



The Small Independent Makes a Big Impact

World Energy magazine interviews John Doran, chief executive officer, Roc Oil Company Limited



World Energy: Tell us a little about yourself, your company and how it got its start.

Doran: ROC is the latest in a sequence of four consecutive corporate growth stories I've been involved with since arriving in Australia almost 25 years ago. Prior to that, I had lived and worked as a geologist for a total of nine years in Ireland, Libya, Iran and Norway with multinational companies including Conoco and a BP-Shell Consortium. An early position was as a lecturer in geology at the University of Tripoli in Libya – not the obvious start to a career in international oil exploration.

ROC was started around the dining table at home in Sydney in late 1996, just as I was finalising the sale of a previous company, Command Petroleum, to Cairn Energy plc out of the United Kingdom. That deal turned out to be terrific for all concerned, one of the rare genuine win-win situations.

As a result, ROC started as a blank sheet of paper: no assets, no co-venturers, no projects and no capital. We did, however, have some strong points, not least of which was good private shareholder support, based on what had happened with Command. We also had a widespread network of industry contacts. Within a month, we had signed an agreement with Gulf Canada to operate a worldwide new-venture acquisition group. This immediately provided the embryonic ROC with a little bit more weight than would otherwise have been the case. We then successfully introduced some private investors – both corporates and individuals – from Europe, the Middle East, North America, Asia and Australia – and promised them liquidity within three years. That promise was kept when we undertook an initial public offering (IPO) in August 1999, although most of the original pre-float shareholders remain on the register to this day.

The cornerstone of the IPO was a suite of onshore and offshore assets in the United Kingdom, which were then owned by a Toronto-listed company. As a privately owned company in Australia, we were able to raise A\$150 million of which we spent about A\$115 million to buy the publicly listed company in Canada to acquire the assets in the United Kingdom, in order to publicly list them through a ROC IPO in Australia. Sounds complicated, but it worked even though the oil price had only just come off a US\$10-per-barrel base.

The key asset turned out to be the Saltfleetby Gas Field in Lincolnshire, onshore England, which had been at an early development stage when ROC acquired the acreage package. ROC completed the development in late 1999, and during the next five years this field, which had originally been estimated to contain 43 BCF [billion cubic feet], produced 54 BCF as its reserve estimate more than doubled to 90 BCF. In late 2004, ROC sold the field to a Wintershall-Gazprom joint venture for approximately A\$110 million, by which time the U.K. portfolio had generated about A\$350 million production sales revenue, a \$220 million net operating cash flow and \$220 million in asset sales. This U.K. cash flow drove ROC's new exploration programmes in Africa, Australia and China, where we now have several new fields being appraised and developed.

World Energy: Your company emphasises its international diversity. How did you create such a varied group?

Doran: From the outset we identified diversity as a strength. Once you do that you just stay on message and you end up constructing a workforce with a collective skill set that matches a diverse portfolio.



ROC's first deepwater well, offshore Equatorial Guinea

You can't wake up one morning and decide to become an international company; internationalism has to be embedded in your corporate DNA. In ROC's case, we have about 100 people worldwide representing 23 different nationalities and collectively speaking 16 languages. We're always slightly amazed at the number of companies that claim to be international but when you look into their gene pool, they are sometimes monolingualistic, decidedly white and definitely Western.

World Energy: In its brief history, what are some of the major milestones that ROC has achieved?

Doran: Being a tiny, privately owned company operating exploration and small-scale oil production in Mongolia's Gobi Desert while also undertaking the first export of oil from that part of the world to China was an interesting way to start a new corporate life.

The development of the Saltfleetby Gas Field in eastern England, far and away the largest onshore gas field in Britain, had its own unique set of challenges. Operating the well that discovered the Cliff Head oilfield – the first discovery in the offshore Perth Basin in Western Australia – and then going on to develop that field was a seminal event for ROC in an Australian context – all the more so because the field is in an area which is environmentally very sensitive and home to a very large crayfishing industry. Drilling an exploration well in the north of England immediately adjacent to a world heritage site was another interesting moment in ROC's development, as was seismic acquisition in the extremely shallow water surf zone immediately offshore from some recent interesting onshore discoveries in Western Australia.

Another milestone to mention is ROC's operation of the Bravo-1 well in deepwater Rio Muni Basin, offshore Equatorial Guinea. Last year ROC operated that well in 1,500-metre water depth on behalf of the relevant joint venturers and a U.S. independent, which was farming into the acreage by funding the majority of the well cost. Fortunately, the well was on schedule and under budget.

Activating the production-sharing agreement covering the Cabinda South Block in late 2004 was also a big step for us, since there had been no oil exploration onshore Angola for more than 30 years due to the civil war which finished in 2002. We are in the early stages of acquiring a 3-D and 2-D seismic survey in that block, which can certainly be regarded as a little landmark for oil exploration in Angola.

Finally, we'd be tempted to highlight as milestones the fact that each of our first wells in Africa, Australia and China were oil discoveries. Two of them are now being developed while the third is due to be appraised. However, two of these fields are small while the third, although larger, is in an area where ROC has only a small equity holding, so we tend to resist the temptation to play with these statistics too much!

World Energy: In what regions of the world do you expect to find the next wave of drilling?

Doran: If I had to pick out just one region from the part of the planet that ROC is familiar with, it would have to be Africa. While

it's true to say that everywhere is hot, it is more accurate to say that Africa is, finally, becoming particularly hot. That's not surprising when you consider two things: the relatively small amount of exploration that has been undertaken in Africa and some of the recent results in countries as diverse as Sudan, Mauritania, Chad and Angola. The rationale for nominating Africa as one of the future drilling hotspots is underpinned by two other factors: the current U.S. government seems to be sending signals that it views Africa – particularly West Africa – as a valid alternative to oil from the Middle East, and the national oil companies of China and India would also seem to have Africa in their sights. Although financial terms in Libya appear somewhat onerous, there also seems to be a rush of Western companies into the country that should translate into a drilling upsurge.

Wherever the next burst of drilling takes place, it will very likely be constrained to some extent by the availability of rigs and people, both of which are becoming increasingly scarce in the present oil price climate.

World Energy: Some of these future hot spots will be more attractive than others, no?

Doran: How a company defines "attractive" depends on a fine balance between fiscal regimes and prospectivity. It's a balance that is often adjusted over time by the host government!

It's a familiar dilemma for the oil explorer: Do you go to where the established oil is and accept a tougher fiscal regime, or where there is little or no prior evidence of commercial oil and hope that you find some that will allow you to benefit from fiscal terms that are usually much more benign?

ROC was fortunate to be involved in deepwater Mauritania before the first oil was discovered in that country. Equally, we're very happy to be in Angola, where ROC is exploring an onshore part of the Lower Congo Basin, one of the world's great petroleum systems, under terms which reflect the perceived prospectivity of the region.

At the moment, Britain and Australia have particularly attractive fiscal regimes. The former, however, has a bit of a history of tweaking the tax system when oil prices are high and rising, while the latter still needs to improve its incentive for exploration given the vast tracks of remote unexplored acreage in Australia and that nation's need for more independent energy resources.

World Energy: ROC describes its strategy as "sensibly contrary." What does that mean?

Doran: As an international operating company, ROC is focussed on opportunities that are undervalued and overlooked, the merits of which are not always immediately obvious to other industry participants. "Sensibly contrary" was how we described this strategy in our 1999 IPO prospectus – and that is how we describe it today.

Whenever you mention "sensibly contrary," some people immediately think in terms of location, usually a remote and sometimes strange part of the globe. That is not how we think.

Within ROC, "sensibly contrary" relates to the nature of the opportunity; the location is just a by-product.

The Saltfleetby and Cliff Head developments in the United Kingdom and Australia respectively were both "sensibly contrary" at the time, but they are not exotic locations. You can get most of the way to the former by catching a train from King's Cross station in London, while the latter is a three-hour drive north of Perth.

Our strategy is certainly not a guarantee of success. Sometimes it fails. When that happens we are quick to recognise the "F" word, and we cut our losses as best we can.

Sometimes, arguably quite often, the strategy succeeds. We like it when that happens, but we never fall in love with our successes.

Appropriate opportunities are generally identified through ROC's network of individual contacts within the industry and investment communities. We have an active dislike of industry auction rooms and will visit them only in the rare event that there is a good strategic reason to do so.

Often the company has been able to identify a low-cost initial entry point into a target transaction, usually via an option arrangement, sometimes because the opportunities didn't have an obvious appeal to other parties. Occasionally we enter into a deal through a door other than the one marked "option," but we really do like optionality.

We can move very quickly but also, when required, we have a deep reserve of corporate patience, as evidenced by our entry into Angola, which took three years to achieve.

We like to operate, but realise we can't (and shouldn't) always seek to operate every project. We're generally a slave to economic analysis, although in this market that can work to your short-term detriment.

ROC is also more risk averse than might be immediately apparent from the geographical spread of its acreage.



Flaring during a production test at Cliff Head

World Energy: That's a fairly unusual perspective for a small independent. How do your abilities to accept risk differ from those of your competitors?

Doran: We try to leave our preconceived ideas in the waste bin at the airport lounge. That allows us to take the view that risk is everywhere. We think that risk is just as likely to challenge you in a white, Western democracy as it is in any country in the developing world. When Shell attempted to acquire Woodside in Australia a few years ago, they probably didn't expect the Australian federal government to come to Woodside's defence. I'm not saying that that was a right or wrong action – just that it was probably an unexpected political risk that materialised for Shell in a country which is, quite correctly, not perceived to be particularly risky.

Another way that ROC tries to manage risk is that we usually try to gain a low-cost entry. It is amazing how much early project risk you can tolerate if your initial investment is modest.

World Energy: Not every company employs this kind of strategy with regard to risk. Why is ROC able to act where others don't?

Doran: It sounds counterintuitive, but a small company has some advantage when it comes to risk management. The irony of risk management at a corporate level is that big companies, which are best able to handle risk, generally employ people who, for a variety of reasons, may be more risk averse than their counterparts in small oil companies, which are corporately less well positioned to manage risk. However, big company employees often do not have a good reason to embrace risk and every career reason to steer away from it.

Also at ROC, we've tried to make sure that the corporate culture is not a culture of blame. Obviously, if people repeatedly make mistakes – persistently take the wrong risk choice – then something has to be done; but in general people must be allowed to stuff up at least once. We all know of large companies where people's decision-making abilities are constrained, or even totally paralysed, by a culture of blame.

World Energy: What makes ROC more adept at managing risk?

Doran: Our company has certainly faced its fair share of risk. On occasions, we've got it wrong; sometimes quite badly. Overall, however, we seem to have managed our risk reasonably well – so far! Of course, there is never room for any complacency. The moment you think you have managed risk well is just an instant before another risk challenge confronts you. Our constant awareness of risk, which exists in every crack and distant crevice of the company, helps us to manage it – together with the fact that we are never lulled into thinking that we've ever got risk management totally sussed. We certainly have a highly tuned health, safety, environment and community awareness – which goes well beyond lip service.

We have also deliberately constructed a portfolio of diverse projects so that if one goes bad, the company may be bruised but the damage won't be terminal.

World Energy: As an Australian company, you have some interesting advantages when it comes to drilling in foreign territories. Tell us a little about the ways you've been able to take advantage of geographic location.

Doran: Since Australia joined the "coalition of the willing" along with the United States and Britain, it hasn't been quite as easy as it used to be to wander around the world and point to the country as the "Switzerland of the Pacific." Nevertheless, in most parts of the world it is still an advantage being an Australian company. We're not generally perceived to be a clear and present threat, and we don't have a history of imperialism or colonialism. Generally, Australians have a well-deserved reputation of being open-minded and pretty straightforward individuals.

World Energy: ROC styles itself as a fully equipped operator. In what ways are you currently acting in that role?

Doran: Rightly or wrongly, we decided on day one to be an international operating company, not just in name but in reality. I'm not talking about running into a country, drilling an exploration well and disappearing; but rather trying to operate in various countries in a sustainable manner. There are surprisingly few independent oil companies that do that. Of course, ROC is not the only independent with active international operations, but we're probably one of the smaller ones. Choosing the operating route pretty well guarantees you a more challenging life. It certainly can lead to sleep deprivation and lots of air miles! However, from ROC's point of view, it also represents a currency with regard to new ventures because we can offer an operating culture and expertise that isn't always readily available outside the larger independents and multinationals. On occasions this has given us an advantage when considering new deals.

Currently, we operate all our assets other than those in the North Sea and offshore Mauritania. We realize, of course, that we cannot operate everything, and neither do we want to operate all our projects. Nevertheless, operating is the name of our game. We think that is somewhat "sensibly contrary" at a time when it seems that a number of companies that claim to be operators are, in fact, happy to subcontract out almost all their operating activity to third-party consultants, which causes the passage of operating expertise from the traditional oil companies to consulting firms. We use third-party consultants, but for the most part they tend to buy into the ownership of the project through ROC so that the contractors effectively become an extension of the company during the operations rather than one removed from it.

ROC is preparing to drill wells in deep waters offshore Equatorial Guinea, in shallow waters offshore Western Australia and China and onshore United Kingdom and New Zealand. Seismic surveys have just been completed or are about to start onshore Angola, offshore New Zealand and in shallow-water Western Australia. That's a reasonable spread of operating activity for a company of ROC's size.



Vibroseis production seismic operations in Cabinda, onshore Angola, June 2005

World Energy: Where does ROC go from here?

Doran: More reserves, more production, a legacy asset – and more risk management!

ROC still hasn't found its legacy asset. As luck would have it, the larger fields that we have been involved in discovering have been in areas where we possess small equity, while in the areas where we have large equity we have, so far, found only relatively small fields. From here we hope to go and find large fields in areas where we have large equities.

The major increase in production, which will occur within nine months, will be important. Mind you, it isn't hard to achieve good production growth when you're moving from tiny to small, particularly if you've just sold your core production and are party to two new oil field developments that should come on stream early in 2006. ROC expects a net oil production of comfortably more than 5,000 barrels per day by the first quarter of 2006.

Finally, it should be emphasised that the strategy we are maintaining is decidedly organic and reliant upon future operational success. As such, it is neither an instantaneous nor a guaranteed way of increasing the company's reserve inventory. However, ROC's current drilling and development programmes are the biggest and most exciting in our albeit relatively brief history. It will be interesting to see what materialises.



Roc Oil Company Limited
 Level 14, 1 Market Street
 Sydney 2000 NSW Australia
 phone: +61 2 8356 2000
 facsimile: +61 2 9380 2066
 email: info@rocoil.com.au
 rocoil.com.au