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ANNUAL REPORT 2011
ROCKHOPPER EXPLORATION PLC



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ANNUAL REPORT 2011

EXPLORE, APPRAISE, DEVELOP.

'ROCKHOPPER' (RKH) IS THE FIRST
COMPANY TO MAKE AN OIL DISCOVERY
IN THE FALKLAND ISLANDS.

OUR STRATEGY IS TO EXPLORE,
APPRAISE AND DEVELOP OUR CURRENT
ACREAGE IN THE NORTH FALKLAND BASIN
BOTH SAFELY AND RESPONSIBLY.

www.rockhopperexploration.co.uk
AIM: RKH

DIRECTORS' REPORT
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KEY EVENTS OPERATIONAL AND FINANCIAL

DURING THE YEAR:

- 14/10-2 DECLARED A DISCOVERY
- \$71 MILLION RAISED IN JUNE 2010
- 26/6-1 DECLARED A DRY HOLE
- 14/10-2 SUCCESSFULLY FLOW TESTED
- \$334 MILLION RAISED IN NOVEMBER 2010
- 3D SEISMIC ACQUISITION PROGRAMME COMMENCED
- 14/10-3 DECLARED NON-COMMERCIAL
- 14/10-4 SUCCESSFULLY APPRAISED
- \$305 MILLION RESOURCES AVAILABLE AT 31 MARCH 2011

POST YEAR:

- 14/10-5 SUCCESSFULLY APPRAISED
- 3D SEISMIC ACQUISITION PROGRAMME COMPLETED
- 14/10-5 SUCCESSFULLY FLOW TESTED
- \$271 MILLION RESOURCES AVAILABLE AT 31 MAY 2011

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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



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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

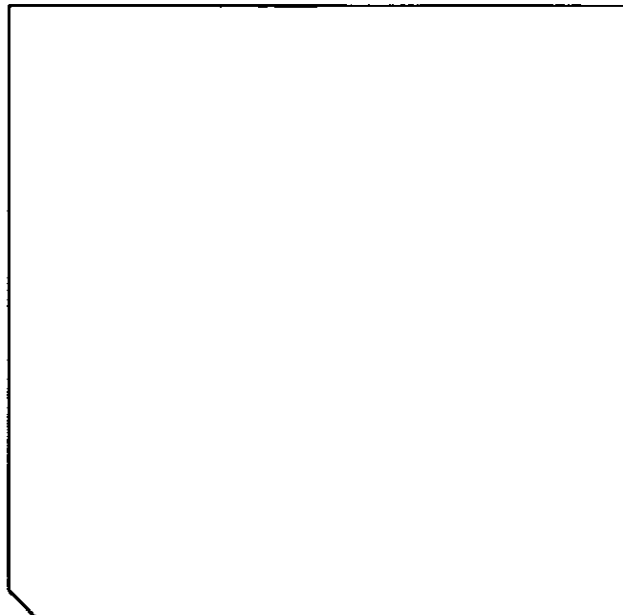
required to handle the wax content of the oil but nonetheless flowed for eighteen hours under natural flow conditions at rates of approximately 2,000 barrels per day. Following completion of the test the well was plugged and abandoned.

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. 30 metres 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 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 kilometres 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.

WELL 14/10-5 WAS HIGHLY SUCCESSFUL,
PROVING 94 METRES OF NET PAY, ALL OF
WHICH WAS GOOD QUALITY RESERVOIR WITH
AVERAGE POROSITY OF MORE THAN 20%.

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



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.

BUSINESS REVIEW OPERATING AND FINANCIAL

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 71/2 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

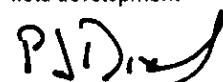
The outlook for the group is very good, with \$271.0 million of resources available at 31 May 2011 to complete the drilling and testing of well 14/10-5 and the three further committed wells that will follow it, as well as any additional wells to which the group commits.

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

THE OUTLOOK FOR THE GROUP IS VERY GOOD, WITH \$271.0 MILLION OF RESOURCES AVAILABLE AT 31 MAY 2011

OFFSHORE EXPLORATION AREAS FALKLAND ISLANDS

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DRILLING SUMMARY OF CURRENT CAMPAIGN NORTH FALKLAND BASIN

Drilling History

Prospect/Field	Operator	Well	Results date	Type	RKH working interest	Net oil pay
Liz	DES	14/19-1	April 2010	Exploration	7.5%	–
Sea Lion	RKH	14/10-2	May 2010	Exploration	100%	53m*
Ernest	RKH	26/6-1	Aug 2010	Exploration	100%	–
Flow test	RKH	14/10-2	Sep 2010	Flow test	100%	c 2,000stb/d
Rachel	DES	14/15-1	Oct 2010	Exploration	7.5%	–
Rachel (sidetrack)	DES	14/15-1Z	Nov 2010	Exploration	7.5%	–
Rachel (North)	DES	14/15-2	Dec 2010	Exploration	7.5%	–
Dawn	DES	25/5-1	Jan 2011	Exploration	–	–
Sea Lion	RKH	14/10-3	Feb 2011	Exploration	100%	7m
Sea Lion	RKH	14/10-4	Mar 2011	Appraisal	100%	33m*
Sea Lion	RKH	14/10-5	June 2011	Appraisal	100%	94m*
Sea Lion	RKH	14/10-5	June 2011	Flow test	100%	c 5,500stb/d

* Incorporating lower fan

Sea Lion well results

Well	Gross reservoir thickness	Net to gross	Number of main sands	Net to gross in pay zone	Ave Sw in pay zone	Oil column (tvdss)	Net oil pay	Porosity
14/10-2	67m	80%	7	83%	30%	2,374-2,581m	53m*	18-29%
14/10-3	110m	85%	4	91%	63%	2,473-2,481m	7m	18-25%
14/10-4	107m	75%	4	88%	29%	2,439-2,477m	33m*	15-27%
14/10-5	110m	89%	4	91%	23%	2,351-2,534m	94m*	20-27%

* Incorporating lower fan

BOARD OF DIRECTORS

1 DR PIERRE JUNGELS CBE 67 **CHAIRMAN**

Dr Jungels a certified engineer with a PhD from CALTECH was CEO of Enterprise Oil Plc from 1996 to 2001 and prior to that was MD of Exploration and Production for BG Plc in 1995 and worked for 22 years with Petrofina SA including eight years on the main board. He currently holds non-executive directorships at Woodside Petroleum Ltd, Baker Hughes Inc, is the Senior Independent Director of Imperial Tobacco PLC and is chairman of AIM traded Oxford Catalysts. He was twice President of the Institute of Petroleum from 1987 to 1989 and 2002 to 2003.

2 SAMUEL MOODY 41 **CHIEF EXECUTIVE OFFICER**

Sam is a co-founder of Rockhopper and has been responsible for building and managing the group from its formation in early 2004. He previously worked in several roles within the financial sector, including positions at AXA Equity & Law Investment Management and St Paul's Investment Management.

3 PETER DIXON-CLARKE ACA 45 **FINANCE DIRECTOR**

Peter qualified at Deloitte in the financial services group. He left to work at Amlin Plc, an insurer at Lloyd's of London, to run the financial affairs of the group's biggest division. He joined Rockhopper in late 2004 as its part time finance director. In 2006 he became finance director of Goshawk Plc for its refinancing and subsequent sale. In 2008 he became the first chief financial officer of Help for Heroes until early 2010. He has been full time at Rockhopper since 18 May 2010.

4 DAVID BODECOTT 58 **EXPLORATION DIRECTOR**

Dave has been a petroleum geologist since 1974, initially with Arco and Gulf Oil in the UK and Europe, West Africa, the Far East and North America. He was an independent consultant in petroleum geology and seismic interpretation from 1981 until 2007 and worked on all aspects of the North Falkland Basin for several exploration companies between 1996 and 2007 prior to joining Rockhopper full-time.

5 JOHN CROWLE 57 **NON-EXECUTIVE DIRECTOR**

John, a trained geologist, has international exploration and production experience from roles at BP, LASMO, Enterprise Oil and Shell. His time at BP included involvement in its work in the UK, Norway, Egypt and the Mediterranean area. At Enterprise Oil he was a key player in the company's entry to Italy, France and Denmark and for three years he was general manager of Enterprise Oil's Norwegian subsidiary.

6 CHRIS WALTON 54 **NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR**

Chris was Finance Director at Easyjet Plc from 1999-2005 where he successfully directed its IPO in 2000. Prior to that he held senior posts at Qantas Airways, Air New Zealand, Australian Post and Australian Airlines. Early in his career, he also had roles in BP Australia, RTZ Hamersley Iron, the Australian Senate and the West Australian Government. He was a member of the Bank of England's Regional Economic Advisory Panel (SE England & Anglia) from 2002 to 2005. Chris is the non-executive Chairman of Goldenport Holdings Inc, Chairman of Lothian Buses Plc and a non-executive audit and risk committee member of the UK Department for Culture, Media and Sport.

7 DAVID McMANUS 58

NON-EXECUTIVE DIRECTOR
David is a petroleum engineer with a degree from Heriott Watt University with 35 years experience in the Oil and Gas industry with Shell, Ultramar, ARCO and BG group. He has extensive project management and commercial expertise at high level, and is currently a Director of Cape plc and Caza Oil & Gas Inc.

8 ROBERT PETERS 63

NON-EXECUTIVE DIRECTOR
Bob is a solicitor and graduate from Durham University, with a long career in industry and legal practice. He joined Imperial Chemical Industries Plc group legal department in 1976 and became Deputy Group General Counsel in 1993 until 2000 when he joined Mayer Brown as Corporate Partner. Whilst at Imperial Chemical Industries he was involved in the company's E & P subsidiary in the 1980s.

STATUTORY INFORMATION FOR THE YEAR ENDED 31 MARCH 2011

PRINCIPAL ACTIVITY

The principal activity of the group is the exploration and exploitation of oil and gas exploration licences on its acreage in the North Falkland Basin

Group strategy is to explore, appraise and develop its acreage in the North Falkland Basin both safely and responsibly
Value is created as the group proceeds through the key stages to final investment decision and onwards to production

RESULTS AND DIVIDENDS

The trading results for the year, and the group's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend for the year (2010: £nil)

KEY PERFORMANCE INDICATORS - KPIs

As the group does not yet have production it considers that the standard industry key performance indicators do not apply. Instead, its focus for the year has been on funding and delivering the drilling and 3D seismic campaigns required to explore its acreage and appraise the field on Sea Lion.

SUBSTANTIAL SHAREHOLDERS

At 27 June 2011 the company had been notified of interests of three percent or more of the company's voting rights, based on an issued share capital of 258,139,606, shown below

Shareholder/Fund manager	Number of voting rights	Percentage of voting rights
GLG Partners	14,629,543	5.67%
Royal London Asset Management	12,910,473	5.00%
Richard Visick	10,497,739	4.07%
Ignis Investment Services	10,314,893	4.00%
Credit Suisse	9,989,606	3.87%
Oz Management and Och-Ziff Management Europe	9,285,810	3.60%
Capital and Research Management	8,669,075	3.36%

DIRECTORS AND THEIR INTERESTS

The present members of the board are as listed in the Board of directors section

There were a number of changes to the composition of the board during the year. D McManus and R J Peters were appointed as non-executive directors on 30 September 2010. With effect from the same date, S J Moody moved from Managing director to Chief executive officer and Dr P J Jungels from executive to non-executive chairman. C J Walton was appointed as Senior independent director on 30 September 2010.

The interests of the directors in office at the year end in the share capital of the company were as below

	At 31 March 2011 Ordinary 1p shares	At 31 March 2010 Ordinary 1p shares
P J M H Jungels	905,297	866,074
S J Moody	1,137,959	1,128,435
P J Dixon-Clarke	266,337	253,639
D Bodecott	212,208	199,510
K J Crowle	33,333	23,809
C J Walton	38,458	23,809
D McManus	12,698	—
R J Peters	3,175	—
	2,609,465	2,495,276

On 21 June 2010, P J Dixon-Clarke notified the company that he had transferred 108,510 of his shares into a discretionary trust, of which he is a trustee for the benefit of his two children. Those shares are included in the amount shown above. The market price per share at the time of transfer was 274 pence.

DIRECTORS' SERVICE CONTRACTS

All of the executive directors have service contracts which may be terminated on 12 months notice in writing by either side, in accordance with current market practice.

The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office are determined by the remuneration committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Details of contract and appointment dates are set out below:

	Appointment date	Original contract/engagement letter date	Revised contract/engagement letter date
Executive directors			
S J Moody	21 February 2005	8 August 2005	8 March 2011
P J Dixon-Clarke	29 December 2004	8 August 2005	8 March 2011
D Bodecott	1 April 2007	1 April 2007	8 March 2011
Non-executive directors			
P J Jungels	21 February 2005	8 August 2005	30 November 2010
K J Crowle	9 June 2005	8 August 2005	30 November 2010
C J Walton	9 June 2005	8 August 2005	30 November 2010
D McManus	30 September 2010	30 November 2010	—
R J Peters	30 September 2010	30 November 2010	—

D Bodecott became a full time employee on 1 April 2010 and P J Dixon-Clarke became a full time employee on 18 May 2010.

The non-executive directors do not have service contracts.

POST BALANCE SHEET EVENTS

Particulars of important events affecting the group since the financial year end are set out in note 24.

PRINCIPAL RISKS AND UNCERTAINTIES

Information relating to the principal risks and uncertainties facing the group is set out in the Risk management report section of the Directors' report and note 25.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the year.

FINANCIAL INSTRUMENTS

For the period under review the group held no financial instruments, outside of cash and receivables. Financial risk management policies are disclosed in note 25.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group made no charitable donations (2010: \$8,820) and no political donations (2010: \$nil) during the year.

CREDITOR PAYMENT POLICY

The company does not follow any specific code or standard on payment practice. However, it is the policy of the group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations. Average creditor days for the year were 10 days (2010: 22 days), on the basis of accounts payable as a percentage of amounts invoiced during the year.

QUALIFYING INDEMNITY PROVISIONS

The company has entered into separate indemnity deeds with each director containing qualifying indemnity provisions, as defined at section 236 of the Companies Act 2006, under which the company has agreed to indemnify him in respect of certain liabilities which may attach to him as a director or as a former director of the Company. At the date of this directors' report indemnity deeds containing qualifying indemnity provisions are in force for all of the company's directors. D McManus and R J Peters entered into their indemnity deeds during the year following their appointment as directors. Indemnity deeds were in place throughout the year for all other directors.

DIRECTORS AND OFFICERS' INSURANCE

The group maintained directors and officers liability insurance cover throughout the year. The directors are also able to obtain independent legal advice at the expense of the group, as necessary, in their capacity as directors.

EMPLOYEES

The group had only ten employees at the year end, three of whom are directors. Since then it has employed a further three people. The group seeks to employ people on the basis of merit and ability to perform the required roles. The group does not discriminate on any grounds including race, gender, religion, age, nationality or sexual orientation.

ENVIRONMENT

The group's operations are, and will be, subject to environmental regulation (with regular environmental impact assessments and evaluation of operations required before any permits are granted to the group) in all the jurisdictions in which it operates. Although the group intends to be in compliance with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances, that could subject the group to extensive liability.

Further, the group may require approval from the relevant authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals will prevent the group from undertaking its desired activities. The group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the group's cost of doing business or affect its operations in any area.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules for companies they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each director in office at the date of this report has confirmed, as far as he is aware, that there is no relevant audit information of which the auditor is unaware. Each such director has confirmed that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

A resolution to reappoint the auditor, KPMG Audit Plc, will be proposed at the next Annual General Meeting.

On behalf of the Board

 JANETTE DAVIES
 COMPANY SECRETARY

30 JUNE 2011

CORPORATE GOVERNANCE STATEMENT

The board's corporate governance policy is to apply best practice and to adhere to the corporate governance code applicable to FTSE 350 companies. During the financial year under review this was the Combined Code on Corporate Governance and during the subsequent financial year it will be the UK Corporate Governance Code. The company is an AIM listed company and is not required to comply with any provision in those codes for so long as it remains on AIM.

Since 30 September 2010 the board's structure and composition has complied with the provisions of the Combined Code applicable to FTSE 350 companies. On that date D McManus and R J Peters were appointed as independent non-executive directors, C J Walton became the senior non-executive director and P J Jungels ceased to be an employee of the company, when he changed from executive to non-executive chairman. Following a review of both Codes during the year, the board has identified areas where compliance could be strengthened such as board performance evaluation and meetings with major shareholders and these areas are being addressed.

Outlined below is a summary of how the company addresses the principles set out in the Combined Code and the UK Corporate Governance Code.

THE BOARD

The board of the company currently consists of three executive and five non-executive directors, four of whom are independent, and is therefore compliant with the recommendation, as a smaller company, for at least two members of the board to be independent non-executive directors. The board has appointed a qualified company secretary and all directors have access to her for advice and services.

During the year, C J Walton was appointed as senior independent non-executive director. The group's website contains an email contact for C J Walton, who is also the chairman of the audit committee, should shareholders have concerns which have not been adequately addressed by the chairman or chief executive. The email address is also disclosed at the back of these accounts.

On admission to AIM, the board agreed to meet at least eight times throughout each financial year and there is a schedule of matters reserved for its approval, ensuring that it exercises control over the group's strategy, key financial and compliance issues and significant operational and management matters. These include capital structure, communication with shareholders, board and senior management appointments and major contracts. Executive management has a number of financial and operational responsibilities delegated to it. These include day-to-day operation of the business, implementation of health & safety measures, contract negotiation and liaison with the regulator and shareholders.

A clearly defined organisational structure exists, with lines of responsibility and delegation of authority to executive management and board approved defined roles for the chairman and chief executive.

The board supports directors who wish to receive ongoing training and education relating to their duties. It makes available independent legal advice, at the group's expense, when necessary.

It is intended to undertake an internal performance evaluation of the board and its committees during the current financial year.

The board's chairman, P J Jungels, was independent upon appointment but has not been considered independent thereafter. For an initial period, P J Jungels was executive chairman and during that time he was awarded share options. Effective 1 October 2010 he became non-executive chairman and, with the agreement of the remuneration committee and support of the board, he continues to retain those share options. He meets with the non-executive directors, without management present, at least once a year. The board considers the other non-executive directors, C J Walton, K J Crowle, D McManus and R J Peters, to be independent. Other than their shareholdings and fees, the non-executives have no financial interests in the company or business relationships that would interfere with their independent judgement.

The appointment of all directors is a formal process involving all members of the board. From time to time sub-committees of the board are established to approve the detail of matters tabled at full board meetings. The company secretary ensures that the board and its committees are supplied with papers of sufficient quality to enable them to consider matters in good time for meetings and to discharge their duties properly.

The notice period for all executive directors is twelve months. The board believes that this is reasonable and appropriate for the size of the group. All directors will be reappointed annually.

AUDIT & RISK, REMUNERATION AND NOMINATION COMMITTEES

Audit & risk, remuneration and nomination committees, with formally delegated duties and responsibilities, operate under the chairmanship of C J Walton, K J Crowle and P J Jungels respectively. The terms of reference of the committees were updated during the year to reflect the provisions of the UK Corporate Governance Code where relevant.

CORPORATE GOVERNANCE STATEMENT CONTINUED

In addition to C J Walton, the audit & risk committee comprises K J Crowle and R J Peters, with other directors attending from time to time as observers by invitation. D McManus was a member of the audit & risk committee until 5 November 2010. The make up of the committee complies with the Code.

In addition to K J Crowle, the remuneration committee comprises C J Walton and D McManus, with other directors attending from time to time as observers by invitation. R J Peters was a member of the remuneration committee until 5 November 2010. The make up of the committee complies with the Code.

In addition to P J Jungels, the nomination committee comprises all the non-executive directors with the chief executive officer attending by invitation. Prior to 6 July 2010, the committee was composed of P J Jungels, R F Visick (until his resignation on 22 February 2010) and one other independent non-executive director (being either C J Walton or K J Crowle). From 6 July to 30 September 2010, the committee was composed of P J Jungels, K J Crowle and C J Walton. The make up of the committee complies with the Code.

REMUNERATION COMMITTEE

The principal role of the remuneration committee is to consider, on behalf of the board, the remuneration (including pension rights and compensation payments when they apply) of executive directors, the chairman and senior executives.

The board considers the members of the remuneration committee to be independent. The members are K J Crowle as chairman, D McManus and C J Walton.

The committee met five times during the year, but also held a number of informal discussions. During the year, the committee considered and dealt with a number of matters including:

- the vesting of options under the unapproved option scheme,
- interim and final bonus awards,
- the award and vesting of share appreciation rights,
- the establishment of a remuneration cycle,
- annual salary review, and
- implementation of a benefits package.

Full details are given in the directors' remuneration report.

The committee received assistance in relation to all aspects of remuneration from Addleshaw Goddard LLP, a law firm that also provides other legal services to the company.

NOMINATION COMMITTEE

The nomination committee's role is to recommend any new appointments of directors to the board. Any decisions relating to the appointment of directors are made by the entire board based on the merits of the candidates and the relevance of their background and experience, measured against objective criteria, with care taken to ensure that appointees have enough time to devote to the job.

During the year, the composition of the committee was changed. The committee is chaired by the chairman of the board, P J Jungels, with all the non-executive directors as its members. The board considers K J Crowle, D McManus, R J Peters and C J Walton to be independent, hence a majority of the committee is considered to be independent.

The nomination committee did not meet during the year as the proposed appointments to the Board and Board composition were considered by the full board.

AUDIT & RISK COMMITTEE

The members of the audit & risk committee are C J Walton as chairman, K J Crowle and R J Peters. The board considers the members of the audit & risk committee to be independent and is satisfied that at least one member of the audit & risk committee, C J Walton, has recent and relevant financial experience.

The external auditor, and the finance director and certain other directors are invited to meetings with observer status.

The core terms of reference of the audit & risk committee include reviewing and reporting to the board on matters relating to:

- The audit plans of the external auditor,
- The group's overall framework for internal control over financial reporting and for other internal controls,
- The group's overall framework for risk management,
- The accounting policies and practices of the group, and
- The annual and periodic financial reporting carried out by the group.

The audit & risk committee is responsible for notifying the board of any significant concerns that the external auditor may have arising from their audit work, any matters that may materially affect or impair the independence of the external auditor, any significant deficiencies or material weaknesses in the design or operation of the group's internal controls, and any serious issues of non-compliance. No such concerns were identified during the year.

The audit & risk committee recommends to the board the appointment of the external auditor, subject to the approval of the company's shareholders at a general meeting. Shareholders in a general meeting authorise the directors to fix the remuneration of the external auditor.

The audit & risk committee has established procedures for receiving and handling complaints concerning accounting or audit matters.

The audit & risk committee maintains policies and procedures for the approval of all audit services and permitted non-audit services undertaken by the external auditor, the principal purpose of which is to ensure that the independence of the external auditor is not impaired.

In general, the external auditor will only be used for audit, audit related and tax services. Other services need specific authorisation from the audit & risk committee. During the year, no non-audit services, apart from tax and corporate finance, were provided. The finance director monitors the status of all services being provided by the external auditor and is satisfied that there were no conflicts during the year.

The audit & risk committee was satisfied throughout the year that the objectivity and independence of the external auditor were not in any way impaired by the nature of the non-audit work undertaken, the level of non-audit fees charged for such work nor any other factors.

The audit & risk committee's terms of reference are available on the group's website and on request from the company secretary.

The audit & risk committee held five formal meetings during the year, but a number of informal discussions were also held both with, and without, management present. The committee met with the external auditors without management present.

Following each audit & risk committee meeting, the chairman of the audit & risk committee reported to the board on the principal matters covered at the meeting.

During the year, the business considered and discussed by the audit & risk committee included:

- The group's financial disclosures were reviewed and accounting matters considered,
- Reports were received from the external auditor concerning its audit and review of the financial statements of the group and the status of follow-up actions with management,
- The effectiveness of the group's system of internal controls and its risk monitoring and management,
- The systems and processes that management has developed pertaining to risk identification, classification and mitigation,
- Whistle-blowing procedures and shareholder feedback procedures,
- Accounting issues relevant to taxation and reporting format matters,
- Impairment of assets,
- Treasury policies, in particular, the appropriateness of its cash management policies in the context of the economic situation,
- The need for an internal audit function,
- Other issues, including the functional currency of the group, accounting for share based payments, the format of risk monitoring and the finance department's resourcing & systems,
- The external auditor's audit and non-audit fees, and
- The effectiveness of the committee.

During the year, the audit & risk committee considered the need for an internal audit function. Having considered the size and complexity of the business, the committee decided that an internal audit function is not appropriate, at this time.

During the year, the committee reviewed its own performance and the appropriateness of its terms of reference. It concluded that, having considered the size and complexity of the business, the terms of reference were appropriate and that performance was satisfactory.

Subsequent to the end of the previous financial year, the audit & risk committee issued an invitation to tender for audit and tax services. Five audit firms were invited to participate and a formal process of interviews and evaluations followed. On 6 July 2010, the board accepted the audit & risk committee's recommendation that the external audit be awarded to KPMG Audit Plc.

CORPORATE GOVERNANCE STATEMENT CONTINUED

INTERNAL CONTROLS AND RISK MANAGEMENT

The directors are responsible for the group's system of internal control and for reviewing its effectiveness. The group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve the group's business objectives and therefore provides reasonable, rather than absolute, assurance against material misstatement or loss. The group operates a series of controls to meet its needs. The group receives reports from the external auditor concerning the system of internal control and any material control weaknesses. The board considers that there is no necessity at the present time to establish an independent internal audit function.

The process of monitoring and updating internal controls and procedures continues throughout the year and has been supplemented by the implementation of a risk management process. Existing processes and practices are reviewed to ensure that risks are effectively managed around a sound internal control structure. A fundamental element of the internal control structure involves the identification and documentation of significant risks, the likelihood of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks. These assessments are reviewed by the board. The plans are regularly discussed, updated and reviewed, and any matters arising from internal reviews or external audit are also considered.

The company complies with Rule 21 of the AIM Rules for companies regarding dealings in the company's shares and has adopted a code on dealing in securities to ensure compliance by the directors.

SHAREHOLDER RELATIONSHIPS

During the year the chairman and executive directors met with shareholders and the investment community. This included formal road shows and presentations, one-to-one meetings, analyst briefings and press interviews. The chairman and chief executive officer regularly brief the board on these contacts and relay the views expressed. In addition, copies of analyst's research reports, press reports and industry articles are circulated to all directors.

GOING CONCERN

It is the opinion of the board, at the time of approving the financial statements, that both the group and the company have adequate resources to continue in operational existence for the foreseeable future, being at least twelve months from the date of approval of the financial statements. For this reason, the board has adopted the going concern basis in preparation of the financial statements.

DIRECTORS' ATTENDANCE

The directors' attendance at scheduled board meetings and board committees for the year is detailed in the table below.

	Board	Audit & Risk	Remuneration	Nomination
DIRECTOR				
P J Jungels	11*	2†	1†	—*
S J Moody	11	3†	1†	—
P J Dixon-Clarke	11	5†	1†	—
D Bodecott	9	1†	—	—
K J Crowle	11	5	5*	—
C J Walton	11	5*	4	—
D McManus (appointed 30 September 2010)	7	1	3	—
R J Peters (appointed 30 September 2010)	7	2	1	—
Total meetings during year	11	5	5	—

* Chairman

† Invitee

The appointment during the year of the two new non-executive directors was undertaken by the board as a whole and so the nomination committee was not formally required to meet. No external consultants were used for the board appointments as the board maintains a pool of possible candidates as part of its succession planning process.

DIRECTORS' REMUNERATION REPORT

The remuneration policy for the executive directors is determined by the remuneration committee, which consists solely of independent non-executive directors, being K J Crowle, D McManus and C J Walton. The committee acts within its agreed written terms of reference.

Within the framework of the agreed remuneration policy the committee determines the remuneration packages of the executive directors including the size of, and conditions applying to, awards made under the company's cash bonus and share option schemes. The committee's policy on executive directors' remuneration will continue to apply for the year to 31 March 2012.

The committee aims to provide executive directors with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the objectives of the group and thereby enhance shareholder value. Each package consists of a basic salary, cash bonus, eligibility to participate in the company's share option plan, contribution to a personal pension plan, from 1 October 2010, and a range of non-cash benefits, from 1 April 2011. The share option package is designed to link the remuneration of the executive directors to the returns enjoyed by shareholders. During the year ended 31 March 2011, the committee undertook a comprehensive review of remuneration. The committee recognised the role of management in the significant growth of the company when setting new compensation levels. The committee considered a range of factors including the size and needs of the company, the sector within which it operates, market practice and individuals' skills and experience. The results of this review became effective from 1 October 2010 and are set out in a table later in this report. It was also agreed that compensation would be reviewed annually and that the committee would continue to consider annual awards of Share Appreciation Rights.

DIRECTORS' REMUNERATION

The directors' remuneration for the year ended 31 March 2011 was

	Salary/ fees £ 000	Interim Bonus re 2011 £ 000	Final Bonus	Pension £ 000	2011 Total £ 000	2010 Total £ 000
Non-executive directors						
P J Jungels*	70	—	—	—	70	—
K J Crowle	35	—	—	—	35	30
C J Walton	38	—	—	—	38	30
R F Visick (resigned 22 February 2010)	—	—	—	—	—	28
R J Peters (appointed 30 September 2010)	15	—	—	—	15	—
D McManus (appointed 30 September 2010)	15	—	—	—	15	—
	173	—	—	—	173	88
Executive directors						
P J Jungels*	31	125	—	—	156	270
S J Moody	234	313	142	16	705	673
P J Dixon-Clarke	154	233	92	10	489	301
D Bodecott	157	233	92	10	492	312
	576	904	326	36	1,842	1,556
Total directors' remuneration	749	904	326	36	2,015	1,644
Remuneration above converted to US\$ '000	1,166	1,360	523	57	3,106	2,644

Effective 1 October 2010 P J Jungels became a non-executive director having previously served as an executive director. His total remuneration for the full year was £226,000.

For the previous financial year, P J Dixon-Clarke and D Bodecott were both employed on the basis of a three day week. From 1 April 2010 D Bodecott became full time, as did P J Dixon-Clarke from 18 May 2010. In both cases their annual salary was pro-rated up from £68,500 to £114,167 per annum. D Bodecott's salary for the previous financial year contains overtime of £11,417.

On 12 July 2010 the company paid an interim bonus to each of the executive directors for the year ended 31 March 2011 totalling £904,253. This represented the maximum bonus potential, as determined by the committee, for the first half of the year, and was made in recognition of the discovery on the Sea Lion prospect.

DIRECTORS' REMUNERATION REPORT CONTINUED

The company has also paid a final bonus to each of the executive directors for the year ended 31 March 2011 totalling £326,250. This represented 90% of the maximum bonus potential, as determined by the committee, for the second half of the year and was made in recognition of the strong operational performance of the company and the successful placing in November 2010.

The table below shows the revised remuneration levels that were charged from 1 October 2010. It reflects the board changes during the year as well as the mid-year review of non-executive fees, executive salaries and maximum potential bonuses.

	Revised remuneration levels £ 000	Previous remuneration levels £ 000
Non-executive directors		
P J Jungels	140	—
K J Crowle	40	30
C J Walton	45	30
R Peters	30	—
D McManus	30	—
	285	60
Executive directors		
P J Jungels	—	62
S J Moody	315	153
P J Dixon-Clarke	205	116
D Bodecott	205	116
	725	447
Pension contribution	73	—
Maximum potential bonus	725	1,824
	1,523	2,271
	1,808	2,331

The table shows the revised remuneration levels that will be charged from 1 October 2010. It reflects the board changes discussed in the Chairman's report as well as the review of non-executive fees, executive salaries and maximum potential bonuses.

Non-executive fees have been set to reflect a base level of £30,000 per annum plus an additional £10,000 per annum for any director chairing a committee and an additional £5,000 per annum for the role of senior independent director. Currently, K J Crowle and C J Walton both chair committees. C J Walton is also the senior independent director.

Prior to 30 September 2010, the maximum level of fees payable by the company to non-executive directors was £300,000 per annum. However, in light of the changing board structure, that amount was increased by ordinary resolution to £500,000 at the company's annual general meeting held on 30 September 2010.

Executive remuneration has been reviewed to align it closer to that of a typical FTSE 250 company. Annual salary levels have been increased and a contribution equal to 10% of gross salary is to be made each month to the director's pension scheme. The maximum bonus potential has been reduced to 100% of salary, with the director bearing the related tax and national insurance, from 200% of salary, with the company bearing the related tax and national insurance.

The effect of all the changes has been to reduce the maximum potential remuneration of the board from £2.3 million per annum to £1.8 million per annum.

The committee has agreed a number of operational and corporate performance targets for 2011/12. These are a declaration of Sea Lion commerciality, exploitation of exploration potential outside the Sea Lion discovery area and achievement of the highest health, safety and environmental standards in the course of operations. The committee will consider performance against these targets when assessing the award and quantum of any bonus payments for the financial year ending 31 March 2012 but retains discretion to consider any other operational, financial and corporate matters in its assessment.

SHARE OPTIONS

The share options in force at 31 March 2011 and held by current directors are as follows

Director	Date of grant	Number of options brought forward	Exercised during the year	Number of options carried forward	Exercise price (£)
P J Jungels	8 Aug 2005	1,500,000	—	1,500,000	0.42
S J Moody	11 Apr 2005	425,000	—	425,000	0.10
	8 Aug 2005	1,500,000	—	1,500,000	0.42
P J Dixon-Clarke	8 Aug 2005	525,000	—	525,000	0.42
D Bodecott	8 Aug 2005	525,000	—	525,000	0.42
		4,475,000	—	4,475,000	

The options awarded are subject to defined targets, set out in note 7. In setting the targets the board considered using measures such as total shareholder return (TSR) against a comparator group, but due to the group's stage of development the decision was taken to have operational targets. This aligns management with shareholders.

SHARE APPRECIATION RIGHTS (SARs)

Director	Date of grant	Number brought forward	Awarded during the year	Number carried forward	Base price (pence)
P J Jungels	25 Nov 2008	324,675	—	324,675	19.25
	3 Jul 2009	94,314	—	94,314	30.87
S J Moody	25 Nov 2008	797,402	—	797,402	19.25
	3 Jul 2009	231,636	—	231,636	30.87
	11 Jan 2011	—	84,507	84,507	372.75
P J Dixon-Clarke	25 Nov 2008	355,844	—	355,844	19.25
	3 Jul 2009	103,368	—	103,368	30.87
	11 Jan 2011	—	54,996	54,996	372.75
D Bodecott	25 Nov 2008	355,844	—	355,844	19.25
	3 Jul 2009	103,368	—	103,368	30.87
	11 Jan 2011	—	54,996	54,996	372.75
		2,366,451	194,499	2,560,950	

All the SARs awarded are still held. The total SARs awarded represents 0.99% of the total shares issued of 258,139,606. SARs are designed to deliver a net gain equal to the increase in the share price of the share between grant and exercise. The number of shares actually issued following exercise will therefore be less than the percentage of the current issued share capital to which the SAR awards relate.

The SARs awarded are subject to defined targets, set out in note 7. In setting the targets the remuneration committee considered using measures such as total shareholder return (TSR) against a comparator group, but due to the group's stage of development the decision was taken to have operational targets. This aligns management with shareholders.

HEALTH, SAFETY, ENVIRONMENTAL AND SOCIAL MANAGEMENT

Rockhopper's strategy is to explore, appraise and develop its acreage both safely and responsibly. The two key elements of this strategy involve maintaining high standards of Health, Safety and Environmental (HSE) protection throughout its operations and communicating clearly with its stakeholders, both operational and within the Falkland Islands.

MAINTAINING HIGH STANDARDS OF HEALTH, SAFETY AND ENVIRONMENTAL (HSE) PROTECTION

This is achieved through

- Strong leadership and clearly defined responsibilities and accountabilities for HSE at all levels of the organisation,
- Selection of competent personnel to manage activities,
- Compliance with regulatory and other applicable requirements, or where regulations do not exist, application of industry standards,
- Identifying, assessing and managing HSE risks and preventing pollution,
- Developing specific HSE plans for each operational project,
- Selecting competent contractors and ensuring that they are effectively managed,
- Preparing and testing response plans to ensure that any incident can be quickly and efficiently controlled, reported and investigated to prevent recurrence,
- Continual improvement of HSE performance through monitoring, regular reporting and periodic audits, and
- Periodic management reviews to identify and implement to our HSE systems

This policy is implemented through our HSE Management System, which has been prepared to be consistent with international standards for HSE management including ISO14001 and ISO18001. Our HSE Management System is used to guide all our activities and will not be compromised by other business priorities.

Application of the HSE Management System has included preparation of detailed Environmental Impact Statements (EISs) for all of the group's activities. The preparation of the EIA included consultation with interested parties and the Falklands Islands Government as well as public meetings in the Falklands Islands to present findings and obtain feedback.

So far, we have drilled four wells as operator and are currently on location drilling our fifth well, 14/10-5, and we have had no environmental incidents and one lost time incident.

OPERATIONAL STAKEHOLDERS

All contractors are selected taking into account their skills, experience and HSE performance. There is a contractor selection and management section in the HSE management system and we are closely involved in day-to-day operations and closely monitor contractor performance.

The key operational stakeholders are AGR Petroleum Services (AGR), who provide well management services to the group, and through whom most other contractors are engaged and Diamond Offshore Drilling who own the rig. AGR is the world's largest independent well management group and has drilled over four hundred wells in the last ten years for its clients throughout the world. Diamond operate a fleet, including over thirty semisubmersibles, internationally in a wide range of environments. Offshore, both the group and AGR work under the Diamond's GEMS safety management system.

In addition to the contract for the provision of well management services, a contract management plan (CMP) is agreed at the outset of the programme. The CMP is non-well specific and its role is to outline the systems and procedures developed to ensure that the well design, operations preparation and operations activities carried out by AGR on behalf of the group are managed effectively and with due regard for HSE and technical issues, quality assurance and both the group's and AGR's statutory obligations. As the CMP is non-well specific, a management system interface document (MSID) has been created to cover the drilling of the wells and this defines clear responsibilities and lines of communication as well as how the interfaces between the group, AGR and the rig owner are managed in the operational phases of each project and in the event of an incident.

FALKLAND ISLANDS STAKEHOLDERS

The Falkland Islands has a small population and each member is considered a stakeholder in the group's strategy. We recognise that a key element in maintaining this is regular communication at all levels.

Our primary point of contact is the Falkland Islands Government Department for Mineral Resources and since inception we have had good communication with all of the team there. With the start of operations, we are increasingly liaising with other government departments, such as the Secretariat and the Tax Office as well as the Governor.

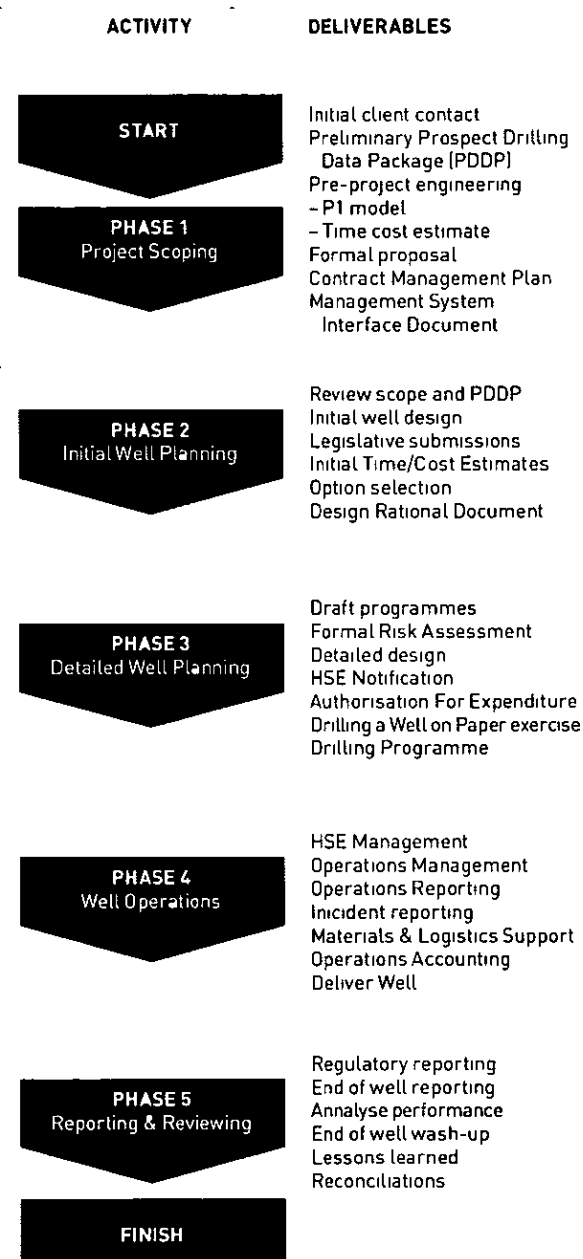
Regular communication is by phone and email but also in person, and the executive directors, most often Sam Moody the chief executive, have made regular visits to the Islands since the granting of the licences. Each executive director, as well as the drilling, geological & geophysics and development managers have visited and a company representative is based in the islands during any drilling. In addition, we have presented and taken questions at a number of public meetings, most notably around the EIS discussed above and most recently around a generic offshore development using a Floating Production Storage and Offloading (FPSO) facility.

The Falkland Islands Government Tax Office raises payment on account of tax on all individuals working within their territorial waters as well as corporation tax on the profits of all incorporated contractors. The revenue generated from current exploration activity has become a material source of income for the Falkland Islands Government.

Following the disruptions to air travel to and from the Falkland Islands, caused by the recent ash cloud, the group was able to help clear the backlog of passengers by making seats available on its charter flight. All agreements are now in place to allow seat and freight sales to the general public on an ongoing basis.

AGR WELL DELIVERY PROCESS (WDP)

The AGR WDP culminates with the final approved Drilling Programme for the Well Operations.



DIRECTORS' REPORT:
GOVERNANCE

RISK MANAGEMENT REPORT

STRATEGIC/CORPORATE

Risk	Mitigation
Failure to meet shareholder expectations	The group's strategy remains the exploration, appraisal and development of its acreage within the North Falklands Basin both safely and responsibly Continued and consistent communication of this strategy, through regular shareholder meetings, the website, public relations and regulatory reporting will ensure that expectations are correctly managed
Limited diversification	The highly focused nature of the group makes for a clear and simple story when communicating with current, and potential, investors Holding 100% of the operated acreage has so far been a benefit but will need to be kept under review, particularly in the light of future funding requirements
The group is highly dependent on its executive management	The high level of out-sourcing and the close communication within the group insulate it to a degree from the loss of any one individual. Senior managers have been recruited full time to cover operations, geology & geophysics and development
Significant competition attracting and retaining skilled personnel	The group has a pro-active remuneration committee with access to suitable advice

EXPLORATION/ OPERATIONS

Risk	Mitigation
Resource estimates may prove incorrect	A competent person is used for certain resource estimates. Where this is the case, they are stated in accordance with the Petroleum Resources Management System (PRMS) reserve and resources definitions and are disclosed without any subsequent adjustment
Exploration activities are capital intensive and involve a high degree of risk	Agreed financial expenditures (AFEs) are produced by an independent and industry recognised well management company on a probabilistic basis thereby defining the likely range of outcomes. The group expects to drill on the Pmean basis but looks to hold sufficient funds to drill on a P90 basis
Future appraisal of potential oil and gas properties may involve unprofitable efforts	Within each competent person's report is included a high level review of the related economics at NPV10 for each primary prospect. Work on the economics of the Sea Lion field is ongoing, but in the meantime the Falkland Islands Government (FIG) website suggests this could be economic at anything in excess of 60 million barrels recoverable
The Falkland Islands is a frontier basin at the end of a very long supply chain	Particular care is taken around the planning of long lead items and the appointment of the well management company. A suitable emergency plan has been documented and distributed to relevant parties. A dedicated charter flight has been operating fortnightly since September 2010 and a dedicated search and rescue helicopter has been in place since May 2011
The acreage surrounding the Falkland Islands is relatively unexplored	A great deal of work has been, and continues to be, undertaken around the interpretation of all the available data prior to any drilling and the discovery on the Sea Lion prospect has added considerably to the group's body of knowledge
The group is not the operator of all of the wells it expects to be drilling in the current campaign	Desire, the operator of the non-operated wells, uses the same well management company thereby ensuring consistency and that lessons from each well are passed on for subsequent wells

FINANCIAL

Risk	Mitigation
Oil and gas prices fluctuate	Oil and gas is not expected to be produced from the licences for a number of years and so near term prices will have limited impact, in terms of group valuation
Insurance may not be sufficient to cover the full extent of liabilities	The operating standard in the UK Continental Shelf (UKCS) is to buy cover for 3-5 times the AFE. Given the remote location of the operations, cover of \$300 million has been bought in the event of a loss, a multiple far greater than the UKCS standard
Currency fluctuations in relation to the US\$	The group's policy is to hedge by matching the currencies held to the currencies in which the expenditure is expected to be incurred
Contractor risk re non-payment of taxes due to the Falkland Islands Government whilst operating in its territorial waters	All contractors are encouraged to apply directly to the Falkland Islands Government to establish direct liability for payment of taxes. Where this is not done, the group holds back a proportion of each invoice until the amounts are settled
Counter-party risk, in terms of monies held by institutions	No more than two thirds of the group's total cash resources are held at the same financial institution. RBS, the group's primary bank, is majority owned by the British Government
Counter-party risk, in terms of licence obligations where the group does not have a 100% interest	Whilst the liability for any jointly held acreage is joint and several, the work commitments under both PL003 & PL004, where Desire is the operator, have been fulfilled
Counter-party risk, in terms of monies held by joint venture partner	Monies held by Desire, the joint venture partner, are treated as payments on account. Of the balance held at the year end, almost 80% had been transferred to escrow accounts managed by the rig owner or well management company

OTHER/EXTERNAL

Risk	Mitigation
Regulatory requirements can be onerous, expensive and may change	Regular communication with the relevant governing bodies, notably the Department for Mineral Resources of the Falkland Islands Government, as well as regular visits by the group's employees to the Falkland Islands
The sovereign status of the Falkland Islands is disputed	The British Government has consistently issued strong rebuttals to the Argentine claims, and is in regular contact with the British Foreign & Commonwealth Office
The royalty and tax regime in the Falkland Islands is untested and may change	Changes in fiscal policy cannot be predicted, however, the Falkland Islands Government states that it is committed to ensuring that the overall tax system remains attractive and conducive to attracting future investment

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKHOPPER EXPLORATION PLC

We have audited the financial statements of Rockhopper Exploration Plc for the year ended 31 March 2011 set out on pages 31 to 59. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and, in respect of reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and, in respect of reporting on corporate governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private/cfm

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Services Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the directors' statement, set out on page 22, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 19 to 21 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

ADRIAN JOHN WILCOX
SENIOR STATUTORY AUDITOR
FOR AND ON BEHALF OF KPMG AUDIT PLC,
STATUTORY AUDITOR

Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

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.

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

1 ACCOUNTING POLICIES CONTINUED 1.6 SIGNIFICANT ACCOUNTING POLICIES (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.

1 ACCOUNTING POLICIES CONTINUED

(D) OIL AND GAS ASSETS CONTINUED

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.

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

1 ACCOUNTING POLICIES CONTINUED

(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.

1 ACCOUNTING POLICIES CONTINUED

(H) FINANCIAL INSTRUMENTS CONTINUED

(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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

3 EXPLORATION AND EVALUATION EXPENSES

	2011 \$ 000	2010 \$ 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 \$ 000	2010 \$ 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
Auditors' 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

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

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

7 SHARE BASED PAYMENTS CONTINUED

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 SARs 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 the executive directors.

7 SHARE BASED PAYMENTS CONTINUED

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.

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

7 SHARE BASED PAYMENTS CONTINUED

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 preceeding 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

11 INTANGIBLE EXPLORATION AND EVALUATION ASSETS CONTINUED

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 GBE denominated.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

21 OPERATED LICENCE DETAILS CONTINUED

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 \$ '000	2010 \$ '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 GBE 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 GBE 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	GBE 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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

25 RISK MANAGEMENT POLICIES CONTINUED

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.

25 RISK MANAGEMENT POLICIES CONTINUED

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

PARENT COMPANY FINANCIAL STATEMENTS

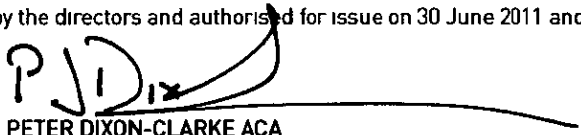
COMPANY BALANCE SHEET

AS AT 31 MARCH 2011

	Notes	2011 \$'000	2010 \$'000
Tangible fixed assets	2	340	48
Investments	3	420	420
FIXED ASSETS		760	468
Debtors due beyond one year		213,907	46,107
Debtors due within one year		3,294	167
Debtors	4	217,201	46,274
Payments on account	5	12,662	14,049
Restricted cash		23,565	35,955
Cash at bank and in hand		268,757	14,485
CURRENT ASSETS		522,185	110,763
Creditors due within one year	6	(12,650)	(1,071)
NET CURRENT ASSETS		509,535	109,692
TOTAL NET ASSETS		510,295	110,160
Share capital	7	4,297	2,966
Share premium	9	508,299	113,874
Share based remuneration	9	2,168	2,355
Foreign currency translation reserve	9	4,123	4,123
Retained losses	9	(8,592)	(13,158)
EQUITY SHAREHOLDERS' FUNDS		510,295	110,160

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

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

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. These policies have been consistently applied except where otherwise stated. The accounts relate to the company only and do not include the results of its subsidiaries.

All values are rounded to the nearest thousand dollars (\$ 000), except where otherwise indicated.

GOING CONCERN

At the time of writing, the Ocean Guardian is in the North Falkland Basin drilling well 14/10-5. Immediately following that 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.

PROFIT AND LOSS ACCOUNT

As a group income statement is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006. The result for the year was a profit of \$4.1 million (2010: loss of \$6.1 million).

SHARE BASED PAYMENT

The company 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 company accounts for their cost until such time as they are fully vested in line with Financial Reporting Standard 20 ("FRS20") Share based payments. Under the method set out in this standard, the cost of providing such schemes is based on the fair value of the options at the date of grant. The cost is charged to profit and loss over the expected vesting period of the options and credited to a share based payment reserve.

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

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. Further details are disclosed within note 7 of the group financial statements.

CASH FLOW STATEMENT

The company has taken advantage of the exemption under FRS1 from preparing a cash flow statement as it is part of a group that produces consolidated accounts into which the results of the company are incorporated.

INVESTMENTS

The investments in the subsidiary undertakings are included in the company financial statements valued at the lower of cost and the directors' estimate of net realisable value.

In the company's balance sheet the investment in Rockhopper Resources Limited is stated at the nominal value of shares issued. As permitted by company law, no premium was recorded on the ordinary shares in connection with this acquisition.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

1 ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCIES

The functional currency of the company is US\$

Transactions denominated in foreign currencies are translated at the exchange rate ruling at the transaction date or, if appropriate, at the rate in related forward-currency contracts. The historic differences relating to the translation of share capital and premium have been taken straight to reserves. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the exchange rates ruling at the balance sheet date and any differences thereon are included in the profit and loss account.

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

FINANCIAL INSTRUMENTS

The company has taken advantage of the exemption in FRS29 (Financial Instruments: Disclosures) not to present company only information as the disclosures provided in the notes to the group consolidated financial statements comply with the requirements of the standard.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life as follows:

Office equipment	Over 3 years
Leasehold improvements	Over 5 years

Costs associated with the development and maintenance of the company's website have been written off to the profit and loss account in accordance with Urgent Issues Task Force (UITF)29.

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 TANGIBLE FIXED ASSETS

	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)
Accumulated 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

3 INVESTMENTS

Details of the investments at the year end were as follows

Company	Incorporated	Class of share	Percentage held %	Net liabilities \$ 000	Result for the year \$ 000
Rockhopper Resources Limited	England & Wales	Ordinary	100	(40,656)	(30,187)
Rockhopper Exploration (Oil) Limited	England & Wales	Ordinary	100	—	—
Rockhopper Exploration (Hydrocarbons) Limited	England & Wales	Ordinary	100	(62,406)	(38,719)
Rockhopper Exploration (Petrochemicals) Limited	England & Wales	Ordinary	100	—	—
Rockhopper Exploration (Oil) Limited	Falkland Islands	Ordinary	100	(18,462)	(13,117)

Rockhopper Resources was acquired by means of a 500 1 share for share exchange on 23 February 2005 with 21,013,900 ordinary shares of £0.01 each being issued to fund this acquisition. The investment was accounted for at the par value of the shares issued taking advantage of the merger relief principles under the Companies Acts.

Rockhopper Resources Limited is the only subsidiary within the group to which this policy applies, as all the other subsidiaries have been 100% owned by the company since their creation. Rockhopper (Oil) Limited, incorporated in the Falkland Islands, is a wholly owned subsidiary of Rockhopper (Oil) Limited, incorporated in England and Wales.

During the year the company earned interest on the monies loaned to three of the subsidiaries as follows

	2011 \$'000	2010 \$ 000
Rockhopper Resources Limited	1,092	215
Rockhopper Exploration (Hydrocarbons) Limited	3,394	723
Rockhopper Exploration (Oil) Limited	391	206
	4,877	1,144

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2011

4 DEBTORS

	2011 \$'000	2010 \$'000
Due beyond one year	213,907	46,107
Other debtors	2,853	132
Accrued interest	426	—
Prepayments	15	35
Due within one year	3,294	167
	217,201	46,274

All amounts due beyond one year are due from subsidiary undertakings. These are the subject of a loan agreement signed on 26 September 2006. Under the terms of the loan agreement interest is payable on the balance outstanding at the accrual dates, being 30 September and 31 March, at a rate of 2.5% per annum over the base rate of the Bank of England. The repayment date is to be the earlier of (i) the tenth anniversary of the date that the first advance was made or (ii) the date of winding up or an administration order is made in respect of the company.

5 PAYMENTS ON ACCOUNT

All amounts are paid on behalf of subsidiary undertakings. See note 14 in the group accounts.

6 CREDITORS DUE WITHIN ONE YEAR

	2011 \$'000	2010 \$'000
Trade creditors	4,584	935
Accruals	7,966	136
Other creditors	100	—
	12,650	1,071

7 SHARE CAPITAL

	2011 Number	2010 Number
Shares in issue brought forward	174,104,755	80,514,520
Shares issued during the year		
– 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

	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

8 OTHER STATUTORY DISCLOSURES

	2011 \$'000	2010 \$'000
Total directors' remuneration for the year	3,030	2,664
Other employee salaries	399	31
Average number of employees	8	7

Statutory information on directors' remuneration and for other services provided by the company's auditor and its associates is given on a consolidated basis in the directors' report and notes 5 and 6 of the group accounts

9 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital \$'000	Share premium \$'000	Share based remuneration \$'000	Currency translation reserve \$'000	Retained losses \$'000	Total \$'000
At 31 March 2010	2,966	113,874	2,355	4,123	(13,158)	110,160
Options exercised during the year	18	940	—	—	—	958
Shares issued during the year	1,313	403,445	—	—	—	404,758
Share issue costs	—	(9,960)	—	—	—	(9,960)
Movement for the year	—	—	237	—	—	237
Transferred during the year	—	—	(424)	—	424	—
Profit during the year	—	—	—	—	4,142	4,142
At 31 March 2011	4,297	508,299	2,168	4,123	(8,592)	510,295

For share based remuneration, see note 7 within the group accounts

10 FINANCIAL COMMITMENTS

At the year end the company had annual commitments under non-cancellable operating leases in respect of land and buildings expiring as follows

	2011 \$'000	2010 \$'000
In less than one year	33	—
In the second to fifth year inclusive	70	16

11 POST BALANCE SHEET EVENTS

See note 24 within the group accounts

12 RELATED PARTIES

The company has taken advantage of the exemption available under FRS8 from disclosing transactions with members of the group

BACKGROUND TIMELINE BY CALENDAR YEAR

2004

Rockhopper is set up and is granted licences PL023 and PL024

2005

Farm In to Desire Petroleum licences PL003 and PL004 completed

Rockhopper is granted licences PL032 and PL033

IPO and Admission to AIM raising £15 million at 42p per share

2006

920km 2D seismic acquired with GSI in licences PL023 and PL024

Four CSEM lines acquired over licences PL023 and PL024

Positive CSEM results obtained

3D survey commences

2007

2D interpretation confirms potential P50 2.5 billion barrels potential recoverable on licences PL023 and PL024

850km² 3D survey completed with CGG Ventas, at that time, the largest in the Falklands area

Placing of new shares to raise £1.3 million at 37p per share

Site survey collected on Ernest with Wavefield Inseis

550 km additional 2D seismic collected with Wavefield Inseis

EIA commissioned on PL023 and PL024

2008

3D interpretation confirms potential P50 1.2 billion barrels potential recoverable on licences PL032 and PL033

Total prospects mapped now contain potential P50 3.7 billion barrels recoverable across all operated acreage

EIA commissioned on PL032 and PL033

SPD appointed to provide drilling expertise

Placing of new shares raises £3.6 million at 101p per share

2009

Competent Persons Report (CPR) completed by RPS Energy

First independently verified gas discovery in the Falklands, confirmed on the Johnson prospect

First contingent gas resource in the Falklands confirmed by RPS on Rockhopper acreage

Top 8 oil prospects considered by RPS Energy to contain potential 1 billion barrels recoverable

Environmental Impact Statements (EIS) submitted on all operated acreage

Desire Petroleum, a partner of Rockhopper, signs a Letter of Intent with Diamond Offshore for North Falkland Basin drilling campaign during 2010

Ocean Guardian rig secured and departs for Falkland Islands

2010

Ocean Guardian arrives in the Falkland Islands

Exploration well 14/10-2, on Sea Lion, declared as an oil discovery

Placing of new shares raises £48.5 million at 280p per share

Exploration well 26/6-1, on Ernest, declared as a dry hole

Discovery well on Sea Lion, 14/10-2, successfully flow tested at a sustained rate of over 2,000 barrels per day

Placing of new shares raises £206.3 million at 315p per share

3D seismic vessel, the Nadia, mobilised to begin work on the southern acreage in conjunction with Desire

2011

3D seismic vessel, the Asima, mobilised to begin work on the northern acreage in conjunction with Argos

Exploration well 14/10-3, on Sea Lion, declared non-commercial

Appraisal well, 14/10-4, on Sea Lion, successfully appraised

Appraisal well, 14/10-5, on Sea Lion, successfully appraised

3D seismic vessel, the Asima, demobilised from the northern acreage

3D seismic vessel, the Nadia, demobilised from the southern acreage

Appraisal well, 14/10-5, on Sea Lion, successfully flow tested at a sustained rate of over 5,500 barrels per day