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Rockhopper Exploration plc

("Rockhopper")

Preliminary Results for the Year Ended 31 March 2011

Rockhopper Exploration, the North Falkland Basin oil and gas exploration company, is pleased to announce results for the twelve months ended 31 March 2011.

CHAIRMAN'S STATEMENT

DR PIERRE JUNGELS CBE

Flowing our latest well at commercially viable rates this June has been another valuable step for Rockhopper in establishing the commerciality of Sea Lion.

Since Rockhopper's discovery on the Sea Lion field in May 2010, our focus has been on reaching a final investment decision and undertaking the work streams required to do so. These work streams are:

- Appraisal: to define the field size,
- Engineering: to define the field development and
- Financing: to define the field economics.

All three are being run in parallel, are making good progress and are communicating well with each other.

The appraisal of the Sea Lion field has got off to a very good start with successful results on both wells 14/10-4 and 14/10-5, which was flow tested at commercially viable rates. The next well, 14/10-6, will be drilled to the west of the discovery and, if successful, will add to our view of the low case scenario of the field, of 155 million barrels recoverable. Naturally, the results of each well influence the number and location of subsequent wells but our understanding of the field is growing rapidly and this will be fed into the static and dynamic reservoir models needed for an updated competent person's report and a development plan.

The engineering work started with the appointment of a full time development manager who has already visited the Falkland Islands to get first hand experience of the socio-economic, logistical and engineering factors, that such an offshore development has to consider. We are also well advanced with our concept screening and, once this and our appraisal are completed, we will be able to set the scope for our front-end engineering design requirement.

Rockhopper is fully funded to complete the Sea Lion field appraisal, although a development would naturally require considerable further financing. We expect development finance to come from a range of sources including industry participants, reserve based lenders and the equity market. As we are operating in a new basin, we expect the process to take longer than in a mature region and so have already started initial meetings with the lending banks. Work on financing will inform our economic models and help derive minimum economic field sizes and likely economic values.

The first major milestone in reaching a final investment decision will be the delivery of the field development plan, required by April 2013, to the Falkland Islands Government. Throughout the life of Rockhopper we have enjoyed open and cooperative relations with the Falkland Islands Government, particularly the Department for Mineral Resources, and continuing on the same basis will be critical to the development phase.

Rockhopper also completed an extensive 3D seismic acquisition programme at the end of May 2011 that included data collection to the south of the currently mapped Sea Lion discovery as well as the Johnson and Weddell prospects. The fast tracked data has already been processed and will be interpreted as soon as possible and the balance is expected to be processed by the end of September 2011.



CONCLUSION

Rockhopper has been transformed by the discovery on Sea Lion, of which we are in the rare position of holding 100%. We are progressing through a very exciting and valuable phase in the group's development. We are wholly focused on the Falkland Islands and look forward to interpreting the processed data from the recently acquired 3D seismic to identify further opportunities within the basin.

DR PIERRE JUNGELS CBE
CHAIRMAN

30 JUNE 2011



CHIEF EXECUTIVE OFFICER'S REVIEW
SAMUEL MOODY

The year to 31 March 2011 saw us drill our first operated wells, make the first oil discovery and carry out the first flow test in the Falkland Islands. Since 31 March we have continued the appraisal process on Sea Lion by drilling wells 14/10-4 and 14/10-5, carrying out a fully engineered flow test and completing two separate 3D seismic acquisition programmes in cooperation with other operators in the area. We have also strengthened our balance sheet with two equity placings totaling almost \$400 million and undertaken a period of significant corporate recruitment in order to deal with the increased work-load.

WELL 14/10-2

Our first operated well and the first oil discovery in the Falkland Islands. 14/10-2 was spudded on 15 April 2010 and we announced the discovery on 6 May 2010. Logs indicated a gross reservoir thickness of some 67 metres with net pay of 53 metres. 36 metres of that pay are interpreted as coming from the upper Sea Lion fan, the remaining 17 metres from the lower Sea Lion fan. The well was suspended at the end of drilling operations for future testing.

WELL 26/6-1

Our second operated well was drilled on the Ernest prospect, a four-way closure in licence PL024 on the southern acreage. The well was a dry hole with no shows although post well analysis reveals very good source rock potential in the area. Following completion of drilling operations, the well was plugged and abandoned.

FLOW TEST OF WELL 14/10-2

Having suspended well 14/10-2 at the end of drilling operations we re-entered and flow tested the well during September 2010. The flow test was carried out without the specialist equipment required to handle the wax content of the oil but nonetheless flowed for eighteen hours under natural flow conditions at rates of approximately 2,000 barrels per day. Following completion of the test, the well was plugged and abandoned.

WELL 14/10-3

This was an exploration well on the northern lobe of the Sea Lion system. The well was drilled approximately 8 kilometres away from 14/10-2, the discovery well. It encountered four main sands, of which three were water wet, and one, sand three, had 7 metres of net pay but with high water saturations. Following completion of drilling operations, the well was plugged and abandoned.

WELL 14/10-4

This was the first appraisal well on the Sea Lion field and was located some 2 kilometres away from 14/10-2, the discovery well, and spudded on 19 February 2011. Logs indicated a gross reservoir package of 107 metres with a net to gross ratio in the pay zone of just under 90%. Net pay was 33 metres, all of which was interpreted as coming from the upper Sea Lion fan. The top main fan sand was encountered some 65 metres down-dip from well 14/10-2. An oil-water contact was established within the main upper fan at 2,477 metres true vertical depth sub-sea ("TVDSS"), below the spill point of the top main fan. Multiple oil samples were collected down-hole and a mini drill stem test ("DST") was performed. Results indicated that the well had the potential to flow approximately 2,700 barrels per day under natural flow conditions, compared against the rate of approximately 2,000 barrels per day achieved in the flow test of 14/10-2. The well established the total gross oil column encountered within the Sea Lion main fan complex as being 103 metres. Following completion of drilling operations, the well was plugged and abandoned.

WELL 14/10-5

This was the second appraisal well on the Sea Lion discovery, it was located some 600 metres away from 14/10-2 and was drilled with the intention of carrying out a fully engineered production flow test using specialist equipment not available to the group at the time of the previous flow test. The well was highly successful, proving 94 metres of net pay, all of which was good quality reservoir with average porosity of more than 20%. In addition, the well has established a total gross oil column of 127 metres within the Sea Lion main fan complex and a deeper oil column (with a current oil down to of 2,590 metres TVDSS) beneath the main fan within the lower fan complex.

The upper fan, which had a net pay of 79 metres, was then flow tested at a sustained rate of 5,508 barrels per day through a 48/64 inch choke, and at a maximum rate of 9,036 barrels per day through a fixed 1 inch choke. No down-hole chemical injection was required to flow the well, although it did use vacuum insulated tubing ("VIT") and artificial lift, in the form of an electric submersible pump ("ESP"), neither of which had been available during the previous test. In addition to performing the full flow test on the upper fan, two of the three lower fan sands in the well were tested using a mini DST. Results indicated that, were the same techniques to be employed, even the thin pay sections encountered in the lower fan could have flowed at approximately 800 barrels per day in addition to the rates achieved from the upper fan. Following completion of all drilling and testing operations, the well will be plugged and abandoned.

NEXT STEPS FOR THE SEA LION FIELD

The Rockhopper board is of the opinion that well 14/10-5 flowed at commercially viable rates and the result of the flow test is a key milestone in proving commerciality. Further appraisal drilling will be required in order to define fully the size of the Sea Lion field.



DEVELOPMENT PLANNING

We commenced development planning with a concept screening exercise using a specialist engineering consultancy. The most likely development scenario is an offshore one, by means of a floating production, storage and offloading facility (“FPSO”) or tension leg platform (“TLP”) with a floating storage unit (“FSU”), although all options are currently being considered as part of the process. Once the concept selection work is completed and additional wells have been drilled, we will be in a position to define our front-end engineering design (“FEED”) and begin to prepare our field development plan (“FDP”) for Sea Lion, which has to be submitted to the Falkland Island Government by April 2013, three years from the date 14/10-2 was spudded.

3D SEISMIC

We have taken part in two seismic acquisition programmes over a total of 4,261 square kilometres of the North Falkland Basin in conjunction with both Argos Resources and Desire Petroleum using the Asima and the Nadia, both vessels owned by Polarcus. Of this total area, some 1,266 square kilometres was collected on our operated acreage and 1,455 square kilometers was collected on our farm-in acreage. Data collected within PL032 over the southern extension of the Sea Lion discovery is of particular interest and consequently the processing of these data has been fast tracked so as to be available for interpretation during the summer. The balance of the final fully processed data is expected to be available for interpretation by the end of September 2011 and will include new data collected over the northern extension of the Johnson contingent gas resource.

GROUP INFRASTRUCTURE

We have been through a significant growth phase since making the Sea Lion discovery. We are delighted with the calibre of people we have been able to recruit, particularly Andy Morrison, as Operations manager, Fiona MacAulay, as Geology & Geophysics manager, and Paul Culpin, as Development manager. We have also increased the size of our offices outside Salisbury from 580 square feet to approximately 6,500 square feet as well as setting up an office in the Falkland Islands.

ONGOING PROGRAMME AND FINANCIAL RESOURCES AVAILABLE

Two equity placings during the year strengthened our balance sheet by almost \$400 million and provided the funds required to continue our exploration and appraisal programme. The programme itself is ambitious and will consist of further wells, some of which may be tested, drilled back-to-back using the current rig. In addition, the 3D seismic has been a significant undertaking both financially and logistically, as much of it occurred during the drilling. The vast quantity of data now gathered will require a significant technical work programme to be overseen by David Bodecott, our Exploration director. We are fully funded to complete the programme as currently envisaged and will continue to monitor our cash requirements carefully as we move closer to defining the scope of our FEED.

COMPETENT PERSON’S REPORT (“CPR”)

We had begun the year intending to produce an updated CPR. However, during the course of discussions it became apparent that both additional wells and seismic data would materially assist the accuracy of this updated report. This work is ongoing and the group is not currently planning to produce another CPR this calendar year. The situation will be reviewed once additional wells have been drilled.

SUMMARY

The period since 31 March 2010 has seen a level of activity unparalleled in our history. Drilling five operated wells, making the first oil discovery in the Falkland Islands, operating two well tests, taking part in the acquisition of over 4,000 square kilometres of 3D seismic utilising two separate vessels in conjunction with other operators, recruiting a number of experienced key senior personnel, increasing office and administrative facilities, opening a Falkland Islands office, raising almost \$400 million in equity and all done while maintaining a very good health safety & environmental (“HSE”) record.

As a group we are proud of what we have achieved during this time and we intend to keep moving forwards during the coming year towards defining the size of the Sea Lion field.

SAMUEL MOODY
CHIEF EXECUTIVE OFFICER

30 JUNE 2011



BUSINESS REVIEW

OPERATING REVIEW

The year has been dominated by the group's drilling and 3D seismic campaigns on its acreage in the North Falkland Basin. During the year under review, we have drilled three exploration wells, an appraisal well and conducted a flow test on well 14/10-2, the discovery well. Since the year end, we have drilled a further two appraisal wells and conducted another flow test as well as completing the 3D seismic acquisition programme.

The table below sets out a high level of summary of the change in the resources that have become available to the group during the year as well as the use of those resources.

	2011 \$'millions	2010 \$'millions
Resources available b/f	64.5	6.1
Net funds received	395.8	79.2
E&E expenditure	(162.1)	(14.8)
Movement on payables	11.6	—
Movement on foreign exchange	4.7	(2.6)
Other expenditure	(9.5)	(3.4)
	305.0	64.5

Funding

Two fundraisings were conducted during the year, both as non-preemptive placings, raising a total of \$394.8 million after expenses. Various options were also exercised, raising a further \$1.0 million.

	\$'millions
June placing	71.0
November placing	333.8
Placing costs	(10.0)
Options exercised	1.0
	395.8

The June funding raised \$71.0 million before expenses of \$2.9 million by placing 17,320,000 new ordinary shares at a price of 280 pence each. It equalled in number 9.9% of the ordinary shares already in issue and was concluded at a 3.5% discount to the closing middle market price for the previous day.

The November funding raised \$333.8 million before expenses of \$7.1 million by placing 65,500,000 new ordinary shares at a price of 315 pence each. It equalled in number 34.0% of the ordinary shares already in issue.

Exploration and Evaluation Expenditure

Of the \$162.1 million of expenditure during the year, \$129.7 million related to exploration expenditure. Three exploration wells were drilled on the operated acreage and three on the non-operated acreage. 3D seismic was also acquired across both the northern and southern acreage as well as the farm in acreage, for which the group paid 7.5%. The balance of expenditure related to the group's first appraisal well and other general campaign costs.

	2011 \$'millions	2010 \$'millions
Exploration		
– operated wells	91.7	—
– non-operated wells	8.3	5.6
– other campaign costs	15.5	8.6
– seismic acquisition	14.2	—
	129.7	14.2
Appraisal	29.1	—
Other E&E expenditure	3.3	0.6
	162.1	14.8

Operational Performance

The group sets its agreed financial expenditure for the dry hole cost of a well on a probabilistic basis with an aim to drill at the Pmean confidence level and a strong intent to remain within the P90 level. As most operational costs are incurred on a per day basis, the actual days required is a good proxy for judging the likely performance against the agreed financial expenditure.

	Expected days Pmean	Expected days P90	Waiting on weather	Actual days
14/10-2 – Sea Lion	31	38	1	35
26/6-1 – Ernest	30	37	1	34
14/10-2 – Flow test	27	30	6	32
14/10-3 – Sea Lion	37	46	—	37
14/10-4 – Sea Lion	36	44	1	38
	161	195	9	176

Well 14/10-2 was drilled as expected with very little non-productive time and an increase in scope of two days following the discovery to run additional logs and set a 7 1/2 inch liner, so that the well could be suspended and tested at a later date.

Well 26/6-1 did incur non-productive time but this was offset to a degree by the decision to terminate the well above the target depth once it was evident that the well was dry.

Flow testing a well is always more weather dependent than drilling one, due to the extra equipment that has to be installed onto the rig, and whilst it incurred no non-productive time it did lose six days to waiting on weather.

Well 14/10-3 was expected to take longer than 14/10-2 due to the decision to take cores of the reservoir. The well did encounter some non-productive time but this was offset by the decision to terminate the well above the target depth once all the logs had been run.

Well 14/10-4 was also expected to take longer than 14/10-2 due to the decision to take cores of the reservoir. The well encountered three days of non-productive time offset to a degree by efficiencies elsewhere.

Extensive 3D seismic has now been acquired over both the operational and non-operational acreage at a total expected cost of \$23.3 million, of which \$14.2 million was incurred during the year. Seismic acquisition is more weather sensitive than drilling and over the course of the programme approximately a third of the days were lost to waiting on weather, which was better than encountered during 2007 when approximately half the days were lost.

FINANCIAL REVIEW

Income Statement

The group loss for the year increased by \$79.5 million from \$7.7 million to \$87.2 million mainly due to the increase in exploration and evaluation costs.

Exploration and evaluation expenses for the year increased by \$85.1 million from \$0.6 million to \$85.7 million. This was mainly due to the decision to impair wells 26/6-1 and 14/10-3, both drilled on the operated acreage, giving a charge of \$53.0 million, and wells 14/19-1, 14/15-1, 14/15-2 and 14/15-3, all drilled on the non-operated acreage, giving a charge of \$15.1 million. In addition, the group incurred \$14.2 million of seismic acquisition costs for 3D surveys across its northern, southern and farm in acreage.

Administrative expenses for the period increased by \$3.4 million, or 92%, from \$3.7 million to \$7.1 million. The two main areas of expenditure were staff costs of \$2.7 million, against \$2.4 million for the prior year, and professional fees of \$2.9 million, against \$0.4 million for the prior year. In the case of staff costs, the number of employees has risen during the year. In the case of professional fees, \$1.7 million of the increase related to the extensive advice provided around considering the financing options for the group following the oil discovery on the Sea Lion prospect.

The share based payments charge for the year decreased by \$0.7 million from \$0.9 million to \$0.2 million. The decrease was mainly due to the majority of the tranches for the options and share appreciation rights having vested in the prior year as the performance conditions had been met.

Foreign exchange movement for the year changed by \$7.3 million from a loss of \$2.6 million for the prior year to a gain of \$4.7 million.



Balance Sheet

During the year the group capitalised \$144.6 million of intangible exploration and evaluation costs, an increase of \$130.4 million over the previous year. Of the amounts capitalised, \$120.8 million related to wells drilled, and tested in the case of 14/10-2, on operated acreage, \$8.3 million related to wells drilled on non-operated acreage and \$15.5 million related to other costs such as long lead items and equipment mobilisation costs.

Resources available for the campaign consist of payments on account, restricted cash, term deposits and cash & cash equivalents and these increased by \$240.5 million from \$64.5 million to \$305.0 million.

	2011 \$'millions	2010 \$'millions
Payments on account	12.7	14.0
Restricted cash	23.5	36.0
Term deposits	92.2	—
Cash & cash equivalents	176.6	14.5
	305.0	64.5

Payments on account are payments made to Desire for the expected cost to demobilise the rig and related equipment from the basin and drill the wells into which the group has farmed in. Of the \$12.7 million balance, \$10.0 million is earmarked for demobilisation and has been deposited by Desire into escrow accounts managed by Diamond, the rig owner, or AGR, the well manager. Restricted cash is mainly cash held by Diamond or AGR in respect of committed wells on operated acreage.

Share capital and share premium increased by \$395.8 million from \$116.8 million to \$512.6 million. Whilst \$1.0 million related to the exercise of share options, the majority related to the two fundraisings discussed above.

Outlook

The outlook for the group is very good, with \$271.0 million of resources available at 31 May 2011 to complete the drilling and testing of well 14/10-5 and the three further committed wells that will follow it, as well as any additional wells to which the group commits.

With the recent completion of the 3D seismic acquisition, at a total expected cost of \$23.3 million (\$14.2 million of which was incurred during the year), the only capital expenditure for the rest of the year is expected to relate to the ongoing drilling campaign, which is expected to have a cash requirement in the region of \$0.8 million per day.

The time taken to complete the committed wells will depend upon the requirements of each well, but, on a dry hole basis, a pure exploration well is expected to take about four weeks, an appraisal well about five weeks and a tested appraisal well about nine weeks.

The rig contract requires that there are three committed wells in the pipeline and so if Rockhopper wants to drill an additional well beyond the three already committed then it would have to make a commitment to do so by the time that it spuds well 14/10-6.

Activity for the rest of the financial year will focus around the ongoing drilling campaign and researching and considering the financial, regulatory and engineering requirements of a field development.

PETER DIXON-CLARKE
FINANCE DIRECTOR

30 JUNE 2011



GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 \$'000	2010 \$'000
EXPENSES			
Exploration and evaluation expenses	3	(85,735)	(644)
Administrative expenses	4	(7,123)	(3,682)
Charge for share based payments	7	(237)	(920)
Foreign exchange movement	8	4,714	(2,583)
Total expenses		(88,381)	(7,829)
Finance income		1,194	133
Loss before tax		(87,187)	(7,696)
Income tax expense	9	—	—
LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT COMPANY		(87,187)	(7,696)
Loss per share: cents (basic & diluted)	10	(40.58)	(6.65)

All operating income and operating gains and losses relate to continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011

	2011 \$'000	2010 \$'000
Loss for the year	(87,187)	(7,696)
Other comprehensive income for the year	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(87,187)	(7,696)



GROUP BALANCE SHEET
AS AT 31 MARCH 2011

	Notes	31 March 2011 \$'000	31 March 2010 \$'000
ASSETS			
Intangible exploration and evaluation assets	11	92,383	15,912
Property, plant and equipment	12	340	48
Other receivables	13	3,297	170
Payments on account	14	12,662	14,049
Restricted cash	15	23,565	35,955
Term deposits	16	92,177	—
Cash and cash equivalents	17	176,580	14,485
TOTAL ASSETS		401,004	80,619
LIABILITIES			
Other payables	18	12,650	1,071
TOTAL LIABILITIES		12,650	1,071
EQUITY			
Share capital	19	4,297	2,966
Share premium	20	508,299	113,874
Share based remuneration	20	2,168	2,355
Merger reserve	20	(243)	(243)
Foreign currency translation reserve	20	4,123	4,123
Retained losses	20	(130,290)	(43,527)
ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY		388,354	79,548
TOTAL LIABILITIES AND EQUITY		401,004	80,619

These financial statements were approved by the directors and authorised for issue on 30 June 2011 and are signed on their behalf by:

SAMUEL MOODY
CHIEF EXECUTIVE OFFICER

PETER DIXON-CLARKE ACA
FINANCE DIRECTOR

GROUP STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 MARCH 2011

	Share capital \$'000	Share premium \$'000	Share based remuneration \$'000	Merger reserve \$'000	Foreign currency translation reserve \$'000	Retained losses \$'000	Total equity \$'000
Balance at 1 April 2009	1,420	36,210	1,795	(243)	4,123	(36,191)	7,114
Total comprehensive income for the year	—	—	—	—	—	(7,696)	(7,696)
Issue of shares	1,530	81,087	—	—	—	—	82,617
Cost of issue	—	(4,227)	—	—	—	—	(4,227)
Share based payments	—	—	920	—	—	—	920
Exercise of share options	16	804	(360)	—	—	360	820
Total contributions by owners	1,546	77,664	560	—	—	360	80,130
Balance at 31 March 2010	2,966	113,874	2,355	(243)	4,123	(43,527)	79,548
Total comprehensive income for the year	—	—	—	—	—	(87,187)	(87,187)
Issue of shares	1,313	403,445	—	—	—	—	404,758
Cost of issue	—	(9,960)	—	—	—	—	(9,960)
Share based payments	—	—	237	—	—	—	237
Exercise of share options	18	940	(424)	—	—	424	958
Total contributions by owners	1,331	394,425	(187)	—	—	424	395,993
Balance at 31 March 2011	4,297	508,299	2,168	(243)	4,123	(130,290)	388,354



GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

	2011 \$'000	2010 represented* \$'000
CASH OUTFLOWS FROM OPERATING ACTIVITIES		
Net loss after tax	(87,187)	(7,696)
Adjustments to reconcile net losses to cash utilised		
Depreciation	60	30
Share based payment charge	237	920
Exploration expenses	68,125	644
Interest	(696)	—
Foreign exchange	(3,867)	—
Operating cash flows before movements in working capital	(23,328)	(6,102)
Changes in:		
Other receivables	(2,309)	(116)
Payables	7,195	(38)
Cash utilised by operating activities	(18,442)	(6,256)
CASH OUTFLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(140,604)	(14,794)
Purchase of equipment	(352)	(58)
Interest	270	—
Investing cashflows before movements in capital balances	(140,686)	(14,852)
Changes in:		
Payments on account	2,113	(14,049)
Restricted cash	13,654	(35,704)
Term deposits	(92,177)	—
Cash utilised by investing activities	(217,096)	(64,605)
CASH INFLOWS FROM FINANCING ACTIVITIES		
Options exercised	958	820
Issue of share capital	404,758	82,617
Share issue costs	(9,960)	(4,227)
Cash generated from financing activities	395,756	79,210
Currency translation differences relating to cash and cash equivalents	1,877	—
Net cash inflow	160,218	8,349
Cash and cash equivalents brought forward	14,485	6,136
CASH AND CASH EQUIVALENTS CARRIED FORWARD	176,580	14,485

*The cash flow statement has been represented to include the payments on account within investing activities as opposed to operating activities resulting in cash utilised by investing activities increasing from \$50.6 million to \$64.6 million.



NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1 ACCOUNTING POLICIES

1.1 Group and its Operations

Rockhopper Exploration plc ('the company'), a public limited company quoted on AIM incorporated and domiciled in the United Kingdom ('UK'), together with its subsidiaries (collectively, 'the group') holds certain exploration licences granted in 2004 and 2005 for the exploration and exploitation of oil and gas in the North Falkland Basin. The registered office of the company is Hilltop Park, Devizes Road, Salisbury, SP3 4UF.

1.2 Statement of Compliance

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with UK company law. The consolidated financial statements were approved for issue by the board of directors on 30 June 2011 and are subject to approval at the Annual General Meeting of shareholders on 6 September 2011.

1.3 Basis of Preparation

The results upon which these financial statements have been based were prepared using the accounting policies set out below. These policies have been consistently applied unless otherwise stated.

These consolidated financial statements have been prepared under the historical cost convention except, as set out in the accounting policies below, where certain items are included at fair value.

The company has elected to take the exemption offered within IFRS1: First time adoption of International Financial Reporting Standards in relation to business combinations.

Items included in the results of each of the group's entities are measured in the currency of the primary economic environment in which that entity operates (the "functional currency"). All members of the group have a functional currency of US\$ and as such the selection for the consolidated accounts is an obvious choice and the use of US\$ as functional currency is a generally accepted convention in the oil and gas industry.

All values are rounded to the nearest thousand dollars (\$'000) or thousand pounds (£'000), except when otherwise indicated.

1.4 Change in Accounting Policy

Changes in Accounting Standards

In the current year the following significant and new and revised standards and interpretations were effective but did not effect amounts reported in these financial statements but may affect future periods:

- IAS32 Financial Instruments: Presentation (Amendments relating to classification of rights issue).

At the date of authorisation of this report the following standards and interpretations, which have not been applied in this report, were in issue but not yet effective.

- IAS 24 Related Party Disclosure
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 & IAS19 (Amended) The limit on a defined benefit – assets, minimum funding requirements and their interaction
- IFRS 7 (Amended) Financial Instruments: Disclosures
- IFRS 9 Financial instruments.

Management does not believe that the application of these standards, where applicable, will have an impact on the financial statements, except for the requirement of additional disclosures.

1.5 Going Concern

At the time of writing, the Ocean Guardian is in the North Falkland Basin on location at well 14/10-5. Immediately following that well the group has committed to a further three wells and will be required to decide whether to commit to a further well by the time it spuds well 14/10-6, the next in the campaign. At 31 March 2011 the group had available resources of \$305.0 million, which it considers to be adequate to complete the committed programme and continue for the foreseeable future.

The financial statements have been prepared on a going concern basis as the directors are confident that the group will be able to raise funds when required in order to fund development of its assets and to continue in operation for the foreseeable future.



(A) Basis of Accounting

The group has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to the capitalisation of exploration expenditure. The determination of this is fundamental to the financial results and position and requires management to make a complex judgment based on information and data that may change in future periods.

Since these policies involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

The measurement basis that has been applied in preparing the results is historical cost with the exception of financial assets, which are held at fair value.

The significant accounting policies adopted in the preparation of the results are set out below.

(B) Basis of Consolidation

These consolidated results include the accounts of the company and all of its subsidiaries. Subsidiaries are those entities in which the company has the power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control was transferred to the group and are excluded from consolidation from the date of disposal or when control no longer exists over financial and operating policies.

The reversal of an existing trading group into a shell company, such as Rockhopper Exploration plc's acquisition of Rockhopper Resources Ltd, does not fall within the scope of IFRS3 Business Combinations since the acquirer is not a business per the definition used in that Standard. IFRSs contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS8 Accounting Policies, Changes in Accounting Estimates and Errors. The directors may consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United Kingdom Accounting Standards Board (ASB) has issued Financial Reporting Standard 6 'Acquisitions and Mergers' which deals with those business combinations that are not, in substance, the acquisition of one entity by another.

Accordingly the financial statements consolidate the results, cash flows and assets and liabilities of the company and its wholly owned subsidiary using book value accounting on the basis that there has been no business combination and in substance nothing has occurred.

On consolidation the difference between the nominal value of the shares issued with the nominal value of the shares received has been debited to a merger reserve.

All inter-company accounts and transactions have been eliminated on consolidation.

(C) Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker as required by IFRS8 Operating Segments. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

The group's operations are entirely focused on oil and gas exploration activities in the North Falkland Basin with its corporate head office in the UK. Based on risks and returns the directors consider that there is only one business segment that they use to assess the group's performance and allocate resources being oil and gas exploration activities in the North Falkland Basin and therefore the segmental disclosures for the group have already been given in these financial statements.

(D) Oil and Gas Assets

The group applies the successful efforts method of accounting for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS6 – 'Exploration for and evaluation of mineral resources'.

Intangible Exploration and Evaluation Assets

All directly attributable costs are initially capitalised in well, field, prospect, or other specific, cost pools as appropriate, pending determination.

Pre-Licence, Geological and Geophysical Costs

Costs incurred prior to obtaining the legal rights to explore an area, geological and geophysical costs are expensed immediately to the income statement.

Exploration and Evaluation ("E&E") Costs

Costs of E&E such as exploration and appraisal drilling and testing are initially capitalised as E&E assets.



Tangible assets used in E&E activities are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible asset, the amount reflecting the consumption is recorded as part of the cost of the intangible asset.

E&E costs are not amortised prior to the conclusion of the appraisal phase.

Treatment of Intangible E&E Assets at Conclusion of Appraisal Activities

Intangible E&E assets related to each cost pool are carried forward until the existence, or otherwise, of commercial reserves have been determined, subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant E&E assets, are then reclassified as development and production assets within property plant and equipment. However, if commercial reserves have not been found, the capitalised costs are charged to expense.

The group's definition of commercial reserves for such purpose is proved and probable reserves on an entitlement basis. Proved and probable reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty (see below) to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable. The equivalent statistical probabilities for the proven component of proved and probable reserves are 90%.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected hydrocarbon production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Furthermore:

- (i) Reserves may only be considered proved and probable if producibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proved includes: (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both; and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
- (ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successful testing by a pilot project, the operation of an installed programme in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or programme was based.

Development and Production Assets

Development and production assets, classified within property, plant and equipment, are accumulated generally on a field-by-field basis and represent the costs of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets.

Depreciation of Producing Assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the year and the related commercial reserves of the field, taking into account the future development expenditure necessary to bring those reserves into production.

(E) Capital Commitments

Capital commitments include all projects for which specific board approval has been obtained up to the reporting date. Projects still under investigation for which specific board approvals have not yet been obtained are excluded.

(F) Foreign Currency Translation

Functional and Presentation Currency:

Items included in the results of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates, the functional currency. The consolidated financial statements are presented in US\$ as this best reflects the economic environment of the oil exploration sector in which the group operates. The functional currency of all the group's entities is US\$.

Transactions and Balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of



monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The year end rates of exchange actually used were:

	31 March 2011	31 March 2010	31 March 2009	31 March 2008
£ : US\$	1.60	1.51	1.42	2.00

(G) Investment Income

Investment income consists of interest receivable for the period. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

(H) Financial Instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

(i) Other Receivables

Other receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

(ii) Term Deposits

Term deposits are disclosed separately on the face of the balance sheet when their term is greater than three months and they are unbreakable.

(iii) Restricted Cash

Restricted cash is disclosed separately on the face of the balance sheet and denoted as restricted when it is not under the exclusive control of the group.

(iv) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the group including breakable and unbreakable deposits with terms of less than three months and breakable term deposits of greater terms than three months where amounts can be accessed within three months without material loss. They are stated at carrying value which is deemed to be fair value.

(v) Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

(vi) Trade Payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

(vii) Equity Instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

The current tax expense is based on the taxable profits for the period, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before tax and amounts charged or credited to reserves as appropriate.

Deferred taxation is recognised in respect of all taxable temporary differences that have originated but not reversed at the balance sheet date where transaction or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.



(J) Share Based Remuneration

The group has two option schemes that have each granted options over the ordinary shares of the company, being an employee share option scheme (“ESOS”) and a non-employee share option scheme (“NESOS”).

Both schemes were created after 7 November 2002 and the group accounts for their cost until such time as they are fully vested in line with IFRS2: Share based payments. Under the method set out in this standard, the cost of providing for such schemes is based on the fair value of the options at the date of grant. The cost is charged to the income statement over the expected vesting period of the options and credited to a share based payment reserve.

When new shares are issued, the proceeds, net of any transaction costs, are credited to share capital at nominal value and the balance to share premium. The related amount in the share based payment reserve is then credited to retained earnings.

During 2008, the group also created a scheme for share appreciation rights (“SARs”). These are accounted and valued on the same basis as the options. Since the creation of the scheme there have been four separate awards, three to executive directors and one to senior managers.

(K) Equipment

Equipment is initially recorded at cost then depreciation is calculated on the straight line method to write down the cost of the asset to their residual values over their estimated useful lives as follows:

Office equipment	Three years
Leasehold improvements	Five years

(L) Current, Non Current Disclosure

The group does not present its balance sheet on the basis of current and non-current assets and liabilities as presentation broadly in order of liquidity is reliable and more relevant. All balances within receivables and payables are expected to be recovered or settled within twelve months of the balance sheet date.

(M) Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2 USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The group makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most material area relates to the capitalisation of intangible assets and the commitments disclosed in notes 21 and 22.

3 EXPLORATION AND EVALUATION EXPENSES

	2011	2010
	\$'000	\$'000
Allocated from administrative expenses (see note 4 below)	1,249	641
Capitalised exploration costs impaired (see note 11 below)	68,125	—
Seismic acquisition costs	14,156	—
Other exploration and evaluation expenses	2,205	3
	85,735	644

4 ADMINISTRATIVE EXPENSES

	2011	2010
	\$'000	\$'000
Directors’ salaries and fees, including bonuses (see note 5 below)	3,049	2,664
Other employees’ salaries	399	31
National insurance costs	464	332
Pension costs	57	—
Total staff costs	3,969	3,027
Allocated to exploration and evaluation expenses	(1,249)	(641)

Total administrative staff costs	2,720	2,386
Auditor's remuneration (see note 6 below)	355	101
Other professional fees	2,948	385
Travel	362	193
Office rentals	92	35
Depreciation	60	30
Other	586	552
	7,123	3,682

The average number of staff employed during the year was 8 (2010: 7). The increase in other professional fees reflects the increased corporate finance activity, particularly the two share placings. Only the legal costs of the advisers are charged to the share premium account.

5 DIRECTORS' REMUNERATION

	2011 \$'000	2010 \$'000
Executive salaries	895	571
Executive bonuses	1,883	1,950
Company pension contributions to money purchase schemes	57	—
Non-executive fees	271	143
	3,106	2,664

During the year executive directors became entitled to contributions to money purchase pension schemes. No other retirement benefits under either money purchase or defined benefit pension schemes or any other such benefits in kind. The total remuneration of the highest paid director was £704,813 (2010: £673,839) comprised of £234,250 (2010: £153,500) annual salary plus total bonuses of £454,813 (2010: £520,339) and contributions to money purchase pension schemes of £15,750 (2010: £nil). \$1,089,336 (2010: \$1,090,555) at the prevailing rate of exchange.

Remuneration, interest in outstanding share options and interest in outstanding SARs, by director, are separately disclosed in the directors' remuneration report.

6 AUDITOR'S REMUNERATION

	2011 \$'000	2010 \$'000
Current – KPMG Audit Plc		
Fees payable to the company's auditor for the audit of the company's annual financial statements	128	56
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	—	—
Other services pursuant to legislation	26	—
Tax services	26	12
Services relating to corporate finance transactions	175	—
Predecessor – Baker Tilly UK Audit LLP		
Fees payable to the company's auditor and its associates for other services:		
Other services pursuant to legislation	—	10
Tax services	—	23
	355	101

7 SHARE BASED PAYMENTS

The charge for share based payments includes options and share appreciation rights ("SARs") granted to employees of the company under the employee share option scheme ("ESOS"), and options granted to other third parties.

	2011 \$'000	2010 \$'000
Charge for the options granted on 8 August 2005	12	46
Charge for the share appreciation rights granted on 25 November 2008	32	114
Charge for the share appreciation rights granted on 3 July 2009	22	71
Charge for the options granted on 23 October 2009	—	689
Charge for the share appreciation rights granted on 11 January 2011	171	—
	237	920

The values of the charges above have been calculated based on a binomial model and the key assumptions for each of the grants analysed above, are set out below:

Options granted on:	23-Oct-09	8-Aug-05
Exercise/base price	54.00p	42.00p
Number granted	1,851,851	5,650,000
Weighted average volatility	105%	62%
Weighted average risk free rate	2.88%	4.35%
Dividend yield	Nil	Nil
Max underlying price of the shares prior to exercise	200p	200p
Number of employees that will leave prior to exercise	Nil	Nil
Illiquidity discount	0.00%	5.00%
Expiry date	23-Apr-11	20-Apr-15

Weighted average volatility was based on the historical share price movement of the group.

The following movements occurred during the year on options:

Issue date	Expiry date	Exercise price (pence)	At 1 April 2010	Issued	Exercised	At 31 March 2011
11 April 2005	10 April 2015	10.00	425,000	—	—	425,000
10 May 2005	9 May 2015	10.00	32,671	—	14,851	17,820
8 August 2005	7 August 2015	42.00	4,450,000	—	200,000	4,250,000
23 October 2009	22 October 2012	54.00	1,000,000	—	1,000,000	—
			5,907,671	—	1,214,851	4,692,820

The weighted average price of the options exercised was 51 pence.

The 10p options granted on 11 April 2005 have all vested and have all been exercised other than 425,000 held by S J Moody.

The 10p options granted on 10 May 2005 were awarded to certain employees of businesses in the Falkland Islands owned by R F Visick, a former director.

The 42p options granted at the admission price of 42p were granted immediately prior to the admission to AIM and are exercisable in three equal tranches as follows:

- Tranche 1** on or after the first anniversary of admission
- Tranche 2** on or after the second anniversary of admission, following the company declaring that it has made a commercial discovery or all three wells which are the subject of the Desire Farm-In Agreement having been drilled within 110% of approved financial expenditure
- Tranche 3** on or after the third anniversary of admission, following an increase of at least 50% in the Company's share price since admission.

These options will expire on 7 August 2015. Tranches 1 and 3 have both vested but tranche 2 is outstanding. Tranche 3 is considered to be a market based condition and therefore the vesting conditions are taken into account when estimating the fair value of the options.

The 54p options granted on 23 October 2009 were awarded to one of the group's advisers, who is not an employee. The services provided related to the fund raising of October 2009 and as the nature of the services received did not have a readily available value. They were valued on the same basis as the options granted to employees.

Share appreciation rights

Date granted on:	11-Jan-11	3-Jul-09	25-Nov-08
Exercise/base price	372.75p	30.87p	19.25p
Number granted	234,069	532,686	1,833,765
Weighted average volatility	120%	120%	95%
Weighted average risk free rate	2.44%	2.88%	3.36%
Dividend yield	Nil	Nil	Nil
Max underlying price of the shares prior to exercise	200p	200p	200p

Number of employees that will leave prior to exercise	Nil	Nil	Nil
Illiquidity discount	0.00%	0.00%	0.00%
Expiry date	31-Dec-11	31-Dec-13	31-Dec-13

Weighted average volatility was calculated based on the historical share price movement of the group.

Of the shares granted on 11 January 2011, 194,499 related to executive directors and 39,570 related to senior managers. The performance conditions differ between executive directors and senior managers and are set out below for executive directors.

The following movements occurred during the year on SARs:

Issue date	Expiry date	Exercise price (pence)	At 1 April 2010	Issued	Exercised	At 31 March 2011
22 November 2008	31 December 2013	19.25	1,833,765	—	—	1,833,765
3 July 2009	31 December 2013	30.87	532,686	—	—	532,686
11 January 2011	31 December 2011	372.75	—	234,069	—	234,069
			2,366,451	234,069	—	2,600,520

On 20 November 2008 the remuneration committee agreed to amend the ESOS to enable the board of the company to grant SARs to executive directors and employees of the company. This was done because SARs help reduce the number of ordinary shares issued, thus limiting the dilutive effect of the ESOS on the company's issued share capital. Under the rules of the ESOS the number of ordinary shares which may be allocated by the company (excluding options over ordinary shares granted prior to the admission of the company's ordinary shares to trading on AIM) will continue to be limited to a maximum of 10% of the issued ordinary share capital of the company in any 10 year period.

A SAR is effectively a share option that is structured from the outset to deliver, on exercise, only the net gain in the form of new ordinary shares that would have been made on the exercise of a market value share option.

No consideration is payable on the grant of a SAR. On exercise, an option price of 1 pence per ordinary share, being the nominal value of the company's ordinary shares, is paid and the relevant awardee will be issued with ordinary shares with a market value at the date of exercise equivalent to the notional gain that the awardee would have made, being the amount by which the aggregate market value of the number of ordinary shares in respect of which the SAR is exercised, exceeds a notional exercise price, equal to the market value of the shares at the time of grant (the "base price").

Accordingly, if the price of an ordinary share at the date of exercise is 50% higher than the base price, then the number of ordinary shares issued upon exercise of a SAR award of 1% of the current issued share capital of the company would equate to only 0.33% of the current issued share capital of the company.

Likewise, a doubling of the ordinary share price from the base price would result in the issue of ordinary shares equal to 0.5% of the current issued share capital.

The base prices of the SARs granted on 25 November 2008 and 3 July 2009 were 19.25 and 30.87 pence per ordinary share respectively, being the middle market quotations of an ordinary share on the dealing days immediately preceding the dates of grant.

The company's remuneration committee made this award of SARs subject to performance conditions based on the group:

- Tranche 1** raising funds to drill its outstanding commitment wells,
- Tranche 2** negotiating and entering into drilling contract(s) and
- Tranche 3** ensuring that the drilling campaign is completed in accordance with acceptable health and safety standards.

None of the above conditions are considered to be market based conditions and so the vesting conditions are not taken into account when estimating the fair value of the shares.

Had any or all of the performance conditions not been met by 31 December 2013, the unvested portion of the SARs would have lapsed at that time.

However, all three tranches of the SARs are considered to have vested during the year as follows:

- On 12 November 2009 the company announced that it had received shareholder approval for the £50 million fund raising announced on 26 October 2009, thereby satisfying the condition of the first tranche of the SARs.

- On 15 January 2010 the company signed an assignment agreement with Desire Petroleum plc and Diamond Offshore Drilling (UK) Limited. The agreement entitles the company to drill two wells and carry out ancillary operations, such as a flow test, and thereby satisfying the condition of the second tranche of the SARs.
- On 25 September 2010 the company considered the operated element of the initial campaign to have concluded in accordance with acceptable health and safety standards, thereby satisfying the third tranche of the SARs.

The base price of the SARs granted on 11 January 2011 was 372.75 pence per ordinary share, being the official closing price of an ordinary share on the dealing day immediately preceding the date of the grant.

The company's remuneration committee has made this award subject to certain performance conditions as follows:

- Tranche 1** upon satisfactory progress being made towards a declaration of commerciality,
Tranche 2 upon satisfaction that all operations have been completed in accordance with health and safety standards and that there has been no materially adverse environmental impact caused by operations.

Any of the unvested SARs granted on 11 January 2011 will lapse if the performance conditions are not achieved by 31 December 2011.

8 FOREIGN EXCHANGE MOVEMENT

	2011 \$'000	2010 \$'000
Realised gains	5,748	609
Unrealised losses	(1,034)	(3,192)
	4,714	(2,583)

9 TAXATION

	2011 \$'000	2010 \$'000
Total tax:		
Corporation tax on losses for the year	—	—
Tax on loss on ordinary activities	—	—
Loss on ordinary activities before tax	(87,187)	(7,696)
Loss on ordinary activities multiplied by the rate of corporation tax of 28% (2010: 28%)	(24,412)	(2,155)
Effects of:		
Expenses not deductible	19,527	16
Depreciation in excess of capital allowances	(28)	172
Utilisation of losses	(1,273)	—
IFRS2 Share based remuneration cost	66	257
Pre trading expenditure carried forward	4,933	18
Losses carried forward	1,354	1,692
Other	(167)	—
Total tax charge for the year	—	—

The total carried forward losses and carried forward pre trading capital expenditures available for relief on commencement of trade at 31 March 2011 is \$222.5 million (2010: \$57.1 million).

No deferred tax asset has been recognised in respect of temporary differences arising on losses carried forward, outstanding share options or depreciation in excess of capital allowances due to the uncertainty in the timing of profits and hence future utilisation. Had an asset been recognised then it would have been based on the losses above at 26% for the current year and 28% for the prior year. This would give undiscounted values of \$57.8 million for the current year and \$16.0 million for the prior year.

It has been announced that the UK tax rate will drop a further 1% per annum over the next three years reaching 23% effective from 1 April 2014. The impact of these subsequent corporation tax rate reductions will only be reflected as the relevant legislation is substantively enacted.

10 BASIC AND DILUTED LOSS PER SHARE

	2011 Number	2010 Number
Shares in issue brought forward	174,104,755	80,514,520
Shares issued during the period		
– Issued during the prior year	—	93,590,235
– Issued on 19 May 2010	690,000	—
– Issued on 24 May 2010	210,000	—
– Issued on 27 May 2010	200,000	—
– Issued on 11 June 2010	17,320,000	—
– Issued on 12 July 2010	14,851	—
– Issued on 8 November 2010	65,500,000	—
– Issued on 23 March 2011	100,000	—
Shares in issue carried forward	258,139,606	174,104,755
Weighted average shares in issue	214,858,552	115,680,444

	2011 \$'000	2010 \$'000
Net (loss) after tax	(87,187)	(7,696)
Basic and diluted net (loss) per share – cents	(40.58)	(6.65)

The calculation of the basic loss per share is based upon the loss for the year and the weighted average shares in issue. As the group is reporting a loss for both years then in accordance with IAS33 the share options are not considered dilutive because the exercise of the share options would have the effect of reducing the loss per share.

11 INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Licences PL023 PL024	Licences PL032 PL033	Licences PL003 PL004	31 March 2011 \$'000	31 March 2010 \$'000
Costs brought forward	4,396	4,708	6,808	15,912	1,762
Additions	21,047	115,273	8,276	144,596	14,150
	25,443	119,981	15,084	160,508	15,912
Impairments brought forward	—	—	—	—	—
Impairments arising in the period	(25,443)	(27,598)	(15,084)	(68,125)	—
	(25,443)	(27,598)	(15,084)	(68,125)	—
Net book value brought forward	4,396	4,708	6,808	15,912	1,762
Net book value carried forward	—	92,383	—	92,383	15,912

Licences PL023 & PL024

These licences represent the southern acreage that the group holds within the North Falkland Basin. The group holds these licences 100% and is the operator. During the year under review the group capitalised the following expenditure:

- \$21.0 million in respect of exploration well 26/6-1, which was drilled on the Ernest prospect and declared a dry hole on 25 August 2010 and plugged and abandoned. As no firm plans have been announced to return to the prospect it is not considered to be pending determination and so the well is considered to be impaired and has been expensed to the income statement.

Licences PL032 & PL033

These licences represent the northern acreage that the group holds within the North Falkland Basin. The group holds these licences 100% and is the operator. During the year under review the group capitalised the following expenditure:

- \$21.7 million in respect of exploration well 14/10-2, which was drilled on the Sea Lion prospect, declared a discovery on 6 May 2010 and suspended to allow for a flow test at a later date. As the well is on the Sea Lion field, which is pending determination as to its commerciality, the cost of this well is carried as an intangible asset.
- \$22.0 million in respect of the flow test of exploration well 14/10-2, which was then plugged and abandoned. As the tested well is on the Sea Lion field, which is pending determination as to its commerciality, the cost of this test is carried as an intangible asset.

- \$27.0 million in respect of exploration well 14/10-3, which was drilled on the Sea Lion prospect and declared to be un-commercial, on a standalone basis, on 11 February 2011. As the well is not on the Sea Lion field, the cost of this is considered to be impaired and so has been expensed to the income statement.
- \$29.1 million in respect of appraisal well 14/10-4, which was drilled on the Sea Lion prospect and declared to be a successful appraisal on 21 March 2011. As the well is on the Sea Lion field, which is pending determination as to its commerciality, the cost of this well is carried as an intangible asset.
- \$15.5 million of other costs, incurred as part of the ongoing campaign, that will be allocated to the specific wells at the end of the campaign.

Licences PL003 & PL004

These licences represent the farm in acreage that the group holds within the North Falkland Basin. The group has a 7.5% working interest in these licences and is not the operator. During the year under review the group capitalised the following expenditure:

- \$5.1 million in respect of exploration well 14/15-1, which was drilled on the Rachel prospect and then sidetracked as 14/15-1Z. On 2 November 2010 Desire declared that it was not possible to log the sidetrack and that the well would be plugged and abandoned. As Desire have not announced any firm plans to return to the prospect it is not considered to be pending determination the well is considered to be impaired and so has been expensed to the income statement.
- \$2.5 million in respect of exploration well 14/15-2, which was drilled on the Rachel North prospect and declared on 6 December 2010 to contain water, then plugged and abandoned. As Desire have not announced any firm plans to return to the prospect it is not considered to be pending determination and so the well is considered to be impaired and has been expensed to the income statement.
- \$0.7 million in respect of exploration well 14/15-3, which was drilled on the Ninky prospect and declared on 18 April 2011 to have generally poor reservoir quality, then plugged and abandoned. As Desire have not announced any firm plans to return to the prospect it is not considered to be pending determination and so the well is considered to be impaired and has been expensed to the income statement.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Office equipment \$'000	2011 \$'000	2010 \$'000
Cost at 1 April	15	107	122	64
Additions	184	168	352	58
Cost at 31 March	199	275	474	122
Accumulated depreciation at 1 April	(5)	(69)	(74)	(44)
Current year depreciation charge	(23)	(37)	(60)	(30)
Depreciation at 31 March	(28)	(106)	(134)	(74)
Net book value at 1 April	10	38	48	20
Net book value at 31 March	171	169	340	48

13 OTHER RECEIVABLES

	2011 \$'000	2010 \$'000
Receivables	405	—
Prepayments	15	35
Accrued interest	426	—
Other	2,451	135
	3,297	170

The carrying value of receivables approximates to fair value. Receivables relates to the recharges for seats taken on charter flights by other parties working within the Falkland Islands territorial waters. The full amount has been received since the year end.

The accrued interest relates to unexpired fixed term deposits held at the year end. Other relates to VAT, the significant increase being due to the increased activity at the end of this year in comparison to 2010. The full amount has been received since the year end.

14 PAYMENTS ON ACCOUNT

	2011 \$'000	2010 \$'000
Non-refundable funds held by third parties relating to:		
– operated activities	—	500
– non-operated activities	12,662	13,549
	12,662	14,049

The amounts above relate to payments made in respect of the drilling campaign. The balance relates to monies paid to Desire in respect of farm in costs and the demobilisation of the rig and equipment. Of the \$12.7 million balance, \$10.0 million (2010: \$9.7 million) is held within escrow accounts managed by either Diamond or AGR. The remainder is held by Desire within a Rockhopper designated account.

15 RESTRICTED CASH

	2011 \$'000	2010 \$'000
In respect of operated wells		
– held in escrow by Diamond	23,192	13,720
– held in escrow by AGR	75	21,969
Charged accounts	298	266
	23,565	35,955

Pursuant to certain contracts for the drilling campaign, the group holds money in escrow accounts managed by Diamond or AGR, which are treated as restricted cash as they are not under the exclusive control of the group.

The charged accounts relate to a collateral account at RBS plc, to support the credit risk to the bank stemming from any forward currency purchases by the group, and the rent deposit for the offices leased by the group. Both amounts are GB£ denominated.

16 TERM DEPOSITS

	2011 \$'000	2010 \$'000
100 day notice	60,115	—
Six month fixed	32,062	—
	92,177	—

Term deposits relate to monies held in a 100 day notice account with Barclays plc as well as a six month fixed term unbreakable deposit with RBS plc.

17 CASH AND CASH EQUIVALENTS

	2011 \$'000	2010 \$'000
Current accounts	61,422	3,832
Deposit accounts	18,096	10,653
Breakable fixed term deposits	97,062	—
	176,580	14,485

The deposit accounts are same day access.

Breakable fixed term deposits relate to six month term deposits. They have been classified as cash and cash equivalents as funds can be accessed immediately without any material loss to the group.

18 OTHER PAYABLES AND ACCRUALS

	2011 \$'000	2010 \$'000
Accounts payable	4,583	935



Other payable	101	—
Exploration and evaluation accruals	7,221	—
Administrative accruals	745	136
	12,650	1,071

All amounts are expected to be settled within twelve months of the balance sheet date and so the book values and fair values are considered to be the same. Accrued expenses include \$4.4 million in respect of drilling costs and \$2.8 million in respect of 3D seismic acquisition. For the comparative year there was no equivalent drilling accrual as all of this activity had been prepaid as it related to non-operated activities within the Joint Operating Agreement.

19 SHARE CAPITAL

	2011		2010	
	\$'000	Number	\$'000	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	4,297	258,139,606	2,966	174,104,755

For details of all movements during the year, see note 10.

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. As a result, the company's articles of association were amended at the AGM on 12 November 2009 to remove all reference to an authorised share capital. The directors of the company continue to be limited as to the number of shares they can allot at any time because the allotment authority continues to be required under the Companies Act 2006.

20 RESERVES

Set out below is a description of each of the reserves of the group:

Share premium	Amount subscribed for share capital in excess of its nominal value.
Other reserves:	
– Share based remuneration	The share incentive plan reserve captures the equity related element of the expenses recognised for the issue of options, comprising the cumulative charge to the income statement for IFRS2 charges for share based payments less amounts released to retained earnings upon the exercise of options.
– Merger reserve	The difference between the nominal value of shares issued with the nominal value of the shares received on the reversal of Rockhopper Resources Limited into Rockhopper Exploration Plc on 23 February 2005, during the year ended 31 March 2005.
Foreign currency translation reserve	Exchange differences arising on consolidating the assets and liabilities of the group's subsidiaries (including comparatives) are classified as equity and transferred to the group's translation reserve.
Retained losses	Cumulative net gains and losses recognised in the financial statements.

21 OPERATED LICENCE DETAILS

	PL023 PL024	PL032 PL033
% holding	100%	100%
Awarded	18 November 2004	1 May 2005
Area covered	2,100km ²	1,680km ²
Currently in phase	2	1
Conclusion of current phase	18 November 2012	1 May 2013
Conclusion of subsequent phase	—	1 May 2018
Annual rent	\$40,000	\$30,000
Annual rent per discovery area	\$375,000	\$375,000
Annual rent per production field	\$375,000	\$375,000
Work commitment for the current phase:		
– seismic	640km ² of 2D	685km ² of 3D
– exploration well(s)	1	1



All commitments have been fulfilled for the current phases. Phase 2, which is expected to begin on 1 May 2013, of PL032 & PL033 requires an exploration well to be drilled on a prospect that differs from the one drilled in phase 1. There is no phase 3.

The group gave formal notice to enter phase 2 of licences PL023 & PL024 on 30 July 2007 and confirmed that it intended to drill a well during that phase. As part of the conditions of moving to phase 2 the group relinquished 50% of its acreage held under licences PL023 and PL024.

Under the initial terms of the licences for PL032 and PL033, phase 1 was due to expire after five years. However, on 4 February 2009 the Department for Mineral Resources of the Falkland Islands Government confirmed that for all open-door production licences, in recognition of a commitment to drill an exploration well on the licence that it would extend phase 1, being the current phase, from five years to eight years. The expiry date of phase 1 will therefore be 1 May 2013, at which time the group will be expected to relinquish 50% of its acreage. As the group has completed its remaining commitments in phase 1, phase 2 will be extended from three to five years so that it expires on 1 May 2018.

At any time during the term of the licences, but prior to any appraisal or development work, the group may declare a discovery area, covering the limits of the potentially developable field or fields. The licence will then continue in force in respect of any declared discovery area for up to five years, so long as a field development plan is submitted within three years of the spudding date of the discovery well, being 15 April 2010 in the case of well 14/10-2 on the Sea Lion field. This was done on 22 December 2010 and the resultant annual fee of \$375,000 was paid on 24 December 2010 and will fall due on 15 April of each year thereafter. The group also holds a 7.5% working interest in licences PL003 and PL004. On 1 May 2006 the licences moved into their second phase, which is due to conclude on 1 May 2013. All commitments under the current phase have been fulfilled.

The exploitation phase is for thirty-five years, or longer if needed to complete production. Approval of a field development plan will expire if production has not been commenced within five years of approval being granted, and the licensee's interests in the discovery area will be forfeited.

22 CAPITAL COMMITMENTS

Operating commitments in force at the year end were as follows:

	2011	2010
	\$'000	\$'000
In respect of:		
– Assigned rig slots	30,637	15,500
– Well management services	—	500
– 3D seismic acquisition	1,265	—
– Other demobilisation	2,099	—
	34,001	16,000

Under the terms of the rig assignment the group is required to pay the total expected rig rental for each of the options exercised at the point of exercise. At 31 March 2011, that represented a commitment of \$23.9 million for three drilling slots. The balance of \$6.7 million is for the commitment to demobilise the rig and related equipment at the end of the campaign. For a 100% share, the demobilisation of the rig is set at a maximum of \$8.0 million and a minimum of \$4.0 million and the expected demobilisation cost of the related equipment, based on information provided by Desire, is currently expected to be £7.5 million.

With three participants currently in the campaign, being Rockhopper, Desire and BHP, the group is liable for one third of the demobilisation costs discussed above. Should another company enter the campaign, as an assignee of the current rig contract held by Desire, then the group's share of both the mobilisation and demobilisation costs would be expected to reduce. Should a new contract be negotiated with the rig owners, to which the group is not a party, then the group's liability would reduce further still and would probably be limited solely to its share of the \$4.0 million minimum rig demobilisation cost discussed above. As a result of the uncertainty surrounding the probability of the outflow of the demobilisation costs, a provision has not been recognised in the balance sheet and so the amounts, based on a one third share, have been disclosed as a commitment.

Under the terms of the renewed contract with AGR dated 3 February 2011, the group has secured their services for five firm and five optional wells. Unlike the original contract, there is no fee due should the group terminate without cause.

Both contracts signed with Polarcus, for the seismic vessels the Nadia and the Asima, contain provision for a termination fee that would fall due should the group terminate the 3D seismic acquisition without cause prior to having completed a pre-agreed minimum work programme. At 31 March 2011, the group's share of the minimum work programme outstanding was \$0.5 million, the balance relates to the group's share of the demobilisation costs of the two vessels.

The other demobilisation commitments relate to the demobilisation costs of the flow test equipment mobilised to the area following the oil discovery. The initial equipment was mobilised by Desire, with Rockhopper and Desire sharing the costs and that is what was used to test well



14/10-2. Further equipment was mobilised to test 14/10-5 and those amounts have been funded 100% by the group but it would look to recover a share of these costs if another operator wished to make use of the flow test equipment. Accordingly, these costs have been recognised as a commitment, and not a provision within the balance sheet, due to the uncertainty surrounding the probability of the outflow.

23 LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings were as follows:

	2011 \$'000	2010 \$'000
Total committed within 1 year	103	16
Total committed between 1 and 5 years	122	14
	225	30

24 POST BALANCE SHEET EVENTS

Results of Well 14/10-5 Announced on 1 June 2011

On 3 May 2011 the group announced that on 1 May 2011 it had spudded well 14/10-5 just to the north of 14/10-2, the discovery well. On 1 June 2011 the group subsequently announced that it had logged the well and recorded 94 metres of net pay in good reservoir with average porosity greater than 20% and average permeability of 100-200 millidarcies with a flow test to follow.

Results of Flow Test of Well 14/10-5 Announced on 27 June 2011

On 27 June 2011 the group announced that it had successfully flowed well 14/10-5 at a sustained rate of 5,508 barrels per day through a 48/64 inch choke and at a maximum rate of 9,036 barrels per day through a fixed 1 inch choke. Both rates were considered by the board of Rockhopper as being commercially viable.

25 RISK MANAGEMENT POLICIES

Risk Review

The risks and uncertainties facing the group are set out in the risk management report. Risks which require further quantification are set out below.

Foreign exchange risks: Foreign exchange movements on monetary assets and liabilities are taken to the income statement and the potential exposure to such is set out in the table below:

At 31 March 2011, if the GB£ had weakened, relative to the year end rate of 1.60, 10% against the US\$, with all the other variables held constant, post tax profit and equity would have been US\$16.7 million (2010: US\$3.3 million) lower. Conversely, if the GB£ had strengthened 10% against the US\$ with all other variables held constant, post tax profit and equity would have been US\$16.7 million higher (2010 US\$3.3 million).

As at 31 March 2011	US\$ denominated \$'000	GB£ denominated \$'000	Total \$'000
Non-monetary assets	92,723	—	92,723
Monetary assets	133,284	174,997	308,281
	226,007	174,977	401,004
Monetary liabilities	4,521	8,129	12,650
Equity	512,596	—	512,596
Reserves	(124,242)	—	(124,242)
	392,875	8,129	401,004
As at 31 March 2010	US\$ denominated \$'000	GB£ denominated \$'000	Total \$'000

Non-monetary assets	15,960	—	15,960
Monetary assets	31,660	32,999	64,659
	47,620	32,999	80,619
Monetary liabilities	935	136	1,071
Equity	116,840	—	116,840
Reserves	(37,292)	—	(37,292)
	80,483	136	80,619

Capital risk management; the group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The capital structure consists of cash and cash equivalents and equity. The group is not subject to any externally imposed capital requirements other than the requirement of the Falkland Islands Government that it hold free cash of \$5.0 million to suspend an existing well and \$12.0 million above the expected drilling requirements to spud a new well. The board regularly monitors the future capital requirements of the group, particularly in respect of its ongoing exploration and appraisal programme.

Credit risk; the group makes certain payments on account or deposits into escrow accounts in respect of the drilling campaign. Should the company holding these accounts become insolvent then the liquidator of that company may try to delay the release of these funds. Amounts held at the year end were as follows:

	2011 \$'000	2010 \$'000
Desire Petroleum	12,662	14,049
AGR Petroleum Services	75	21,969
Diamond Offshore	23,192	13,720
	35,929	49,738

Interest rate risks; if the group had received an additional 25 basis points on its interest bearing assets during the year, this would have generated additional finance income of \$0.6 million. There are a number of instruments available to protect against falling interest rates reducing the investment income enjoyed by the group but, with rates now at historic lows there is not much further that they could fall. A decrease of 25 basis points in this variable has not been considered appropriate due to these current historic lows. The group is not dependent on its finance income and given the current interest rates the risk is not considered to be significant.

Liquidity risks; the group is required to place the anticipated cost of the drilling into restricted cash accounts prior to the related drilling. The group also makes limited use of term deposits where the amounts placed on deposit cannot be accessed prior to their maturity date. The amounts applicable at the year end were \$92.2 million and are disclosed in the counter-party risk table below.

Counter-party risk; rather than keep all its funds with one bank, the group splits its funds across a number of banks, two of which are part owned by the British government.

	2011 \$'000	2010 \$'000
RBS plc	373	22,235
JPMorgan Chase N.A.	23,192	13,720
Total restricted cash	23,565	35,955
RBS plc	32,062	—
Barclays plc	60,115	—
Total term deposits	92,177	—
RBS plc	160,180	10,691
Barclays plc	246	—
Lloyds TSB plc	16,154	3,719
HSBC plc	—	75
Total unrestricted cash	176,580	14,485
Total cash	292,322	50,440



NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 11am on 6 September 2011 at Gibson Hall, 13 Bishopsgate, London, EC2N 3BA. Shareholders wishing to attend should note that registration will commence at 10am.

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