

ROCKHOPPER EXPLORATION PLC

ANNUAL REPORT 2010



EXPLORE, APPRAISE, DEVELOP.

ANNUAL REPORT 2010

'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.

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AIM: RKH

www.rockhopperexploration.co.uk

BACKGROUND

TIMELINE

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 Veritas, 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

Well on Sea Lion prospect spudded

Well on Sea Lion declared as an oil discovery

Well on Ernest prospect spudded

Well on Ernest declared as a dry hole

KEY EVENTS

OPERATIONAL AND FINANCIAL

DURING THE YEAR:

- \$78m raised net of costs
- Two slots assigned for the Ocean Guardian
- Well 14/19-1 spudded on the Liz prospect
- \$65m of resources available at 31 March 2010

POST YEAR:

- Well 14/10-2 spudded on the Sea Lion prospect
- Well 14/10-2 on Sea Lion prospect declared as an oil discovery
- Best estimate of barrels recoverable on Sea Lion increased from 170m to 242m
- \$67m raised net of costs
- Well 26/6-1 spudded on the Ernest prospect
- Well 26/6-1 on the Ernest prospect declared as a dry hole
- \$120m of resources available at 30 June 2010



OCEAN GUARDIAN DEPARTS FOR THE FALKLAND ISLANDS

The group was ready to drill when the right opportunity arose and has been transformed by the discovery on the Sea Lion prospect

CHAIRMAN'S STATEMENT

DR PIERRE JUNGELS CBE



The discovery on the Sea Lion prospect has transformed the value proposition represented by the group. A pure exploration play, such as Rockhopper when it began, creates value through a number of discrete steps, each with its own set of risks and rewards, as it goes through the process of proving reserves then moving forward to production.

In chronological order, we see the key value points for the group as being:

- The winning of the exploration licences,
- The making of the first discovery on those licences,
- The testing of the discovery well to give an indication of its commercial potential,
- Confirmation of the size of the discovery for scoping development plans as well as the full exploration of the acreage,
- Completion of the field development plan, and
- First oil and subsequent production.

The first value point, the winning of the exploration licences, was achieved in the earliest days of the group. In 2004 we were awarded licences PL023 & PL024, in the south of the basin, and in 2005 we farmed into Desire Petroleum ("Desire") licences PL003 and PL004 and were awarded PL032 & PL033, the former Shell acreage in the north of the basin that contains the Sea Lion discovery.

The second value point, the making of the first discovery, took until 6 May 2010 when we announced the results of well 14/10-2 on the Sea Lion prospect. This discovery was the result of a great deal of rigorous technical work undertaken over the years since 2004 which enabled us to be drill ready by the start of the year under review and in a position to act on the opportunity to be part of the 2010 drilling programme initiated by Desire, our neighbouring licence holder and partner in PL003 & PL004.

Prior to drilling, RPS Energy ("RPS") had provided an independent review of the

possible size of the Sea Lion prospect, attributing it with a best estimate of 170 million barrels recoverable. At 170 million barrels recoverable, RPS had calculated a net present value, at \$80 per barrel and applying a 10% discount rate, for the prospect of \$2.5 billion. Following the drilling, the best estimate was increased by RPS to 242 million barrels recoverable, indicating that there could be significant upside still to be realised.

We spudded well 26/6-1 on the Ernest prospect on 23 July 2010 and declared it to be a dry hole on 17 August 2010. The well was drilled approximately 120 kilometres from the Sea Lion discovery in a previously undrilled part of the basin to test a different play type from that of Sea Lion. The well encountered good quality sands with high porosity and permeability and we intend to undertake detailed studies of all the data gathered.

We are fully funded to complete the well on the Ernest prospect, the flow test on the Sea Lion prospect, which we believe will help move the discovery forward towards being declared as commercial, and pay our 15% contribution to two further wells on PL003 & PL004, where Desire is the operator.

With the current programme funded and underway, we have therefore turned our planning focus to the fourth value point, confirmation of the size of the Sea Lion Field. This will require appraisal of the discovery on Sea Lion and to deliver this we see three distinct work streams, being technical, corporate and financial.

In technical terms, we need to establish the number and location of appraisal wells required on the Sea Lion prospect. We also need to revisit our prospect inventory in light of the new data from the recent wells to establish where we would like to drill further exploration wells and whether, and if so where, additional 3D seismic should be shot.

In corporate terms, I am delighted to report that at the executive level Dave Bodecott, our exploration director, and Peter Dixon-Clarke, our finance director, are both now full time employees. At the non-executive level we will look for two additional non-executives thereby bringing the total number of directors to eight and creating the balance between executive and non-executive that the Combined Code requires for good governance.

In financial terms, once we have an agreed work programme for the next phase, we will be in a position to cost it and consider how best to finance it. As part of this planning, we are undertaking a review of our advisers and considering whether we should remain on the Alternative Investment Market ("AIM") or move up to the Main Market of the London Stock Exchange, a decision we will take when it is right for the group.

The fifth value point, the completion of a field development plan, cannot be concluded until the discovery is appraised and confirmed as to its size, but the research and planning as to how best to deliver this has already been started.

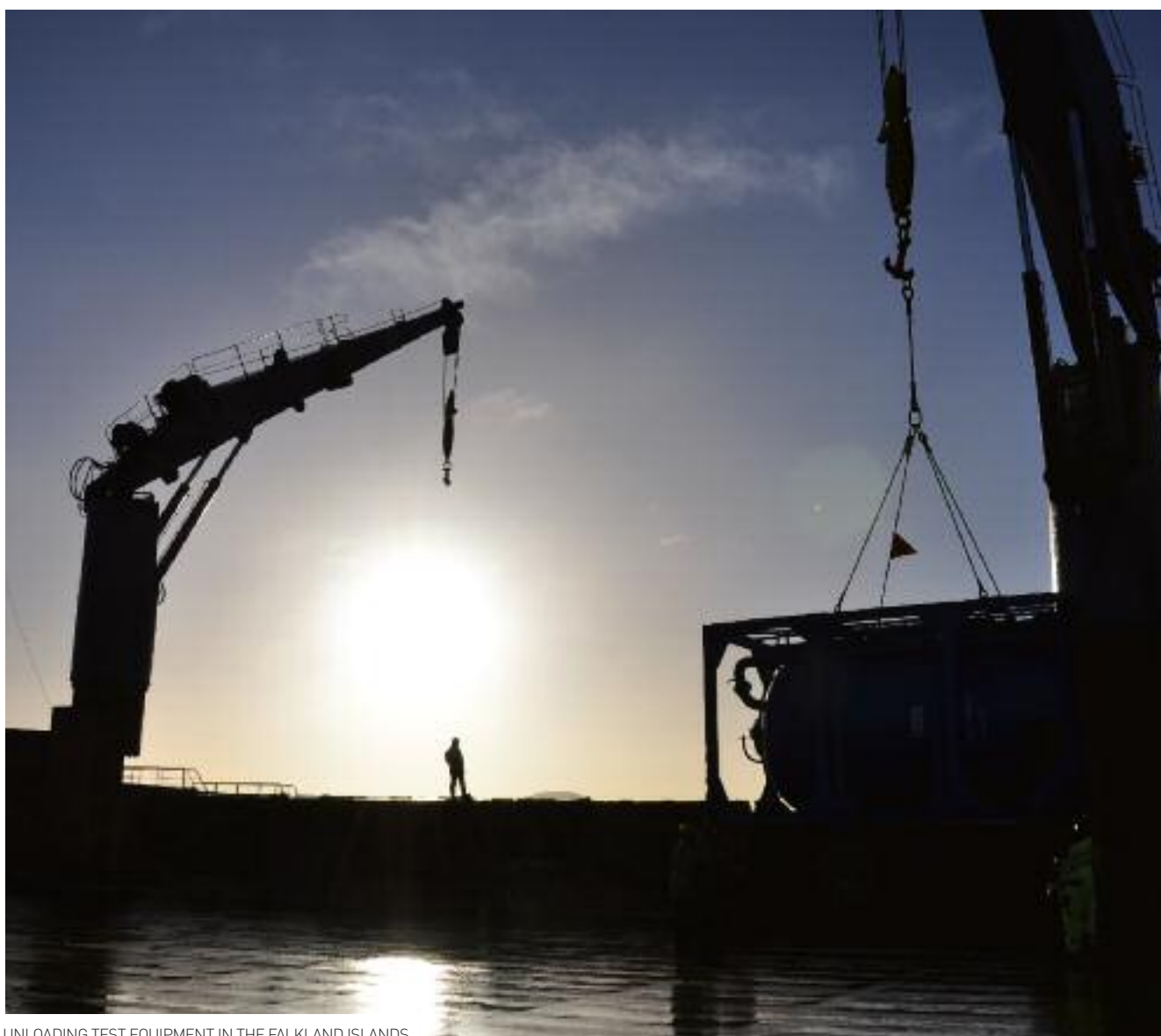
CONCLUSION

In conclusion, the group has been transformed by the discovery on the Sea Lion prospect and is now working through the steps required to ensure that you, as shareholders, get the best possible value from it.

The discovery has been the result of over six years of hard work and I would like to thank my board, the consultants we have engaged, the Falkland Islands Government and you, as shareholders, for investing both time and money in this success.

DR PIERRE JUNGELS CBE
CHAIRMAN

17 AUGUST 2010



UNLOADING TEST EQUIPMENT IN THE FALKLAND ISLANDS

We are in the unusually strong position of holding a 100% interest in a significant acreage position

MANAGING DIRECTOR'S REVIEW

SAMUEL MOODY



The year ended 31 March 2010 saw us put into place the last steps required to drill our first exploration well. The well itself, 14/10-2, on the Sea Lion prospect, was spudded on 16 April 2010 and declared as an oil discovery on 6 May 2010.

REVIEW OF THE YEAR ENDED 31 MARCH 2010

The submission of our environmental impact statements on 9 March 2009 meant that the previous year had seen the culmination of six years of work in getting the company ready to drill. The work itself began in 2004 with the award of the first licences, through the shooting of 2D and 3D seismic and controlled source electromagnetic surveys, benthic sampling and extensive data processing and interpretation.

All the work and planning of the previous six years meant that at the start of this year the company was ready to drill when the right opportunity arose. The opportunity itself came on 18 September 2009 with the announcement that Desire had secured a rig, the Ocean Guardian, from Diamond Offshore and that we planned to take up two of the options available, subject to funding.

Soon after announcing that a rig had been secured we appointed AGR Petroleum Services as our well management company. The considerable logistics chain required to support a multi-well campaign in a remote location was put in place and new facilities, including a new pipe yard, warehouses and offices were constructed just outside Stanley, the capital of the Falkland Islands.

To secure our two well options and meet our share of the three Desire wells that we had farmed-into, we needed additional funds and so in October 2009 we undertook a placing of 92,592,593

new shares at 54 pence per share raising £50 million, before expenses.

During this time, the Ocean Guardian had been in Scotland at Invergordon in the Cromarty Firth and was mobilised from there on 26 November 2009 on the start of its 8,000 mile journey that would take until February 2010 to complete.

On its arrival in the North Falkland Basin, the first well of the campaign to be drilled by the Ocean Guardian was 14/19-1, on the Liz prospect, in which we hold a 7.5% working interest. Liz was spudded on 22 February 2010 and encountered hydrocarbons, subsequently being declared as a gas discovery, but one with a poor quality reservoir and so was subsequently plugged and abandoned on 6 April 2010 at 3,667 metres measured depth.

THE DISCOVERY ON SEA LION

The 14/10-2 well, on the Sea Lion prospect, was spudded on 16 April 2010 and declared as an oil discovery on 6 May 2010. The top oil sand was encountered at 2,400 metres measured depth, immediately beneath a thick section of shale, which we believe acts as a regional seal, and every sand encountered beneath this level is indicated on logs as being charged with oil. The gross oil column is 217 metres and no oil water contact was encountered, giving us encouragement that the discovery will prove to be significantly larger than the 60 million barrels recoverable that we would consider to be the minimum commercially viable size. Furthermore, we believe that this discovery increases the likelihood of there being more discoveries or successful appraisal wells elsewhere in our licences.

Having run a suite of wireline logs, we announced the Sea Lion discovery on 6 May 2010, confirming a net pay of

53 metres in multiple zones with logging data showing good quality reservoir units charged with oil. That same logging data also indicated that the well had penetrated a number of separate reservoir units with two separate pressure regimes and our analysis is that this is because the well has penetrated more than one oil charged feature. The main Sea Lion fan appears to have a deeper feature underlying it and both the Sea Lion fan and the deeper feature are indicated as having good quality reservoirs charged with oil. Logging data confirm that porosity and permeability are good at the well location.

Following final logging, the well was suspended on 19 May 2010 to allow for an initial flow test at a later date and equipment was mobilised from the United Kingdom for the test and is now in the Falkland Islands.

Data from the well was provided to RPS, an independent expert, to report on the possible size of the discovery. RPS had previously reported on the possible size of the Sea Lion prospect in their competent person's report, issued in May 2009 when they had attributed a best estimate of 170 million barrels recoverable to it. With the additional data from the well, RPS were able to increase their best estimate by 72 million barrels to 242 million barrels recoverable, and an announcement was made to that effect on 4 June 2010.

Down-hole fluid samples, taken using a modular dynamic testing tool, were later confirmed as oil with subsequent analysis showing that oil as medium gravity, with APIs ranging from 26.4 to 29.2 degrees. The pressurised fluid samples have been analysed under reservoir conditions in a specialist laboratory and indications are that the oil appears to be highly mobile at those conditions.

SINCE THE SEA LION DISCOVERY

In order to fund the additional requirements brought about by the discovery, particularly the Sea Lion flow test, we announced on 8 June 2010 that we had placed 17,320,000 shares, the maximum number permitted under our existing authorities, at 280 pence per share raising £48.5 million, before expenses.

On 23 July 2010, we spudded 26/6-1, our exploration well on the Ernest prospect and declared it to be a dry hole on 17 August 2010. Following completion of the well on Ernest, we intend to re-enter the well on Sea Lion, that we suspended on 19 May 2010, and perform a flow test to allow us to gather the data required in order to design fully our appraisal programme and give us an early indication of the production potential of the reservoir sands.

A full re-interpretation of the 3D seismic data in licences PL032 and PL033 is currently taking place. This interpretation will allow us to select a number of additional exploration prospects and possible appraisal locations for the Sea Lion discovery. In the new high grading of exploration prospects we will focus on identifying features that exhibit the same or similar seismic characteristics to those found at the Sea Lion discovery location.

OUTLOOK

We are in the unusually strong position of holding a 100% interest in a significant acreage position with a discovery that we believe opens a new play fairway on that acreage. The Sea Lion prospect lies within licence PL032 and under the terms of that licence we are required to submit a field development plan within three

years of spudding the discovery well that subsequently leads to the declaration of a discovery area.

Geographically, we intend to maintain our focus on developing our existing acreage and continuing to work with the Falkland Islands Government in doing so. The main challenge will continue to be the logistics around operating in a frontier area but with proper planning and the goodwill of all the key stakeholders we are confident that any issues can be resolved.

At 31 March 2010 resources available for exploration stood at \$64.5 million, being \$14.5 million of cash, \$36.0 million of restricted cash and \$14.0 million of payments on account. At 30 June 2010 the equivalent figure stood at \$119.7 million following the placing to raise \$67.2 million after expenses.



SECTIONS OF RISER ON THE OCEAN GUARDIAN WAITING TO BE ASSEMBLED

RPS were able to increase their best estimate by 72 million to 242 million barrels recoverable

I would like to thank everyone who has helped to bring the company to its current stage of development. In particular I am most grateful for the support of the board, all of our technical and operational employees and consultants, Diamond Offshore Drilling, AGR Petroleum Services, those we have worked with in the Falkland Islands, particularly the Mineral Resources Department of the Falkland Islands Government, my co-founder Richard Visick, and of course our shareholders, many of whom have been with us since 2005.

These developments, combined with our strengthened balance sheet position and technical progress, place us in an excellent position from which to move forwards through the next phases of our corporate and technical development and maximise the value of our acreage.

SAMUEL MOODY
MANAGING DIRECTOR

17 AUGUST 2010

BOARD OF DIRECTORS



01



02



03



04



05



06

1 DR PIERRE JUNGELS CBE 66 **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 listed Oxford Catalysts. He was twice President of the Institute of Petroleum, from 1987 to 1989 and 2002 to 2003.

2 SAMUEL MOODY 40 **MANAGING DIRECTOR**

Sam is a co-founder of Rockhopper and has been responsible for building and managing the group from its formation in early 2004. He works closely with Dr Jungels in his role at Rockhopper. 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 44 **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 57 **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 56 **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 53 **NON-EXECUTIVE 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 (South East England & Anglia) from 2002 to 2005. Chris is the non-executive Chairman of Goldenport Holdings Inc and a non-executive audit committee member of the UK Department of Culture, Media and Sport.

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 MARCH 2010

The directors submit their report and financial statements of Rockhopper Exploration plc for the year ended 31 March 2010.

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. There are no plans to change this for the foreseeable future.

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 (2009: £nil).

BUSINESS REVIEW

The group has declared a loss for the year ended 31 March 2010 of \$7.7 million (2009 restated: \$5.1 million) which equates to a loss per share of 6.65 cents (2009 restated: loss of 6.45 cents). The loss has increased over the comparative period primarily due to an increase of administration expenses, particularly remuneration.

Finance income for the period fell to \$0.1 million from \$0.3 million last year. The decrease was due to the fall in base rates in both the UK and the US.

Administrative expenses were \$3.7 million against \$1.8 million for the comparative period, due mainly to two years worth of bonus payments being charged to the same year following a change to the scheme (see the remuneration report).

The share based expense of \$0.9 million compares to \$0.5 million for the previous period. The increased charge is due to the granting of share appreciation rights to executive directors and options to an adviser during the year.

Shareholders' equity has increased by \$72.4 million since the restated year ended 31 March 2009 with the total loss of \$7.7 million for the year offset mainly by the share placing of \$78.4 million.

FINANCIAL OUTLOOK FOR THE NEXT FINANCIAL YEAR

At the current levels of expenditure, the placings in October 2009 and June 2010 raising \$78.4 million and \$67.2 million after costs respectively means that the company has sufficient funds to finance the working capital needs of the group for at least the next twelve months.

With the announcement of the discovery on Sea Lion, the next financial year will see a considerable change in activity. Whilst the company is continuing to review all financing options it is highly likely to include a fund raising. The size of any fund raising would range from enough to support the appraisal of Sea Lion, right up to a full programme to include further 3D seismic and exploration wells. The decision as to which is the right course of action will be guided by what is best for the group at that time.

Concerns as to inflation may begin to outweigh concerns around the strength of the economy and put pressure on base rates to be increased. Increases in either the UK or US rates increases the group's finance income as the group's funds earn a fixed margin relative to the UK base rate and US federal funds rate.

Overheads are expected to increase to reflect the increase in activity next year, with an increase in the number of staff employed and travel and professional costs.

At 31 March 2010 resources available for exploration stood at \$64.5 million (2009 restated: \$6.4 million). This figure was comprised of \$14.5 million of cash, \$36.0 million of restricted cash and \$14.0 million of payments on account.

KEY PERFORMANCE INDICATORS (“KPIs”)

As the group is a pure explorer with no production or proven reserves, standard industry KPIs are not relevant. Management therefore focuses on the achievement of work programmes and protection of licences. Throughout the year management has exceeded minimum work programme requirements and licences have therefore been protected.

SUBSTANTIAL SHAREHOLDERS

At 12 August 2010 the company has been notified of interests of 3% or more of the company’s voting rights, based on an issued share capital of 192,539,606, shown below:

Shareholder/Fund manager	Percentage of voting right
Royal London Asset Management	5.74%
R F Visick	5.45%
Capital Research and Management Company	4.50%
Gartmore Investment Limited	4.87%

DIRECTORS AND THEIR INTERESTS

The present members of the board are as listed on page 7.

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

	At 31 March 2010 Ordinary 1p shares	At 31 March 2009 Ordinary 1p shares
P J M H Jungels	866,074	696,074
S J Moody	1,128,435	885,455
P J Dixon-Clarke	253,639	145,129
D Bodecott	199,510	91,000
K J Crowle	23,809	23,809
C J Walton	23,809	23,809
	2,495,276	1,865,276

R F Visick resigned as a director on 22 February 2010. The latest notification by R F Visick showed holdings of 10,497,739 shares.

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.

On 6 July 2010, P J Jungels and C J Walton bought a further 23,350 and 8,300 shares respectively. These shares are not included in the amounts above.

DIRECTORS’ SERVICE CONTRACTS

Apart from the automatic termination at 70 years of age in the case of P J Jungels and 65 years of age for the other executive directors, 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.

STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

Details of contract and appointment dates are set out below:

	Appointment date	Contract date
Executive directors		
P J Jungels	21 February 2005	8 August 2005
S J Moody	21 February 2005	8 August 2005
P J Dixon-Clarke	29 December 2004	8 August 2005
D Bodecott	1 April 2007	1 April 2007
Non-executive directors		
K J Crowle	9 June 2005	8 August 2005
C J Walton	9 June 2005	8 August 2005

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

See note 23.

RELATED PARTY TRANSACTIONS

See note 24.

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 a charitable donation of \$8,820 to Falklands Conservation (2009: £nil) and no political donations (2009: £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 22 days (2009: 71 days), on the basis of accounts payable as a percentage of administrative expenses.

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.

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 seven employees at the year end, all but one of whom are directors. Since then it has employed a further three people and is likely to appoint certain technical managerial employees during the coming year. In the event of an employee becoming disabled, every effort would be made to ensure that employment continues and that appropriate training is arranged.

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

Baker Tilly UK Audit LLP resigned as auditor on 9 July 2010 and were replaced by KPMG Audit Plc with immediate effect. A resolution to reappoint the auditor, KPMG Audit Plc, will be proposed at the next Annual General Meeting.

On behalf of the Board

PETER DIXON-CLARKE ACA
FINANCE DIRECTOR

17 AUGUST 2010

CORPORATE GOVERNANCE STATEMENT

The company is not specifically required to comply with the June 2008 Combined Code (the "Code") on corporate governance, although the board seeks to comply with the Code wherever practical and appropriate.

Outlined below is a summary of how the company is addressing the principles set out in the Code.

THE BOARD

The board of the company currently consists of four executive and two independent non-executive directors, 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.

A senior independent non-executive director has not been appointed as, given the size and nature of the group, the directors do not believe that such an appointment is necessary. The group's website contains an email contact for 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.

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.

The board's executive chairman, P J Jungels, was independent upon appointment but has not been considered independent thereafter, as he holds options over shares of the company. He meets with the non-executive directors, without management present, at least once a year.

The board considers the non-executive directors, C J Walton and K J Crowle to be independent. Other than their shareholdings and salaries, 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 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, REMUNERATION AND NOMINATION COMMITTEES

Audit, 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. During the year under review, the company also had a finance committee under the chairmanship of R F Visick. However, with the resignation of R F Visick on 22 February 2010 the decision was subsequently taken to combine the finance and audit committees.

In addition to C J Walton, the audit committee comprises K J Crowle, with other directors, attending from time to time as observers by invitation. The make up of the committee complies with the Code.

In addition to K J Crowle, the remuneration committee comprises C J Walton. The make up of the committee complies with the Code.

In addition to P J Jungels, the nomination committee comprises C J Walton and K J Crowle with the managing director 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). 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 both members of the remuneration committee to be independent. The members are K J Crowle, as chairman, and C J Walton.

The committee formally met twice during the year, but also held a number of informal discussions. The committee considered executive salaries for the year ended 31 March 2010 (held constant), executive bonuses (the bonus in respect of 2009 being 100% of net salary, with a requirement that 50% of the reward be used to purchase shares in the company and the bonus in respect of 2010 being 100% of net salary, with a recommendation that an element of the reward be used to purchase shares in the company), bonus limits and performance considerations for the forthcoming year (being a maximum of 200% of net salary, with particular attention to be paid to the price and size of funding from farm-out, company sale, and/or issue of equities) and the annual grant of share appreciation rights (SARs) under the existing Rockhopper Exploration plc Unapproved Employee Share Option Scheme.

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.

More information is set out in the director's attendance table and directors' remuneration report.

NOMINATIONS 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 nomination committee was chaired by the chairman of the board, P J Jungels, and its other members were R F Visick and either of K J Crowle or C J Walton.

Subsequent to the year end, the composition of the committee was changed. From 6 July 2010, the committee has been chaired by the chairman of the board, P J Jungels, with K J Crowle and C J Walton as its other members. The board considers K J Crowle and C J Walton to be independent, hence a majority of the committee is now considered to be independent.

The nominations committee did not meet during the year, nor were any appointments made to the board or to senior management. No external consultants were used.

AUDIT COMMITTEE

The members of the audit committee are C J Walton, as chairman, and K J Crowle. The board considers both members of the audit committee to be independent and is satisfied that at least one member of the audit 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 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 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 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 committee has established procedures for receiving and handling complaints concerning accounting or audit matters. In addition, should shareholders have concerns that have not been adequately addressed by the chairman of the board or the managing director, they are requested to contact the chairman of the audit committee.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

The audit 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 committee. During the year, no non-audit services, apart from tax, were provided. The finance director monitors the status of all services being provided by the external auditor.

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

The audit committee held two 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 committee meeting, the chairman of the audit committee reported to the board on the principal matters covered at the meeting and minutes of the meetings were circulated to all board members.

During the year, the business considered and discussed by the audit 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,
- 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 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.

During the year, the audit committee unanimously recommended to the board that a resolution for the re-appointment of Baker Tilly UK Audit LLP as the group's external auditor for the financial year ended 31 March 2010 be put to the 2009 AGM. The committee did so, because it was satisfied with their independence, their professional competence and their performance over the preceding year.

Subsequent to the end of the financial year, the audit 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.

This process of "refreshing" was prompted because Baker Tilly UK Audit LLP had served for five years and the group was about to enter a period of increased growth and complexity. Baker Tilly UK Audit LLP had served the group well over the five years and was one of the five firms invited to tender. On 6 July 2010, the board accepted the audit committee's recommendation that the external audit be awarded to KPMG Audit Plc.

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, managing director and finance director 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 regularly briefs the board on these contacts and relays 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	Remuneration	Finance	Nominations
DIRECTOR					
P J Jungels	10*	-	-	-	0*
S J Moody	10	-	-	-	-†
P J Dixon-Clarke	10	2†	-	-	-
D Bodecott	10	-	-	-	-
K J Crowle	9	2	2*	0	0
R F Visick	9	-	2	0	0
C J Walton	10	2*	2	0	0
Total meetings during year	10	2	2	0	0

* Chairman

† Invitee

R F Visick resigned on 22 February 2010 and attended all of the board meetings held whilst he served as a director. Following that resignation the decision was taken to include the scope of the finance committee within that of the audit committee.

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 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 2011.

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 and eligibility to participate in the company's share option plan. In the case of part time executive directors, overtime payments can also be paid. The share option package is designed to link the remuneration of the executive directors to the returns enjoyed by shareholders. During the year ending 31 March 2011, the committee intends to undertake a comprehensive review of remuneration.

DIRECTORS' REMUNERATION

The directors' remuneration for the year ended 31 March 2010 was:

	Salary £'000	Bonus re 2009 £'000	Bonus re 2010 £'000	2010 Total £'000	2009 Total £'000
P J Jungels	62	104	104	270	85
S J Moody	153	260	260	673	211
P J Dixon-Clarke	69	116	116	301	94
D Bodecott	80	116	116	312	122
K J Crowle	30	-	-	30	30
C J Walton	30	-	-	30	30
R F Visick	28	-	-	28	30
Total directors' remuneration	452	596	596	1,644	602
Remuneration above converted to US\$'000	714	997	953	2,664	1,083

For the year under review, 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 year contains overtime of £11,417.

The bonus re 2009 relates to the directors' performance for the year ended 31 March 2009 and represents the maximum bonus potential, as determined by the committee, made in particular in recognition of the work leading up to the group's declaration of a contingent gas resource on the Johnson prospect in May 2009.

The bonus re 2010 relates to the directors' performance for the year ended 31 March 2010 and represents the maximum bonus potential, as determined by the committee, made in particular in recognition of the group's securing of a rig and the funding for the 2010 campaign.

Under the previous timings of the remuneration committee review, any bonus would normally have been paid during the following financial year. However, for the financial year ended 31 March 2010, the committee has chosen to accelerate its determination of bonus related pay so that it takes place prior to the year end, and so this year has been charged with two years worth of bonuses.

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 represents 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.

SHARE OPTIONS

The share options in force at 31 March 2010 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")

Name	Number of SARs brought forward	SARs awarded during the year	Number of SARs carried forward
P J Jungels	324,675	94,314	418,989
S J Moody	797,402	231,636	1,029,038
P J Dixon-Clarke	355,844	103,368	459,212
D Bodecott	355,844	103,368	459,212
	1,833,765	532,686	2,366,451

All the SARs awarded are still held. The total SARs awarded represents 1.23% of the total shares issued of 192,539,606. 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 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.

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 one well, 14/10-2, and are currently on location for our second well, 26/6-1, and we have had no environmental or lost time incidents, a record we aim to continue.

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 stakeholder is AGR Petroleum Services ("AGR"), who provide well management services to the group, and through whom most other contractors are engaged. AGR is the world's largest independent well management group and has drilled hundreds of wells for its clients throughout the world.

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") is then created for each well and this defines clear responsibilities and lines of communication as well as how the interfaces between the group, AGR and the drilling contractor are managed in the operational phases of each project and in the event of an incident. The drilling contractor in this case is Diamond Offshore Drilling who operates its fleet, including over thirty semisubmersibles, internationally in a wide range of environments. Offshore, both the group and AGR work under Diamond's GEMS safety management system.

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 a group director, most often Sam Moody the managing director, has made regular visits to the Islands since the granting of the licences. Each executive director, as well as the drilling manager, has visited during 2010 and a drilling adviser is employed by the group and 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.

From the outset, the group has acknowledged the role of the Falkland Islanders and on 10 May 2005, options for shares in Rockhopper were granted to a number of individuals employed in the Islands as well as to Falklands Conservation, a charity registered in the UK, to whom the group also made donations during the years ended 31 March 2008 and 2010.

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 is seen as a strength as it makes for a clear and simple story when communicating with current, and potential, investors.
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.
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	An independent industry recognised expert 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	Budgets, also known as agreed financial expenditures ("AFEs") are produced by an independent and industry recognised drilling manager 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 full competent person's report is included a high level review of the related economics at NPV10 for each primary prospect. Recent work on the economics of the licences suggests that a prospect 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.
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 the 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. 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 liabilities be incurred, once their likely size and timing is known.
Counter-party risk, both in terms of monies held by institutions and advance payments made to drilling partners	No more than two thirds of the group's total cash resources are held at the same financial institution. The group only enters into drilling activities with companies it considers not to constitute a credit risk.

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 issued strong rebuttals to the Argentine claims, recently reinforced by the Prime Minister at the June 2010 G20 meeting.
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 2010 set out on pages 23 to 52. The financial reporting framework that has been applied in their 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 auditors' 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 AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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 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/UKNP.

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 2010 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 AND UNDER THE TERMS OF OUR ENGAGEMENT

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; and
- the information given in the Corporate Governance Statement set out on pages 12 to 15 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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 and under the terms of our engagement 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
- 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 15, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 12 to 15 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

17 AUGUST 2010

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 \$'000	2009 restated* \$'000
EXPENSES			
Exploration and evaluation expenses	3	(644)	(692)
Administrative expenses	4	(3,682)	(1,840)
Charge for share based payments	7	(920)	(481)
Foreign exchange movement		(2,583)	(2,440)
Total expenses		(7,829)	(5,453)
Finance income		133	311
Loss before tax		(7,696)	(5,142)
Income tax expense	8	-	-
LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT COMPANY			
		(7,696)	(5,142)
Loss per share: cents (basic & diluted)	9	(6.65)	(6.45)

* See change in accounting policy, note 1.4.

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2010

	2010 \$'000	2009 restated* \$'000
Loss for the year	(7,696)	(5,142)
Other comprehensive income for the year	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(7,696)	(5,142)

* See change in accounting policy, note 1.4.

GROUP BALANCE SHEET

AS AT 31 MARCH 2010

	Notes	31 March 2010 \$'000	31 March 2009 restated* \$'000	1 April 2008 restated* \$'000
ASSETS				
Intangible exploration and evaluation assets	10	15,912	1,762	1,553
Property, plant and equipment	11	48	20	6
Other receivables	12	170	54	35
Payments on account	13	14,049	-	-
Restricted cash	14	35,955	251	-
Cash and cash equivalents	15	14,485	6,136	3,525
TOTAL ASSETS		80,619	8,223	5,119
LIABILITIES				
Other payables	16	1,071	1,109	1,047
TOTAL LIABILITIES		1,071	1,109	1,047
EQUITY				
Share capital	17	2,966	1,420	1,330
Share premium	18	113,874	36,210	28,597
Share based remuneration	18	2,355	1,795	1,371
Merger reserve	18	(243)	(243)	(243)
Foreign currency translation reserve	18	4,123	4,123	4,123
Retained losses	18	(43,527)	(36,191)	(31,106)
ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY		79,548	7,114	4,072
TOTAL LIABILITIES AND EQUITY		80,619	8,223	5,119

* See change in accounting policy, note 1.4.

These financial statements were approved by the directors and authorised for issue on 17 August 2010 and are signed on their behalf by:

SAMUEL MOODY
MANAGING DIRECTOR

PETER DIXON-CLARKE ACA
FINANCE DIRECTOR

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

	Share capital \$'000	Share premium \$'000	Share based remuneration \$'000	Merger reserve \$'000	Foreign currency translation reserve \$'000	Retained losses restated* \$'000	Total equity restated* \$'000
Balance at 1 April 2008	1,330	28,597	1,371	(243)	4,123	(6,717)	28,461
Effect of change in accounting policy*	-	-	-	-	-	(24,389)	(24,389)
Balance at 1 April 2008 (restated)	1,330	28,597	1,371	(243)	4,123	(31,106)	4,072
Total comprehensive income for the year	-	-	-	-	-	(5,142)	(5,142)
Issue of shares, net of costs	75	7,151	-	-	-	-	7,226
Share based payments	-	-	481	-	-	-	481
Exercise of share options	15	462	(57)	-	-	57	477
Total contributions by and distributions to owners	90	7,613	424	-	-	57	8,184
Balance at 31 March 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, net of costs	1,530	76,860	-	-	-	-	78,390
Share based payments	-	-	920	-	-	-	920
Exercise of share options	16	804	(360)	-	-	360	820
Total contributions by and distributions to 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

*See change in accounting policy, note 1.4.

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	2010 \$'000	2009 restated* \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss after tax	(7,696)	(5,142)
Adjustments to reconcile net losses to cash utilised		
Depreciation	30	10
Share based payment charge	920	481
Exploration expenses	644	692
Operating cash flows before movements in working capital	(6,102)	(3,959)
Changes in:		
Receivables	(14,165)	(19)
Payables	(38)	62
Cash utilised by operating activities	(20,305)	(3,916)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(14,794)	(901)
Purchase of equipment	(58)	(24)
Restricted cash	(35,704)	(251)
Cash utilised by investing activities	(50,556)	(1,176)
CASH FLOWS FROM FINANCING ACTIVITIES		
Options exercised	820	477
Issue of share capital	82,617	7,559
Share issue costs	(4,227)	(333)
Cash generated from financing activities	79,210	7,703
Net cash inflow	8,349	2,611
Cash and cash equivalents brought forward	6,136	3,525
CASH AND CASH EQUIVALENTS CARRIED FORWARD	14,485	6,136

* See change in accounting policy, note 1.4.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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) and Interpretations of those standards, as issued by the International Accounting Standards Board and applicable legislation. The consolidated financial statements were approved for issue by the board of directors on 17 August 2010 and are subject to approval at the Annual General Meeting of shareholders on 30 September 2010.

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"). The functional and presentational currency of all the companies within the group is considered to be US\$.

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

1.4 CHANGE IN ACCOUNTING POLICY

(i) Oil and gas assets

In the year, the group has changed its oil and gas assets accounting policy from a full cost policy to a successful efforts policy. Under the full cost method, all expenditure incurred in connection with and directly attributable to oil and gas assets was capitalised. Under the successful efforts policy geological and geophysical costs are expensed immediately to the income statement, and the costs of unsuccessful prospects are expensed in the income statement in the period in which they are determined to be unsuccessful.

The group believes the successful efforts policy provides reliable and more relevant information.

In accordance with IAS8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparatives have been restated accordingly.

The tables below show the impact of the change in accounting policy:

LOSS BEFORE INCOME TAXES

	2010 \$'000	2009 \$'000
Loss before change in accounting policy	(7,052)	(4,450)
Exploration expenses written off	(644)	(692)
Loss after change in accounting policy	(7,696)	(5,142)
Loss per share: cents (basic and diluted)		
As reported before change in accounting policy	(6.10)	(5.58)
Adjustment due to change in accounting policy	(0.55)	(0.87)
Restated after change in accounting policy	(6.65)	(6.45)

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES CONTINUED

ASSETS	2010 \$'000	2009 \$'000	2008 \$'000
Intangible exploration and evaluation assets before change in accounting policy	41,637	26,843	25,942
Adjustment due to change in accounting policy	(644)	(692)	(24,389)
Cumulative effect from prior years	(25,081)	(24,389)	-
	15,912	1,762	1,553
CONSOLIDATED SHAREHOLDERS EQUITY			
	2010 \$'000	2009 \$'000	2008 \$'000
Consolidated shareholders equity before change in accounting policy	105,273	32,195	28,461
Adjustment due to change in accounting policy	(644)	(692)	(24,389)
Cumulative effect from prior years	(25,081)	(24,389)	-
	79,548	7,114	4,072

(ii) Changes in accounting standards

IAS1 Presentation of Financial Statements (revised) introduced format and content changes to the financial statements. In particular it has required the presentation of a statement of comprehensive income. There have been no changes to the reported results or financial position as a result of adopting the revised standard.

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:

- IFRS2 Share based payments (Amendment relating to vesting conditions and cancellations)
- IFRS7 Financial Instruments: Disclosures (Amendment enhancing disclosure about fair value and liquidity risk)
- IFRS8 Operating Segments (New standard identifies operating segments based on entity's internal system for reporting information to senior management)
- IAS23 Borrowing Costs (Revision to prohibit immediate expensing)
- IAS32 Financial Instruments: Presentation (Amendments relating to puttable instruments and obligations arising on liquidation)
- IFRIC13 Customer loyalty programmes
- IFRIC15 Agreements for the construction of real estate
- IFRIC16 Hedges of a Net Investment in a Foreign Currency
- IFRIC18 Transfers of Assets from Customers Annual improvements to IFRSs (May 2008)
- IAS27 Consolidated and separate financial statements (amendment)

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.

- IFRS1 (amended)
- IFRS2 Group cash settled share based payment transactions
- IFRS3 (amended)
- IAS32 Financial Instruments: Presentation
- IFRIC17 Distributions of Non-cash Assets to Owners Annual improvements to IFRSs (April 2009)

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 26/6-1 on the Ernest prospect. Immediately following that the group has committed to conducting a flow test on well 14/10-2 and then paying a 15% share, up to 105% of the initial AFEs, of the dry hole costs of up to two further wells on licences PL003 and PL004. At 30 June 2010 the group had available resources of \$119.7 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.

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.

The financial statements consolidate the results, cash flows and assets and liabilities of the company and its wholly owned subsidiary undertakings by the method of merger accounting.

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 licence, exploration, appraisal and other directly attributable costs are initially capitalised in well, prospect, or other specific, cost centres as appropriate, pending determination.

Pre-licence, geological and geophysical costs

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

Exploration and evaluation costs

Costs of E&E such as the legal right to explore, exploration and appraisal drilling and testing are initially capitalised as E&E assets.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES CONTINUED

(D) OIL AND GAS ASSETS CONTINUED

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 prospect 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 and a 50% statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proved and probable reserves are 90% and 10%, respectively.

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

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

Furthermore:

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

Development and production assets

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

Depreciation of producing assets

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

(E) CAPITAL COMMITMENTS

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

1 ACCOUNTING POLICIES CONTINUED**(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 2010	31 March 2009	31 March 2008	31 March 2007
£ : US\$	1.51	1.42	2.00	1.96

(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) 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.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the group with maturities of less than three months. They are stated at carrying value which is deemed to be fair value.

(iv) 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.

(v) Trade payables

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

(vi) Equity instruments

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES CONTINUED

(I) INCOME TAXES AND DEFERRED TAXATION

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").

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.

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.

(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:

Computer and office equipment	Three years
Leasehold improvements	Ten years

(L) CURRENT, NON CURRENT DISCLOSURE

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

(M) LEASING

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

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

2 USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

3 EXPLORATION AND EVALUATION EXPENSES

	2010 \$'000	2009 \$'000
Allocated from administrative expenses (see note 4 below)	641	278
Other	3	414
	644	692

4 ADMINISTRATIVE EXPENSES

	2010 \$'000	2009 \$'000
Directors' salaries, including bonuses (see note 5 below)	2,664	1,083
Other employees salaries	31	-
National insurance costs	332	129
Allocated to exploration and evaluation expenses	(641)	(278)
Total staff costs	2,386	934
Auditor's remuneration (see note 6 below)	101	71
Other professional fees	385	277
Travel	193	188
Office rentals	35	57
Depreciation	30	10
Other	552	303
	3,682	1,840

The average number of staff employed during the year was 7 (2009: 7).

5 DIRECTORS' REMUNERATION

	2010 \$'000	2009 \$'000
Executive remuneration, including bonuses	2,521	902
Non-executive fees	143	181
	2,664	1,083
Gains made on exercise of share options	-	48
	2,664	1,131

None of the directors are accruing retirement benefits under either money purchase or defined benefit pension shares or any other such benefits in kind. The total remuneration of the highest paid director was £153,500 (2009: £153,500) annual salary plus total bonuses of £520,339 (2009: £57,500). This equalled \$1,090,555 (2009: \$424,804) at the prevailing rate of exchange.

Directors' remuneration, by director, is separately disclosed in the directors' remuneration report on the following pages:

Directors' remuneration page 16.

Directors' interest in outstanding share options page 17.

Directors' interest in outstanding SARs page 17.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

6 AUDITOR'S REMUNERATION

	2010 \$'000	2009 \$'000
Current – KPMG Audit Plc		
Fees payable to the company's auditor for the audit of the company's annual financial statements	56	–
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	–	–
Tax services	12	–
Predecessor – Baker Tilly UK Audit LLP		
Fees payable to the company's auditor for the audit of the company's annual financial statements	–	20
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	–	8
Other services pursuant to legislation	10	12
Tax services	23	31
	101	71

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.

	2010 \$'000	2009 \$'000
Charge for the options granted on 8 August 2005	46	449
Charge for the share appreciation rights granted on 25 November 2008	114	32
Charge for the share appreciation rights granted on 3 July 2009	71	–
Charge for the options granted on 23 October 2009	689	–
	920	481

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	SARs	SARs	Options
Grant date	23-Oct-09	3-Jul-09	25-Nov-08	8-Aug-05
Exercise/base price	54.00p	30.87p	19.25p	42.00p
Number granted	1,851,851	532,686	1,833,765	5,650,000
Weighted average volatility	105%	120%	95%	62%
Weighted average risk free rate	2.88%	2.88%	3.36%	4.35%
Dividend yield	Nil	Nil	Nil	Nil
Max underlying price of the shares prior to exercise	200p	200p	200p	200p
Number of employees that will leave prior to exercise	Nil	Nil	Nil	Nil
Illiquidity discount	0.00%	0.00%	0.00%	5.00%
Expiry date	23-Apr-11	31-Dec-13	31-Dec-13	20-Apr-15

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

7 SHARE BASED PAYMENTS CONTINUED

The following movements occurred during the year on options and SARs:

Issue date	Expiry date	Exercise price (pence)	At 1 April 2009	Issued	Exercised	At 31 March 2010
11 April 2005	10 April 2015	10.00	425,000	–	0	425,000
10 May 2005	9 May 2015	10.00	53,462	–	(20,791)	32,671
8 August 2005	7 August 2015	42.00	4,575,000	–	(125,000)	4,450,000
22 November 2008	31 December 2013	19.25	1,833,765	–	0	1,833,765
3 July 2009	31 December 2013	30.87	–	532,686	0	532,686
23 October 2009	22 October 2012	54.00	–	1,851,851	(851,851)	1,000,000
			6,887,227	2,384,537	(997,642)	8,274,122

The weighted average price of the options exercised was 73 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 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

7 SHARE BASED PAYMENTS CONTINUED

The base prices of the SARs awarded 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.

If any or all of the performance conditions are not met by 31 December 2013, the unvested portion of the SARs will lapse at that time. None of the SARs were exercisable at the year end but subsequent to the year end, the first and second tranches are considered to have vested 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 satisfies the condition of the second tranche of the SARs.

At the time of writing, as the rig is not yet off hire the third condition is considered to be outstanding.

On 23 October 2009 the company issued 1,851,851 options over ordinary shares at an exercise price of 54p, the price of the placing in respect of which these options were granted to one of its advisers, who is not an employee. The options vested on 13 November 2009 when the resolution to authorise the placing was agreed at an extraordinary general meeting. On 26 January 2010, 851,851 of these options were exercised with a further 690,000 being exercised on 10 May 2010 and 210,000 on 12 May 2010. As the nature of the services received does not have a readily available value, these have been valued on the same basis as the options granted to employees.

8 TAXATION

	2010 \$'000	2009 restated* \$'000
Total tax:		
Corporation tax on losses for the year	-	-
Tax on loss on ordinary activities	-	-
Loss on ordinary activities before tax	(7,696)	(5,142)
Loss on ordinary activities multiplied by the rate of corporation tax of 28% (2009: 28%)	(2,155)	(1,440)
Effects of:		
Expenses not deductible	16	1
Depreciation in excess of capital allowances	172	196
Utilisation of losses	-	(341)
IFRS2 Share based remuneration cost	257	126
Pre trading expenditure carried forward	18	-
Losses carried forward	1,692	1,458
Deferred tax	-	-
Total tax charge for the year	-	-

* See change in accounting policy, note 1.4.

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.

The total carried forward losses and carried forward pre trading capital expenditures available for relief on commencement of trade at 31 March 2010 is \$57.1m (2009 restated: \$37.0m).

9 BASIC AND DILUTED LOSS PER SHARE

	2010 Number	2009 Number
Shares in issue brought forward	80,514,520	75,908,330
Shares issued during the period		
– Issued during the prior year	–	4,606,190
– Issued on 13 November 2009	92,592,593	–
– Issued on 23 December 2009	990	–
– Issued on 19 January 2010	125,000	–
– Issued on 3 February 2010	851,851	–
– Issued on 3 February 2010	19,801	–
Shares in issue carried forward	174,104,755	80,514,520
Weighted average shares in issue	115,680,444	79,719,770
	2010 \$'000	2009 restated* \$'000
Net (loss) after tax	(7,696)	(5,142)
Basic and diluted net (loss) per share – cents	(6.65)	(6.45)

* See change in accounting policy, note 1.4.

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. Shares issued since the year end that would have affected the diluted loss per share are disclosed in note 17.

10 INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	PL023 PL024	PL032 PL033	PL003 PL004	2010 \$'000	2009 restated* \$'000
At 1 April	298	230	1,234	1,762	1,553
Exploration costs capitalised during the year	4,098	4,478	5,574	14,150	209
At 31 March	4,396	4,708	6,808	15,912	1,762

* See change in accounting policy, note 1.4.

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Office equipment \$'000	2010 \$'000	2009 \$'000
Cost at 1 April	15	49	64	40
Additions	–	58	58	24
Cost at 31 March	15	107	122	64
Accumulated depreciation at 1 April	(3)	(41)	(44)	(34)
Current year depreciation charge	(2)	(28)	(30)	(10)
Depreciation at 31 March	(5)	(69)	(74)	(44)
Net book value at 1 April	12	8	20	6
Net book value at 31 March	10	38	48	20

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

12 OTHER RECEIVABLES

	2010 \$'000	2009 \$'000
Prepayments	35	29
Accrued interest	–	8
Other	135	17
	170	54

The carrying value of receivables approximates to fair value. No interest has been accrued because no fixed term deposits were held at the year end.

13 PAYMENTS ON ACCOUNT

	2010 \$'000	2009 \$'000
Non-refundable funds held by third parties relating to:		
– operated activities	500	–
– non-operated activities	13,549	–
	14,049	–

The amounts above relate to payments made in respect of the 2010 drilling campaign. The \$0.5 million relates to monies paid to the well management company and is part of the total with the balance held in restricted cash. The \$13.5 million relates to monies paid to Desire in respect of a further two wells and the demobilisation of the rig and equipment. See also note 21.

14 RESTRICTED CASH

	2010 \$'000	2009 \$'000
In respect of own wells	35,689	–
Charged accounts	266	251
	35,955	251

Pursuant to certain contracts for the 2010 drilling campaign, the group holds money in escrow accounts, 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, and the rent deposit for the offices leased by the group. Both amounts are GB£ denominated.

15 CASH AND CASH EQUIVALENTS

	2010 \$'000	2009 \$'000
Current accounts	3,832	277
Deposit accounts	10,653	1,599
Fixed term deposits of three months or less	–	4,260
	14,485	6,136

The deposit accounts are both same day access.

16 OTHER PAYABLES AND ACCRUAL

	2010 \$'000	2009 \$'000
Accounts payable	935	1,033
Accrued expenses	136	52
Other	-	24
	1,071	1,109

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. Of the total amounts payable, \$857,000 (2009: \$857,000) relates to payment withheld in respect of 3D work undertaken in the North Falklands Basin during the year ended 31 March 2007. This was a condition of the contract under which the work was undertaken that sought to protect the group should the contractors not settle their corporation tax liability due to the Falkland Islands Government on the work undertaken. In the event, and by mutual agreement, this liability was settled in full on 13 July 2010 by a payment direct to the Falkland Islands Government.

17 SHARE CAPITAL

	2010		2009	
	\$'000	Number	\$'000	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	2,966	174,104,755	1,420	80,514,520

For details of all movements during the year, see note 9.

Since the year end, a further 17,320,000 shares have been issued in respect of a placing at 280p and 1,264,851 in respect of options exercised. 900,000 of those options were exercised at an exercise price of 54p, 350,000 at an exercise price of 42p and 14,851 at an exercise price of 10p.

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.

18 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

19 OPERATED LICENCE DETAILS

	PL023 PL024	PL032 PL033
% holding	100%	100%
Awarded	25 November 2004	2 June 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: seismic	640km ² of 2D	685km ² of 3D
exploration well(s)	1	1

The seismic commitment in respect of both licence areas has been fulfilled. The rig is on location for the exploration well on licences PL023 & PL024 at the time of writing. The exploration well on licences PL032 & PL033 has been drilled on the Sea Lion prospect.

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 in recognition of the group having committed to drill an exploration well on the acreage 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. Provided the group completes its remaining commitments in phase 1, then phase 2 will be extended from three to five years so that it expires on 1 May 2018. Phase 2 requires an exploration well to be drilled on a prospect that differs from the one drilled in phase 1.

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.

At any time during the term of the licences, 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 16 April 2010 in the case of well 14/10-2 on the Sea Lion prospect.

Prior to undertaking appraisal or development work the group is required to notify the Department for Mineral Resources of the Falkland Islands Government upon which point the relevant area will be deemed a discovery area. The annual fee of \$375,000 will then be payable from the date of spudding the discovery well, being 16 April 2010.

20 EXPECTED DRILLING PROGRAMME

The planned drilling programme at the year end was:

	2010 \$'000	2009 \$'000
Sea Lion	20,870	–
Ernest	20,120	–
Operated wells	40,990	–
Outstanding Desire wells	6,617	–
Rig and equipment demobilisation	7,001	–
	54,608	–

20 EXPECTED DRILLING PROGRAMME CONTINUED

Resources available at the year end for the planned programme were as follows:

	2010 \$'000	2009 \$'000
Payments on account (see note 13 above)	14,049	–
Restricted cash (see note 14 above)	35,955	251
Cash and cash equivalents (see note 15 above)	14,485	6,136
	64,489	6,387

AFEs for the operated wells are produced by the well management company using their P1 proprietary modelling software. This produces a range of outcomes on a probabilistic basis from P10 through Pmean to P90. The values above for Sea Lion and Ernest, the operated wells are based on the Pmean, the outcome at which the group expects to drill.

The values for the two remaining Desire wells and for the rig and equipment demobilisation are based on AFEs received from Desire in respect of Liz, the first well to be drilled by Desire.

Since the year end the group has announced its intention to perform a flow test on the Sea Lion prospect. The expected cost of this is \$31.7 million. With this particularly in mind the company placed additional shares on 8 June 2010 raising \$67.2 million after costs.

21 OPERATING COMMITMENTS

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

	2010 \$'000	2009 \$'000
In respect of the rig assignment	15,500	–
In respect of well management services	500	–
	16,000	–

Under the assignment agreement with Desire Petroleum Plc and Diamond Offshore Drilling (UK) Limited dated 15 January 2010, if the company had elected to cancel the agreement after the effective date, and before the assignment commencement date, then it would have had to have paid Desire a cancellation fee equal to \$15.5 million. This commitment fell away on 14 April 2010, the commencement date, when the rig hire was transferred from Desire to the group.

Under the terms of the contract with AGR Peak Well Management Limited dated 5 October 2009, if the company had elected to terminate the contract for convenience then it would have to pay a cancellation fee of \$500,000. Should the full scope of the work as contemplated not be required then the two companies are to meet to agree fair and reasonable compensation in respect of time and effort expended during front end activities.

The group has confirmed its intention to pay 15% in respect of three wells to be drilled by Desire, as operator, on its licences PL003 and PL004. The first well, 14/18-1 on the Liz prospect, was spudded on 22 February 2010 and has been fully capitalised in the balance sheet. The group is therefore committed to pay its share of the dry hole costs of two additional wells, expected to be drilled on the Rachel, and one other, prospect up to 105% of the initial agreed financial expenditures ("AFEs") for the three wells from which point it pays 7.5%.

In addition to the commitment to drill two further wells on licenses PL003 & PL004, the group has a commitment to pay its share of the rig and equipment demobilisation back to where it was mobilised from. The mobilisation of the rig was on a fixed cost basis. The cost of demobilising it cannot exceed the mobilisation cost. No upper limit exists for the cost of demobilising the related equipment, but this is not expected to exceed the costs of mobilisation. Should the rig contract be extended and the group not be a party to that extension then the obligation to demobilise the rig and related equipment would fall away.

22 LEASE COMMITMENTS

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

	2010 \$'000	2009 \$'000
Total committed within 1 year	16	16
Total committed between 1 and 5 years	14	30
	30	46

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

23 POST BALANCE SHEET EVENTS

DRILLING OF WELL 14/10-2 ON THE SEA LION PROSPECT

On 16 April 2010 the company spudded well 14/10-2 on its Sea Lion prospect, being the first of its two planned exploration wells on its 100% acreage under the current campaign. On 6 May 2010 a discovery was announced on Sea Lion and logging was completed four days later on 10 May 2010. Having declared a discovery, the group applied to the Falkland Islands Government for permission to suspend the well and return once suitable equipment for an initial flow test had been mobilised. Permission was granted and the well was suspended on 19 May 2010, subsequent to an agreement by the group that it would hold \$5 million of free cash in reserve until the well had been plugged and abandoned.

PLACING OF ADDITIONAL STOCK

On 8 June 2010 the company announced that it had placed 17,320,000 ordinary shares at a price of 280 pence per share. The placing raised £48.5 million before expenses of £2.5 million.

EXERCISE OF OPTIONS

Under the terms of the placing in 2009, Canaccord Genuity, the company's Nomad was issued with 1,851,851 options over ordinary shares exercisable at 54p, the price at the placing. On 10 May 2010 Canaccord Genuity exercised 690,000 of those options and then exercised a further 210,000 on 12 May 2010. The total proceeds from those options exercised since the year end equalled £486,000.

PAYMENT OF BONUS

On 12 July 2010 the company paid an interim bonus for the year ended 31 March 2011 of £904,253. This represents the maximum award permitted by the scheme and was made in recognition of the discovery on the Sea Lion prospect.

DRILLING OF WELL 26/6-1 ON THE ERNEST PROSPECT

The well was spudded on 23 July 2010 and declared to be a dry hole on 17 August 2010.

24 RELATED PARTY TRANSACTIONS

On 13 January 2009 R F Visick notified the company, that on 6 December 2008, 1,000,000 of his beneficially held 1p ordinary shares in the company ("ordinary shares"), representing 1.24% of the issued ordinary share capital of the company, were charged in favour of an FSA authorised asset manager of which he is a private client as part of general security arrangements in respect of credit provided to him by the asset manager. R F Visick remained the registered holder and beneficial owner of all of the ordinary shares referred to above, and retained control of the voting rights attached to such ordinary shares. On 26 May 2009, R F Visick notified the company that he had cleared the charge.

On 21 January 2009 the company received notification from R F Visick, that on 21 January 2009, 14,750,000 of his beneficially held 1p ordinary shares each in the company ("ordinary shares"), representing 18.32% of the issued ordinary share capital of the company, were charged in favour of an FSA authorised private bank of which he is a private client as part of general security arrangements in respect of credit provided to him by the private bank. R F Visick remained the registered holder and beneficial owner of all of the ordinary shares referred to above, and retained control of the voting rights attached to such ordinary shares. On 19 February 2010, R F Visick notified the company that he had cleared the charge.

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:

25 RISK MANAGEMENT POLICIES CONTINUED

At 31 March 2010, if the GBP had weakened 10% against the US\$, with all the other variables held constant, post tax profit and equity would have been US\$3,286 thousand (2009: US\$569 thousand) lower. Conversely, if the GBP had strengthened 10% against the US\$ with all other variables held constant, post tax profit and equity would have been US\$3,286 thousand higher (2009 US\$569 thousand).

As at 31 March 2010	US\$ denominated \$'000	GBP 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
As at 31 March 2009 (restated*)	US\$ denominated restated* \$'000	GBP denominated restated* \$'000	Total restated* \$'000
Non-monetary assets	1,762	20	1,782
Monetary assets	709	5,732	6,441
	2,471	5,752	8,223
Monetary liabilities	1,065	44	1,109
Equity	–	37,630	37,630
Reserves	(30,516)	–	(30,516)
	(29,451)	37,674	8,223

* See change in accounting policy, note 1.4.

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 move to seize these funds. Amounts held at the year end were as follows:

	2010 \$'000	2009 \$'000
Desire Petroleum	14,049	–
AGR Petroleum Services	21,969	–
Diamond Offshore	13,720	–
	49,738	–

Interest rate risks; 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. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

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.

	2010 \$'000	2009 \$'000
RBS plc	22,235	–
JPMorgan Chase N.A.	13,720	–
Total restricted cash	35,955	–
RBS plc	10,691	4,720
Lloyds TSB plc	3,719	1,507
HSBC plc	75	160
Total unrestricted cash	14,485	6,387
Total cash	50,440	6,387

PARENT COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

AS AT 31 MARCH 2010

	Notes	2010 \$'000	2009 \$'000
Tangible fixed assets	2	48	20
Investments	3	420	420
FIXED ASSETS		468	440
Debtors due beyond one year		46,107	30,402
Debtors due within one year		167	54
Debtors	4	46,274	30,456
Payments on account	5	14,049	–
Restricted cash		35,955	251
Cash at bank and in hand		14,485	6,136
CURRENT ASSETS		110,763	36,843
Creditors due within one year	6	(1,071)	(1,109)
NET CURRENT ASSETS		109,692	35,734
TOTAL NET ASSETS		110,160	36,174
Share capital	7	2,966	1,420
Share premium	9	113,874	36,210
Share based remuneration	9	2,355	1,795
Foreign currency translation reserve	9	4,123	4,123
Retained losses	9	(13,158)	(7,374)
EQUITY SHAREHOLDERS' FUNDS		110,160	36,174

These financial statements were approved by the directors and authorised for issue on 17 August 2010 and are signed on their behalf by:

SAMUEL MOODY
MANAGING DIRECTOR

PETER DIXON-CLARKE ACA
FINANCE DIRECTOR

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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 26/6-1 on the Ernest prospect. Immediately following that the group has committed to conducting an initial flow test on well 14/10-2 and then paying a 15% share, up to 105% of the initial AFEs, of the dry hole costs of up to two further wells on licences PL003 & 04. At 30 June 2010 the group had available resources of \$119.7 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 loss of \$5.6 million (2009 restated: loss of \$5.3 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 2009, the company also created a scheme for share appreciation rights ("SARs"). These are accounted and valued on a similar basis to the options.

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 2010

1 ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCIES

Effective 1 April 2009 the functional currency of the company became US\$. The change reflects the movement of the balance between GBE and US\$ denominated assets held by the company, to the extent that US\$ is now the currency of the primary economic environment.

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 2010	31 March 2009	31 March 2008	31 March 2007
£:US\$	1.51	1.42	2.00	1.96

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 10 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	2010 \$'000	2009 \$'000
Cost at 1 April	15	49	64	40
Additions	–	58	58	24
Cost at 31 March	15	107	122	64
Accumulated depreciation at 1 April	(3)	(41)	(44)	(34)
Current year depreciation charge	(2)	(28)	(30)	(10)
Accumulated depreciation at 31 March	(5)	(69)	(74)	(44)
Net book value at 1 April	12	8	20	6
Net book value at 31 March	10	38	48	20

3 INVESTMENTS

Details of the investments at the year end were as follows:

Company	Incorporated	Class of share	Percentage held %	Net assets \$'000	Result for the year \$'000
Rockhopper Resources Limited	England & Wales	Ordinary	100	(6,310)	(129)
Rockhopper Exploration (Oil) Limited	England & Wales	Ordinary	100	–	–
Rockhopper Exploration (Hydrocarbons) Limited	England & Wales	Ordinary	100	(23,688)	(1,206)
Rockhopper Exploration (Petrochemicals) Limited	England & Wales	Ordinary	100	–	–
Rockhopper Exploration (Oil) Limited	Falkland Islands	Ordinary	100	(193)	(214)

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:

	2010 \$'000	2009 \$'000
Rockhopper Resources Limited	215	379
Rockhopper Exploration (Hydrocarbons) Limited	723	1,167
Rockhopper Exploration (Oil) Limited	206	73
	1,144	1,619

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

4 DEBTORS

	2010 \$'000	2009 \$'000
Due beyond one year	46,107	30,402
Other debtors	132	17
Accrued interest	-	8
Prepayments	35	29
Due within one year	167	54
	46,274	30,456

No interest has been accrued because no fixed term deposits were held at the year end.

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 13 in the group accounts.

6 CREDITORS DUE WITHIN ONE YEAR

	2010 \$'000	2009 \$'000
Trade creditors	935	1,033
Accruals	136	52
Other creditors	-	24
	1,071	1,109

Of the total amounts payable, \$857,000 (2009: \$857,000) relates to payment withheld in respect of 3D work undertaken in the North Falklands Basin during the year ended 31 March 2007. This was a condition of the contract under which the work was undertaken that sought to protect the group should the contractors not settle their corporation tax liability due to the Falkland Islands Government on the work undertaken. In the event, and by mutual agreement, this liability was settled in full on 13 July 2010 by a payment direct to the Falkland Islands Government.

7 SHARE CAPITAL

	2010 Number	2009 Number
Shares in issue brought forward	80,514,520	75,908,330
Shares issued during the period		
– Issued during the prior period	–	4,606,190
– Issued on 13 November 2009	92,592,593	–
– Issued on 23 December 2009	990	–
– Issued on 19 January 2010	125,000	–
– Issued on 3 February 2010	851,851	–
– Issued on 3 February 2010	19,801	–
Shares in issue carried forward	174,104,755	80,514,520

	2010		2009	
	\$'000	Number	\$'000	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	2,966	174,104,755	1,420	80,514,520

8 OTHER STATUTORY DISCLOSURES

	2010 \$'000	2009 \$'000
Total directors' remuneration for the year	2,664	1,212
Other employee salaries	31	–
Average number of employees	7	7

Statutory information on remuneration for other services provided by the company's auditor and its associates is given on a consolidated basis in the directors' report and notes 4 and 5 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 2009	1,420	36,210	1,795	4,123	(7,374)	36,174
Options exercised during the year	16	804	–	–	–	820
Shares issued during the year	1,530	81,087	–	–	–	82,617
Share issue costs	–	(4,227)	–	–	–	(4,227)
Movement for the year	–	–	920	–	–	920
Transferred during the year	–	–	(360)	–	360	–
Loss during the year	–	–	–	–	(6,144)	(6,144)
At 31 March 2010	2,966	113,874	2,355	4,123	(13,158)	110,160

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:

	2010 \$'000	2009 \$'000
In the second to fifth year inclusive	16	16

11 POST BALANCE SHEET EVENTS

See note 23 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. See note 24 in the group accounts.

INVESTOR INFORMATION 1

KEY CONTACTS

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REGISTRAR

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WEBSITE

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INVESTOR INFORMATION 2

CONCERNS AND PROCEDURES

SHAREHOLDER CONCERNS:

Should shareholders have concerns which have not been adequately addressed by the chairman or chief executive, please contact the chairman of the audit committee at:

audit@rockhopperexploration.co.uk

WHISTLE-BLOWING PROCEDURES:

Should employees, consultants, contractors or other interested parties have concerns which have not been adequately addressed by the chairman or chief executive, please contact the chairman of the audit committee at:

audit@rockhopperexploration.co.uk

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