Annual report 2006

ROCKHOPPER EXPLORATION PLC

Rockhopper Exploration plc is an oil and gas exploration company based in the United Kingdom.

Rockhopper has four licences to explore for oil and gas in the North Falkland Basin, a petroleum system with a proven high quality source rock.

The Company is conducting an extensive work programme over the area with a focus on developing the region's exploration potential.

Cover – Falkland Islands in South Atlantic showing Rockhopper Exploration licences.

Highlights

- Successful placing and listing on AIM
- 2D survey completed
- Electromagnetic surveys completed
- 3D survey commissioned
- Largest acreage holder in North Falkland Basin

ROCKHOPPER EXPLORATION PLC

Chairman's statement

Dr Pierre Jungels

Dear Shareholder,

Background

Rockhopper Exploration was established in early 2004 to explore for oil in the North Falkland Basin. We currently have a 100% working interest in and are the Operator of four licences, PL023, PL024, PL032 and PL033, which between them cover approximately 5,800 km^2. In addition, we have a 7.5% working interest in licences PL003 and PL004, which are operated by Desire Petroleum. In total, our net acreage position of over 5,900 km^2 currently makes us the largest acreage holder in the North Falkland Basin.

We are currently in a period of relatively high oil prices and have seen a significant growth in exploration activity across the world. Access to high quality acreage is becoming increasingly difficult and expensive while high quality people and equipment are in high demand and short supply. Against this background, your Board has built up an acreage position of real prospectivity and value and has also been able to carry out a significant part of the work programme set out at the time of our listing on the Alternative Investment Market (AIM), with more work already timetabled for later this year.

Achievements

We completed a successful listing on AIM in August 2005, raising £15 million before expenses to undertake work on all of our licence areas. We specified at the time that we would conduct both 2D and 3D seismic acquisition programmes and consider using other exploration technologies in addition to fulfilling our commitment to drilling with Desire Petroleum.

The 2D programme has been completed on licences PL023 and PL024 and the 3D vessel is now secured for licences PL032 and PL033. CGG, one of the world's leading marine seismic contractors, will undertake the survey. We have also completed two Controlled Source Electromagnetic (CSEM) surveys in order to give ourselves greater confidence in the prospects over which they were acquired. These are the first such surveys ever completed in the Falkland Islands. The results of these surveys will be fully integrated with all our other technical studies once they are available.

We are working closely with Desire in moving towards drilling on licences PL003 and PL004 but have experienced a significant tightening in the worldwide market for drilling units.

Outlook

Once the results of the two CSEM surveys have been fully integrated into the seismic studies, our knowledge of the southern, undrilled part of the North Falkland Basin will be taken to a new level.

Processing the new 920km 2D seismic survey data is nearing completion. Once we have the processed data, we will focus on interpreting and integrating it into our existing knowledge of the area.

The next active step in our exploration will be the collection of the new 3D seismic survey in licences PL032 and PL033. Once the data has been acquired, processing and interpretation will carry the work programme into 2007.

The ultimate test of any exploration is, of course, drilling. To this end, not only do we have the 7.5% interest in PL003 and PL004, but we are working on our own 100% acreage with modern seismic techniques and CSEM in order to reduce risk before committing to a drilling programme. It is our intention to co-operate as fully as possible with other operators in the region in order to reduce costs and maximise not only knowledge and experience, but also the chance of success.

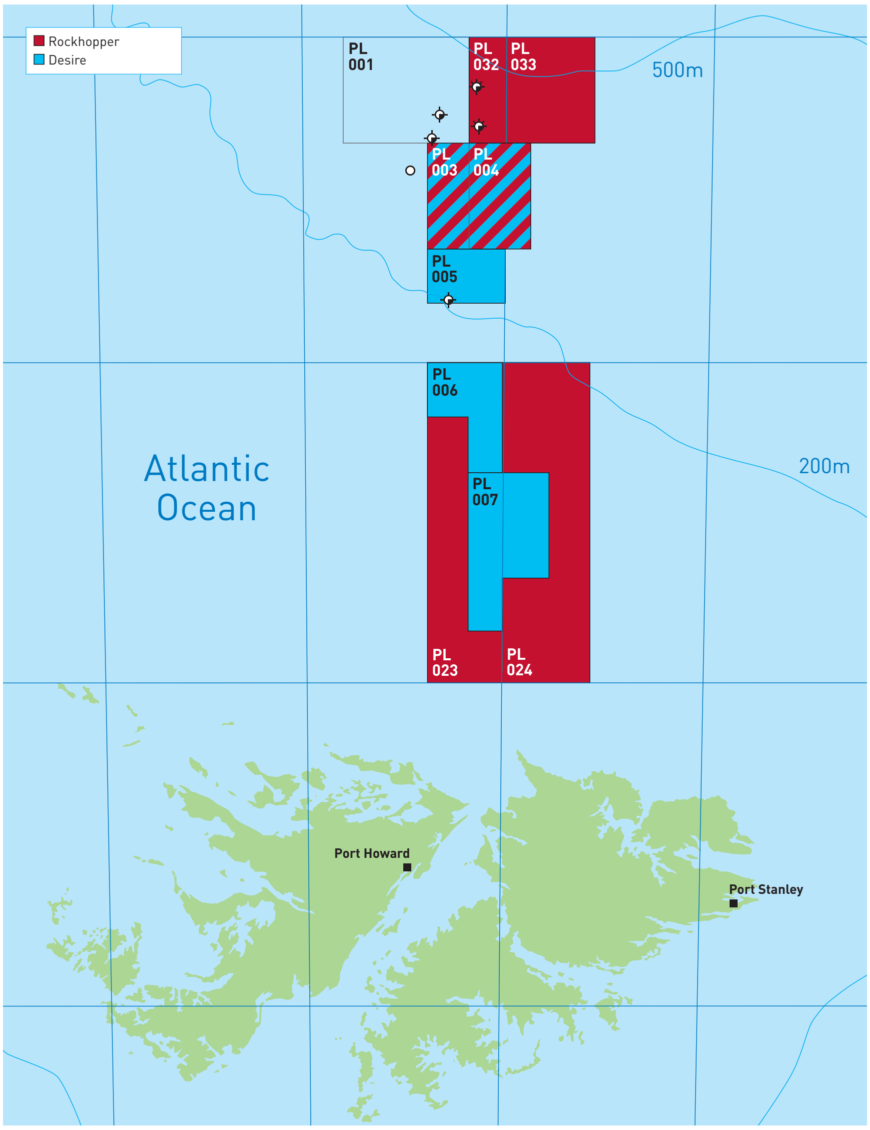
We have achieved a great deal in this first year against a background of increasingly difficult markets for services in the oil sector. We look forward to being able to present the full results of our new 2D and CSEM programmes later this year and the results of our significant 3D programme during 2007. At that point, we will need to consider our funding options should we confirm the presence of drillable targets in our acreage.

Summary

We remain positive about the prospectivity of the basin as a whole and of our acreage specifically. We believe a number of completely untested plays remain in the basin which give a better chance of success than the original drilling campaign in 1998. The technical work is progressing as anticipated at the time of the listing and the Board as a whole remains strongly supportive of the management team as we move closer to discovering the real potential of the basin.

Dr Pierre Jungels CBE
Executive Chairman
5 June 2006

Managing Director's review



North Falkland Basin showing licences and position of wells drilled in 1998

Samuel Moody

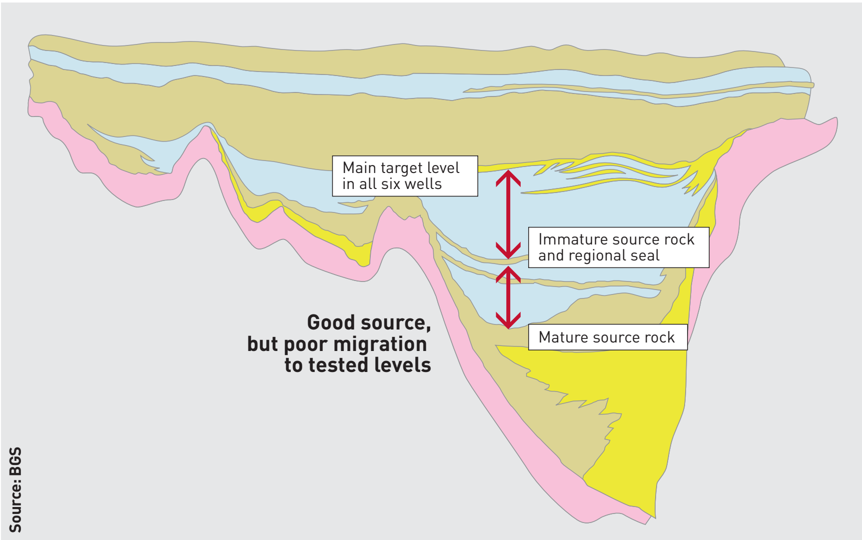
The focus of the Group is entirely in the North Falkland Basin. The North Falkland Basin was the subject of a drilling campaign in 1998 during which six wells were drilled by a number of companies, including Shell, Amerada Hess and Lasmo. Of the six wells, five encountered hydrocarbons, one recovered live oil to the surface and the presence of two independent source rocks was proven.

The first source rock is a very rich and thick Cretaceous lacustrine mudstone and the second an older Jurassic source. The Cretaceous source rock is over 1,000m thick in places with only the lower parts mature for the generation of oil. The uppermost parts are not mature and this thick, widespread sequence of mudstones also has the potential to form a seal capable of trapping hydrocarbons. The main targets in the last round of drilling were located above this seal and therefore were unable to be charged by oil generated in the lower, mature part of the source. The deeper Jurassic source is likely to be in a gas window in the northern most part of the basin, but could be in the oil window nearer the Islands.

Cretaceous A period of geological time from approximately 145 million to 65 million years ago.

Lacustrine Refers to freshwater lake systems. A large lake, or several lakes, occupied much of the North Falkland Basin during the Early Cretaceous.

Jurassic A period of geological time from approximately 200 million to 145 million years ago.



Dog-legged West-East cross section through drilled area in northern part of North Falklands Basin

Source A rock which is rich in organic matter. If heated sufficiently it will tend to generate hydrocarbons.

Seal An impermeable layer through which hydrocarbons cannot migrate. Required for a commercial accumulation. Would typically be located on top of the Trap. In this case, the source rock itself is the seal.

Trap A physical feature capable of containing hydrocarbons.

Reservoir A porous rock, such as sandstone, which contains void spaces that can be filled by hydrocarbons. The oil is produced from the reservoir once a discovery is made.

Seismic survey Acoustic reflection technique that enables mapping of subsurface seismic reflectors and their structure. The acoustic source offshore is normally a high pressure airgun towed behind a seismic vessel, with reflected energy being received by hydrophones located within a long streamer towed behind the airgun array.

The relatively shallow water depths in the basin (all less than 550m), combined with an attractive fiscal regime, mean that a discovery as small as 45 to 50 million barrels recoverable could prove to be economic as a stand alone development using a floating production facility.

The 1998 drilling campaign proved beyond any doubt that the North Falkland Basin is a working hydrocarbon system with a world class lacustrine source rock from which the British Geological Survey estimates that between 10 and 100 billion barrels of oil have been generated and expelled. None of the wells were tested, in part because the oil price was below $12 per barrel at the time and exploration budgets were consequently constrained. The key components for a successful producing basin were all proven: Source, Seal, Trap and Reservoir.

We are able to benefit from this prior work and are focused on moving towards the second phase of active exploration. Having learned valuable lessons from the previous round of drilling, we are now targeting previously untested plays and concepts within the basin. In total, we estimate that over $50 million has already been spent on acreage now licensed to Rockhopper alone and we have access to the most interesting parts of that data, including 2D and 3D seismic data along with the well logs. Our focus is on using the considerable knowledge and expertise within the Board and its consultants to increase our technical knowledge and understanding of the basin.

A significant work programme has taken place during the year, both in terms of re-interpreting existing data accessed by the Group and also in the collection of new data. A new 2D seismic survey and two CSEM surveys were collected on Licences PL023 and PL024 simultaneously during January and February 2006. Running the two programmes together required a high level of co-ordination and allowed us to accelerate the collection of data. It also allowed us to complete operations before the start of the fishing restrictions, which impact on data collection in those licences. Both programmes were completed without incident despite unusually bad weather for the time of year.

Managing Director's review
continued

Lead A feature mapped to a lower degree of confidence than a prospect; not yet a realistic target for drilling. Leads tend to be covered by broad grids of 2D seismic.

Prospect A feature which appears capable of trapping hydrocarbons mapped to a high enough level of confidence for drilling to be a realistic proposition. Prospects tend to be covered by tight grids of 2D seismic or by 3D seismic.

2D Seismic survey collected using a single source and a single cable. The boat steams in straight lines over areas of interest. The closer the lines, the more accurate the mapping and better the understanding of the area.

Flat spot Can be seen on a seismic section, can sometimes be indicative of hydrocarbons, for example, oil-water contact.

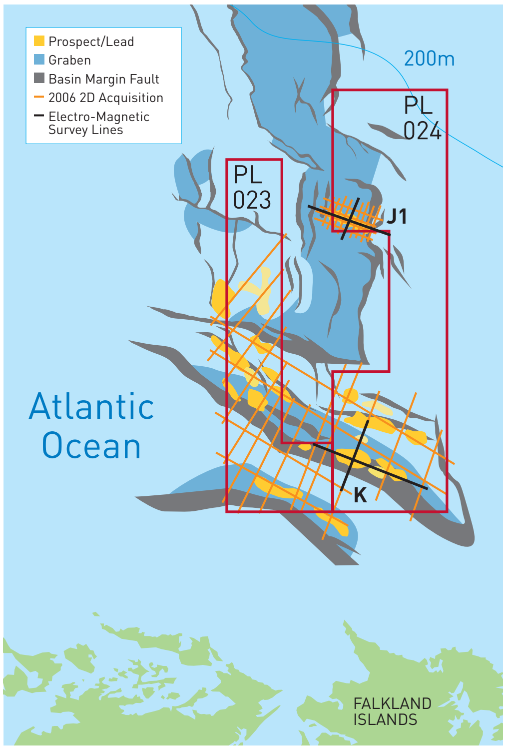
Gas chimney Seismic indication of gas escape from a source rock or hydrocarbon accumulation. Possibility indicative of the presence of hydrocarbons at depth.

Licences PL023 and PL024

100% Working Interest, Rockhopper Operated

Licences PL023 and PL024 were granted in November 2004 for an initial term of three years and are in less than 200m of water. We have mapped a number of leads and three prospects on the existing 1,832km 2D data, the largest of which is prospect J1. The new 2D programme comprised 920km data, bringing the total 2D data coverage in these licences to over 2,750km. The new data was acquired on an exclusive basis with Geophysical Services Incorporated and was acquired in two parts, the first a tight grid over the J1 prospect and the second a broader grid covering the leads mapped in the shallower water nearer the Islands. We are currently processing the data, which is of high quality. In the southern-most areas we hope to be able to mature some of the leads already identified into viable prospects.

We also collected two CSEM (Controlled Source Electro Magnetic) surveys in licences PL023 and PL024. The first survey covered the J1 prospect, the second covered Lead K. The CSEM method creates an electromagnetic field in the earth which is modified by the presence of subsurface resistive layers. These changes in the field are measured and the resulting data is processed to provide information on the resistive structure of the subsurface. Because hydrocarbon accumulations are generally very resistive, this method can indicate the presence of oil and gas in certain circumstances and can detect and map the edges of such accumulations. We believe this technique usefully increases knowledge and understanding and is an effective risk reduction tool when results are integrated with all other studies and data available over the targets.

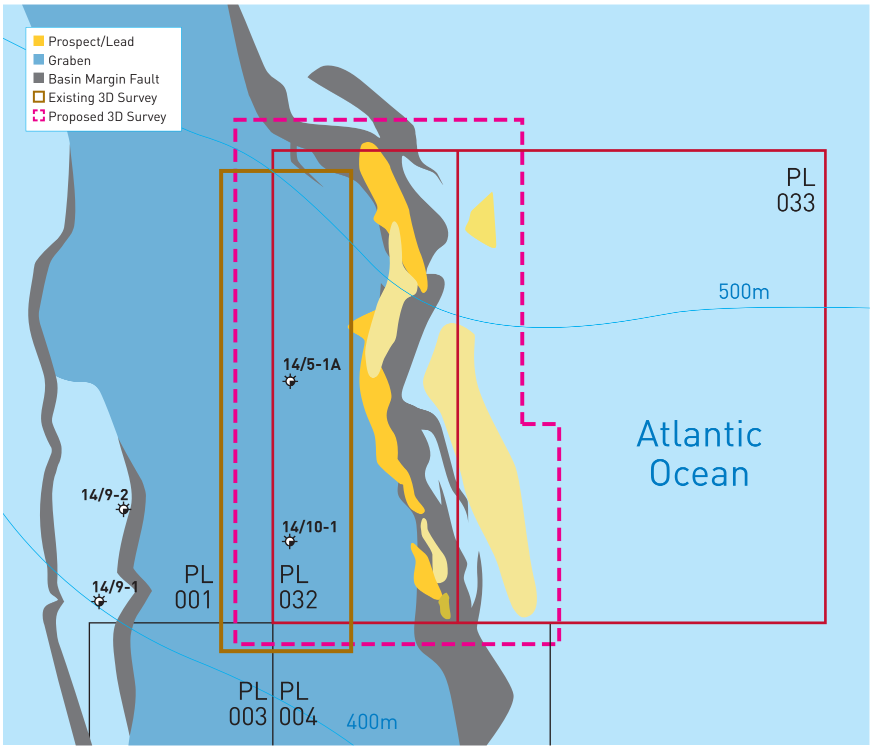


Licences PL023 and PL024

The very rich Cretaceous source is unlikely to be mature for oil generation in this part of the basin. However, the deeper Jurassic source, which gave a good gas show in well 14/5-1 further North, could well be mature for oil generation as it will be considerably shallower. The seismic over J1 contains indications of both flat spots and gas chimneys, both of which can be associated with the presence of hydrocarbons.

No wells have been drilled in this part of the basin and, as such, the prospects and leads in these licences represent an untested play concept in the region which is not connected to the success or otherwise of exploration in Licences PL032 and PL033.

ROCKHOPPER EXPLORATION PLC



Licences PL032 and PL033

API° A scale for measuring the density of petroleum liquids (API = American Petroleum Institute). The oil discovered in the North Falkland Basin was 27.1° API.

3D Seismic survey collected using multiple cables and often multiple sources. The boat acquires a swathe of closely spaced data (individual lines normally 12.5metres or 25metres apart) with each pass.

Licences PL032 and PL033

100% Working Interest, Rockhopper Operated

Licences PL032 and PL033 were granted in May 2005 and are in less than 550m of water. Two wells were drilled on the licences in 1998, one (14/5-1) encountered a good gas show deep in the basin from the Jurassic source; the other well (14/10-1), recovered live oil to the surface (27.1° API) from the Cretaceous source. The wells provide a large amount of information and give us very strong encouragement that the basin is a highly prospective area to explore. A 3D programme of 368km^2 collected in 1997 by Shell shows a number of large prospects located in the central part of the basin. There are also some 1,546km of 2D data already in the licences we have accessed. We have re-interpreted these surveys and as a result have mapped a number of prospects lying against the large eastern basin margin fault in addition to the large central basin closures seen on the existing 3D. These basin margin closures require further definition and we have secured the services of one of the world's leading marine seismic contractors, CGG, to collect a new 3D survey of 970km^2 which should begin late in 2006. This 3D will not only cover the prospects along the eastern basin margin, but also look again at the central basin prospects. The new 3D will be collected with longer streamers than the older 3D and should therefore allow us to obtain better data quality deeper in the section. Given that oil is known to be present in these licences, we are hopeful that the new seismic data will confirm the presence of the closures already mapped on the existing data.

We are very pleased to have been able to secure the services of one of the world's leading seismic contractors in a time of tight supply in the seismic market. We are confident that the data will be of high quality and will provide us with a significant amount of information.

Once we complete the 3D data interpretation, we will be required to drill one well during the first five years of these licences.

Managing Director's review
continued

Licences PL003 and PL004

7.5% Working Interest, non-operated

Working with Desire Petroleum, planning for the drilling of three wells has continued. The rig market has significantly deteriorated since the time of the listing with both the availability and price of rigs moving against us. In the meantime, we continue to work with Desire to ensure that we are ready to drill should a unit become available at an attractive price. These licences are covered by a 3D seismic survey and a number of attractive prospects have been identified, many of which would be large enough to be economic as stand alone developments.

Key points:		
	Source	↗ Two independent sources proven
	Reservoir	↗ Good reservoir encountered in wells
	Trap	↗ Physical structures mapped on seismic
	Seal	↗ Area wide seal encountered in wells
	Relatively shallow water	↗ Less than 550m, some targets in less than 200m
	Well data	↗ Significant and encouraging data
	Large quantity of seismic data	↗ 2D – 4,278km, 3D – 368km^2
	Electromagnetic surveys	↗ Two surveys, first in the Islands
	New 3D planned	↗ CGG to collect 970km^2 later during 2006
	Under explored	↗ Only six wells in a basin 250km long
	Proven petroleum system	↗ Proven by wells with oil recovered to the surface
	Fiscal regime	↗ Relatively favourable
	Acreage position	↗ Wide spread of acreage, largest holder in the basin
	Independent play types	↗ Spread of plays throughout the basin

A good place to explore

In conclusion

This has been a busy period for Rockhopper and a significant amount of progress has been made. The interpretation of the 2D and CSEM data and collecting the new 3D survey will continue that trend for the rest of this year and into 2007.

Samuel Moody
Managing Director
5 June 2006

ROCKHOPPER
EXPLORATION PLC

Financial review

Peter Dixon-Clarke

The Group closed the year with a highly liquid balance sheet focused on meeting the needs of its on-going work programme.

Banking arrangements

Whilst the Group's banking requirements are currently fairly simple, a panel of three banks has been appointed to ensure that the Group continues to enjoy competitive rates on its deposits and foreign exchange transactions.

Flotation

The placing of 35,714,285 ordinary shares at 42p per share on 15 August 2005 raised £13.9 million after expenses. All three banks on our panel were approached and the money deposited with the bank offering the best terms.

Working Capital

Whilst better alternatives for the funds on deposit were constantly reviewed during the year, the competitive rates achieved coupled with the uncertainty of material cash flow constituents inherent to this business meant that it suited the Group to keep its funds on deposit.

The yields achieved since flotation on cash balances have been 0.08% over the UK Base rate on £Sterling and 0.10% under the Federal Reserve rate on $US, or 4.58% and 4.15% at the year end respectively.

Foreign Exchange

With almost all of the anticipated exploration expenditure of the Group in $US, the exposure to exchange rate fluctuations was kept under constant review with a number of purchases made in the spot market as requirements became apparent. Each of the spot purchases was made at a rate better than that prevailing at the time the flotation budget was set.

Peter Dixon-Clarke ACA
Finance Director
5 June 2006

Board of directors







1 2 3 4
5 6 7

1 Dr Pierre Jungels CBE 62
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 is a director of Woodside Petroleum Ltd., Baker Hughes Inc., Bristow Group Inc. and Imperial Tobacco Plc. He is also Chairman of Oxford Catalysts Plc. and of OHM Plc. He was twice President of the Institute of Petroleum, from 1987 to1989 and 2002 to 2003.

2 Samuel Moody 36
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 40
Finance Director

Peter qualified as a chartered accountant at Deloitte & Touche LLP in the Financial Services group. He left Deloitte to work at what is now Amlin plc, to head up the financial affairs of the Group's biggest division, seeing it through the Lloyd's market turnaround and subsequent group flotation. He is currently Group Finance Director of Goshawk Insurance Holdings plc.

4 Richard Visick 39
Non-Executive Director

Richard is a co-founder of Rockhopper and a lawyer having qualified with Linklaters. He has built up a portfolio of successful private equity investments. He is the beneficial owner of Sea Lion Lodge, the premier wildlife destination in the Falkland Islands, which is located on Sea Lion Island. He is also the beneficial owner of Weddell Island, which is the largest privately owned island in the Falkland Islands.

5 Keith Williams 59
Exploration Director

Keith has more than thirty years' experience in the oil and gas industry, having held senior positions at Mobil, British National Oil Corporation, Hudbay Oil and Kerr-McGee Oil (UK) Ltd, where he was Exploration Director. A geophysicist by training, Keith also has significant overseas exploration experience.

6 John Crowle 52
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.

7 Chris Walton 48
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 Australian Post, Australian Airlines, Air New Zealand and Qantas Airways. He has also worked for BP Australia, RTZ Hamersley Iron, the Australian Senate and 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 currently the non-executive Chairman of Goldenport Holdings Inc.

ROCKHOPPER EXPLORATION PLC

Directors' report

The Directors submit their report and Group financial statements of Rockhopper Exploration plc for the year ended 31 March 2006.

The Company was incorporated on 4 October 2004 under the name of Crude Limited and was subsequently renamed Rockhopper Exploration Limited on 5 January 2005. On 1 March 2005 the Company re-registered as a public limited company under the name of Rockhopper Exploration plc. The Company acquired the entire issued share capital of Rockhopper Resources Limited on 23 February 2005 by means of a share for share exchange. This business combination has been accounted for as a merger of these financial statements and therefore present information about the Group under the merger accounting principles.

Principal activities

The principal activity is oil and gas exploration in an area around the Falkland Islands. There are no plans to change this for the foreseeable future.

Business review

The Directors consider that the results for the year are satisfactory. This Business review should be read in conjunction with the Chairman's statement, Managing Director's review and Financial review which appear on pages 2 to 9 of this document and give a full description of the Group's activities and development during the year.

During the period the Group successfully completed a listing on AIM raising £15m before expenses and conducted a 2D seismic survey and two electromagnetic surveys on its acreage (licences PL023 and PL024) in the North Falkland Basin. The data gathered during the course of those surveys is being processed as at the date of this report.

The loss for the period was £354,000, giving a loss per share of 0.61p and the Group had cash of £12,455,000 at the year end.

Risks and uncertainties facing the Group include but are not limited to:
Availability and cost of survey ships, drilling vessels and qualified personnel; the absence of which could lead to delays in the work programme and possibly forfeiture of licences.
Foreign exchange risks; the Group holds cash in £Sterling but a majority of the costs involved in exploration will be incurred in $US, an adverse movement in exchange rates would increase the Sterling cost of the work programme.
Interest rate risks; the Group holds cash and at present its only income is derived from interest payments on that cash. A reduction in interest rates would reduce the income of the Group.
Funding risks; the Group has no production or proven reserves and only generates income in the form of interest payments on cash balances. There is therefore a risk that, should the Group be unable to raise further funds or make a discovery, the Group could exhaust current funds.

A statement on the management of risks is included on page 18 of this document.

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Directors' report
continued

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.

Substantial shareholders

The Company has been notified pursuant to Part VI of the Companies Act of the following interests in 3% or more of the Company's issued share capital as at the date of this document held by persons other than a Director:

Shareholder	Number of Ordinary shares	Percentage of issued share capital
British Coal Staff Superannuation Scheme	3,571,428	4.98
Mineworkers Pension Scheme	3,571,428	4.98

Directors and their interests

The present members of the Board are as listed on page 10. The following changes occurred during the year:

Instant Companies Limited	appointed 4 October 2004, resigned 5 October 2004
P J M H Jungels	appointed 21 February 2005
S J Moody	appointed 21 February 2005
P J Dixon-Clarke	appointed 29 December 2004
R F Visick	appointed 5 October 2004
K Williams	appointed 4 April 2005
K J Crowle	appointed 9 June 2005
C J Walton	appointed 9 June 2005

The beneficial interests of the Directors in office at the year end in the share capital of the Company were as below:

	At 31 March 2006 Ordinary £0.01 shares	At 4 October 2004 or subsequent date of appointment Ordinary £1 shares
P J M H Jungels	319,047	–
S J Moody	733,428	1,324
P J Dixon-Clarke	70,129	–
R F Visick	18,744,809	1
K Williams	72,619	–
K J Crowle	23,809	–
C J Walton	23,809	–

In addition to Mr Visick's interests disclosed above, a further 3,103,000 Ordinary shares are held by members of Mr Visick's wider family and 1,786,000 Ordinary shares are held by trusts in which members of Mr Visick's wider family have a potential interest.

ROCKHOPPER EXPLORATION PLC

Directors' Remuneration Policy

The remuneration policy for the Executive Directors is determined by the Remuneration Committee, which is consists solely of Non Executive Directors. The members of the Committee are Chris Walton, John Crowle and Richard Visick. 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. In preparation for the annual salary review the Committee met on 15 May 2006. The Committee's policy on Executive Directors remuneration will continue to apply for the year to 31 March 2007 and, so far as is practicable, for futureyears.

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 Company and thereby enhance shareholder value. Each package consists of a basic salary, cash bonus and share option plan. In the case of Keith Williams and Peter Dixon-Clarke, overtime payments are also included. The share option package is designed to link the remuneration of the Executive Directors to the returns enjoyed by shareholders.

Directors' remuneration

The Directors' remuneration for the year ended 31 March 2006 was:

	Salary £'000	Bonus £'000	Total £'000
P J M H Jungels	50	75	125
S J Moody	121	50	171
P J Dixon-Clarke	77	25	102
K Williams	74	25	99
K J Crowle	20	–	20
C J Walton	20	–	20
	362	175	537

R Visick is paid by way of Strachan Visick, a company in which R Visick is a shareholder and director, and his remuneration is therefore disclosed under note 14, Related party transactions.

The bonuses were paid prior to the Company's Admission.

Directors' service contracts

Apart from the automatic termination at 70 years of age in the case of Dr Pierre 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 would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contact.

Directors' report
continued

Directors' service contracts continued

Details of contract and appointment dates are set out below:

	Appointment date	Contract date
Executive Director		
P J M H 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
K Williams	4 April 2005	8 August 2005
Non Executive Director		
K J Crowle	9 June 2005	8 August 2005
C J Walton	9 June 2005	8 August 2005
R F Visick	5 October 2004	8 August 2005

The Non Executive Directors do not have service contracts. Letters of appointment provided for an initial period of three years subject to re-election by shareholders.

Share Options

Director	Date of grant	No. of shares	Exercise price £	Exercise period
P J M H Jungels	11 Apr 2005	350,000	0.10	15 Aug 2006–10 Apr 2015
	8 Aug 2005	1,500,000	0.42	in 3 tranches see below
S J Moody	11 Apr 2005	500,000	0.10	15 Aug 2006–10 Apr 2015
	8 Aug 2005	1,500,000	0.42	in 3 tranches see below
P J Dixon-Clarke	11 Apr 2005	75,000	0.10	15 Aug 2006–10 Apr 2015
	8 Aug 2005	525,000	0.42	in 3 tranches see below
K Williams	11 Apr 2005	75,000	0.10	15 Aug 2006–10 Apr 2015
	8 Aug 2005	525,000	0.42	in 3 tranches see below

The options granted at the Admission price were granted immediately prior to the Admission 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 any commercial discovery or all 3 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.

Share Options continued

These options will cease to be exercisable on the tenth anniversary of the date of the grant.

Additionally, the Group had granted the following options:

- On 10 May 2005 the Company granted 60,392 options over Ordinary shares at an exercise price of 10p. 19,801 of these options were granted to Falklands Conservation (a Charity registered in the UK which may carry out conservation work on Sea Lion Island in the future) and 40,591 to certain current and former employees of two Falklands businesses owned by Mr R Visick. These options are exercisable on or after the first anniversary of Admission and cease to be exercisable on the tenth anniversary of the date of grant.

Political and charitable contributions

Other than the options disclosed above, the Group made no donations during the year, either political or charitable.

Credtitor payment policy

The Group 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.

Qualifying third party indemnity provisions

Article 166 of the Company's articles of association contain "qualifying third party indemnity provisions", as defined at section 309B of the Companies Act 1985. Under these provisions each director is entitled to be indemnified by the Company, so far as permitted by law, in respect of certain liabilities which may attach to him in his capacity as a director or as a former director of the Company. These provisions have been in force since 15 August 2005.

Employees

The Group has only four employees, all of whom are directors, and does not anticipate the need to increase that number in the near term. 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 Company 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 Company to extensive liability.

Further, the Company 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 Company from undertaking its desired activities. The Company 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 Company's cost of doing business or affect its operations in any area.

Directors' report
continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

a) select suitable accounting policies and then apply them consistently;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

A resolution to reappoint Baker Tilly as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Peter Dixon-Clarke ACA
Finance Director
5 June 2006

ROCKHOPPER
EXPLORATION PLC

Corporate governance

The Company is not specifically required to comply with the Combined 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 Combined Code.

The Board

The Board of the Company consists of four Executive and three Non-Executive Directors, and is therefore compliant with the requirements for a balance of Executive and Non-Executive Directors and for at least two of the Non-Executive Directors to be independent. A Senior Independent Non-Executive Director has not been appointed. Given the size and nature of the Company, the directors do not believe that such an appointment is necessary. The Company'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 Managing Director.

At flotation 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.

A clearly defined organisational structure exists, with lines of responsibility and delegation of authority to executive management.

The Board's Executive Chairman, Pierre Jungels, was independent upon appointment but has not been considered independent thereafter, as he is the Executive Chairman. The roles of Executive Chairman and Managing Director are separate.

The Board considers two of the Non-Executive Directors to be independent, whilst the third, Richard Visick is not considered independent on account of the size of his shareholding. Other than their shareholdings, salaries or fees the Non-Executives have no financial interests in the Company or business relationships that would interfere with their independent judgement.

The appointment of all Directors is a formal process involving all members of the Board. From time to time sub-committees of the Board are established to approve the detail of matters tabled at full Board meetings.

During the year, the Company contracted with Offshore Hydrocarbon Mapping plc ("OHM") to conduct a controlled source electromagnetic survey. As Pierre Jungels is Chairman of both companies, he declared his conflict of interest to the Board and stepped aside from discussion. The decision to proceed with OHM was made unanimously by the remaining Directors as being in the best interests of shareholders. Likewise, the contract negotiation was conducted without his participation.

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. 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 enable them to discharge their duties properly.

Corporate governance
continued

Audit, Remuneration and Nomination Committees

Audit, Remuneration and Nomination Committees, with formally delegated duties and responsibilities, operate under the chairmanship of Chris Walton, John Crowle and Pierre Jungels respectively.

In addition to Chris Walton, the Audit Committee comprises John Crowle (also an independent Non Executive Director), with Richard Visick, Sam Moody and Peter Dixon-Clarke attending as observers by invitation. The Audit Committee membership complies with the Combined Code.

In addition to John Crowle, the Remuneration Committee comprises the remaining two Non Executive Directors. John Crowle and Chris Walton are independent.

In addition to Pierre Jungels, the Nomination Committee comprises, Richard Visick and either of the remaining independent NonExecutives. While only one of the members is independent, the Board believes that the composition of the committee is appropriate for a group of this size and does not affect the control environment.

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 being 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 regarding dealings in the Company's shares and has adopted a code on dealing in securities to ensure compliance by the Directors and relevant employees.

Shareholder relationships

It is the intention of the Board that presentations are made to shareholders, institutions and analysts at least twice a year to coincide with results announcements. Additional dialogue is entered into as necessary, mindful of the rules on insiders and price-sensitive information.

Going concern

It is the opinion of the Board, at the time of approving the financial statements, that the Group has adequate resources to continue in operational existence for the foreseeable future. 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	Nominations
Director				
P J M H Jungels	10*	–	–	0*
S J Moody	10	–†	–	–
P J Dixon-Clarke	10	1	–	–
K Williams	10	–	–	–
K J Crowle	6#	1	0*	0
R Visick	9	1†	0	0
C J Walton	7#	1*	0	0
Total meetings during year	10	1	0	0

* Chairman
\# Only a director for a part of the period
† Invitee
– Not applicable

Independent auditors' report to the members of Rockhopper Exploration plc

We have audited the financial statements on pages 22 to 36.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 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 the directors and auditors

The Director's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Director's Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Managing Director's review, the Financial review, the Board of directors, the Directors' report and the Corporate governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgment made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

– the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and

– the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly
Chartered Accountants
1 Georges Square
Bath Street
Bristol, BS1 6BP

5 June 2006

ROCKHOPPER
EXPLORATION PLC

Financial statements
Rockhopper Exploration plc

Group profit and loss account

for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Group turnover		–	–
Cost of sales		–	–
Gross profit		–	–
Administrative expenses	3	(822)	(228)
Foreign exchange movement		56	–
Group operating loss		(766)	(228)
Interest receivable		412	5
Loss on ordinary activities before taxation		(354)	(223)
Taxation	5	–	–
Loss for the financial year/period	12	(354)	(223)
Loss per share (pence): Basic	6	(0.61p)	(3.27p)
Loss per share (pence): Diluted		(0.61p)	(3.27p)

The operating loss for the year/period arises from the Group's continuing operations. No separate Statement of total recognised gains and losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

Under the terms of section 230 of the Companies Act 1985 the Company has elected not to publish its own profit and loss account.

ROCKHOPPER EXPLORATION PLC

Group balance sheet

at 31 March 2006

	Notes	**2006 £'000**	2005 £'000
Fixed assets			
Intangible assets	7	**2,500**	236
Tangible assets	8	**14**	2
		2,514	238
Current assets			
Debtors	10	**10**	38
Cash at bank		**12,455**	1,190
		12,465	1,228
Creditors: amounts falling due within one year	11	**(59)**	(106)
Net current assets		**12,406**	1,122
Total assets less current liabilities		**14,920**	1,360
Capital and reserves			
Called up share capital	12	**718**	361
Share premium account	13	**14,919**	1,362
Merger reserve	13	**(140)**	(140)
Profit and loss account	13	**(577)**	(223)
Equity shareholders' funds		**14,920**	1,360

These financial statements were approved by the directors and authorised for issue on 5 June 2006 and are signed on their behalf by:

Samuel Moody
Managing Director

Peter Dixon-Clarke ACA
Finance Director

Company balance sheet

at 31 March 2006

	Notes	2006 £'000
Fixed assets		
Investments	9	**210**
Tangible fixed assets	8	**12**
		222
Current assets		
Debtors	10	**2,689**
Cash at bank		**12,451**
		15,140
Creditors: amounts falling due within one year	11	**(88)**
Net current assets		**15,052**
Total assets less current liabilities		**15,274**
Capital and reserves		
Called up equity share capital	12	**718**
Share premium account	13	**14,919**
Profit and loss account	13	**(363)**
Equity shareholders' funds		**15,274**

These financial statements were approved by the directors and authorised for issue on 5 June 2006 and are signed on their behalf by:

Samuel Moody
Managing Director

Peter Dixon-Clarke ACA
Finance Director

Group cash flow statement

for the year ended 31 March 2006

	Notes	**Year ended 31 March 2006 £'000**	Fourteen months ended 31 March 2005 £'000
Net cash flow from operating activities	15	**(782)**	(147)
Returns on investments and servicing of finance	15	**412**	5
Capital expenditure and financial investment	15	**(2,279)**	(238)
		(2,649)	(380)
Financing	15	**13,914**	1,570
Movement in cash in the year		**11,265**	1,190

Reconciliation of net cash flow to movement in net funds

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Movement in cash in the year	**11,265**	1,190
Movement in net funds	**11,265**	1,190
Opening net funds	**1,190**	–
Closing net funds	**12,455**	1,190

ROCKHOPPER EXPLORATION PLC

Notes to the financial statements

for the year ended 31 March 2006

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 and the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001.

The Directors have prepared the accounts on the going concern basis. In their opinion, this is appropriate as the Company has sufficient cash to meet its operating liabilities as and when they fall due and have access to further funds should the need arise. The accounts do not include any adjustments which may be necessary if the Group was unable to continue to operate.

Profit and loss account

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 230 of the Companies Act 1985.

Basis of consolidation

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.

In the Company's balance sheet the investment in Rockhopper Resources Limited is stated at the nominal value of shares issued. As permitted by sections 131 and 133 of the Companies Act 1985, no premium has been recorded on the ordinary shares in connection with this acquisition.

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.

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 Rockhopper Exploration plc since their creation.

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.

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 at the balance sheet date. 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.

Intangible and tangible fixed assets – oil and gas interests

The Company follows the full cost method of accounting under which all costs relating to the exploration for and development of oil and gas interests, whether productive or not, are accumulated and capitalised as fixed assets. These costs, which are initially classified as intangible fixed assets, are only carried forward to the extent that they are expected to be recouped through the successful development of an area or where activities in an area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Costs dealt with in this way include seismic data, licence costs, technical work, exploration and appraisal drilling, general technical support and a proportion of directly attributable administrative and overhead costs.

Costs are transferred to depreciable pools within tangible fixed assets in each regional cost pool upon declaration of commerciality or upon cessation of exploration on each licence and amortised over the life of the area according to the rate of depletion of the economically recoverable costs. Any proceeds arising from the sale or farm-out of assets are deducted from the relevant cost pool.

Depreciation and depletion of costs in depreciable pools is provided under the unit of production method, which uses the estimated commercial reserves in the cost pool and the sum of the total costs in the pool and any further anticipated costs to develop such reserves.

At the end of each year, an assessment is made as to whether the economic value of interests is in excess of costs capitalised as intangible assets. Any impairment is transferred to depreciable regional cost pools within tangible fixed assets and depreciated. Where a project is terminated, which is ascertained on a country basis, the related exploration costs are written off immediately.

Foreign currencies

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. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date and any differences thereon are included in the profit and loss account. The balance sheets and results of overseas subsidiaries are translated at the rate ruling at the Balance Sheet date.

Financial instruments

The Company uses certain financial instruments in its operating and investing activities that are appropriate to its strategy and circumstances.

Financial instruments currently comprise cash and short-term debtors and creditors. The Company regularly reviews the funding opportunities available to it in order to finance its operations, including considering the use of borrowings, as well as equity, to fund short-term cash requirements.

The main risk arising from the Company's present use of financial instruments is currently risk relating to the Group's non-sterling cash resources. The addition of any borrowings to the Company's portfolio of financial instruments will introduce interest-rate risk.

The Company has taken advantage of the exemptions available under Financial Reporting Standards (FRS)13 for disclosures relating to short-term debtors and creditors.

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 over its expected useful life as follows:

Computer equipment – over 3 years
Furniture – over 3 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.

Notes to the financial statements continued

for the year ended 31 March 2006

2 Production costs incurred

Pre-production costs incurred, or provided were as follows:

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Licence costs	**48**	32
Exploration costs	**2,025**	–
Other costs	**191**	204
Total costs (all of which were capitalised)	**2,264**	236

3 Group operating loss

Group operating loss is stated after charging:

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Auditors' remuneration		
– as auditors	**17**	9
– as advisors	**9**	–
Office rentals	**17**	18
Depreciation of tangible fixed assets	**3**	27

4 Particulars of employees

The average monthly number of staff (including executive directors) employed by the Company during the financial year amounted to:

	Year ended 31 March 2006 Number	Fourteen months ended 31 March 2005 Number
Management and administration	**4**	2

The aggregate payroll costs of the above were:

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Salaries	**509**	16
Social security costs	**62**	2
Other pension costs	**–**	–
	571	18

Total salaries for the year were £537,000 however, £28,000 of salary costs, along with the applicable social security costs, were capitalised and so not charged to the profit and loss account.

ROCKHOPPER EXPLORATION PLC

5 Taxation

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Current tax:		
UK corporation tax on losses for the year/period	**–**	–
Tax on loss on ordinary activities	**–**	–
Loss on ordinary activities before tax	**(354)**	(223)
Loss on ordinary activities multiplied by the rate of corporation tax for small companies of 19%	**(67)**	(42)
Effects of:		
Expenses not deductible	**1**	7
Losses carried forward	**66**	35
Current tax charge for the year/period	**–**	–

No charge to taxation arises in the year/period due to losses being incurred. No deferred tax asset has been recognised in respect of these losses due to the uncertainty in the timing of profits and hence utilisation of these.

6 Loss per share

The calculation of the basic loss per share is based upon the loss for the year of £354,000 (2005: £223,000) and the weighted-average number of shares in issue during the year ended 31 March 2006 of 58,467,365 (2005: 6,816,486). As the Group is reporting a loss for all periods then, in accordance with Financial Reporting Standard number 22, the share options are not considered dilutive. This is because the exercise of the share options would have the effect of reducing the loss per share.

Notes to the financial statements continued

for the year ended 31 March 2006

7 Intangible fixed assets

Group	Year ended 31 March 2006 Oil & Gas interests £'000	Fourteen months ended 31 March 2005 Oil & Gas interests £'000
Cost:		
Brought forward	**236**	–
Additions	**2,264**	236
Carried forward	**2,500**	236
Depreciation:		
Brought forward	**–**	–
Charge for the year	**–**	–
Carried forward	**–**	–
Net book value:		
Brought forward	**236**	–
Carried forward	**2,500**	236

8 Tangible fixed assets

	Group 31 March 2006			Company 31 March 2006		
	Computer equipment £'000	Other assets £'000	Total £'000	Computer equipment £'000	Other assets £'000	Total £'000
Cost:						
Brought forward	**2**	**–**	**2**	**–**	**–**	**–**
Additions	**14**	**1**	**15**	**14**	**1**	**15**
Carried forward	**16**	**1**	**17**	**14**	**1**	**15**
Depreciation:						
Brought forward	**–**	**–**	**–**	**–**	**–**	**–**
Charge for the year	**3**	**–**	**3**	**2**	**1**	**3**
Carried forward	**3**	**–**	**3**	**2**	**1**	**3**
Net book value:						
Brought forward	**2**	**–**	**2**	**–**	**–**	**–**
Carried forward	**13**	**1**	**14**	**12**	**–**	**12**

9 Investments

Company

	Subsidiary undertakings £'000
Brought forward and carried forward	210

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	146	(9)
Rockhopper Exploration (Oil) Limited	England & Wales	Ordinary	100	–	–
Rockhopper Exploration (Hydrocarbons) Limited	England & Wales	Ordinary	100	–	–
Rockhopper Exploration (Petrochemicals) Limited	England & Wales	Ordinary	100	–	–
Rockhopper Exploration (Oil) Limited	Falkland Islands	Ordinary	100	–	–

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 has been accounted for at the par value of the shares issued taking advantage of the merger relief principles under section 131 of the Companies Act 1985.

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 Rockhopper Exploration plc since their creation.

10 Debtors

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**
Due from subsidiary undertakings	**–**	–	**2,680**
Other debtors	**10**	38	**9**
	10	38	**2,689**

The amounts due from subsidiary undertakings are unsecured, interest free and have no fixed date of repayment.

11 Creditors: Amounts falling due within one year

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**
Due to subsidiary undertakings	**–**	–	**29**
Trade creditors	**46**	60	**46**
Accruals and deferred income	**13**	47	**13**
	59	107	**88**

Notes to the financial statements continued

for the year ended 31 March 2006

12 Share capital

	2006		2005	
	£'000	Number	£'000	Number
Authorised: Ordinary shares of £0.01 each	**1,000**	**100,000,000**	1,000	100,000,000
Called up, issued and fully paid: Ordinary shares of £0.01 each	**718**	**71,774,605**	361	36,060,320

The Company's initial share capital on incorporation was 1,000 ordinary shares of £1 each, of which one share was issued at par on incorporation.

On 23 February 2005 the entire authorised share capital of the Company was subdivided into 100,000 ordinary shares of £0.01 each and a further 99,900,000 new ordinary shares of £0.01 each created.

A further 21,013,900 shares were issued at part as part of the share for share exchange for the acquisition of the entire share capital of Rockhopper Resources Limited.

Prior to this occurring, Rockhopper Resources Limited issued shares to the value of £70,211 during the period to increase the number of shares required for the purposes of the share for share exchange to 21,013,900.

15,000,000 ordinary shares were issued at a premium of £0.09 per share on 1 March 2005. Of these, 9,755,000 shares represented conversion of convertible loan notes which had been issued during the period. These convertible loan notes all had a conversion date of 1 March 2005 and were convertible to ordinary £0.01 shares at a subscription price of £0.10 per share per £1 of loan note held.

On 31 March 2005 a further 46,320 shares were issued for a total consideration of £12,970 in lieu of professional fees due to a director.

On 15 August 2005 the Company issued 35,714,285 ordinary shares of £0.01 each at a premium of £0.41 per share on the Admission of the Company to trading on AIM. Issue costs of £1.1 million have been charged against the share premium arising.

On 11 April 2005 the Company adopted the Share Option Schemes comprising the Rockhopper Unapproved Employee Share Option Scheme and the Rockhopper Unapproved Non-Employee Share Option Scheme.

The Rockhopper Unapproved Employee Share Option Scheme (ESOS)

Eligibility

At the discretion of the Remuneration Committee any employee or executive director of the Group, who is more than six months from retirement, will be eligible to participate in the ESOS.

Grants of options

No payment is required for the grant of an option. Options granted will be personal to the option holders to whom they are granted and may not be transferred or assigned. However, they may be exercisable by the legal personal representative of an option holder who has died before exercising his option.

Option price

The price per share payable on the exercise of an option (if any) will be determined by the Remuneration Committee, in accordance with the ESOS rules, subject, in the case of options to subscribe for unissued shares, to a minimum price equal to the nominal value of a share.

Performance conditions

The Remuneration Committee may impose one or more performance conditions which will determine the extent to which, if at all, an option may be exercised. There will be no provision for resting opportunities of any of the performance conditions.

Exercise of options

Options will normally only vest and become exercisable once the performance conditions have been satisfied, on or after the end of the performance period.

The Rockhopper Unapproved Non-Employee Share Option Scheme (NESOS)

The principal features of the Rockhopper Unapproved Non-Employee Share Option Scheme are identical to those of the ESOS, except for the terms outlined below:

Eligibility

Any individual or corporate body (not being an Eligible Employee under the terms of the ESOS) which is nominated by the Remuneration Committee will be eligible to participate in the NESOS.

Grants of options

The Remuneration Committee will at its absolute discretion determine which individuals or corporate bodies are to be granted options under the terms of the NESOS and the number of shares comprising in such options.

Exercise of options

Subject to the achievement of the performance conditions (if any), an option will normally only vest and be exercisable by a recipient at the end of the performance period.

Notes to the financial statements continued

for the year ended 31 March 2006

13 Reconciliation of shareholders' funds and movement on reserves

Group	Share capital £'000	Share premium £'000	Merger reserve £'000	Profit and loss account £'000	Shareholders' funds £'000
At 1 February 2004	140	–	(140)	–	–
Issue of shares	221	1,362	–	–	1,583
Loss for the period	–	–	–	(223)	(223)
At 1 April 2005	361	1,362	(140)	(223)	1,360
Issue of shares	357	13,557	–	–	13,914
Loss for the year	–	–	–	(354)	(354)
At 31 March 2006	**718**	**14,919**	**(140)**	**(577)**	**14,920**

Company	Share capital £'000	Share premium £'000	Profit and loss account £'000	Shareholders' funds £'000
On incorporation				
Issue of shares	718	14,919	–	15,637
Loss for the period	–	–	(363)	(363)
At 31 March 2006	**718**	**14,919**	**(363)**	**15,274**

14 Related party transactions

During the period since 1 February 2004 the following amounts were paid to the parties listed below who are related parties under UK GAAP. The Company only made payments to Strachan Visick and Offshore Hydrocarbon Mapping plc, all other payments were made by a Subsidiary. All amounts outstanding were included in trade creditors at the period end.

- £25,532 by the Company and £nil (2005: £32,272) by the Subsidiaries in respect of services provided and costs incurred, to Strachan Visick, of which R Visick is a shareholder and Director. £2,448 was payable by the Company and £nil (2005: £nil) by the Subsidiaries at the year end.
- £1,189,808 by the Company and £nil (2004: £nil) by the Subsidiaries to Offshore Hydrocarbon Mapping plc, a company in which Mr Jungels is a shareholder and Director, in respect of costs incurred and services provided. £13,210 (2004: £nil) was outstanding at theyear end.
- £nil (2005: £22,730) to K Williams Geology & Research in respect of consulting services provided and £5,923 of costs in relation to the oil exploration activities. K Williams is a Director of the Company. £7,745 was outstanding at the period end;
- £nil (2005: £34,500) to S Moody in respect of consulting services and £1,542 of costs incurred in relation to the oil exploration activities. S Moody is a Director of the Company and its Subsidiaries. £4,042 was outstanding at the period end;
- £nil (2005: £30,000) to P Jungels in respect of consulting services and £510 of costs incurred in relation to the oil exploration activities. P Jungels is a Director of the Company. £510 was outstanding at the period end;
- £nil (2005: £38,910) to P Dixon-Clarke in respect of consulting services provided and £3,942 of costs in relation to the oil exploration activities. P Dixon-Clarke is a Director of the Company and its Subsidiaries. £nil was outstanding at the period end;
- £nil (2005: £678) to Wardour Associates in respect of costs incurred by R Visick. R Visick is a Director and shareholder of both the Company and Wardour Associates. £nil was outstanding at the period end;
- £nil (2005: £1,258) was paid directly to R Visick as reimbursement of costs incurred on oil exploration activities.

15 Cash flows

a) Reconciliation of operating loss to net cash flow from operating activities

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Operating loss	**(766)**	(228)
Depreciation	**3**	–
Decrease/(increase) in debtors	**28**	(38)
(Decrease)/increase in creditors	**(47)**	106
Shares issued in lieu of fees	**–**	13
Net cash flow from operating activities	**(782)**	(147)

b) Analysis of cash flows for headings netted in the cash flow

Returns on investment and servicing of finance

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Interest received	**412**	5
Net cash inflow from returns on investments and servicing of finance	**412**	5

Capital expenditure and financial investment

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Payments to acquire intangible fixed assets	**2,264**	236
Payments to acquire tangible fixed assets	**15**	2
Net cash outflow for capital expenditure and financial investment	**2,279**	238

Financing

	Year ended 31 March 2006 £'000	Fourteen months ended 31 March 2005 £'000
Loan stock issued	**–**	975
Issue of share capital	**15,000**	595
Share issue costs	**(1,086)**	–
Net cash flow from financing	**13,914**	1,570

Notes to the financial statements continued

for the year ended 31 March 2006

16 Financial instruments

Rockhopper raises finance through equity issues and through borrowings, and places surplus cash on short-term deposits. The primary source of borrowing was loans granted by related parties – these were all converted to equity interests in the period ended 31 March 2005.

The main risks associated with Rockhopper's financial instruments relate to changes in interest rates and to credit risk. The policies for managing these risks are kept under review by the Board.

The disclosures below exclude short-term debtors and creditors of a trading nature.

(a) Interest rate and maturity profile of financial assets and liabilities

The only financial asset was a cash balance of £12,455,000 (2005: £1,190,000).
There were no financial liabilities at any of the period ends.

(b) Borrowing facilities

At 31 March 2006, there were no borrowing facilities in place (2005: nil).

(c) Fair value of financial assets and liabilities

The fair value of the recorded financial assets and liabilities does not differ materially from their book values.

(d) Foreign currency risk

Rockhopper currently has incurred expenditure in foreign currencies and has converted the amounts due at the time the funds have been required. Management has developed a formal structure to minimise foreign exchange risk as the exposure increases.

(e) Financial risk management

The structure in place is suitable for current requirements, however directors recognise that this is an area in which they may need to review specific policies should Rockhopper become exposed to wider financial risks as the business develops.

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AREA OF INTEREST