Rockhopper Exploration

Funding solution could drive FID in 2018

Company outlook

Oil & gas

Rockhopper (RKH) holds c 50% of the Sea Lion field, one of the largest undeveloped fields globally. With gross contingent 2C reserves of 517mmbbls (and 900mmbbls 3C), the phased development of the fields has been delayed by a number of factors. However, with costs falling to produce an NPV_{10} break-even of less than $45/bbl and a more solid funding solution becoming apparent over the last six months, a final investment decision (FID) is being targeted in 2018. Together with its Mediterranean production assets and $63m in cash at end H117, it is well placed to realise long-term value. We have reviewed our modelling and applied lower long-term oil price assumptions, which results in a core NAV of 44p/share.

Year end	Revenue (US$m)	PBT (US$m)	Cash from operations (US$m)	Net (debt)/ cash (US$m)	Capex (US$m)
12/15	4.0	(44.7)	(6.9)	110.4	(80.9)
12/16	7.4	98.0	(21.2)	81.0	(40.2)
12/17e	9.8	(9.5)	(1.7)	51.3	(26.3)
12/18e	8.1	(18.4)	0.4	40.9	(11.0)

Note: Figures are as reported.

Sea Lion funding no longer requires farm-out

During the FEED process, the JV has been able to reduce capex to first oil from $1.8bn to $1.5bn. This reduces NPV_{10} break-even to <$45/bbl and generates an ungeared IRR at FID (at our price assumptions) of c 30%. The JV has looked to innovative funding sources to get the field into production and envisages using export credit finance to provide $800m of senior debt, with a further $400m coming from vendor or contractor finance. This reduces the equity portion of capex required to only $300m, which is more digestible for PMO (carrying RKH), as it had financial issues after the fall in oil prices. Importantly, this structure means that no farm-down is required and the partners can more aggressively target a FID in 2018. The company is targeting first oil in 2022 (we assume 2023 for conservatism).

Strong cash position helped by production

The production assets in Egypt and Italy largely covered H117 G&A and should continue to help offset corporate costs to sustain RKH's strong cash position (which we expect to be c $50m at year end 2017). Once a FID is made, development capex should be carried by Premier Oil (PMO) under the current deal and RKH should be able to fund itself to first oil. Upside in Italy may include a positive arbitration result over its dispute on the Ombrina Mare development (potentially worth hundreds of millions of dollars), although this is some time off.

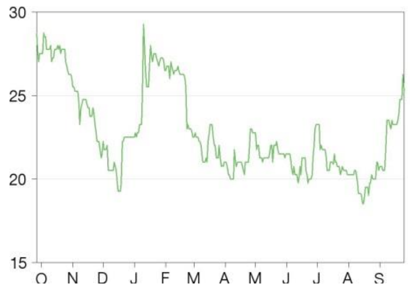
Valuation: Core NAV of 44p/share

After reducing our long-term oil price to $70/bbl in 2022 (previously c $80/bbl) and a number of other adjustments, our (risked) core NAV falls to 44p/share, which assumes just a 20% chance of success – this would rise to 81p/share if risking for Phase 1 is increased to 50% (and Phase 2 to 25%). While the timing and ability to fund the development are still uncertain, our analysis indicates that there should be material long-term value in the assets.

26 September 2017

Price	**25.25p**
Market cap	**£115m**
	£0.8/US$
Net cash ($m) at 30 June 2017	62.5
Shares in issue	457.0m
Free float	99%
Code	RKH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	21.6	14.8	(19.8)
Rel (local)	20.0	16.2	(26.9)
52-week high/low		30.00p	18.50p

Business description

Rockhopper Exploration is a London-listed E&P with fully funded development of Sea Lion, a 500mmbbl+ field in the Falklands. The Isobel Elaine complex could add further significant resources. It also holds production and exploration assets in the Mediterranean and Egypt.

Next events

Funding progress for Sea Lion	H118
FID at Sea Lion	H218
Ombrina Mare arbitration	Mid 2019

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Edison profile page

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Investment summary

Rockhopper is a London-listed E&P and the largest holder of acreage in the North Falkland basin, which contains the Sea Lion discovery (gross 2C 517mmbbls). It also holds production and development assets in Egypt and Italy, which provide cash flows that cover corporate and operating costs.

Falklands

RKH holds material working interests in the Sea Lion discovery (a 40% interest in PL32 and a 64% interest in PL04), which has gross contingent 2C resources of 517mmbbls and 3C resources of 900mmbbls. Additionally, it holds a 64% interest in the Isobel Elaine discovery, which the company believes may be a similar size. This means RKH may have a >50% interest in more than 1bnbbls.

The company (and partner PMO) sees Sea Lion being developed on a phased basis, with FPSO plateau rates of around 80mb/d initially, targeting the first 220mmbbls in the northern part of Sea Lion. After this, future phases will likely see higher production rates and exploitation of the reservoirs further south. We see Elaine Isobel being developed as a possible Phase 3. The company and PMO are targeting FID in 2018 and first production in 2022; we assume Phase 1 production starts in 2023.

Exhibit 1: Gross Falkland Island asset resources

		Recoverable (mmboe)		STOIIP (mmboe)			Recovery factor implied	
		Gross		Gross				
		2C	3C	Best	High		2C	3C
Sea Lion complex	Contingent (oil)	517	900	1,667	2,592		31%	35%
	Contingent (gas)	160	271	174	280		92%	97%
	Prospective	207	547	755	1,825		27%	30%
	Total	**885**	**1,718**	**2,596**	**4,696**		**34%**	**37%**
Isobel Elaine complex	Contingent (oil)	20	72	277	832		25%	32%
	Management resources (oil)	49	198					
	Prospective (oil)	70	350	282	999		25%	35%
	Total	**139**	**619**	**559**	**1,831**		**25%**	**34%**

Source: Rockhopper Exploration. Note: RKH owns between 40% and 64% of the Sea Lion complex and 64% of the Isobel Elaine complex.

The critical factors in reaching sanction are the returns achievable and the financing available.

The development of Sea Lion has progressed in recent years, which has led to a notably lower cost estimate and therefore oil price break-even than in 2014. Leveraging falling service costs, the project is now estimated to achieve life of field costs (post FID) at $35/bbl and a break-even NPV_{10} of $45/bbl. Importantly, the phased nature of the development minimises upfront capex with pre-first oil investment of $1.5bn, with cash flows then being recycled into Phases 2 and 3. Along with the cost and production assumptions, this drives an IRR for Phase 1 in 2018 of 29% assuming our Brent oil assumption of $70/bbl in 2022 (inflating at 2.5% thereafter). These correlate to large gross NPVs for the project as a whole – a gross NPV_{10} of $924m and NPV_{15} of $619m. This should give some comfort when the partners come to FID milestone.

On financing, the major issue with Sea Lion has been the ability of the partners to fund the development. The existing deal with PMO provides RKH with significant development carry in Phase 1 ($337m) and a stand-by debt facility, which (if used) would fully cover RKH's share of pre-first oil capex. However, the falling oil price since 2014 and heavy capex investment schedule for PMO precipitated a massive fall in its ability to fund development at Sea Lion.

In the absence of PMO's ability to invest equity capital until at least 2018, the partners have sought capital from third parties. As a result, the current plan is to fund development from three routes. Export credit financing will provide around $800m (on a senior debt structure) with around $400m of vendor financing, leaving around $300m required from PMO/RKH before first oil. This means the partners should not require a farminee to fund development, but also that the existing development carry arrangement may need revisiting as under this funding structure PMO (if it provided the $300m of equity capital) would only be providing $120m of carry in Phase 1. The jury is out on how this will be resolved, but it should benefit RKH.

Greater Mediterranean

The production assets in Egypt and Italy provided 1.2mboe/d (net) in H117 and enough cash flows to cover the G&A costs. With the current portfolio, we do not expect production to increase materially, but the company is looking to offset declines. The recently announced disposal of the Civita field to Northern Petroleum (now Cabot) due to complete by end 2017 will help to reduce long-term liabilities in Italy and extend the cuts to administrative expenses that have so far resulted in G&A costs falling 34% y-o-y (H1 vs H1). Additionally, operating costs have fallen 44% since H116 to $8.7/boe.

Another important part of the Greater Mediterranean is the Ombrina Mare asset, where RKH is seeking damages to recover the value lost as a result of Italian legislative changes that prohibit offshore drilling. Given the size of the field at 25-40mmboe (which was subject to appraisal and development activity), the value lost as a result of not being able to develop it is potentially very significant (several hundreds of millions of dollars). Arbitration proceedings are expected to take around 24 months (from H117 results in September 2017).

Corporate and financials

The company remains in a strong financial position, holding $62.5m in cash at the end of June 2017. After expenditure in H217, we expect year-end cash to be around $50m. The cash flows from production should partially cover G&A costs in future years, and the existing carry deal with PMO should cover the bulk of development costs (with a loan covering the rest if required), so we expect RKH to continue to have balance sheet strength.

The changing financing details in Sea Lion development may have an impact on the future funding picture for RKH. Given that PMO is gaining more from this change than RKH (in terms of NPV impact), we would hope that any renegotiation would move in Rockhopper's favour. However, it is far more important that the development moves forward and investors see progress of Sea Lion towards first oil.

Separately, the company continues to examine a number of new ventures to add production and cash flow. The lower oil price may create opportunities to bolt on assets at attractive prices, although we expect the company to be extremely selective in approaching acquisitions.

Valuation

We have adjusted our modelling and valuation for Rockhopper. The primary change is the reduction in our long term oil price to $70/bbl in 2022 (from c $80/bbl) with near-term assumptions of c $50/bbl in 2017/18 remaining static. This accounts for a reduction in our core valuation from 72p/share to 44p/share. Investors may look to include further value from the Isobel Elaine complex, to which we currently attribute 13p/share. Even if we use 15% discount rate rather than our 12.5% WACC, the value would be 34p/share, well above the current share price.

Sensitivities

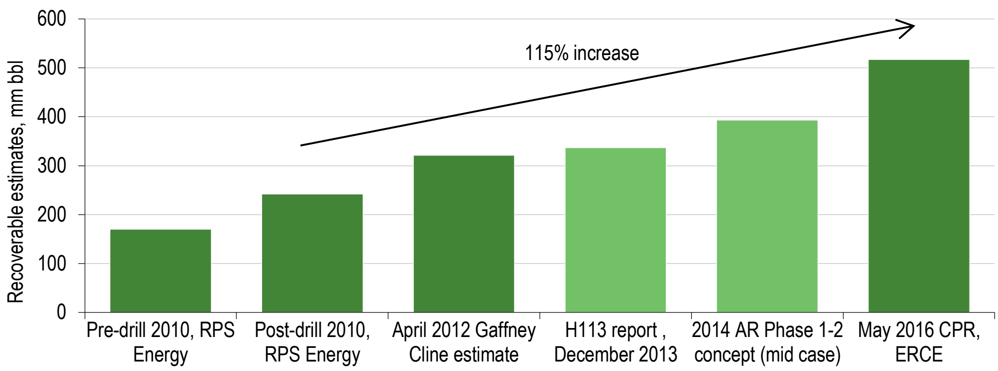
The critical factor for investors is the progression of the Sea Lion development and there is clearly a risk that our assumptions turn out to be wrong. The gross NPV for Sea Lion would increase 50% for if we increase our long term oil price from $70/bbl to $80/bbl. The NPV would increase 12% for a 10% decrease in capex (and 10% in opex).

Geologic setting of the North Falkland Basin

The North Falkland Basin (NFB) is a deep lacustrine basin filled with Lower Cretaceous organic shales and turbidites. The main graben system is around 230km long and 50km wide at the northern end (30km at the southern end). Sea Lion itself is a turbidite or fan system that sits close to the eastern margin of the basin. It was created when rivers entering the basin from the north deposited sand, which was then redeposited in a series of fans fed by canyon feeder systems from the east, and encased in mud. This resulted in a system of multiple stacked fans that created a complex reservoir distribution.

The field was discovered in 2010 by RKH's first operated well in the basin (14/10-2) and extensively appraised in 2010 and 2011 with eight further wells over the Sea Lion structure. The Zebedee well, drilled in 2015, extended the complex to the south with the discovery of oil and gas in three new fans.

Exhibit 2: Growth of 2C recoverable resources, Sea Lion complex



Source: Rockhopper Exploration, Edison Investment Research. Note: Dark green bars represent independent audit estimates, light green provided by company and/or Premier Oil.

Development concept, FEED and costs

The development concept has not changed for some time and calls for multiple phases for the full exploitation of the resource. This reduces upfront capex for the partners.

Phase 1

Phase 1 will see approximately 220mmbbl extracted from the northern sections of the fields. The partners expect first oil in 2022 with a peak plateau of 80mb/d (gross), and a field life of 15-20 years. We take a more conservative approach, with first oil in 2023 and a three-year plateau of 75mb/d, declining thereafter with a total field life of 17 years.

FEED on Sea Lion started in January 2016 and the process was substantially complete in 2016. Tender packages for drilling, well services and logistics services have been prepared and issued and proposals received. Work so far has reduced the expected capex to first oil from $1.8bn to $1.5bn, and total costs from above $45/bbl to around $35/bbl, giving an NPV_{10} break-even of less than $45/bbl according to PMO and a 29% IRR based on our oil price assumptions. This may reduce further as FEED progresses and the service industry adapts to the lower oil price environment.

Funding and regulatory

The partners now envisage that Sea Lion Phase 1 ($1.5bn) will be funded by a mixture of export credit financing (taking the form of senior debt) of $800m, $400m of vendor financing and $300m in equity financing.

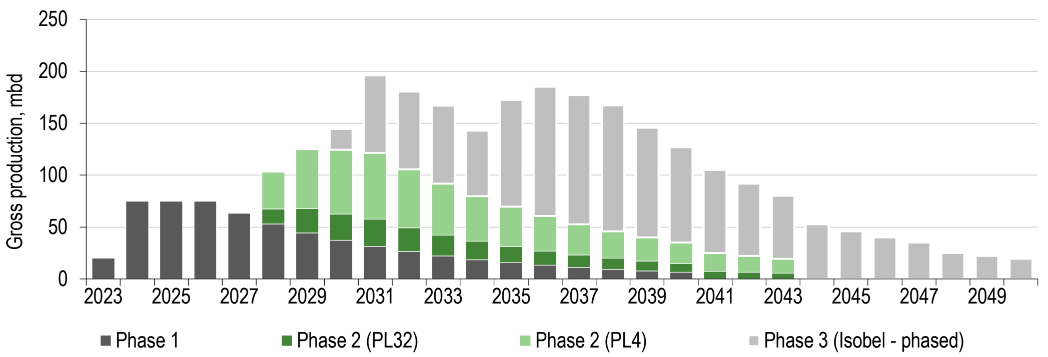
On export financing, the joint venture partners appointed Portland Advisers (a specialist export credit agency project finance adviser) to support the financing process for the project. Discussions with the UK export credit agency are ongoing.

Vendor financing is progressing with the companies tendering during the FEED process. A number of bids have been submitted, but further work is required to mature these offers to binding offers of funding.

This should be viewed in the context of the existing farm-out arrangement, where PMO is due to carry RKH for $750m (split over two phases) and provide a standby loan (of up to $750m at a 15% interest rate) if required, to enable RKH to fund development without recourse to equity holders. RKH is also committed to paying PMO a guarantee fee during production that leaves the NPV (as of FID) split 50:50 between the parties.

In parallel, the JV is in talks with the Falkland Islands Government (FIG) on “a range of fiscal, environmental and regulatory matters”. These are to ensure that the field development plan and environmental impact statement will be well progressed and legislatively compliant.

Exhibit 3: Gross production profile for Phases 1 to 3

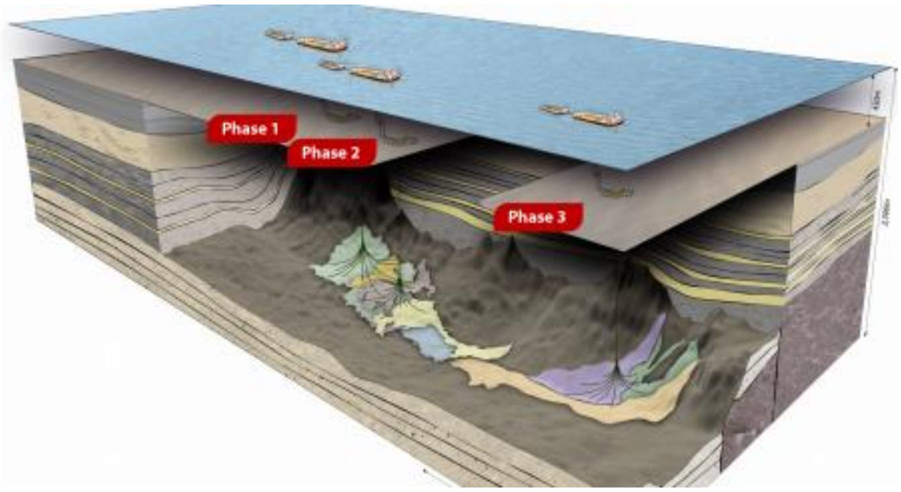


Source: Rockhopper Exploration, Edison Investment Research. Note: We assume a phased development for the Isobel Elaine complex along the same lines as Sea Lion for simplicity.

Phase 2

The second phase will follow a number of years later (we model first oil five years after Phase 1 start-up), extracting a further 300mmbbl from a separate FPSO, as shown in Exhibit 4 below.

Exhibit 4: Development concept



Source: Rockhopper Exploration

Phase 3 – Isobel Elaine complex

The reservoirs discovered in the 2015 programme could make up a third leg of the development. However, while the company is confident in the potential of the reservoirs at Isobel Elaine complex, operational issues during the drilling in the two wells means that insufficient information has been collected to properly prove up the reservoir size. As yet, reserve auditors have only been able to attribute 2C/3C contingent resources of 20/72mmbbls. This leaves a material prospective resource base to be further understood (2C/3C of 139/350mmbbls). Appraisal drilling will help firm up this number, and this is currently planned during the development drilling of Phase 1.

Current management estimates of Isobel Elaine complex suggest a very material reservoir of more than 500mmbbls, which has the potential to be very valuable if proved up. Unfortunately, the time to first oil (of around 12 years in our current modelling) means that its value on a discounted basis is diluted. However, we model this time lag given the cash flow profile of the developments – should a solution arise that increases the partners' ability to accelerate the development (say by increased oil prices or a third party entering the project), Isobel Elaine could be developed much sooner, materially boosting NPV.

Other Falkland Islands interests

RKH holds a 52% interest in a number of blocks in the Southern Basin of the Falklands (inheriting them from the acquisition of Falkland Oil & Gas). Its partners (Noble and Edison) have given notice to withdraw from the acreage, so RKH expects to hold a 100% interest. We do not see the company pursuing any material work on this acreage in the foreseeable future, but see very little expense in keeping these assets.

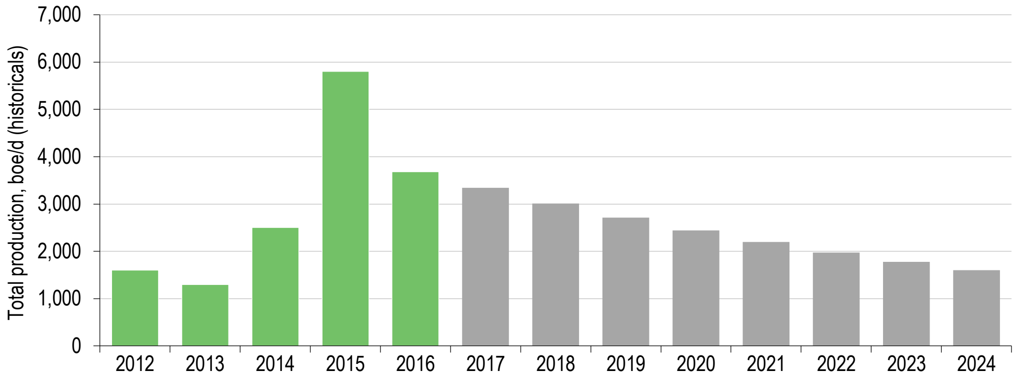
Greater Mediterranean

Outside the Falkland Islands, RKH holds interests in Egyptian and Italian production and development assets which produced 1.2mboe/d net to the company in H117. These produced sufficient cash flow in H117 to cover the group's expenses (ex-working capital movements), the first time this has been achieved. The aim of the group is to continue to maximise cash flows from these assets, exploring/appraising where appropriate to offset declines.

Egypt

RKH acquired a 22% interest in the Abu Sennan development licence (containing six leases) in August 2016 for $11.9m (effective date of January 2016). Production remained stable in H117 at 720boe/d (net to Rockhopper). This is below the levels that were seen immediately before the acquisition, but still above the rates seen before 2015.

Exhibit 5: Gross Egyptian production, Abu Sennan

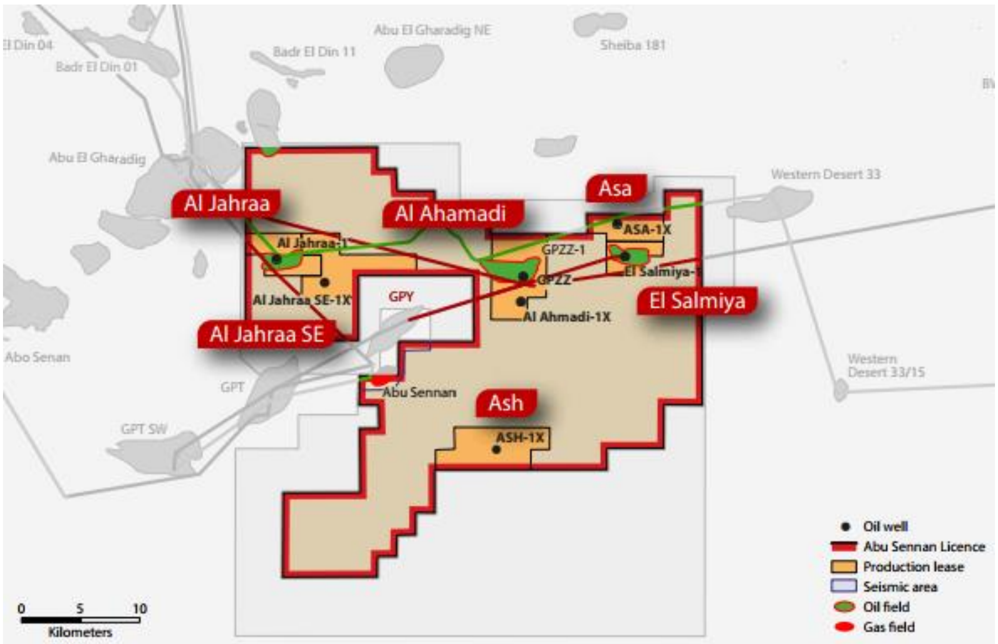


Source: Beach Energy, Rockhopper, Edison Investment Research. Note: Green bars are historical, grey are Edison forecasts.

The company drilled two wells in early 2017. The exploration well, Al Jahraa SE-2X, was spudded in late April 2017. The primary target was dry, but a sidetrack to the north confirmed oil pay and was completed as a producer (250boe/d gross). A second well at Al Jahraa was a development well in June 2017 but was water wet.

We have reviewed the modelling, reducing our expectation of production (and capex). We continue to expect investment in the field, but see this activity as offsetting more serious declines, for example two workovers are planned during H217. As and when the company announces further appraisal and development well successes we will review again, although these reductions are offset by better realisations than we had previously modelled. We assume opex of less than $8/boe – in line with H217 opex. This leads to some cash flow from the asset, but declining over time.

Exhibit 6: Abu Sennan licence



Source: Rockhopper

At the El Qa'a Plain assets (25% WI), RKH and its partners are evaluating the results of the first 3D seismic dataset (captured in 2015/16). There are a number of leads, but basin modelling and volumetric evaluations are required before a decision is taken on drilling location.

Italy

The company has looked to rationalise its assets in Italy, recently selling off the small gas-producing Civita asset (and some associated blocks) to Cabot Energy. Although the deal involves RKH paying the acquirer $1.6m, it also enables RKH to offload long-term abandonment liabilities of $9m. The deal is expected to close by the end of 2017.

The Guendalina asset (20% WI) produced 320boe/d net to RKH (1.6mboe/d gross) in H117 following a work programme in H216 which boosted production.

RKH has recently transferred operatorship of the Serra San Bernado permit (23% WI) to Eni, which is exploring options for a well at the Monte Grosso prospect (regulatory and permitting approvals are in process).

Management

David McManus (non-executive chairman): David is a petroleum engineer with a degree from Heriot-Watt University. He has over 35 years' experience in the oil and gas industry with Shell, Ultramar, ARCO and BG Group. David has extensive project management and commercial expertise at a high level, and is currently a director of Costain, Hess Corporation and Flex LNG.

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

Stewart MacDonald (CFO): prior to joining RKH, Stewart was a director in Rothschild's global oil and gas group and spent 12 years advising clients in the sector on a range of M&A and financing transactions. He was appointed to the board in March 2014.

Sensitivities

Funding: given PMO's inability to equity fund the $1.5bn investment required, the partners are currently sourcing funding for Phase 1 of Sea Lion. As such, with the current plan, they are reliant on the combination of export credit finance and vendor finance (with the $300m rump equity financed) to provide capital at a level acceptable to the partners and investors. This cannot be assured and other sources may be required. However, this is mitigated in our view by the size of the project and the potential value that could be created. We also note that the capital that needs to be provided by PMO under this arrangement is far less than under previous schemes, making it more affordable for the equity partners, particularly given that PMO is now in better shape than it has been for some time (after refinancing, the Zama discovery material disposals and Catcher production due by year end).

Oil price risk: the bulk of RKH's value is dependent on long-term prices, although near-term cash flows are reliant on near-term realisations in Italy and Egypt. Please see our Valuation sensitivities section for further details of how much movement in prices affects value. Gas volumes will be reinjected at Sea Lion and not sold.

Fiscal regime change: the FIG is unlikely to increase the fiscal take in the foreseeable future, especially given the current outlook for oil prices. Indeed, given the delays in getting project sanction, it is in everyone's interest to incentivise first oil as soon as possible. A renegotiation of terms is therefore possible, but we are not assuming it.

Reservoir risk: Sea Lion has been extensively appraised so reservoir distribution here is understood and the waxy nature of the Sea Lion crude known. Similar appraisal and analysis will be required at the Isobel/Elaine complex.

Argentina: relations between Argentina and the UK have thawed in recent years. In September 2016, the UK and Argentinian governments agreed to work together to remove "restrictive measures around the oil and gas industry, shipping and fishing affecting the Falkland Islands". We hope that a path to normalisation of diplomatic relations continues.

Payment and repatriation risk from Egypt: Egyptian production can be paid in a combination of Egyptian pounds and US dollars, and we believe that it is materially easier to be paid in Egyptian pounds (although to date RKH has only accepted US dollars, paid directly into UK bank accounts).

Valuation

In our core NAV, we include production, development and contingent resources that could be developed – we generally value oil companies using an asset-by-asset NAV derived from detailed DCF modelling, which gives an unrisked $/bbl figure for the asset. Exploration is valued (in our RENAV) only if wells are planned and funded in the next 18 months.

For commodity pricing, we assume around $50/bbl in 2017/18 moving towards a long-term Brent price of $70/bbl in 2022, with 2.5% inflation thereafter. This is around $10/bbl lower than our previous long-term assumption (in 2022). Gas prices are more regionally/market driven and we estimate these accordingly.

For the Sea Lion development, we model transport costs of $3/bbl and a 4% discount to Brent. For Phase 1, we assume post-FID of capex of $12/bbl (slightly more than guidance of $10/bbl for LoF –

or \$6.8/bbl of pre-first oil capex) and opex of just under \$25/bbl (of which around \$10/bbl is FPSO leasing cost). Importantly, capex pre-first oil is limited to \$1.5bn.

We apply risking that aims to take account of geological, technical and commercial uncertainties. If a company lacks funding or production that could provide cash for development, we need to take account of the value sacrificed to get through appraisal/development. This dilution is difficult to estimate accurately. As a result, our overall CoS applied would therefore be materially lower than any geological CoS for exploration prospects.

In RKH's case, the uncertainty over the commercial terms at which the project would get sanctioned means we currently have a relatively low CoS, at a lower level than we would ordinarily have at the FEED stage. We note that once it becomes more evident that a project sanction is close (which may include the closing of FEED and announcements on funding from the three sources currently envisaged), this would move up and the value of the NAV would increase.

The result of modelling adjustments is a reduction in our NAV. This is substantially the result of the lower oil prices assumed (costs remain broadly the same). Our new core NAV of 44p/share is still well above the current share price.

Exhibit 7: NAV summary

	FX £0.8/US$				Recoverable reserves			Net risked value				
	Shares: 457m		WI	CoS	Gross	Net	NPV	at WACC of 12.5%*		Sensitivity at WACCs of		
Asset	Country	First production	%		mmboe		$/boe	$m	/share	10%	15%	20%
Net (debt)/cash - June 2017								63	10.5	10.5	10.5	10.5
G&A (NPV10 of five years)								(28)	(4.7)	(4.7)	(4.7)	(4.7)
H217 exploration								(4)	(0.7)	(0.7)	(0.7)	(0.7)
Cash consideration for sale of Civita assets								(2)	(0.3)	(0.3)	(0.3)	(0.3)
Production												
Guendalina	Italy		20%	100%	1.2	0.2	13.8	3	0.6	0.6	0.6	0.6
Abu Sennan	Egypt		22%	100%	9	2.0	5.3	12	2.0	2.2	1.7	1.4
Development												
Sea Lion Phase 1	Falkland Islands	2023	40%	20%	221	88	6.1	108	18.4	24.1	13.8	8.0
Sea Lion Phase 2 in PL32	Falkland Islands	2028	40%	16%	87	35	3.5	19	3.3	5.1	2.1	0.8
Sea Lion Phase 2 in PL04	Falkland Islands	2028	64%	16%	214	137	3.5	76	12.7	20.1	8.0	2.9
Ombrina Mare - under arbitration	Italy			50%				16	2.7	2.7	2.7	2.7
Core NAV					**533**	**262**		**264**	**44.2**	**59.7**	**33.7**	**21.2**

Source: Edison Investment Research. Note: *Italian assets are always discounted at 10%. Ombrina Mare is valued by assuming a 50% CoS to recover the \$40m costs of the asset (discounted to account for time before the hearing).

Sensitivities

The key factor for investors is PMO/RKH's ability to sanction the project. Without development of Sea Lion, the value of RKH is lower than the current share price. However, if investors believe that the project will be sanctioned, our analysis indicates that the value to RKH should comfortably exceed the current share price; the key questions then become when Sea Lion will reach first oil, what oil prices will be during the project and which discount rate is the most relevant to use.

We use a 12.5% discount rate to analyse the Falkland and Egyptian assets (but 10% for Italian), so a year's delay to the project would reduce the NPV by roughly that amount.

Exhibit 8: Sensitivity of core NAV (currently 43p) to oil price and discount rate (p/share)

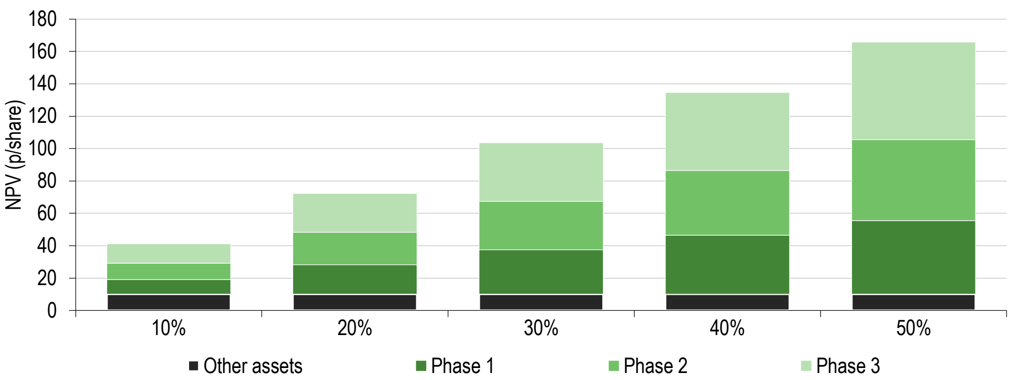
		Discount rate				
		7.5%	10.0%	12.5%	15.0%	17.5%
2016 Brent oil price, $/bbl	30	8	8	8	8	8
	40	27	18	13	10	9
	50	55	39	29	22	17
	60	82	59	44	33	26
	70	109	79	59	45	35
	80	135	98	73	56	44

Source: Edison Investment Research. Note: Our $70/bbl 2022 assumption is equal to $60/bbl in 2016 using a 2.5% inflation rate. In this analysis, we do not move the discount rate for Italian assets. Although a simplification, Guendalina contributes around 7% to current NAV, so the magnitude of the error is likely to be small.

Progress of project

We use a chance of success of 20% for Phase 1 of Sea Lion as a reflection of the issues that have delayed the project, not least the financing issues. As and when milestones are met (FEED completed, binding vendor financing agreement and FID), we would expect to increase our risking. This could have a radical effect on the company valuation, as Exhibit 9 below indicates. Increasing the chance of success to 50% on Phase 1 alone would increase the NAV/share to 56p/share, while including Phase 2 would push it to more than 100p/share.

Exhibit 9: Indicative value increases with chances of success



Source: Edison Investment Research. Note: 'Other assets' indicates non-Falkland Islands value. We would not expect the chances of success to move up together. Phase 1 will always have a greater CoS than Phase 2, which would always be greater than Phase 3.

Financials

As of 30 June 2017, Rockhopper held $62.5m in cash. We expect this to fall to just over $50m by the year-end as ongoing costs in Sea Lion (RKH continues to bear 40% of the pre-sanction costs) add to exploration costs in Egypt. This is enough to fund the company's activities in the coming years.

The cash levels are clearly not enough to fund development of Sea Lion, but the existing agreement with PMO over the farm-out will be enough (post-FID) to get Sea Lion to first oil, assuming the $1.5bn capex bill. However, the existing agreement calls for a $337m carry on Phase 1 alone, with a similarly sized carry on further phases. Given the economics of the new phasing and financing structure, PMO will not need to provide this level of carry to RKH (of the $300m equity finance required to get Phase 1 completed, only $120m would be RKH's to provide and therefore be carried on). Therefore, under the existing arrangement, there is a mismatch. We would not be surprised to see an evolution of the agreement in time to better reflect the changing reality – this should be to RKH's benefit. For the moment, we do not assume or forecast any improvement in terms.

We are also cognisant that while the senior debt costs may be similar to other debt in the market, it is very possible that the returns demanded via vendor financing may be well above our WACC. We have written repeatedly and in depth on returns demanded for investment in the E&P space, and as a result would not be surprised to see vendor financing at levels of 15%, although the size and nature of the project may lead to more competitive bidding. There may be a case to use higher WACCs but the ability of the project to be 75-80% debt funded means equity cashflow returns will be high. We continue to be watchful and will update our valuation as new information becomes available.

Exhibit 10: Financial summary

Accounts: IFRS, Year-end: December, US$000s	2014	2015	2016	2017e	2018e
Total revenues	1,910	3,966	7,417	9,837	8,078
Cost of sales	(3,970)	(11,049)	(7,667)	(8,817)	(12,404)
Gross profit	**(2,060)**	**(7,083)**	**(250)**	**1,020**	**(4,326)**
SG&A (expenses)	(10,033)	(10,895)	(9,970)	(6,729)	(5,200)
Other income/(expense)	(1,782)	(22,934)	(8,237)	(2,188)	0
Exceptionals and adjustments	5,844	(10)	116,527	4,565	(2,400)
Depreciation and amortisation	0	0	0	0	0
Reported EBIT	**(8,031)**	**(40,922)**	**98,070**	**(3,332)**	**(11,926)**
Finance income/(expense)	657	975	307	533	168
Other income/(expense)	(209)	(4,750)	(333)	(6,709)	(6,608)
Exceptionals and adjustments	0	0	0	0	0
Reported PBT	**(7,583)**	**(44,697)**	**98,044**	**(9,508)**	**(18,366)**
Income tax expense (includes exceptionals)	(5)	55,395	0	2,813	0
Reported net income	**(7,588)**	**10,698**	**98,044**	**(6,695)**	**(18,366)**
Basic average number of shares, m	289	293	446	457	457
Basic EPS	(2.6)	3.7	22.0	(14.7)	(40.2)
Balance sheet					
Property, plant and equipment	12,146	12,637	18,025	13,014	15,764
Goodwill	0	0	0	0	0
Intangible assets	204,164	256,658	426,419	441,775	440,128
Other non-current assets	11,506	9,803	9,439	10,283	10,283
Total non-current assets	**227,816**	**279,098**	**453,883**	**465,072**	**466,175**
Cash and equivalents	199,726	110,434	81,019	51,348	40,888
Inventories	2,188	1,670	1,608	1,545	1,545
Trade and other receivables	4,681	6,199	17,184	13,985	13,985
Other current assets	1,384	2,192	495	3,638	3,638
Total current assets	**207,979**	**120,495**	**100,306**	**70,516**	**60,056**
Non-current loans and borrowings	0	0	0	0	0
Other non-current liabilities	60,960	106,893	93,174	91,747	98,355
Total non-current liabilities	**60,960**	**106,893**	**93,174**	**91,747**	**98,355**
Trade and other payables	19,358	30,457	34,012	15,272	15,272
Current loans and borrowings	0	0	0	0	0
Other current liabilities	100,439	9	9	9,016	9,016
Total current liabilities	**119,797**	**30,466**	**34,021**	**24,288**	**24,288**
Equity attributable to company	255,038	262,234	426,994	419,553	403,587
Non-controlling interest	0	0	0	0	0
Cash flow statement					
Profit for the year	(7,583)	(44,697)	98,044	(9,508)	(18,366)
Net finance expenses	(470)	3,942	16	6,166	6,440
Depreciation and amortisation	2,186	2,744	4,725	5,833	9,897
Share based payments	672	1,937	994	(48)	2,400
Other adjustments (impairments)	(4,415)	26,075	(115,546)	(3,003)	0
Movements in working capital	(1,627)	3,143	(9,433)	(1,118)	0
Cash from operations (CFO)	**(11,237)**	**(6,856)**	**(21,200)**	**(1,678)**	**372**
Capex	(11,261)	(80,919)	(40,203)	(26,337)	(11,000)
Acquisitions & disposals net	(24,037)	0	(13,527)	(2,605)	0
Other investing activities	84,720	39,791	77,755	398	168
Cash used in investing activities (CFIA)	**49,422**	**(41,128)**	**24,025**	**(28,544)**	**(10,832)**
Net proceeds from issue of shares	(225)	(2,733)	0	0	0
Movements in debt	0	0	0	0	0
Other financing activities (includes rig settlement)	439	2,219	(2)	12	0
Cash from financing activities (CFF)	**214**	**(514)**	**(2)**	**12**	**0**
Increase/(decrease) in cash	38,399	(48,498)	2,823	(30,210)	(10,461)
Currency translation differences and other	(1,155)	(794)	(2,238)	539	0
Cash at end of period	**99,726**	**50,434**	**51,019**	**21,348**	**10,888**
Net (debt) cash	199,726	110,434	81,019	51,348	40,888
Movement in net (debt) cash over period	(47,756)	(89,292)	(29,415)	(29,671)	(10,461)

Source: Edison Investment Research, company accounts. Note: Cash flow statement only uses reported cash (balance sheet and net debt includes $50m of term deposits). Assets held for sale in 2017 (Civita and other Italian assets) are included in the other current assets/liabilities lines.

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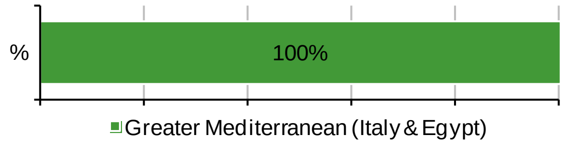
Revenue by geography



Management team

Non-executive chairman: David McManus

David is a petroleum engineer with a degree from Heriot-Watt University. He has over 36 years' experience in the oil and gas industry with Shell, Ultramar, ARCO and BG Group. David has extensive project management and commercial expertise at a high level, and is currently a director of Costain, Hess Corporation and Flex LNG.

Chief executive officer: Sam Moody

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

Chief financial officer: Stewart MacDonald

Prior to joining Rockhopper, Stewart was a director in Rothschild's global oil and gas group and spent 12 years advising clients in the sector on a range of M&A transactions as well as debt and equity financings. Stewart was appointed to the board in March 2014.

Principal shareholders	(%)
Majedie Asset Management	5.1%
Carlson	5.0%
Credit Suisse	3.1%
Fidelity	2.8%

Companies named in this report

Premier Oil (PMO)