporting Interpretations Committee (IFRIC)) is a committee appointed by the IASC Foundation Trustees that assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. Its interpretations cover:

- Newly identified financial reporting issues not specifically addressed in IFRS
- Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment

  And

- Advising the IASB of issues to be considered in the Improvements to IFRS project

Introduction *continued*

IFRS as at 30 September 2011

The standards and interpretations applied in these consolidated illustrative financial statements are the versions that were in issue at 30 September 2011 and effective for periods commencing 1 January 2011.

These include the following:

International Financial Reporting Standards (IFRS)	
IFRS 3	*Business Combinations (Revised in 2008)*
IFRS 6	*Exploration for and Evaluation of Mineral Resources*
IFRS 7	*Financial Instruments: Disclosures*
IFRS 8	*Operating Segments*
International Accounting Standards (IAS)	
IAS 1	*Presentation of Financial Statements*
IAS 2	*Inventories*
IAS 7	*Statement of Cash Flows*
IAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 10	*Events after the Reporting Period*
IAS 12	*Income Taxes*
IAS 16	*Property, Plant and Equipment*
IAS 17	*Leases*
IAS 18	*Revenue*
IAS 19	*Employee Benefits*
IAS 21	*The Effects of Changes in Foreign Exchange Rates*
IAS 23	*Borrowing Costs*
IAS 24	*Related Party Disclosures*
IAS 27	*Consolidated and Separate Financial Statements (Revised in 2008)*
IAS 31	*Interests in Joint Ventures*
IAS 32	*Financial Instruments: Presentation*
IAS 33	*Earnings per Share*
IAS 36	*Impairment of Assets*
IAS 37	*Provisions, Contingent Liabilities and Contingent Assets*
IAS 38	*Intangible Assets*
IAS 39	*Financial Instruments: Recognition and Measurement*
Interpretations	
IFRIC 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*
IFRIC 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Introduction *continued*

The following standards and interpretations have not been illustrated in these financial statements:	
IFRS 1	*First-time Adoption of International Financial Reporting Standards (illustrated in Appendix 1)*
IFRS 2	*Share-based Payment*
IFRS 4	*Insurance Contracts*
IFRS 5	*Non-current Assets Held for Sale and Discontinued Operations*
IAS 11	*Construction Contracts*
IAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*
IAS 26	*Accounting and Reporting by Retirement Benefit Plans*
IAS 28	*Investment in Associates*
IAS 29	*Financial Reporting in Hyperinflationary Economies*
IAS 34	*Interim Financial Reporting* (refer to the separate EY publication: *Good Group (International) Limited Illustrative Interim Condensed Consolidated Financial Statements*)
IAS 40	*Investment Property*
IAS 41	*Agriculture*
IFRIC 2	*Members' Shares in Co-operative Entities and Similar Instruments*
IFRIC 6	*Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
IFRIC 7	*Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 10	*Interim Financial Reporting and Impairment*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRIC 18	*Transfers of Assets from Customers*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
SIC 7	*Introduction of the Euro*
SIC 10	*Government Assistance – No Specific Relation to Operating Activities*
SIC 12	*Consolidation – Special Purpose Entities*
SIC 13	*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
SIC 15	*Operating Leases – Incentives*
SIC 21	*Income Taxes – Recovery of Revalued Non-Depreciable Assets*
SIC 25	*Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
SIC 27	*Evaluating the Substance of Transactions in the Legal Form of a Lease*
SIC 29	*Service Concession Arrangements: Disclosures*
SIC 31	*Revenue – Barter Transactions Involving Advertising Services*
SIC 32	*Intangible Assets – Web Site Costs*

When applicable, standards also include amendments resulting from Improvements to IFRS issued in May 2010.

Introduction *continued*

It is important to note that the IASB may issue new and revised standards and interpretations subsequent to 30 September 2011. Therefore, users of this publication are advised to verify that there has been no change to the IFRS requirements between 30 September 2011 and the date on which their financial statements are authorised for issue . Any standards issued but not yet effective need to be considered in the disclosure requirements of a reporting entity.

Changes in the 2011 edition of Good Petroleum financial statements

There are no major changes from the 2010 edition in these illustrative financial statements. Either the new and amended standards and interpretations had no impact on the Group at all, or they only resulted in an update to the Group's stated accounting policies.

Allowed alternative accounting treatments in the oil and gas sector

In some cases, IFRS permits alternative accounting treatments for similar transactions, events and/or conditions. Preparers of financial statements should choose the treatment that is most relevant to their business.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, and/or other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, in the majority of instances, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

These alternative treatments have been highlighted within the illustrative financial statements for Good Petroleum 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 1.13 gives a brief outline of what may be included in such a report. The IASB issued an IFRS Practice Statement *Management Commentary* in December 2010 which provides a broad, non-binding framework for the presentation of a management commentary that relates to the financial statements that have been prepared in accordance with IFRS. If a company decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is only permitted if it is followed in its entirety. The content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction. Therefore, no financial review by management has been included in this publication.

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Good Petroleum (International) Limited

Consolidated Financial Statements

31 December 2011

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, Petrocity

Petroville

Solicitor

Solicitors & Co.

7 Scott Street, Petrocity

Petroville

Bankers

Bank P.L.C.

George Street, Petrocity

Petroville

Auditor

Chartered Accountants & Co.

17 Petroville High Street, Petrocity

Petroville

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

We have audited the accompanying consolidated financial statements of Good Petroleum (International) Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about 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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 consolidated 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Chartered Accountants & Co.

27 January 2012

17 Petroville High Street, Petrocity

Petroville

Commentary

The auditors' report has been prepared in accordance with ISA 700 (Redrafted) *Forming an Opinion and Reporting on Financial Statements* which is applicable for audits of financial statements for periods beginning on or after 15 December 2010.

The audit report may differ depending on the requirements of the relevant jurisdiction.

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Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Notes	31 December 2011 US$ million	31 December 2010 US$ million	
				IAS 1.10(b) *IAS 1.51(b)(c)* *IAS 1.51(d)(e)*
Revenue	7	3,828	2,917	*IAS 18.35(b)(i)*
Cost of sales		(1,556)	(1,219)	*IAS 1.103*
Gross profit		**2,272**	**1,698**	*IAS 1.85* *IAS 1.103*
Other income		52	65	*IAS 1.103*
Gain on derivative financial instruments	27	5	9	
Share of joint venture's net profit	4	33	25	*IAS 1.82 (c)*
Other operating expenses		(205)	(128)	*IAS 1.103*
General and administrative costs		(173)	(205)	*IAS 1.103*
Operating profit	6	**1,984**	**1,464**	
Finance income	7	24	25	*IAS 1.82(a)*
Finance costs		(94)	(40)	*IAS 1.82(b)* *IFRS 7.20*
Profit before income tax		**1,914**	**1,449**	*IAS 1.85*
Income tax expense	8	(797)	(529)	*IAS 1.82(d)* *IAS 12.77*
Profit for the year		**1,117**	**920**	
Other comprehensive income		–	–	
Total comprehensive income		**1,117**	**920**	
Total comprehensive income attributable to:				
Equity holders of the parent		**1,095**	**905**	*IAS 1.83*
Non-controlling interests		**22**	**15**	*IAS 1.83, IAS 27.28*
		1,117	**920**	
Basic and diluted earnings per ordinary share (US$ per share)	9	0.72	0.96	*IAS 33.66*

Commentary

The above disclosure is an illustration of an entity that elects to present a single statement of comprehensive income. It is also acceptable to present a separate income statement and statement of comprehensive income. Good Petroleum does not have any items of other comprehensive income. The nil line item for other comprehensive income is included for illustrative purposes only. The Group may have omitted the line item as this is nil and, hence, not material. Please refer to Good Group (International) Limited 2011 illustrative financial statements for additional details and examples of items to be included in other comprehensive income.

Consolidated statement of financial position

as at 31 December 2011

	Notes	2011	2010	
				IAS 1.10(a), IAS 1.51(b)(c)
		US$ million	US$ million	*IAS 1.51(d)(e)*
Assets				
Non-current assets				*IAS 1.51*
Exploration and evaluation assets	11	759	501	*IAS 1.54(c), IFRS 6.15, IFRS 6.23*
Oil and gas properties	12	4,943	3,706	*IAS 1.54(a)*
Other property, plant and equipment	13	238	227	*IAS 1.54(a)*
Goodwill	3, 14	42	17	*IAS 1.54(c)*
Other intangible assets	14	11	7	*IAS 1.54(c)*
Equity-accounted investment in joint venture	4	114	81	*IAS 1.54(e)*
Deferred tax asset	8	83	57	*IAS 1.54(o) IAS 1.56*
Total non-current assets		**6,190**	**4,596**	
Current assets				*IAS 1.60 IAS 1.66*
Inventories	17	93	88	*IAS 1.54(g)*
Trade and other receivables	18	618	599	*IAS 1.54(h) IFRS 7.8(c)*
Derivative financial assets	27	22	20	*IAS 1.54(d) IFRS 7.8*
Cash and cash equivalents	19	508	539	*IAS 1.54(i)*
Total current assets		**1,241**	**1,246**	
Total assets		**7,431**	**5,842**	
Equity and liabilities				
Shareholders' equity				*IAS 1.54 (r)*
Issued capital	20	1,551	1,551	*IAS 1.54(r), IAS 1.78(e)*
Retained earnings		3,202	2,435	*IAS 1.54(r) IAS 1.78(e)*
Equity attributable to equity holders of the parent		**4,753**	**3,986**	
Non-controlling interest	3	13	13	*IAS 1.54(q) IAS 27.27*
Total shareholders' equity		**4,766**	**3,999**	
Non-current liabilities				*IAS 1.60, IAS 1.69*
Pension benefit obligation	16	20	18	*IAS 1.54(l), IAS19.120*
Interest-bearing loans and borrowings	21	532	315	*IAS 1.54(m)*
Deferred tax liabilities	8	468	386	*IAS 1.54(o) IAS 1.56*
Provisions	22	610	373	*IAS 1.54(l) IAS 1.78(d)*
Total non-current liabilities		**1,630**	**1,092**	
Current liabilities				
Pension benefit obligation	16	2	2	*IAS 1.54(l), IAS19.120*
Accounts payable and accrued liabilities	23	567	516	*IAS 1.54(k)*
Taxes and royalties payable		365	166	*IAS 1.54(n)*
Interest-bearing loans and borrowings	21	82	51	*IAS 1.54(m) IFRS 7.8(f)*
Provisions	22	19	16	IAS 1.54(l)
Total current liabilities		**1,035**	**751**	
Total liabilities		**2,665**	**1,843**	
Total shareholders' equity and liabilities		**7,431**	**5,842**	

Consolidated statement of financial position *continued*

Commentary

IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period in the following circumstances: when it applies an accounting policy retrospectively; makes a retrospective restatement of items in its financial statements; or when it reclassifies items in its financial statements (IAS 1.10(f)). In these situations, IAS 1.39 states that an entity shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

Good Petroleum has not provided a restated comparative set of statement of financial position for the beginning of the earliest comparative period, as the new accounting policies adopted have not caused any material retrospective restatement or reclassification of items in the financial statements. Refer to Good Group (International) Limited 2011 illustrative financial statements for an example of a statement of financial position at the beginning of the earliest comparative period and its effect on the relevant note disclosures.

In accordance with IAS 1.60, the Group has classified its statement of financial position into current and non-current assets, and current and non-current liabilities. IAS 1 requires that entities should present assets and liabilities broadly in order of their liquidity when this presentation is reliable and more relevant.

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Notes	Attributable to the equity holders of the parent: Issued and fully paid shares	Retained earnings	Total	Non-controlling interest	Total equity	IAS 1.10(c) IAS 1.51(b)(c) IAS 1.106(d)
		US$ million	US$ million	US$ million	US$ million	US$ million	IAS 1.51(d)(e)
Balance at 1 January 2010	20	**836**	**1,670**	**2,506**	**-**	**2,506**	
Profit for the year		–	905	905	15	920	IAS 1.106(d)(i)
Other comprehensive income		–	–	–	–	–	
Total comprehensive income		**–**	**905**	**905**	**15**	**920**	
Issue of share capital	20	715	–	715	–	715	IAS 1.106(d)(iii)
Dividends paid	10	–	(140)	(140)	(15)	(155)	IAS 1. 106(d)(iii), 107
Acquisition of subsidiary (Note 3)		–	–	–	13	13	IAS 1.106(d)(iii)
Balance at 31 December 2010	**20**	**1,551**	**2,435**	**3,986**	**13**	**3,999**	
Balance at 1 January 2011	**20**	**1,551**	**2,435**	**3,986**	**13**	**3,999**	
Profit for the year		–	1,095	1,095	22	1,117	IAS 1.106(d)(i)
Other comprehensive income		–	–	–	–	–	
Total comprehensive income			**1,095**	**1,095**	**22**	**1,117**	
Dividends paid	10	–	(328)	(328)	(22)	(350)	IAS 1. 106(d)(iii), 107
Balance at 31 December 2011	20	**1,551**	**3,202**	**4,753**	**13**	**4,766**	

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	31 December 2011	31 December 2010	
				IAS 1.51(b)(c) *IAS 1.10(d)*
		US$ million	US$ million	*IAS 1.51(d)(e)*
Cash flows from operating activities				*IAS 7.10, IAS 7.18(b)*
Profit before income tax from operations		1,914	1,449	
Adjustments to add / (deduct) non-cash items:				*IAS 7.20(b)*
Depreciation, depletion and amortisation	6	559	293	
Impairment of oil and gas properties	6	33	9	
Impairment of exploration and evaluation assets	6	5	6	
Reversal of previously impaired exploration and evaluation assets	6	(16)	-	
Unsuccessful exploration and evaluation expenditures	11	90	75	
(Gain) on sale of oil and gas properties	6	(39)	(58)	
(Gain) on sale of exploration and evaluation assets	6	(1)	-	
(Gain)/loss on sale of property, plant and equipment	6	(11)	11	
Unrealised gain on derivative financial instruments		(5)	(9)	
Unwinding of discount on decommissioning	22	27	28	
Other non-cash income and expenses		(3)	8	
Add: Interest expense (disclosed in financing activities)		67	12	
Deduct: Interest income (disclosed in investing activities)	7	(24)	(25)	
Working capital adjustments:				*IAS 7.20(a)*
Change in trade and other receivables		(20)	(207)	
Change in inventories		(5)	(3)	
Change in trade and other payables relating to operating activities		122	137	
		2,693	**1,726**	
Income tax paid		(737)	(678)	*IAS 7.35*
Net cash flows from operating activities		**1,956**	**1,048**	
Cash flows from investing activities				*IAS 7.21*
Investment in exploration and evaluation assets	11	(358)	(293)	*IAS 7.16(a)*
Expenditures on oil and gas assets	12	(1,108)	(1,357)	*IAS 7.16(a)*
Expenditures on other property, plant and equipment	13	(1)	(32)	*IAS 7.16(a)*
Expenditures on other intangible assets	14	(5)	(3)	*IAS 7.16(a)*
Proceeds on disposal of exploration and evaluation assets	11	23	-	*IAS 7.16(b)*
Proceeds on disposal of oil and gas properties	12	109	98	*IAS 7.16(b)*
Proceeds on disposal of other property, plant and equipment assets	13	23	12	*IAS 7.16(b)*
Acquisition of a subsidiary, net of cash acquired	3	(454)	(64)	*IAS 7.39*
Interest received from investing activities		24	25	*IAS 7.31*
Net cash used in investing activities		**(1,747)**	**(1,614)**	
Cash flow from financing activities				*IAS 7.21*
Proceeds from issuance of shares	20	-	728	*IAS 7.17(a)*
Proceeds from loans and borrowings	21	331	-	*IAS 7.17(c)*
Payments of loan and borrowings		(114)	(32)	*IAS 7.17(d)*
Interest paid		(64)	(33)	*IAS 7.31*
Dividends paid	10	(350)	(140)	*IAS 7.31*
Net cash used in financing activities		**(197)**	**523**	
Increase/(decrease) in cash		12	(43)	
Cash and cash equivalents, beginning of period		488	531	
Cash and cash equivalents, end of period	**19**	**500**	**488**	*IAS 7.45*

Consolidated statement of cash flows *continued*

Commentary

IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method.

The Group has reconciled profit before tax to net cash flows from operating activities. However, a reconciliation from profit after tax is also acceptable under IAS 7.

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received as cash flows from investing activities.

IAS 7.16 states that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Therefore if an entity adopted a policy of expensing exploration and/or evaluation costs, the related cash flows could not be classified as part of investing activities. Instead they would need to be classified as part of operating activities. The Group capitalises exploration and evaluation assets in certain situations, therefore, the related cash flows have been classified as investing cash flows.

Notes to the consolidated financial statements

1. Corporate information

IAS 1.10(e)

The consolidated financial statements of Good Petroleum (International) Limited (Good Petroleum) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 27 January 2012. Good Petroleum is a limited company incorporated and domiciled in Petroland whose shares are publicly traded.

IAS 1.51(a), (b), (c)
IAS 1.138(a)(c)
IAS 10.17

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

IAS 1.138(b)

2.1 Basis of preparation

The consolidated financial statements of Good Petroleum (as the parent) and all of its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.16

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

IAS 1.112(a)
IAS 1.117(a)
IAS 1.51(d)(e)

Basis of consolidation

IAS 27.12

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2011.

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 when such control ceases.

IAS 27.26
IAS 27.22

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

IAS 27.23
IAS 27.24

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

IAS 27.20

Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, the non-controlling interest are allocated their share of the total comprehensive income of the period, even if that results in a deficit balance.

IAS 27.28

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

IAS 27.30

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recognised in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

IAS 27.34
IAS 27.41

2.2 Significant accounting judgements, estimates and assumptions

IAS 1.122, IAS 1.125

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions 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 if different assumptions were used and different conditions existed. IAS 1.125

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

(a) Hydrocarbon reserve and resource estimates

Oil and gas production properties are depreciated on a units of production basis at a rate calculated by reference to total proved developed and undeveloped reserves determined in accordance with Society of Petroleum Engineers rules and incorporating the estimated future cost of developing those reserves. The Group estimates its commercial reserves based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the total amount of recoverable reserves and 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 the 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 carrying amount of oil and gas development and production assets at 31 December 2011 is shown in note 12.

As the economic assumptions used may change and as additional geological information is produced during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results which include:

- The carrying value of exploration and evaluation assets, oil and gas properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

Commentary

Definitions and disclosure of reserve and resource information within the financial statements is currently not covered by IFRS. General industry practice, when reporting under IFRS, is to exclude information regarding the assumptions used in determining reserves from the financial statements. Similarly, reserves are not recognised as an asset in the statement of financial position but are included as part of oil and gas properties. However, IAS 1 paragraph 125 does require disclosure about key sources of estimation uncertainty: a paragraph on the uncertainties surrounding the estimation of remaining economically recoverable reserves/proved and probable reserves, and a description of the method used by the entity in estimating economically recoverable reserves/proved and probable reserves (e.g., Society of Petroleum Engineers or World Petroleum Council methodologies), will be covered in the appropriate note(s).

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(b) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

(c) Units of production depreciation of oil and gas assets

Oil and gas properties are depreciated using the units of production (UOP) method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

Each items' life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates changes. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions

  Or

- Unforeseen operational issues

Changes are accounted for prospectively.

(d) Recoverability of oil and gas assets

The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see *2.2(a) Hydrocarbon reserves and resource estimates* above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets.

2.2 Significant accounting judgements, estimates and assumptions *continued*

(e) Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. 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, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(f) Recovery of deferred income tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about 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 income tax assets recorded at the reporting date could be impacted.

In addition, 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.

(g) Pension benefits obligation

The accounting policy applied by the Group for defined benefit pension schemes requires management to make judgements as to the nature of such benefits provided by each scheme which thereby determines the classification of each scheme. The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are required to be determined annually using actuarial valuations. An actuarial valuation involves making various estimates and assumptions. These include the determination of the future returns on each different type of scheme asset, discount rate, future salary increases, employee attrition rates, mortality rates, expected remaining periods of service of employees and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates on corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation, unless the obligations relate to a country that is considered to not have a deep market in corporate bonds. In these situations, the government rate on bonds with similar maturities is used. To qualify as high quality corporate bonds, those bonds with excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

(h) Fair value hierarchy

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(i) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

2.3 Summary of significant accounting policies

IAS 1.112

(a) Interests in joint ventures

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

(i) Jointly controlled assets

A jointly controlled asset (JCA) involves joint control and often 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.

Where the Group's activities are conducted through JCAs, the Group recognises its share of the jointly controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, 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 and a share of production.

IAS 31.57
IAS 31.21

(ii) Jointly controlled entities

A jointly controlled entity (JCE) is a corporation, partnership or other entity in which each venturer holds an interest. A JCE operates in the same way as other entities, except that a contractual arrangement establishes joint control. A JCE controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in JCEs are accounted for using the equity method.

IAS 31.57
IAS 31.38

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

IAS 28.11
IAS 28.23

The profit or loss reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income or the statement of changes in equity, as appropriate. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

IAS 28.39

The share of the joint venture's net profit/(loss) is shown on the face of the statement of comprehensive income. This is the profit/(loss) attributable to Group's interest in the joint venture.

IAS 28.22

The financial statements of the JCE are prepared for the same reporting period as the venturer. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

IAS 28.37(e)
IAS 28.26

(iii) 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 profit or loss.

IAS 31.52

When Good Petroleum charges a management fee (based on a fixed percentage of total costs incurred for the year) to cover other general costs incurred in carrying out the activities on behalf of the joint venture, it is not acting as an agent. Therefore, the general overhead expenses and the management fee are recognised in profit or loss as an expense and income, respectively.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

Commentary

Good Petroleum accounts for its interest in the JCE using the equity method. IAS 31.30 requires the use of proportionate consolidation, but does allow for equity accounting as an alternative.

The other type of joint venture contemplated by IAS 31 (not disclosed above because it is not relevant to Good Petroleum) is a jointly controlled operation (JCO). Such a joint venture is described as an arrangement which involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

IFRS 11 *Joint Arrangements* was issued in May 2011 effective for annual reporting periods commencing on or after 1 January 2013. IFRS 11 introduces the core principle of accounting for the rights and obligations arising from the joint arrangement. There are only two types of joint arrangements under IFRS 11 – a joint operation or a joint venture. A **joint operation** is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A **joint venture** is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Current JCAs and JCOs will probably be considered as joint operations under IFRS 11. Current JCEs could either be joint operations or joint venture, the classification of which will depend upon the rights and obligations of the arrangement. For JCEs which are classified as joint ventures under IFRS 11, proportionate consolidation is prohibited and an entity must use equity accounting. To classify a JCE as either a joint operation or a joint venture will require detailed analysis.

(b) Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the parent company's functional currency and the Group's presentation currency. The Group does not have any foreign operations. *IAS 1.51(d)*

Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction. *IAS 21.21*

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss. *IAS 21.23*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. 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 21.28* *IAS 21.32*

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree. For each business combination, the acquirer elects to measure the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. For financial instruments, this includes the separation of embedded derivatives in host contracts by the acquiree. Those petroleum reserves and resources that are able to be reliably measured are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised. *IFRS 3.4* *IFRS 3.18* *IFRS 3.19* *IFRS 3.15* *IFRS 3.16*

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date (being the date the acquirer gains control) through profit or loss. *IFRS 3.42*

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Subsequent settlement is accounted for within equity. In instances, where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. *IFRS 3.58* *IFRS 3.54*

2.3 Summary of significant accounting policies *continued*

(c) Business combinations and goodwill *continued*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

IFRS 3.B63(a)

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

IAS 36.86

Commentary

Definition of a business

Under IFRS 3 (as revised in 2008) Business Combinations

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 in IFRS 3 (as revised in 2008) as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants." The main modifications compared to the IFRS 3 (2007) are that IFRS 3 (as revised in 2008):

- Requires the integrated set of activities and assets to only be "capable of" being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The focus on the capability to achieve the purposes of the business helps avoid the unduly restrictive interpretations that existed under the former guidance
- Clarifies the meanings of the terms "inputs", "processes" and "outputs", which helps eliminate the need for extensive detailed guidance and the misinterpretations that sometimes stem from such guidance
- Clarifies that inputs and processes applied to those inputs are essential and that although the resulting outputs are normally present, they need not be present for a business to exist

  And
- Clarifies that a business need not include all of the inputs or processes that the seller used in operating that business if a market participant is capable of continuing to produce outputs. This helps avoid the need for extensive detailed guidance and assessments about whether a missing input or process is minor

In summary, the definition of a business in IFRS 3 (as revised in 2008) may include "integrated sets of activities" that were previously not considered to be businesses. For example, oil fields in the development stage or potentially in the exploration or evaluation stage, might be considered businesses under IFRS. In general, it is considered that when an activity is moving closer to production, it is more likely the assets or group acquired is considered a business.

Determining whether a particular set of integrated activities and assets is a business may require significant judgement.

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 (or a bargain purchase) 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
- Transaction costs should be recognised as an expense under IFRS 3 (as revised in 2008), but can be capitalised as part of an asset acquisition

  And
- In an asset purchase transaction, no deferred tax will arise in relation to acquired assets and assumed liabilities where these amount differ from their tax bases as the initial recognition exemption for deferred tax under IAS 12 applies

2.3 Summary of significant accounting policies *continued*

(c) Business combinations and goodwill *continued*

Goodwill in a business combination

Traditionally, many oil and gas companies had 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 of identifiable net assets (excluding mineral reserves acquired) would then have been included within mineral reserves acquired. However, goodwill could arise as a result of purchased synergies, overpayment by the acquirer, or when IFRS requires that acquired assets and/or liabilities are measured at an amount that is not fair value (e.g., deferred taxation). As far as overpayments are concerned, it was concluded that, in practice, it is not possible to identify and reliably measure an overpayment at the acquisition date, and the accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises [IFRS 3.BC382]. Therefore, it is not appropriate for oil and gas companies to simply assume under IFRS that goodwill never arises in a business combination and that any differential automatically goes to mineral reserves. Instead, mineral reserves acquired should be valued separately and, any excess purchase consideration over and above the value of the identifiable net assets (which includes mineral reserves), should be allocated to goodwill.

Deferred taxation

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 net assets acquired were to be classified within mineral reserves, IAS 12 would give rise to a deferred income tax liability on the temporary difference. In principle, that would result in an iterative calculation in which the deferred income tax liability recognised would increase the amount attributed to mineral reserves, which would, in turn, give rise to an increase in the deferred income tax liability. Given the 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 2.5 to 5 (i.e., 1/(1 – 60%) = 2.5). Hence, the reason why any excess of purchase consideration over the fair value of identifiable net assets (excluding mineral reserves) cannot simply be recognised as part of mineral reserves.

(d) Oil and natural gas exploration, evaluation and development expenditure

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

(i) Pre-licence costs

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

(ii) Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalised within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

If no future activity is planned, the carrying value of the licence and property acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs *IFRS 6.23*

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. *IFRS 6.9*

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

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 directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors. *IFRS 6.15*

IFRS 6.18-20

Geological and geophysical costs are recognised in profit or loss as incurred.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(d) Oil and natural gas exploration, evaluation and development expenditure *continued*

(iii) Exploration and evaluation costs continued

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset. *IFRS 6.18* *IFRS 6.17*

All such capitalised costs are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is 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 to profit or loss.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. No amortisation is charged during the exploration and evaluation phase.

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised. *IAS 16.24*

Commentary

Accounting for E&E assets, and therefore also accounting for swaps involving only E&E assets, falls within the scope of IFRS 6. As that standard does not directly address accounting for asset swaps, it is necessary to consider its hierarchy of guidance in the selection of an accounting policy.

IFRS 6 does not require an entity to look at other standards and interpretations that deal with similar issues, or the guidance in the IASB's Framework. Instead, it allows entities to develop their own accounting policies, or use the guidance issued by other standard-setters, thereby effectively allowing entities to continue using accounting policies that they applied under their previous national GAAP. Therefore, many entities, especially those which consider that they can never determine the fair value of E&E assets reliably, have selected an accounting policy under which they account for E&E assets obtained in a swap transaction at the carrying amount of the asset given up.

(iv) Farm-outs —in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee 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.

Commentary

A farm-out (from the viewpoint of the transferor) or a farm-in (from the viewpoint of the transferee) is defined in the UK Oil Industry Accounting Committee (OIAC) - Statement of Recommended Practice (SORP) as "the transfer of part of an oil and gas interest in consideration for an agreement by the transferee (farmee) to meet, absolutely, certain expenditure which would otherwise have to be undertaken by the owner (farmor)." (OIAC SORP para 16). Farm-in transactions generally occur in the exploration or development phase and are characterised by the transferor (i.e. farmor) giving up future economic benefits, in the form of reserves, in exchange for a reduction in future funding obligations.

IFRS 6 deals with accounting for exploration and evaluation (E&E) expenditures and does not "address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources". [IFRS 6.4]. That leaves open the question whether farm-in arrangements can ever fall within the scope of IFRS 6. However, as a farm-in arrangement leads to the acquisition of an E&E asset by the farmee and a disposal by the farmor, we believe that a farm-in arrangement would fall within the scope of IFRS 6. Hence, an entity has two options:

(a) Either to develop an accounting policy under IAS 8 (refer (e)(iii) below for more details)
Or
(b) To develop an accounting policy under IFRS 6 (i.e., apply their previous national GAAP)

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(d) Oil and natural gas exploration, evaluation and development expenditure *continued*

Commentary *continued*

Accounting policies for farm-in arrangements in the E&E phase that are based on an entity's previous national GAAP 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, we would expect the entity also to make the farm-in disclosures required by its previous GAAP.

(v) Development costs

IFRS 6.10

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 profit or loss as an expense in the period they are incurred, although some interpretations of the successful efforts concept would also capitalise the cost of unsuccessful development wells.

Under the successful efforts method, an entity will generally consider each individual mineral lease, concession, or production sharing contract as a cost centre.

When an entity applies the successful efforts method under IFRS, it will need to account for prospecting costs incurred before the E&E phase under IAS 16 or IAS 38. As economic benefits are highly uncertain at this stage of a project, prospecting costs will typically be expensed as incurred. Costs incurred to acquire undeveloped mineral rights, however, should be capitalised under IFRS if an entity expects an inflow of future economic benefits.

To the extent that costs are incurred within the E&E phase of a project, IFRS 6 does not prescribe any recognition and measurement rules. Therefore, it would be acceptable for such costs:

(1) To be recorded as assets and written off when it is determined that the costs will not lead to economic benefits

Or

(2) To be expensed as incurred if the outcome is uncertain. In accordance with IFRS 6.17, 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 or evaluation effort. If the exploration or evaluation effort has ceased, but there is potential for future benefits e.g., through sale, although this is subject to factors outside of this particular exploration and evaluation effort, the exploration and evaluation phase is over. The capitalised exploration and evaluation costs should then be tested for impairment and reclassified into property, plant and equipment or intangible assets.

If it is determined that no commercial reserves are present then the costs capitalised should be written off.

Costs incurred after the E&E phase should be accounted for in accordance with IFRS (i.e., IAS 16 and IAS 38).

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(d) Oil and natural gas exploration, evaluation and development expenditure *continued*

Commentary *continued*

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, 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 assessed for impairment under IAS 36, and any impairment loss recognised (as appropriate), and then reclassified out of exploration and evaluation assets in the statement of financial position and accounted for under IAS 16 or IAS 38. This means 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 would 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.

(e) Oil and gas properties and other property, plant and equipment

IAS 16.73(a)

(i) Initial recognition

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. *IAS 16.30*

IAS 16.15
IAS 16.16

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 (where applicable), 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.

When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

(ii) Depreciation/amortisation

IAS 16.73(b)
IAS 16.73(c)

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped 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 developed and undeveloped reserves of the relevant area. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

IAS 16.73(b)
IAS 16.73(c)

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives which is generally 20 years for refineries, 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.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(e) Oil and gas properties and other property, plant and equipment *continued*

(ii) Depreciation/amortisation continued

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. *IAS 16.67 IAS 16.68 IAS 16.71*

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate. *IAS 16.51*

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. IFRS does not provide any guidance on the selection of an appropriate reserves base or cost centre for the application of the unit-of-production method. 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 when 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, such as:

(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 oil prices)

It is generally not appropriate to account of these events retrospectively. For example, changes in reserves estimates that result from events that took place after the reporting 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.

Reserves bases

An entity preparing its financial statements under IFRS will need to choose between using "proved developed reserves", "proved developed and undeveloped reserves" and "proved and probable reserves" as its reserves base. Each of these approaches is acceptable under IFRS. Preparers of financial statements should be aware of the difficulties that exist in ensuring that the reserves base and the costs that are being depreciated correspond. Users of financial statements need to understand that comparability between entities reporting under IFRS may sometimes be limited and need to be aware of the impact that each of the approaches has on the depreciation charge that is reported.

I - Proved developed reserves

Under some national GAAPs that have (or had) accounting standards for the extractive industries, an entity is required to use proved developed reserves as its reserves base. An entity would therefore calculate its depreciation charge on the basis of actual costs that have been incurred to date. However, the problem often exists that the cost centre includes capitalised costs that relate to undeveloped reserves. To calculate the depreciation charge correctly, it will be necessary to exclude a portion of the capitalised costs from the depreciation calculation.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(e) Oil and gas properties and other property, plant and equipment *continued*

Commentary *continued*

II - Proved developed and undeveloped reserves

The IASC's Issues Paper notes that it could be argued that "the choice is either to use: (a) both developed and undeveloped proved reserves and add to the depreciable costs already incurred estimated future development costs applicable to proved undeveloped reserves; or (b) to use proved developed reserves only and withhold from the depreciation computation those development costs applicable to reserves whose remaining development will occur in the future", but that "it is often difficult to allocate costs that have already been incurred between developed and undeveloped reserves".

Therefore, another approach common under IFRS is to use "proved developed and undeveloped reserves" as the reserves base for the application of the unit-of-production method. This approach has the advantage that it effectively straight-lines the depreciation charge per unit of production across the different phases of a project. The entity would therefore define its cost pool (i.e. unit of account) as including both assets that it currently owns and certain future investments. Although there is no precedent within IFRS for using such a widely defined unit of account, such an approach is not prohibited. In practice, it has gained a broad level of acceptance within the extractive industries.

III - Proved and probable reserves

The arguments in favour of using "proved and probable reserves" as the reserves base in applying the unit-of-production method are similar to those discussed at II above. The IASC's Issues Paper summarises the arguments in favour of this approach as follows:

"Proponents of [using "proved and probable reserves" as the reserve base] use the same arguments given for including proved undeveloped reserves and related future costs in calculating depreciation. They point out that in a cost centre in which development has only begun a large part of capitalised prospecting, mineral acquisition, exploration, and appraisal costs may apply to probable reserves. Often in this situation there are large quantities of probable reserves, lacking only relatively minor additional exploration and/or appraisal work to be reclassified as proved reserves. They argue that, in calculating depreciation, it would be possible to defer all costs relating to the probable reserves if either proved developed reserves only, or all proved reserves, were to be used as the quantity on which depreciation is based. They contend that using probable and proved reserves in the reserve base and including in the depreciable costs any additional costs anticipated to explore and develop those reserves provides more relevant and reliable information."

The main drawbacks of this approach are that:

(1) Estimates of probable reserves are almost certainly different from actual reserves that will ultimately be developed And

(2) Estimates of the costs to complete the development are likely to be incorrect because of the potentially long time scales involved

(iii) Farm-outs — outside the exploration and evaluation phase

In accounting for a farm-out arrangement the Group:

- Derecognises the proportion of the asset that it has sold to the farmee
- Recognises the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor
- Recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets

  And
- Tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the Group. However, if payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue. Any part of the consideration that is receivable in the form of cash is treated as a definition of a financial asset and is accounted for at amortised cost.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(e) Oil and gas properties and other property, plant and equipment *continued*

Commentary

As discussed above in note 2.3(d)(v), a farm-in represents the complete acquisition of a proportion of a property.

Farmee

Therefore, the farmee should:

- Recognise an asset that represents the underlying (partially) undeveloped interest acquired at cost in accordance with IAS 16 or IAS 38 [IAS 16.15, IAS 38.21]

  And
- Recognise a liability that reflects the obligation to fund the farmor's share of the future investment from which the farmee itself will not derive any future economic benefits

Farm-in arrangements can be structured in numerous ways, some requiring payment of a fixed monetary amount, while others are more flexible and state, for example, that capital expenditures over the next five years will be paid for by the farmee regardless of what those amounts may be.

In the latter scenario, the farmee should recognise a provision under IAS 37 as the timing and amount of the liability are uncertain. [IAS 37.10]. However, in the former scenario it could be argued that the liability meets the definition of a financial liability under IAS 32 that should be accounted for in accordance with IAS 39. [IAS 32.11]

Farmor

In accounting for a farm-in arrangement the farmor should:

- Derecognise the proportion of the asset that it has sold to the farmee in accordance with the requirements of IAS 16 or IAS 38 [IAS 16.67, IAS 38.112]
- Recognise the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor
- Recognise a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. [IAS 16.71, IAS 38.113]. Recognition of a gain would be appropriate only when the value of the consideration can be determined reliably. If not, then the carried party should account for the consideration received as a reduction in the carrying amount of the underlying assets

  And
- Test the retained interest for impairment if the terms of the arrangement indicate that the retained interest may be impaired

Under IAS 16 and IAS 38, the consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the farmor. However, if "payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable." [IAS 16.72, IAS 38.116]. But any part of the consideration that is receivable in the form of cash will meet the definition of a financial asset under IAS 32 and should be accounted for in accordance with IAS 39, [IAS 32.11]; either at amortised cost or fair value depending on how the farmor designates the receivable.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(e) Oil and gas properties and other property, plant and equipment *continued*

(iv) Development and production asset swaps

IAS 16.24

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.

(v) Major maintenance, inspection and repairs

IAS 16.12
IAS 16.13
IAS 16.14

Expenditure on major maintenance refits, inspections 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 replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

(f) Other intangible assets

Other intangible assets include computer software.

IAS 38.24
IAS 38.74
IAS 38.33

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation (calculated on a straight line basis over their useful lives) and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised. Instead the related expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

IAS 38.88
IAS 38.97
IAS 38.104
IAS 38.99

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

IAS 38.107-108
IAS 38.109

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

IAS 38.112-113

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(g) Impairment of non-financial assets

(i) Assets (excluding goodwill and indefinite life intangibles)

The Group assesses at each reporting date whether there is an indication that an asset (or cash-generating unit (CGU)) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and 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, in which case, the asset is tested as part of a larger CGU to it belongs.

IAS 36.9
IAS 36.10
IAS 36.18
IAS 36.22

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

IAS 36.66
IAS 36.59, 60
IAS 36.27

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year.

IAS 36.33
IAS 36.35

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

IAS 36.60

For assets/CGUs 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 estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's / CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset / CGU does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and is recognised through other comprehensive income.

IAS 36.110
IAS 36.114
IAS 36.117
IAS 36.119

(ii) Goodwill

IAS 36.10(b)
IAS 36.90

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

IAS 36.124

(iii) Intangible assets with indefinite useful lives

IAS 36.10(a)

Intangible assets with indefinite useful lives are tested for impairment annually (as at 31 December) either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(g) Impairment of non-financial assets *continued*

Commentary

IAS 36.96 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year provided it is at the same time each year. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.
The same rule applies to indefinite life intangibles. Different CGUs and intangible assets may be tested at different times.

IAS 36 provides a number of minimum indicators of impairment. However entities operating within the oil and gas sector may also consider the following:

- Declines in prices of products or increases in production costs
- Governmental actions, such as new environmental regulations, imposition of price controls and tax increases
- Major operational problems or accidents
- Significant decreases in reserves estimates
- Increases in the anticipated period over which reserves will be produced
- Substantial cost overruns during the development and construction phases of an oil field

The level of cash generating units

A cash-generating unit (CGU) is defined by IAS 36 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 CGUS, 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 that are operated as one "complex" though the use of shared infrastructure?
(d) Are there stand-alone fields that operate on a portfolio basis?

For most oil and gas companies, the successive stages of the extraction and production process are often considered to be one CGU as it is not possible to allocate net cash inflows to individual stages of the process. Given this, in the upstream industry, the field may be an appropriate CGU since in most cases it is the level at which separately identifiable cash inflows are available.

Impairment calculations are 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 internal long-term planning assumptions.

Foreign currency future cash flows

In accordance with IAS 36, when calculating the value in use of the CGU, future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity then translates the present value of these cash flows using the spot rate at the date of the value in use calculation.

Shared infrastructure

When several fields share infrastructure (e.g., pipelines, ports or refining facilities) the question arises whether the fields and the shared infrastructure should be treated as a single CGU. Treating the fields and the shared infrastructure together is not appropriate under the following circumstances:

- If the shared infrastructure is relatively insignificant, it would generally not be appropriate to treat the different fields as part of the same CGU
- If the fields are capable of selling their product without making use of the shared infrastructure, that again would indicate that they are not part of the same CGU
- If the shared infrastructure is classified as a corporate asset, which is defined under IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs". In that case, the entity should apply the requirements in IAS 36 regarding corporate assets

However, if the conditions above do not apply, then there are two acceptable ways in which it can be dealt with, which are 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 clear industry accounting guidance, both approaches are considered acceptable.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(g) Impairment of non-financial assets continued

Commentary *continued*

Reversal of impairment loss – exploration and evaluation assets

Any impairment loss on an E&E 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. An impairment loss recognised in prior periods for an asset, other than goodwill, shall be reversed if, and 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 this is the case, the carrying amount of the asset shall be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

In some circumstances when an entity recognises an impairment of an E&E asset, it also needs to decide whether or not to derecognise the asset because future economic benefits are no longer expected. If an entity concludes that production is not technically feasible or commercially viable, this provides evidence that the related E&E asset needs to be tested for impairment. Based on such evidence, an entity may also conclude that future economic benefits are no longer expected and the area is to be abandoned.

Although IFRS does not specifically deal with derecognition of E&E assets, the entity should derecognise E&E asset because:

(1) The asset is no longer in the E&E phase and hence outside the scope of IFRS
And

(2) Other asset standards such IAS 16 and IAS 38, would require derecognition under those circumstances

Subsequent to derecognition, the costs of an E&E asset that has been de-recognised cannot be re-recognised as part of a new E&E asset nor reversed, unlike the impairment of an E&E asset, which may be reversed (as discussed above).

(h) Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement *IFRS 7.21*

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, as derivatives or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. *IAS 39.9*

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. *IAS 39.43*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. *IAS 39.38*

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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 at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. *IAS 39.9* *IAS 39.46*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs (as appropriate) in profit or loss. *IAS 39.AG14* *IAS 39.55(a)*

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the criteria set out in IAS 39 are satisfied. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(h) Financial instruments – initial recognition and subsequent measurement *continued*

(i) Financial assets continued

Subsequent measurement *continued*

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

The Group evaluates its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition. *IAS 39.50-50D*

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. *IAS 39.10* IAS 39.11

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, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. *IAS 39.9 IAS 39.46(a) IAS 39.56*

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: *IFRS 7.21*

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset *IAS 39.17(a) IAS 39.18(b)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. *IAS 39.20(a) IAS 39.20(c) IAS 39.18(b)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. *IAS 39.30(a)*

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. *IAS 39.58 IAS 39.59 IFRS 7.B5(f)*

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(h) Financial instruments – initial recognition and subsequent measurement *continued*

(i) Financial assets continued

Impairment of financial assets *continued* *IAS 39.64*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. *IAS 39.63*

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

IAS 39.AG84
IFRS 7.16
IFRS 7.B5(d)(i)
IFRS 7.B5(d)(ii)
IAS 39.65
IAS 39.AG93

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

(ii) Financial liabilities

Initial recognition and measurement

IFRS 7.21
IAS 39.43
IAS 39.56

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

IAS 39.9
IAS 39.47(a)

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities at fair value through profit or loss *IAS 39.55(a)*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 or loss. *IAS 39.47*

Financial liabilities designated upon initial recognition at fair value through profit and loss should be designated at the initial recognition date and only if the criteria set out in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss. *IAS 39.56*

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(h) Financial instruments – initial recognition and subsequent measurement *continued*

(ii) Financial liabilities *continued*

Subsequent measurement *continued*

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR method amortisation process. *IAS 39.55(a)* *IAS 39.47* *IAS 39.9*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in profit or loss.

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. *IAS 39.39*

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss. *IAS 39.41* *IAS 39.40*

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. *IAS 32.42*

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. *IAS 39.48A* *IFRS 7.27*

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

(v) Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). *IAS 1.60*

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

(vi) Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the group and therefore is not considered highly liquid – for example cash set aside to cover rehabilitation obligations. *IAS 7.6* *IAS 7.7* *IAS 7.48-49*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. *IAS 7.45*

2.3 Summary of significant accounting policies *continued*

(h) Financial instruments – initial recognition and subsequent measurement *continued*

(vii) 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". *IAS 39.5*

For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

Commentary

For those financial instruments not specifically mentioned in the Good Petroleum accounting policy note (e.g., held to maturity financial investments, available for sale financial assets, hedging instruments, etc.), please refer to our publications *Good Group (International) Limited 2011* or *Good Bank (International) Limited 2011*.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of producing and refining crude oil is accounted for on a weighted average basis. *IAS 2.36(a) IAS 2.9 IAS 2.6 IAS 2.10*

Net realisable value of crude oil and refined products is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the purchase cost, cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal capacity. *IAS 2.29*

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 for the operation of a facility during more than one operating cycle. Also, 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. It is valued at cost and is depreciated over the useful life of related asset. *IAS 2.6(c)*

(j) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at date of inception: whether 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, even if that right is not explicitly specified in an arrangement. *IFRIC 4.6*

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4 *Determining whether an Arrangement contains a Lease*. *IFRIC 4.17*

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 commencement 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 recognised in profit or loss. *IAS 17.8 IAS 17.20 IAS 17.25*

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. *IAS 17.27*

Operating lease payments are recognised as an operating expense in profit or loss on a straight line basis over the lease term. *IAS 17.33*

Embedded leases

All take-or-pay contracts are reviewed on inception to determine if they contain any embedded leases. *IFRIC 4.6*

2.3 Summary of significant accounting policies *continued*

(j) Leases *continued*

IAS 17.8
IAS 17.52

Group as a lessor

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.

(k) Provisions

(i) 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 profit or loss 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 in profit or loss.

IAS 37.14, IAS 37.53, IAS 37.54, IAS 37.45, IAS 37.47, IAS 37.60

(ii) Decommissioning liability

The Group recognises a decommissioning liability it 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.

IAS 16.16(c), IAS 37.45

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed as incurred.

IAS 37.47, IAS 37.59

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.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. *IFRIC 1.5(a), (b)*

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

IFRIC 1.5(c)

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as a finance cost.

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

Changes to the provision

Where a reduction in a decommissioning obligation is to be deducted from the cost of the asset, the “cost of the asset” is the written down carrying value of the whole asset (comprising its construction costs and decommissioning cost). It is not just the value of the decommissioning asset originally recognised. This view is based on the example and associated solution set out in IFRIC 1. The solution does not treat the decommissioning element as a separate component of the asset. Accordingly, we believe that it would not be appropriate to recognise any gain until the carrying value of the whole asset is extinguished. Accordingly, we believe that it would not be appropriate to recognise any gain until the carrying value of the whole asset is extinguished.

2.3 Summary of significant accounting policies *continued*

(k) Provisions *continued*

Commentary *continued*

Deferred tax

Two acceptable approaches have emerged in deciding whether a deferred tax on the temporary differences that arise from the initial recognition of the decommissioning asset and liability should be recognised, which are as follows:

Approach 1: The entity recognises: (1) a deferred income tax asset regarding the temporary difference on the decommissioning liability; and (2) a deferred income tax liability regarding the temporary difference on the decommissioning asset. On day one, the deferred income tax asset and deferred income 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 net deferred income tax asset or liability is recognised.

Approach 2: The entity recognises neither the deferred income tax asset regarding the temporary difference on the decommissioning liability nor the corresponding deferred income 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 statement of financial position with no subsequent recognition reassessment.

(l) Taxes

(i) 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 reporting date, in the countries where the Group operates and generates taxable income. *IAS 12.46*

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. *IAS 12.61A* *IAS 1.117*

(ii) Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. *IAS 12.15*

Deferred income tax liabilities are recognised for all taxable temporary differences, except: *IAS 12.22 (C)*

- 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 *IAS 12.39*

  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 by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

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 future 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: *IAS 12.34*

- 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 *IAS 12.24* *IAS 12.44*

  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

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(l) Taxes *continued*

(ii) Deferred income tax **continued**

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future 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 reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

IAS 12.56
IAS 12.37
IAS 12.47

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 by the end of the reporting period.

IAS 12.61A

Deferred income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

IAS 12.71

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

IAS 12.68

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances arose. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or in profit or loss.

IAS 18.8
IAS 12.2

(iii) Royalties, resource rent tax and revenue-based taxes

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as taxes on income, other types of taxes on net income which are calculated based on oil and gas production.

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 income tax is provided on the same basis as described above for other forms of income tax. Obligations arising from royalty arrangements and other types of taxes, that do not satisfy these criteria, are recognised as current provisions and included in cost of sales. The revenue taxes payable by Good Petroleum are considered to meet the criteria to be treated as part of income taxes.

(iv) Production-sharing arrangements

According to the production-sharing arrangement (PSA), the share of the profit oil to which the government is entitled in any calendar year in accordance with the PSA is deemed to include a portion representing the corporate income tax imposed upon and due by Good Petroleum. This amount 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 profit or loss.

(v) Sales tax

IAS 18.8

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.3 Summary of significant accounting policies *continued*

(l) Taxes *continued*

Commentary

The oil and gas industry is subject to numerous fiscal regimes throughout the world. These fiscal regimes may include royalties, production taxes, excise taxes, petroleum taxes, revenue taxes and others. One issue is identifying which of these fiscal regimes represent income taxes and are therefore subject to the accounting requirements in IAS 12 and which are not income taxes and therefore fall outside the scope of IAS 12. Usually this is required to be considered on a case-by-case basis.

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 PSA 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.

(m) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, sales taxes, excise duties and similar levies. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. *IAS 18.35(a) IAS 18.14 IAS 18.20 IAS 18.9*

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

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 oil lifted and sold and the Group's share of production are not significant. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

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

The following criteria are also applicable to other specific revenue transactions:

(i) 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 the customer 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 and only recognised when the product is delivered, or the make-up product can no longer be taken. If no such option exists within the contractual terms, revenue is recognised when the take-or-pay penalty is triggered.

(ii) Interest revenue

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest revenue is included in finance income in profit or loss. *IAS 18.30(a)*

2.3 Summary of significant accounting policies *continued*

(m) Revenue *continued*

Commentary

Overlift and underlift

The two methods of accounting for underlifts and overlifts 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 a liability (deferred revenue) and not as revenue. Conversely, the underlift party would recognise an underlift asset (receivable) 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 a liability that reflects the lifting imbalance.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. *IAS 23.8* *IAS 23.12* *IAS 23.14*

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 the temporary investment of amounts is also capitalised and deducted 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. *IAS 23.17*

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in profit or loss in the period they are incurred.

Commentary

IAS 23 defines borrowing costs as including exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs. The Group would also include foreign exchange differences on directly attributable borrowings as an adjustment to interest costs for capitalisation if the amount was significant. Additionally, the accounting policy would be expanded to include the Group's approach in determining the foreign exchange differences.

The Interpretations Committee concluded that the unwinding of the discount, for example on a decommissioning provision, is not a borrowing cost as defined in IAS 23 *Borrowing Costs* and, thus, cannot be capitalised under that standard.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies *continued*

(o) 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

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.

IAS 19.96

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), plus any actuarial gains (less any losses) not recognised as a result of the treatment above 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
IAS19.58
IAS 19.7
IAS 19.58A

Commentary

The Group recognises the net cumulative unrecognised actuarial gains and losses, which exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date over the remaining working periods of the employees, in accordance with IAS 19.93. This is sometimes referred to as the "corridor approach".

IAS 19 was recently amended. The amendments contain certain significant changes such as, removing the corridor mechanism and the concept of expected returns on plan assets. The amendments are effective for annual periods beginning on or after 1 January 2013.

Notes to the consolidated financial statements

2.4 Changes in accounting policy and disclosures

IAS 8.14

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended standards and interpretations effective as of 1 January 2011:

Commentary

Only those new and amended standards and interpretations that actually impact either the financial position, financial results, disclosures or stated accounting policies of the Group are listed below. Entities are not required to disclose the impact of such standards or interpretations if they will have no impact on the Group at all. For details of other new and amended standards and interpretations, refer below. Example disclosures for these new standards or interpretations can be found in our publication, *Good Group (International) Limited 2011*.

New and amended standards and interpretations effective as of 1 January 2011

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010):
  - IFRS 3 *Business Combinations* - measurement options available for non-controlling interest (NCI) effective 1 July 2010
  - IFRS 7 *Financial Instruments: Disclosures* – collateral and qualitative disclosures
  - IAS 1 *Presentation of Financial Statements* – analysis of other comprehensive income

The impact of the adoption of these standards or interpretations is described below. IAS 8.28

IAS 24 *Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarify in which circumstances persons and key management personnel affect related party relationships of an entity. While the adoption of the amendment did not have any current impact on the financial position or performance, or disclosures of the Group, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Group's accounting policy in identifying future potential related party relationships.

IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset.

The Group is not subject to minimum funding requirements in Petroland; therefore the amendment on the Interpretation had no effect on the financial position, financial performance, stated accounting policy or other disclosures of the Group.

2.4 Changes in accounting policy and disclosures *continued*

New and amended standards and interpretations *continued*

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to the stated accounting policies of the Group but did not have any impact on the financial position or performance of the Group on initial application.

- IFRS 3 *Business Combinations - Measurement of non-controlling interests (NCI):* The measurement options available for NCI have been amended. Only components of NCI that constitute a present ownership interest that entitle their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured either at:
  - Fair value

    Or
  - The present ownership instruments' proportionate share of the acquiree's identifiable net assets

  All other components of NCI are to be measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2.
- IFRS 7 *Financial Instruments: Disclosures:* The amendment was intended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity has an option to present an analysis of other comprehensive income by item, for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

Commentary

Other new and amended standards and interpretations effective for the 2011 year

- IAS 32 *Financial Instruments: Presentation* (Amendment) – classification of rights issues
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

For further information on these and illustrative disclosures, refer to Good Group (International) Limited 2011 illustrative financial statements.

Notes to the consolidated financial statements

2.5 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects will have an impact on disclosures, financial position and/or financial performance, when applied at a future date. The Group intends to adopt those standards (where applicable) when they become effective.

IAS 8.30

IAS 8.31(d)

Commentary

An entity is only required to disclose those standards issued but not yet effective that are actually applicable to the entity. If a new standard or interpretation is not applicable, it does not need to be disclosed. For details of other standards and interpretations that are issued but not yet effective, please refer below to the next commentary box.

NOTE: This list only includes standards and interpretations in issue at 30 September 2011. Entities will need to determine if any standards and/or interpretations were issued after this date.

IAS 1 *Financial Statement Presentation* – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group's financial position or performance.

The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits* - Recognition and Disclosure - Defined Benefit Plans (Amendments)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets, to simple clarifications and re-wording.

The amendment becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is currently assessing the full impact of these amendments. One of the known impacts is the removal of the corridor approach as the Group currently applies this approach.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, jointly arrangements, and associates in separate financial statements. The Group does not present separate financial statements.

The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12 (refer below), IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

The amendments become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The standard is currently effective for annual periods beginning on or after 1 January 2013. However, there is a proposal to adjust the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Notes to the consolidated financial statements

2.5 Standards issued but not yet effective *continued*

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is considering what impact the adoption of these new standards will have on its financial position and/or performance, disclosures and stated accounting policies.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is considering what impact the adoption of this new Standard will have on its financial position and/or performance, disclosures and stated accounting policies.

Commentary

IAS 8.30 requires an entity to disclose those standards that have been issued which are not yet effective and to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such standards on an entity's financial statements. Therefore, the Group has listed those standards and interpretations that are not yet effective, which it reasonably expects to have an impact on either its accounting policy, financial position and/or performance (i.e., omitting to list those standards, interpretations and/or amendments that have no impact at all, such as IFRS 1 or IAS 34).

Other standards and interpretations issued but not yet effective and not applicable to Good Petroleum

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 *Financial Instruments: Disclosures* (Amendment) – New (enhanced) disclosure requirements for derecognition of financial assets – effective 1 July 2011
- IAS 12 *Income Taxes* (Amendment) – Deferred Taxes - Recovery of Underlying Assets

Refer Good Group (International) Limited 2011 illustrative financial statements for more information.

Notes to the consolidated financial statements

3. Business combinations

Acquisitions in 2011

IFRS 3.59
IFRS 3B64 (a)
IFRS 3.B64(b),
IFRS 3.B64(d)

Good Petroleum acquired 100% of the share capital of Desert Limited (Desert), a company holding certain exploration and development licences, on 1 July 2011. Desert has been acquired to gain access to additional reserves for the Group.

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

IFRS 3.B64(i)
IAS 7.40(d)

	Provisional fair value US$ million	
Exploration and evaluation assets	72	
Oil and gas properties	487	
Other property, plant and equipment	29	
Inventories	1	
Other current assets	56	
Cash and cash equivalents	96	
Trade and other payables	(52)	
Deferred tax liabilities	(42)	
Provisions	(65)	
Long-term debt	(57)	
Total identifiable net assets at fair value	**525**	
Goodwill arising on acquisition (Note 14)	25	
Total consideration	**550**	IFRS 3.B64(f)
The cash outflow on acquisition is as follows:		
Cash paid	550	
Net cash acquired with the subsidiary	(96)	IAS 7.40(c)
Net consolidated cash outflow	**454**	

IFRS 3.B67
(a)(i)(ii)

The fair values disclosed are provisional as at 31 December 2011 due to the complexity of the acquisition and due to the inherently uncertain nature of the oil and gas sector, in particular, in valuing intangible exploration and evaluation assets. The review of the fair value of the identifiable assets and liabilities acquired will be completed within 12 months of the acquisition, at the latest.

IFRS 3.B64
(q)(i),(ii)

From the date of acquisition, Desert has contributed US$75 million to Group revenue and US$25 million to Group profit. If the acquisition of Desert had been completed on the first day of the financial year, consolidated statement of comprehensive income would have included revenue and profit of US$4,088 million and US$1,220 million, respectively.

IFRS 3.B64(e)
IFRS 3.B64(k)

Goodwill arises principally because of the following factors:

1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries
2) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing fields in our regional business units
And
3) The requirement to recognise deferred income tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value

None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the consolidated financial statements

3. Business combinations *continued*

Acquisitions in 2010

The Group acquired 80% of the voting shares of Pole lubricants, a company based in Petroland which owns an oil refinery plant, on 1 February 2010.

The fair value of the identifiable assets and liabilities of Pole lubricants as at the date of acquisition were:

	Carrying values prior to acquisition	Fair value recognised on acquisition	
	US$ million	US$ million	*IFRS 3.73(b)* *IAS 7.40(d)*
Freehold land and buildings (Note 13)	25	18	
Refining equipment (Note 13)	45	51	
Cash and cash equivalents	1	1	*IAS 7.40(c)*
Trade receivables	5	3	
Inventories	6	6	
	82	**79**	
Trade payables	(6)	(6)	
Provision for decommissioning costs	(7)	(7)	
Deferred tax liability	(1)	(1)	
	(14)	**(14)**	
Total identifiable net assets at fair value	68	65	
Non-controlling interest (20%) measured at the proportionate share of the acquiree's identifiable net assets.		(13)	
Total net assets acquired		52	
Goodwill arising on acquisition (Note 14)		17	*IFRS 3.67(d)* *IAS 7.40(a)*
Consideration, settled in cash		**69**	
The cash outflow on acquisition is as follows:			
Cash paid		**(69)**	*IAS 7.40(b)*
Net cash acquired with the subsidiary		1	*IAS 7.40(c)*
Net cash outflow		**(68)**	

From the date of acquisition (1 February 2010) to 31 December 2010, Pole lubricants contributed US$750 million to Group revenue and US$290 million to Group profit. If the combination had taken place at the beginning of the year, Group revenue and profit for the 2010 year would have been US$3,080 million and US$940 million, respectively.

The goodwill of US$17 million arises principally because of the following factors:

1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries
2) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing fields in our regional business units
   And
3) The requirement to recognise deferred income tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value

None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the consolidated financial statements

4. Interests in joint ventures

Interests in jointly controlled assets *IAS 31.56*

Jointly controlled pipeline

Good Petroleum, jointly with other participants, owns certain pipeline assets, which it uses mostly 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 the Grizzly field. Oilco contributed US$23 million and in return received 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 specified in the PSA.

The aggregate of the Group's commitments through jointly controlled assets is: *IAS 31.55*

	2011	2010
	US$ million	US$ million
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, the principal activities of which are the transportation of oil and petroleum products. The interest in this jointly controlled entity is accounted for using the equity method. *IAS 31.56*

Summarised financial statement information (50%) of the equity accounted jointly controlled entity is disclosed below:

IAS 31.56

	2011	2010
	US$ million	US$ million
Sales and other operating revenues	235	154
Finance costs and other finance expense	1	-
Profit before taxation	50	38
Taxation	17	13
Profit for the year	33	25
Current assets	71	64
Non-current assets	143	103
Total assets	214	167
Current liabilities	46	37
Non-current liabilities	54	49
Total liabilities	100	86

Commentary

Refer to note 2.3 (d) (v) for further information on accounting for farm-in/farm-out arrangements.

Notes to the consolidated financial statements

5. Operating segments

IFRS 8.22(a)
IFRS 8.22(b)

All of Good Petroleum's assets and operations are located in Petroland. For management reporting purposes, the Group is organised into business units based on the main types of activities and has three reportable operating segments, as follows:

- Oil Exploration and Production segment: includes all upstream business activities
- Refining and trading of crude oil and petroleum products segment: includes downstream activities such as the Pole refinery plant acquired in 2010 and other refinery assets, marketing and trading of oil and petroleum products *IFRS 8.28(b)*
- Oil transportation segment: represents the jointly controlled pipeline assets, which are mostly used to transport Good Petroleum's oil to the nearest main oil line

No operating segments have been aggregated to form the above reportable operating segments.

IFRS 8.27(a)

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the consolidated financial statements

5. Operating segments *continued*

Year ended 31 December 2011	Oil Exploration and Production	Refining and trading of crude oil and petroleum products	Oil transportation	Adjustments and eliminations	Consolidated	
	US$ million	US$ million	US$ million	US$ million	US$ million	*IFRS 8.23(a)* *IFRS 8.23(b)*
Revenue						
External customers	2,871	957	-	-	3,828	*IFRS 8.23(a)*
Inter-segment	567	12	114	(693) [1]	-	*IFRS 8.23(b)*
Total revenue	**3,438**	**969**	**114**	**(693)**	**3,828**	*IFRS 8.23(e)*
Results						
Depreciation and amortisation	(484)	(114)	(36)	-	(634)	*IFRS 8.23(e)*
Impairment of exploration and evaluation assets	(5)	-	-	-	(5)	*IFRS 8.23(i)*
Impairment of oil and gas properties	(33)	-	-	-	(33)	*IFRS 8.23(i)*
Share of profit of equity-accounted joint venture	33	-	-	-	33	*IFRS 8.23(g)*
Profit before tax	**1,079**	**822**	**78**	**(65)** [2]	**1,914**	*IFRS 8.28(b)*
Income tax expense					(797)	
Net profit for the year					**1,117**	
Segment assets	**7,649**	**287**	**56**	**(561)** [3]	**7,431**	*IFRS 8.23*
Segment liabilities	**(1,645)**	**(187)**	**(41)**	**(792)** [4]	**(2,665)**	*IFRS 8.23*
Other disclosures						
Investment in joint venture	114	-	-	-	114	*IFRS 8.24(a)*
Capital expenditure[5]	312	12	-	-	324	*IFRS 8.24(b)*
Allowance for bad debts	(3)	(3)	-	-	(6)	

1. Inter-segment revenues are eliminated on consolidation. *IFRS 8.28*
2. Profit for each operating segment does not include finance income (US$24 million), finance costs (US$94 million) and gain on derivative financial instruments (US$5 million).
3. Segment assets do not include deferred income tax (US$83 million) and other intangible assets (US$11 million) as these assets are managed on a group basis. US$655 million of inter-segment receivables are eliminated on consolidation.
4. Segment liabilities do not include deferred income tax (US$468 million), current income tax payable (US$365 million) and interest-bearing loans and borrowings (US$614 million) as these liabilities are managed on a group basis. US$655 of inter-segment payables are eliminated on consolidation.
5. Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment and to other intangible assets including assets from the acquisition of subsidiaries.

Notes to the consolidated financial statements

5. Operating segments *continued*

Year ended 31 December 2010	Oil Exploration and Production	Refining and trading of crude oil and petroleum products	Oil transportation	Adjustments and eliminations	Consolidated	
	US$ million	US$ million	US$ million	US$ million	US$ million	*IFRS 8.23(a) IFRS 8.23(b)*
Revenue						
External customer	2,128	789	-	-	2,917	
Inter-segment	483	11	99	(593)[1]	-	
Total revenue	**2,611**	**800**	**99**	**(593)**	**2,917**	*IFRS 8.23(e)*
Results						
Depreciation and amortisation	(188)	(78)	(19)	-	(285)	*IFRS 8.23(e)*
Impairment of Exploration and Evaluation assets	(6)	-	-	-	(6)	*IFRS 8.23(i)*
Impairment of Oil and Gas Properties	(9)	-	-	-	(9)	*IFRS 8.23(i)*
Share of profit of equity-accounted joint ventures	25	-	-	-	25	*IFRS 8.23(g)*
Profit before tax	**653**	**722**	**80**	**(6)[2]**	**1,449**	*IFRS 8.23*
Income tax expense					(529)	
Net profit for the year					**920**	
Segment assets	**6,139**	**137**	**36**	**(470)[3]**	**5,842**	*IFRS 8.23*
Segment liabilities	**(1,424)**	**(14)**	**(21)**	**(384)[4]**	**(1,843)**	*IFRS 8.23*
Other segment information						*IFRS 8.24(a)*
Investment in joint venture	81	-	-	-	81	
Capital expenditure[5]	212	6	-	-	218	*IFRS 8.24(b)*
Allowance for bad debts	(3)	(2)	-	-	(5)	*IFRS 8.23(a) IFRS 8.23(b)*

IFRS 8.28

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include finance income (US$25 million), finance costs (US$40 million) and gain on derivative financial instruments (US$9 million).
3. Segment assets do not include deferred tax (US$57 million) and other intangible assets (US$7 million) as these assets are managed on a group basis. US$534 million of inter-segment receivables are eliminated on consolidation.
4. Segment liabilities do not include deferred tax (US$386 million), current tax payable (US$166 million) and interest-bearing loans and borrowings (US$366 million) as these liabilities are managed on a group basis. US$534 of inter-segment payables are eliminated on consolidation.
5. Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment and to other intangible assets including assets from the acquisition of subsidiaries.

Geographic information

IFRS 8.33(a)

IFRS 8.33(b)

The operations of the Group are located in only one geographic location, Petroland.

IFRS 8.34

All revenue is generated from sales to customers located in Petroland.

Revenue from four major customers exceeded 10% of Group consolidated revenue and amounted to US$378 million, US$415 million, US$651 million and US$600 million (2010: US$381 million, US$400 million, US$512 million and US$344 million), respectively, arising from sales of crude oil.

IFRS 8.33(a)

All non-current assets of the Group are located in Petroland.

Commentary

Interest revenue and interest expense have not been disclosed by segment as these items are managed on a group basis and are not provided to the chief operating decision maker (CODM) at the operating segment level. Disclosure of operating segment assets and liabilities is only required where such measures are provided to the CODM. Good Petroleum provides information to the CODM about operating assets and liabilities. The remaining operations (e.g., taxation) which are, amongst others, reflected in "adjustments and eliminations", do not constitute an individual operating segment.

Good Petroleum's internal reporting is set up to report in accordance with IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than IFRS. In this case, a reconciliation between the internally reported items and the externally communicated items would need to be prepared.

Notes to the consolidated financial statements

6. Operating profit/loss

Operating profit is stated after (charging)/crediting:

		2011 US$ million	2010 US$ million	
Depreciation charge – oil and gas properties		(551)	(285)	*IAS 1.104*
Depreciation of other property, plant and equipment		(7)	(8)	*IAS 1.104*
Amortisation of other intangible assets		(1)	-	*IAS 38.118(d)*
Total depreciation and amortisation		**(559)**	**(293)**	
Impairment of oil and gas properties	6.1	(33)	(9)	*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	6.2	16	-	*IFRS 6.23*
Gain on sale of oil and gas properties		39	58	*IAS 1.98*
Gain on sale of exploration and evaluation assets	6.3	1	-	*IAS 1.98*
Gain/(loss) on sale of property, plant and equipment		11	(11)	*IAS 1.98*
Pre-licence expenditure	6.4	(13)	(9)	*IFRS 6.23* *IAS 36.126 (a)*
Exploration and evaluation costs written off		(90)	(75)	*IAS 38.54*
Employee benefits expense		(158)	(161)	*IAS 1.104*
Operating lease payments		(43)	(20)	*IAS 17.35(c)*
Movement in oil inventory		1	3	*IAS 2.36(d)*
Major maintenance expenditure written-off		(12)	(11)	
Royalties paid		(182)	(181)	

6.1. Impairment of oil and gas properties

IAS 36.130

Floods have damaged certain isolated production facilities at 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 the field has decreased significantly. As a result, an impairment loss was recognised in profit or loss as part of other operating expenses. Refer Note 15 for a description of the assumptions used in the impairment calculation.

6.2. Reversal of previously impaired capitalised exploration and evaluation assets

The Group has reversed some of the previously recognised impairment losses related to Sand field. These reversals resulted from a positive change in the estimates used to determine the assets' recoverable amounts since the impairment losses were initially recognised. The reversal of these previously recognised impairment losses is included in profit or loss as part of other operating expenses.

6.3. 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. As part of the farm-out, Oilco contributed cash of US$23 million and, in accordance with the policy described in note 2.3(d)(v), this amount was credited to the related exploration and evaluation asset, which totalled US$22 million. The excess US$1 million was recognised as a gain on disposal of exploration and evaluation assets in profit or loss.

6.4. Pre-licence expenditure

The pre-licence expenditure relates predominantly to the licence areas Fox and Snake, where Good Petroleum incurred geological and geophysical costs, but where no rights have yet been granted by the Petroland government. These costs were expensed as incurred.

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

Commentary

Refer note 2.3(d)(v) for more details regarding the accounting for farm-in/farm-out arrangements in the exploration and evaluation phase.

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.

7. Revenue and other income

	2011	2010	
	US$ million	US$ million	
Sales revenue			
Revenue from crude oil sales	3,427	2,627	
Revenue from petroleum products sales	401	290	
Total sales revenue	3,828	2,917	
Interest revenue	24	25	*IAS 1.82(a) IFRS 7.20(b)*

IAS 18.35(b)

8. Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are: *IAS 12.79*

	2011	2010	
	US$ millions	US$ millions	
Consolidated statement of comprehensive income			
Income tax expense			
Current income tax:			
Current income tax charge	672	535	*IAS 12.80(a)*
Adjustments in respect of current income tax of previous years	7	(24)	*IAS 12.80(b)*
Deferred income tax:			
Relating to origination and reversal of temporary differences	(30)	(78)	*IAS 12.80(c)*
Income tax expense	**649**	**433**	
Petroleum revenue tax expense			
Current income tax:			
Current income tax charge	174	107	
Deferred income tax:			
Relating to origination and reversal of temporary differences	(26)	(11)	*IAS 12.80(c)*
Petroleum revenue tax expense	**148**	**96**	
Total tax expense report in profit or loss	**797**	**529**	

A reconciliation between tax expense and the product of accounting profit multiplied by Petroland's domestic tax rate for the years ended 31 December 2011 and 2010 is as follows: *IAS 12.81(c), (i)*

	2011	2010
	US$ million	US$ million
Accounting profit before income tax	1,914	1,449
At Petroland's statutory income tax rate of 30% (2010: 30%)	574	434
Non-deductible expenses	68	23
Under/(over) provided in prior years	7	(24)
At the effective income tax rate of 42% (2010: 37%)	649	433
Petroleum revenue tax (net of income tax benefit)	148	96
Total income tax expense reported in the consolidated statement of comprehensive income	**797**	**529**

8. Income tax *continued*

Commentary

Determining whether a production tax is a production-based or profit-based tax is often not straightforward. Petroleum revenue tax (PRT) in the UK, for example, is a special tax that seeks to tax a high proportion of the economic rent (super-profits) from the exploitation of the UK's oil and gas reserves. PRT is a cash-based tax that is levied on a field-by-field basis: in general, the costs of developing and operating a field can only be deducted against the profits generated by that field. Any losses, e.g., arising from unused expenditure relief, can be carried forward or backwards within the field indefinitely. The PRT is similar to an income tax in that the tax is a percentage of revenue minus certain costs. However, there are also a number of other features that are not commonly found in income taxes:

- The oil allowance is a physical quantity of oil that is PRT exempt in each field, subject to a cumulative maximum over the life of the field

  And

- The tax is levied on individual oil fields rather than the entity owning the oil field as a whole

There are many different types of production taxes around the world, some of which are clearly not income taxes, while others have some of the characteristics of an income tax. In determining whether a particular production tax meets the definition of an income tax under IAS 12 *Income Taxes*, an entity will need to assess whether or not the tax is based on (or closely enough linked to) net profit for the period. If it does not meet the definition of an income tax, an entity should develop an accounting policy under the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Practice in the sector is mixed. While some entities may treat a particular production / revenue tax as an income tax under IAS 12, others may consider the same tax to be outside the scope of IAS 12.

The disclosures in Good Petroleum assume that the petroleum revenue tax has always applied. Therefore, these illustrative financial statements do not provide any example disclosures that would be required when a new tax regime was first applicable and the related deferred income tax balances were first recognised.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		
					IAS 12.81(g)(i)
	2011	**2010**	**2011**	**2010**	*IAS 12.81(g)(ii)*
	US$ million	**US$ million**	**US$ million**	**US$ million**	
Income tax related					
Deferred tax liability					
Other plant and equipment	(111)	(146)	35	(18)	*IAS 12.81(g)(i)*
Exploration and evaluation costs capitalised	(77)	(21)	(56)	2	
Oil and gas properties	(189)	(157)	(32)	(8)	
	(377)	(324)			
Deferred income tax assets					
Pension plan deficit	1	1	-	(6)	IAS 12.81(g)(ii)
Losses available for offset against future taxable income	79	56	23	(48)	
	80	57			
Deferred income tax income/(expense)			(30)	(78)	
Deferred income tax liabilities (net) relating to income tax	(297)	(267)			
Petroleum revenue tax related					
Deferred tax liabilities					
Exploration and evaluation assets	(37)	(22)	(15)	6	
Oil and gas properties	(54)	(40)	(14)	(17)	
	(91)	(62)			
Deferred tax assets					
Other	3	-	3	-	
	3	-			
Deferred tax income/(expense)			(26)	(11)	
Deferred tax liabilities (net) relating to petroleum revenue tax	(88)	(62)			

8. Income tax *continued*

Reflected in the consolidated statement of financial position as follows:

	2011	2010
	US$ million	**US$ million**
Deferred tax assets	83	57
Deferred tax liabilities	(468)	(386)
Deferred tax liabilities (net)	(385)	(329)

Commentary

Petroleum revenue tax disclosures

The income tax note disclosures in Good Petroleum illustrate a petroleum revenue tax which was determined to meet the criteria to be treated as an income tax under IAS 12 *Income Taxes*. Where a petroleum revenue tax is to be treated as an income tax for financial statement purposes, it is required to be recorded as a "below the line" tax expense (that is, like current company income tax) and tax-effect accounting (including recognition of deferred income tax balances and associated disclosures) is required.

Deferred income 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 in the future against which the unused tax losses/credits can be utilised. *IAS 12.81(e)*

Apart from recognised deferred tax assets, the Group has also incurred indefinitely available tax losses of US$234 million (2010: US$550 million) to carry forward against future taxable income of the subsidiaries in which the losses arose. However, these losses relate to subsidiaries that have a history of losses, and they have no tax planning opportunities available that could support (partially or in full) the recognition of these losses as deferred income tax assets. In addition, these losses may not be used to offset taxable profits elsewhere in the Group. *IAS 12.87*

The temporary differences associated with investments in subsidiaries and jointly controlled entities, for which a deferred income tax liability has not been recognised, aggregate to US$58 million (2010: US$94 million). *IAS 12.81(f)*

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

No deferred income tax asset has been recognised on rehabilitation provisions (refer Note 2.4(k)(ii) for further details of this accounting policy). *IAS 12.82A*

Notes to the consolidated financial statements

9. Earnings per share

Basic earnings per share is 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 instruments that have a dilutive effects on earnings. *IAS 33.70(c)*

	2011	2010	
Net profit attributable to ordinary shareholders (US$ million)	1,117	920	*IAS 33.70(a)*
Weighted average number of ordinary shares (number of shares – million)	1,551	958	*IAS 33.70(b)*
Basic earnings per ordinary share (US$ cents per share)	**0.72**	**0.96**	*IAS 33.66*

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)*

The Group does not have any dilutive instruments.

10. Dividends paid and proposed

	2011	2010	
	US$ million	**US$ million**	
Declared and paid during the year:			
Interim dividend current period	245	100	
Final dividend prior period	105	40	
Total dividends paid in the year	350	140	*IAS 1.107*

	2011	2010	
Weighted average number of ordinary shares (number of shares – million)	1,551	958	*IAS 1.107*
Dividend per ordinary share (US$ cents per share)	**US$0.22**	**US$0.09**	
Final dividend proposed for approval at the AGM (not recognised as liability as at 31 December): US$0.15 per share (2010: US$0.07 per share) (US$ million)	235	104	*IAS 1.137(a)*

Notes to the consolidated financial statements

11. Exploration and evaluation assets

	US$ million	
		IFRS 6.23 *IFRS 6.25* *IFRS 6.24(b)*
Cost as at 1 January 2010	**361**	
Additions	293	
Unsuccessful exploration expenditure derecognised	(75)	
Transfer to oil and gas properties	(55)	
Cost as at 31 December 2010	**524**	
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)	
Cost as at 31 December 2011	**771**	
Provision for impairment as at 1 January 2010	**(17)**	
Impairment charge for the year	(6)	
Reversal of previously recognised impairments	-	
Provision for impairment as at 31 December 2010	**(23)**	
Impairment charge for the year	(5)	
Reversal of previously recognised impairments	16	
Provision for impairment as at 31 December 2011	**(12)**	
Net book value as at 31 December 2010	**501**	
Net book value as at 31 December 2011	**759**	

Commentary

Specifying the level at which exploration and evaluation (E&E) assets are assessed for impairment

The IASB decided that, rather than introduce a special cash-generating unit (CGU) for E&E assets, it would allow CGUs to be aggregated in a way that is consistent with the approach to goodwill in IAS 36. Therefore, an entity should determine an accounting policy for allocating E&E assets to CGUs or to groups of CGUs for the purpose of assessing such assets for impairment. IFRS 6 requires that each CGU or group of CGUs to which an E&E asset is allocated should not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*.

Hence, the level identified by an entity for the purposes of testing E&E assets for impairment may be comprised of one or more CGUs.

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. An impairment loss recognised in prior periods for an asset other than goodwill must be reversed if, and 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 this is the case, the carrying amount of the asset must be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

In some circumstances, when an entity recognises an impairment of an E&E asset, it also needs to derecognise the remaining E&E asset if no future economic benefits is expected. Refer to the commentary in note 2.3(g) for further information.

12. Oil and gas properties

IAS 1.78(a)

	US$ million	
Cost as at 1 January 2010	**3,877**	*IAS 16.73(e)* *IAS 16.73(d)*
Additions	1,357	*IAS 16.73(e)(i)*
Transferred from exploration and evaluation assets	55	*IAS 16.73(e)(iii)*
Change in decommissioning provision	179	
Disposals	(75)	
Deletions	(36)	
Cost as at 31 December 2010	**5,357**	
Additions	1,108	*IAS 16.73(e)(i)*
Acquisition of Desert	487	*IAS 16.73(e)iii*
Transferred from exploration and evaluation assets	71	
Change in decommissioning provision	230	
Disposals	(102)	
Deletions	(17)	
Cost as at 31 December 2011	**7,134**	
Depletion and impairment as at 1 January 2010	**(1,423)**	*IAS 16.73(d)*
Charge for the year	(285)	*IAS 16.73(e)(v)*
Provision for impairment	(9)	*IAS 16.73(e)vii*
Disposals	35	
Deletions	31	
Depletion and impairment as at 31 December 2010	**(1,651)**	
Charge for the year	(551)	*IAS 16.73(e)v*
Provision for impairment	(33)	*IAS 16.73(e)vii*
Disposals	32	
Deletions	12	
Depletion and impairment as at 31 December 2011	**(2,191)**	
Net book value as at 31 December 2010	**3,706**	*IAS 16.73(d)*
Net book value as at 31 December 2011	**4,943**	

Borrowing costs relating to drilling of development wells that have been capitalised as part of oil and gas properties during the period amount to US$10 million (2010: US$1 million), at a weighted average interest rate of 5.8% (2010: 5.7%). *IAS 23.29(c)*

The net book value at 31 December 2011 includes US$756 million (2010: 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 (2010: US$1,357 million).

Please refer to Note 15 for the details on impairment testing of oil and gas properties.

Notes to the consolidated financial statements

13. Other property, plant and equipment

	Freehold land and buildings US$ million	Other plant and equipment US$ million	Total US$ million	
				IAS 1.78(a) IAS 16.73(e)
Cost				
At 1 January 2010	69	169	238	IAS 16.73(d)
Additions	21	11	32	
Acquisition of subsidiary	18	51	69	
Disposals	(10)	(50)	(60)	
At 31 December 2010	**98**	**181**	**279**	
Additions	-	1	1	
Acquisition of subsidiary	10	19	29	
Disposals	(4)	(9)	(13)	
At 31 December 2011	**104**	**192**	**296**	
Depreciation				
At 1 January 2010	(19)	(62)	(81)	IAS 16.73(d)
Depreciation charge for the year	(5)	(3)	(8)	
Disposals	6	31	37	
At 31 December 2010	**(18)**	**(34)**	**(52)**	
Depreciation charge for the year	(2)	(5)	(7)	
Disposals	-	1	1	
At 31 December 2011	**(20)**	**(38)**	**(58)**	
Net book value:				
At 31 December 2010	**80**	**147**	**227**	IAS 16.73(d)
At 31 December 2011	**84**	**154**	**238**	

Useful lives

The useful lives of the assets are estimated as follows:

IAS 16.73(c)

Buildings	20 years	
Plant and equipment	5 to 15 years	

Included in property, plant and equipment at 31 December 2011 was an amount of US$3 million (2010: US$46 million) relating to expenditure for a facility in the course of construction. The expenditure includes borrowing costs capitalised during the period amounting to US$0.1 million (2010: US$2.1 million), at a weighted average interest rate of 5.8% (2010: 5.7%). *IAS 16.74(b)*

Cash outflow for the purchase of other property, plant and equipment was US$1 million (2010: US$32 million).

Notes to the consolidated financial statements

14. Other intangible assets and goodwill

	Goodwill	Other intangible assets	Total	
	US$ million	US$ million	US$ million	*IAS 38.118(c)* *IAS 38.118(e)*
Cost:				
At 1 January 2010	-	5	5	
Additions	-	3	3	
Acquisition of subsidiary (Note 3)	17	-	17	
At 31 December 2010	17	8	25	
Additions	-	5	5	
Acquisition of subsidiary (Note 3)	25	-	25	
At 31 December 2011	**42**	**13**	**55**	
Amortisation and impairment:				
At 1 January 2010	-	(1)	(1)	
Amortisation charge for the year	-	-	-	
At 31 December 2010	-	(1)	(1)	
Amortisation charge for the year	-	(1)	(1)	
At 31 December 2011	**-**	**(2)**	**(2)**	
Net book value:				
At 31 December 2010	**17**	**7**	**24**	
At 31 December 2011	**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)*

Goodwill arises principally because of the following factors:

1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries
2) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing fields in our regional business units
   And
3) The requirement to recognise deferred income tax assets and liabilities for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value

Notes to the consolidated financial statements

15. Impairment losses

Impairment testing of goodwill

For impairment testing purposes, goodwill acquired through business combinations has been allocated as follows:

Carrying amount of goodwill as at 31 December:

	Unallocated		Refinery plants		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	US$ million	**US$ million**	**US$ million**	**US$ million**	**US$ million**	**US$ million**
Goodwill	25	-	17	17	42	17

Unallocated

The balance of unallocated goodwill represents the provisional amount acquired through the acquisition of Desert during the year, which could not be reliably allocated. There were no indicators of impairment during the period to 31 December 2011, therefore, this goodwill has not yet been subject to impairment testing.

IAS 36.134(c)

IAS 36.134 (d)(iii)-(v)

Refinery plant CGU

The recoverable amount of the refinery plant is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to the cash flow projections is 14.4% (2010: 12.8%).

The growth rate used to extrapolate the cash flows of the refinery plant CGU beyond the five-year period is 2.9% (2010: 3.8%). This growth rate approximates the average growth rate for the petroleum products sector. As a result of the analysis, management did not identify an impairment for this CGU to which goodwill of US$17 million is allocated.

Commentary

An impairment test of goodwill cannot be carried out until such goodwill has been allocated to a CGU. However, we believe that if goodwill was acquired in a business combination during the current annual period but has not been tested for impairment because it was not yet allocated, such goodwill shall be tested for impairment before the end of the annual period during which it is allocated (i.e., before the end of 2012 in the case of acquisition of Desert).

Impairment testing of other non-current assets

	2011	**2010**	
	US$ million	**US$ million**	
Impairment losses			
Exploration and evaluation assets	(5)	(6)	*IAS 36.126(a)*
Oil and gas properties	(33)	(9)	
Impairment reversals			*IAS 36.126(b)*
Exploration and evaluation assets	16	-	

During the year ended 31 December 2011, a net reversal of impairment of exploration and evaluation assets was recognised. The main element was a US$16 million (2010: nil) credit for the reversal of a previously recognised impairment loss relating to the Sand field. This reversal resulted from a positive change in the estimates used to determine the assets' recoverable amount since the impairment loss was recognised. This was partially offset by impairment losses totalling US$5 million (2010: $6 million). The major element was a charge of US$3 million against exploration and evaluation assets relating to the Gravel field which was triggered by downward reserves revisions.

IAS 36.130

Total impairment losses of US$33 million (2010: $9 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. In addition, triggers arose from reduced estimates of the quantities of hydrocarbons recoverable from some of these fields. The recoverable amount was based on management's estimate of value in use.

15. Impairment losses *continued*

In assessing whether an impairment is required, the carrying value of the asset or cash-generating unit (CGU) is compared with its recoverable amount. The recoverable amount is the higher of the asset's/CGU'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.

Key assumptions used in value-in-use calculations

Oil exploration and production *IAS 36.130(g)*

The calculation of value in use for the oil exploration and production CGU is most sensitive to the following assumptions:

- Production volumes
- Discount rates
- Crude oil 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 CGUs to zero. Consequently, management believes no reasonably possible change in the production assumption would cause the carrying amount of goodwill and/or other non-current assets to exceed their recoverable amount.

The Group generally estimates value in use for the oil exploration and production CGU using a discounted cash flow model. The future cash flows are discounted to their present value using a pre-tax discount rate of 10% (2010: 10%) that reflects current market assessments of the time value of money and the risks specific to the asset.

This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the asset/CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity, weighted 50% each. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest bearing borrowings the Group is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Management also believes that, currently, there is no reasonably possible change in discount rate which would reduce the Group's excess of recoverable amount over the carrying amounts of the individual asset/CGU 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 CGUs, would be in the range of US$38 to US$43 per barrel.

Refinery plant *IAS 36.134 (d)(i)*

The calculation of value in use for the refinery plant CGU is most sensitive to the following assumptions: *IAS 36.134 (d)(ii)*

- Gross margin
- Discount rates
- Crude oil prices
- Market share during the budget period
- Excise tax rate

  And
- Growth rates used to extrapolate cash flows beyond the budget period

Gross margins: Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated improvements in the efficiency of operations.

An increase of 1.5% per annum was applied for the refinery plant CGU.

Notes to the consolidated financial statements

15. Impairment losses *continued*

Discount rates: Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate is based on the specific circumstances of the Group and its operating segments and is derived from its WACC, with appropriate adjustments made to reflect the risks specific to the asset/CGU and to determine the pre-tax rate The WACC takes into account both debt and equity, weighted 50% each. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest bearing borrowings the Group is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Crude oil price: Forecast commodity prices are based on management's estimates and available market data.

Market share assumptions: These assumptions are important because as well as using industry data for growth rates (as noted below), management assesses how the CGU's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the petroleum products market to be stable over the budget period.

Excise tax rate: Excise tax on petroleum products is an important factor for the oil refinery business. It determines the retail price levels and influences the commercial justification for operating a refinery plant as opposed to selling crude oil.

Growth rate estimates: Rates are based on published industry research.

Sensitivity to changes in assumptions

IAS 36.134(f)

With regard to the assessment of value in use for the refinery plant CGU, management believes that there are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the CGU to materially exceed its recoverable amount.

IAS 36.134 (fXi)

16. 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 as part of other operating expenses in profit or loss are as follows:

IAS 19.120A(g)

	2011 US$ million	2010 US$ million
Current service cost	17	20
Past service cost	1	1
Interest cost on benefit obligation	3	3
Expected return on plan assets	(9)	(9)
Total net defined benefit pensions costs	**12**	**15**

The actual return on plan assets amounted to US$10 million (2010: US$5 million).

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

The amounts recognised in the statement of financial position at the reporting date are as follows:

	2011 US$ million	2010 US$ million
Present value of the defined benefit obligation	49	44
Fair value of plan assets	(26)	(23)
Net defined benefit obligation	**23**	**21**
Unrecognised past service cost	(1)	(1)
Total net defined benefit obligation	**22**	**20**

Notes to the consolidated financial statements

16. Pension benefit obligation *continued*

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

	2011 US$ million	2010 US$ million	
			IAS 19.109 *IAS 19.110*
Current*	2	2	
Non-current	20	18	
Net defined benefit obligation	**22**	**20**	

*Expected recovery or settlement within 12 months from the reporting date.

The movement in the defined benefit obligation is as follows: *IAS 19.120A(c)*

	2011 US$ million	2010 US$ million
At 1 January	**44**	**36**
Current service cost	17	20
Past service cost	1	1
Interest cost	3	3
Contributions by plan participants	1	-
Benefits paid	(17)	(16)
At 31 December	**49**	**44**

The movement in the plan assets is as follows: *IAS 19.120A(e)*

	2011 US$ million	2010 US$ million
At 1 January	**23**	**18**
Expected return on plan assets	9	9
Contributions by employer	9	11
Contributions by plan participants	1	-
Benefits paid	(17)	(16)
Actuarial gains and losses	1	1
At 31 December	**26**	**23**

The Group expects to contribute US$16 million to the defined benefit plan in 2011-2012. *IAS 19.120A(q)*

The distribution of the plan assets at reporting date is as follows: *IAS 19.120A(j)*

	2011 US$ million	2010 US$ million
Treasury bills	1	1
Equities	24	21
Corporate bonds	1	1
Total plan assets	**26**	**23**

The expected rate of returns are as follows: *IAS 19.120A(l)*

	2011 %	2010 %
Treasury bills	4.1	4.0
Equities	13.2	12.2
Corporate bonds	4.5	4.3
Properties	10.2	9.5

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 current market expectations of future returns.

Notes to the consolidated financial statements

16. 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)*

	2011	2010
	%	%
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 judgement is required to set 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.

	2011	2010	2009	2008	2007
	US$ million	US$ million	US$ million	US$ million	US$ million
Defined benefit obligation	49	44	36	40	39
Plan assets	26	23	18	20	20
Deficit	(23)	(21)	(18)	(20)	(19)
Experience adjustments on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	1	1	1	1	1

IAS 19.120A(p)

17. Inventories

	2011	2010
	US$ million	US$ million
Oil and condensate inventories	78	79
Petroleum products	10	6
Materials	5	3
Total inventories	**93**	**88**

IAS 2.36(b)(c)

18. Trade and other receivables

	2011	2010
	US$ million	US$ million
Trade receivables	537	548
Other receivables and prepayments	48	51
Joint venture receivables	33	-
Total trade and other receivables	**618**	**599**

IAS 1.78
IFRS 7.6

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

Joint venture receivables for the Group include an amount in respect of outstanding cash calls of US$29.7 million (2010: nil) receivable from the Grizzly joint venture partner, Oilco. The overdue cash calls are not considered impaired based on the credit worthiness of the counterparty. Management is currently pursuing payment of this amount.

Notes to the consolidated financial statements

18. Trade and other receivables *continued*

As at 31 December 2011, trade receivables with a nominal value of US$6.2 million (2010: US$6.1 million) were impaired and fully provided for. Movements in the allowance for impairment of receivables were as follows:

IFRS 7.16

	2011 US$ million	2010 US$ million
At 1 January	6	5
Charge for the year	6	4
Amounts written off	(3)	(1)
Unused amounts reversed	(3)	(2)
At 31 December	**6**	**6**

As at 31 December 2011, the analysis of trade receivables that were past due, but not impaired, is as follows: *IFRS 7.37(a)*

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30–60 days	60–90 days	90–120 days	> 120 days
	US$ million	US$ million	US$ million	US$ million	US$ million	US$ million	US$ million
2011	537	236	188	70	27	11	5
2010	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.

19. Cash and cash equivalents

	2011 US$ million	2010 US$ million
Cash at banks and on hand	76	111
Short-term deposits	432	428
	508	**539**

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 (2010: US$539 million). *IFRS 7.34(a)* *IFRS 7.25*

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

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December: *IAS 7.45*

	2011 US$ million	2010 US$ million
Cash at banks and on hand	76	111
Short-term deposits	432	428
	508	539
Bank overdrafts	(8)	(51)
	500	**488**

At 31 December 2011, the Group had available US$10.5 million (2010: 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

20. Issued capital

Authorised

IAS 1.78(e)
IAS 1.79(a)(i)

	2011	2010
	US$ million	US$ million
Ordinary share capital		
1,551,433,024 Ordinary Shares	1,551	1,551

IAS 1.79(a)(ii)
IAS 1.79(a)(iv)

Ordinary shares issued and fully paid	Thousands (shares)	US$ million
At 1 January 2010	836,458	836
Issued on 1 April 2010 for cash	714,975	715
At 1 January 2011	1,551,433	1,551
At 31 December 2011	**1,551,433**	**1,551**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. IAS 1.79(v)

21. Interest-bearing loans and borrowings

IFRS 7.6
IFRS 7.8(f)

	Effective interest rate		2011	2010
Current	%	Maturity	US$ million	US$ million
Bank overdrafts	EURIBOR +1.0	On demand	8	51
Other loans:				
US$75 million bank loan facility (2010: US$75 million)	EURIBOR +0.5	1-Nov-12	74	-
			82	**51**
Non-current				
10% debentures	10.2	2013-2020	108	77
US$75 million bank loan facility (2010: US$75 million)	EURIBOR +0.5	1-Nov-12	-	71
US$450 million bank loan facility (2010: US$450 million)	EURIBOR +1.0	31-Mar-14	424	167
			532	**315**

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 facility

This loan is repayable in full on 1 November 2012.

10% debentures

The 10% debentures are repayable in equal annual instalments of US$35 million commencing on 1 January 2013.

US$450 million bank loan facility

This loan is repayable in full on 31 March 2014.

Total interest expense for the year for the year on interest-bearing loans and liabilities was US$64 million (2010: US$33 million).

22. Provisions

	Decommissioning US$ million	Other US$ million	Total US$ million	
At 1 January 2011	**388**	**1**	**389**	*IAS 37.84(a)*
Acquisition of a subsidiary	55	10	65	*IAS 37.84(b)*
Arising during the year	230	-	230	
Write-back of unused provisions	(1)	-	(1)	*IAS 37.84(e)*
Disposals	(79)	-	(79)	*IAS 37.84(c)*
Unwinding of discount	27	-	27	*IAS 37.84(d)*
Utilisation	(2)	-	(2)	
At 31 December 2011	**618**	**11**	**629**	
Comprising:				
Current 2011	17	2	19	
Non-current 2011	601	9	610	
	618	**11**	**629**	
Current 2010	15	1	16	
Non-current 2010	373	-	373	
	388	**1**	**389**	

Decommissioning provision *IAS 37.85*

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 2026. These provisions have been created based on Good Petroleum's internal estimates. Assumptions based on the current economic environment have been made, which management believes 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.

The discount rate used in the calculation of the provision as at 31 December 2011 equalled 3.3% (2010: 4.2%).

Other provisions

Other provisions mainly comprise provisions for litigation claims and employee benefits. Included within these provisions is a provision for a legal claim in respect of the estimated costs associated with an incident which occurred in operations of a newly acquired subsidiary, Desert (total claimed compensation is US$10 million).

23. Accounts payable and accrued liabilities

	2011 US$ million	2010 US$ million	
			IAS 1.69, IAS 1.77
Trade payables	509	442	
Other payables	26	20	
Payables and accruals to joint venture partner	32	54	
	567	**516**	

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 a joint venture partner mainly represent joint expenses that were paid by the joint venture partner.

Notes to the consolidated financial statements

24. Capital commitments and other contingencies

Operating lease commitments – Group as Lessee

IAS 17.35(d)(i)

The Group has entered into leases for buildings, motor vehicles and various items of plant and machinery. These leases have an average life of five years (2010: six years) with renewal terms at the option of the lessee whereby they can extend at lease terms based on market prices at the time of renewal. There are no restrictions placed upon the lessee as a result of entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows: *IAS 17.35(d)(ii)*

	2011 US$ million	2010 US$ million	
Within one year	50	17	*IAS 17.35(a)(i)*
After one year but not more than five years	101	23	*IAS 17.35(a)(ii)*
More than five years	20	11	*IAS 17.35(a)(iii)*
	171	**51**	

Capital commitments

Capital commitments (excluding those related to joint ventures) *IAS 16.74(c)*

	2011 US$ million	2010 US$ million
Contracted capital expenditure: oil and gas exploration	248	169
Other commitments	75	62

Capital commitments related to joint ventures *IAS 31.55*

	2011 US$ million	2010 US$ million
Capital commitments incurred by the Group	20	30
Capital commitments incurred jointly with other venturers (Good Petroleum's share)	39	16

Other contractual obligations

Based on applicable prices at 31 December 2011, the group has unconditional purchase obligations of US$15 million relating to the procurement of transportation that are essential to its operations worldwide. Some of the Group's unconditional purchase obligations are settled based on the prevailing market rate for the service purchased. In some cases, the amount of the actual obligation may change over time because of market conditions. Transportation obligations are for contracted ocean freight rates. The Group's future commitments associated with unconditional purchase obligations total US$6 million in 2012, US$4 million in 2013, US$3 million in 2014 and US$2 million in 2015. During 2010, 2009 and 2008, the group fulfilled its minimum contractual purchase obligations.

Contingencies

At 31 December 2011, contingent liabilities amounting to US$79 million (2010: 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 Group to meet performance guarantees and the long-term nature of the programme. *IAS 37.86*

Notes to the consolidated financial statements

25. Related party disclosures

The consolidated financial statements include the financial statements of Good Petroleum and the subsidiaries listed in the following table:

	Country of incorporation	% equity interest 2011	2010	
				IAS 24.13
Desert Limited	Petroland	100	–	
Pole Lubricants	Petroland	80	80	
Gulf Limited	Petroland	100	100	
Sun Field Co	Petroland	100	100	

The ultimate parent of the Group is O.C. Limited. *IAS 1.138(c)*

The only transactions between the Group and O.C. Limited is the payment of dividends. *IAS 24.12-13*

Commentary

IAS 24 does not explicitly require a separate list of subsidiaries, jointly controlled entities or associates. IAS 27.42(b) does, however, require this for the separate financial statements of an entity. In many cases, the separate financial statements of a parent entity are presented as part of the consolidated financial statements. The Group concluded that presenting these entities would be beneficial for the users of its consolidated financial statements.

Jointly controlled entity in which the Group is a venturer *IAS 1.126(e)*

Vessels Limited

The Group has a 50% interest in Vessels Limited (2010: 50%). *IAS 24.12*

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

Related party transactions *IAS 1.126(e)*

During the year, the Group entered into the following transactions, in the ordinary course of business, with related parties: *IAS 24.12*

US$ million	Sales	Purchases	Other revenue	Accounts payable	Accounts receivable	IAS 24.18
Vessels Limited						
2011	2	34	1	-	-	
2010	-	57	-	-	-	

Compensation of key management personnel of the Group	2011 US$ million	2010 US$ million	IAS 24.17
Short-term employee benefits	25	26	IAS 24.17(a)
Post-employment pension and medical benefits	6	6	IAS 24.17(b)
Total compensation paid to key management personnel	**31**	**32**	

There are no other related party transactions.

26. 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 trade and other receivables and cash and short-term deposits, which arise directly from its operations. *IFRS 7.33*

Risk exposures and responses

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are: market risks, comprising commodity price risk, cash flow interest rate risk and foreign currency risk; and liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below. *IFRS 7.33(a),(b)*

The Group's senior management oversees the management of financial risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group's risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken. At this stage, the Group does not currently apply any form of hedge accounting.

The Board of Directors reviews and agrees policies for managing these risks which are summarised below.

Market risk

IFRS 7.33

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: commodity price risk, interest rate risk and currency risk. Financial instruments affected by market risk include: loans and borrowings; deposits; trade receivables; trade payables; accrued liabilities; and derivative financial instruments.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant. The sensitivity analysis 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.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions.

The following assumptions have been made in calculating the sensitivity analysis:

- The statement of financial position sensitivity relates to derivatives and euro denominated accounts receivables
- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 31 December 2010

  And
- The impact on equity is the same as the impact on profit before tax

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 profit before tax 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 (2010: US$7.20/bbl), with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Notes to the consolidated financial statements

26. Financial risk management objectives and policies *continued*

Increase/decrease in crude oil prices	Effect on profit before tax for the year ended 31 December 2011 Increase/(Decrease) US$ million	Effect on profit before tax for the year ended 31 December 2010 Increase/(Decrease) US$ million	
			IFRS 7.40(a)
Increase US$7.60/bbl (2010: US$7.20/bbl)	(2)	(1)	
Decrease US$7.60/bbl (2010: US$7.20/bbl)	2	2	

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.

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 debt. 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, as determined based on a review of the last two years historical rates and economic forecaster's expectations, 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. The impact on equity is the same as the impact on profit before tax.

Increase/decrease interest rate	Effect on profit before tax for the year ended 31 December 2011 Increase/(Decrease) US$ million	Effect on profit before tax for the year ended 31 December 2010 Increase/(Decrease) US$ million	
			IFRS 7.40(a)
+1.5%	(7)	(3)	
-1.0%	1	4	

Foreign currency risk *IFRS 7.33*

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 movements in exchange rates. Approximately 7% of the Group's sales are denominated in currencies other than the functional currency, whereas 4% of costs are denominated in currencies other than the functional currencies of the entities within the Group.

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. The impact on equity is the same as the impact on profit before tax.

Increase/decrease in foreign exchange rate	Effect on profit before tax for the year ended 31 December 2011 Increase/(Decrease) US$ million	Effect on profit before tax for the year ended 31 December 2010 Increase/(Decrease) US$ million	
			IFRS 7.40(a)
+5%	2	1	
- 5%	(2)	(1)	

Notes to the consolidated financial statements

26. 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 31 December 2011, the Group had available US$10.5 million (2010: US$10.5 million) of undrawn committed borrowing facilities. 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 31 December 2011 (2010: 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 31 December 2011, based on contractual undiscounted payments.

IFRS 7.39(a)
IFRS 7.B14

Year ended 31 December 2011	**On demand**	**<1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**	**Total**
	US$ million	**US$ million**	**US$ million**	**US$ million**	**US$ million**	**US$ million**
Interest-bearing loans and borrowings	8	74	424	52	56	614
Accounts payable and accrued liabilities	26	541	-	-	-	567
	34	**615**	**424**	**52**	**56**	**1,181**

IFRS 7.39(a)
IFRS 7.B14

Year ended 31 December 2010	**On demand**	**<1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**	**Total**
	US$ million	**US$ million**	**US$ million**	**US$ million**	**US$ million**	**US$ million**
Interest-bearing loans and borrowings	51	-	148	32	135	366
Accounts payable and accrued liabilities	20	496	-	-	-	516
	71	**496**	**148**	**32**	**135**	**882**

Credit risk

IFRS 7.33
IFRS 7.36

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, which include an assessment of credit rating, short-term liquidity and financial position. The Group obtains sufficient collateral (where appropriate) from customers as a means of mitigating the risk of financial loss from defaults. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

At 31 December 2011, the Group had 5 customers (2010: 6 customers) that owed the Group more than US$50 million each and accounted for approximately 71% (2010: 76%) of all receivables owing. There was one customer (2010: one customer) with balances greater than US$100 million accounting for just over 17% (2010: 19%) of total accounts receivable. The need for an impairment is analysed at each reporting date on an individual basis for major clients.

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. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent.

Refer to Note 18 for analysis of trade receivables ageing.

26. Financial risk management objectives and policies *continued*

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 1.134*

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 ended 31 December 2011 and 31 December 2010. *IAS 1.135(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.

The Group is not exposed to any externally imposed capital requirements.

IAS 1.135(d)
IAS 1.134

	2011 US$ million	2010 US$ million
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
Capital and net debt	5,439	4,342
Gearing ratio	12%	8%

Commentary

IAS 1.134 requires entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. The Group has disclosed a gearing ratio as this is the measure it uses to monitor capital. However, other measures may be more suitable for other entities.

Fair values

Set out below is a comparison of the Group's financial instruments that are recognised in the financial statements where their carrying amounts and fair values differ: *IFRS 7.25* *IFRS 7.26*

IFRS 7.8

	Financial Instrument Classification	Carrying amount		Fair value	
		2011 US$ million	2010 US$ million	2011 US$ million	2010 US$ million
Financial liabilities					
Interest-bearing loans and borrowings:					
Fixed rate borrowings	Amortised cost	108	77	111	81

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. IFRS 7.27

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2011, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Notes to the consolidated financial statements

27. Derivatives and financial instruments *continued*

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	Bbl/day	US$ per bbl	Fair Value at 31 December 2011
					US$ million
Dated Brent Oil	Held for trading	February 2012 – June 2012	800	72	9
Dated Brent Oil	Held for trading	August 2012 – January 2013	800	74	7
Dated Brent Oil	Held for trading	July 2012 – January 2013	800	75	6
Total					22

Fixed Price Swap	Financial Instrument Classification	Term	Bbl/day	US$ per bbl	Fair Value at 31 December 2010
					US$ million
Dated Brent Oil	Held for trading	March 2011 – December 2011	800	70	8
Dated Brent Oil	Held for trading	February 2011 – June 2011	800	72	12
Total					20

The resulting US$22 million (2010: US$20 million) fair value of these contracts has been recognised in the statement of financial position as derivative assets. These amounts are neither past due nor impaired. The maximum credit exposure of these derivative assets is the carrying value. 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 (2010: US$9 million gain) has been recognised in profit or loss during the year as gain on derivative financial instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique: *IFRS 7.27 A*

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments measured at fair value use Level 2 valuation techniques in both years.

There has been no transfers between fair value levels during the reporting period. *IFRS 7. 27B (b)(c)*

27. Derivatives and financial instruments *continued*

Commentary

The disclosures made by Good Petroleum are based on a set of assumptions made about this fictitious entity. However, in light of the recent economic conditions, disclosures, both qualitative and quantitative, of an entity's potential exposure to credit and other financial risks become increasingly important to users of financial reports. Entities should focus on the needs of external financial report users and include meaningful disclosures that provide a full and robust understanding of the business and the risks faced (this includes information that is used by management in assessing its financial risks) instead of simply including boiler plate/"tick the box" disclosures. Entities could consider disclosures, when applicable, of the following:

- Debtors grouped by counterparty credit rating
- Details of debt covenants and how management monitors compliance
- Detailed disclosure of securities pledged against borrowings
- Detailed disclosure of hedging arrangements
- Disclosures regarding any forward sales contracts that have been accounted for as normal purchases/sales contracts

Please refer to EY publications - *Good Group (International) Limited 2011* and *Good Bank (International) Limited 2011* illustrative financial statements for additional IFRS 7 disclosures.

28. Events after the reporting period

On 20 January 2012, the Group performed its annual evaluation of reserves. The evaluation showed that total proved reserves of the Sand field were 15 million bbls (according to the previous evaluation, performed in December 2010, proved reserves were 11 million bbls). The Group believes that the change in reserves is a change in estimate under IAS 8 and the related impact on depreciation/amortisation and impairment is to be accounted for prospectively from the date the new information becomes available. *IAS 10.21* *IAS 10.10*

The directors, in their meeting held on 27 January 2012, approved a proposal to be put before the annual general meeting of shareholders to be held on 20 February 2012, for the payment of a final dividend of US$235 million for the year ended 31 December 2011 (15 cents dividend per share) to all ordinary shareholders registered at 27 January 2012. The amount is not recognised as a liability at 31 December 2011. *IAS 10.12*

Glossary

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

Carried interest	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.
Carried party	The party for whom funds are advanced in a carried interest arrangement.
Carrying party	The party advancing funds in a carried interest agreement.
Cost recovery oil	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.
Development well	A well drilled to gain access to oil or gas classified as proved reserves.
Exploratory well	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.
Farm out and farm in	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.
Full cost method	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.
Geological and geophysical costs (G&G)	Costs of topographical, geological, geochemical, and geophysical studies.
Overlift or underlift	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.
Production sharing agreement (PSA)	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.
Profit oil	Revenue in excess of cost recovery oil and royalties.
Royalty	A portion of the proceeds from production, usually before deducting operating expenses, payable to a party having an interest in a lease.
Sales method	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.
Successful efforts method	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.
Take-or-pay contracts	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.
Upstream activities	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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