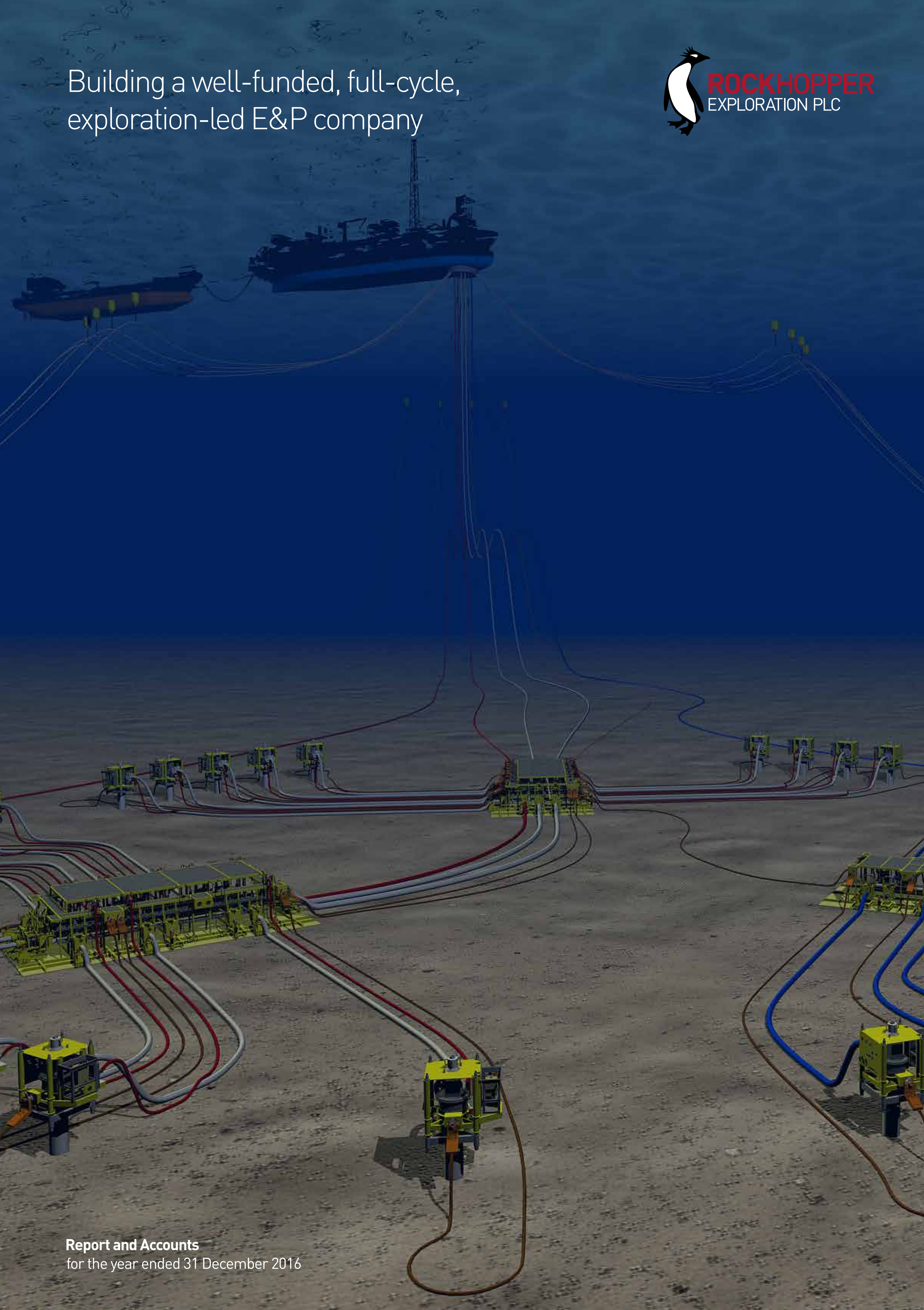
Building a well-funded, full-cycle, exploration-led E&P company

ROCKHOPPER EXPLORATION PLC



Report and Accounts
for the year ended 31 December 2016

Rockhopper Exploration plc (AIM: RKH) is an oil and gas exploration and production company with key interests in the North Falkland Basin and the Greater Mediterranean region.

STRATEGIC REPORT

GOVERNANCE

ACCOUNTS

Group company financial statements

Parent company financial statements

2016 highlights

> Building a material, full-cycle, exploration-led portfolio:

- Consolidated leading North Falkland Basin acreage position through the all-share merger with Falkland Oil & Gas Limited ("FOGL")
- Acquired non-operated production and exploration assets in Egypt from Beach Energy
- Ambition to further grow the Greater Mediterranean asset base

> Maintaining operational resilience based on compelling portfolio economics:

- Material increase in economic production* to 1,350 barrels of oil equivalent per day ("boepd")
- Cash operating costs in Greater Mediterranean reduced to US$14 per boe
- Sea Lion project economics enhanced with further cost reductions achieved
  - Sea Lion life of field costs estimated at US$35 per barrel and project "break-even" at US$45 per barrel

* Economic production includes production from the effective date (being 1 January 2016) of the acquisition of assets in Egypt.

Rockhopper – the story so far

Q1 2017

Ombrina Mare arbitration commences

Rockhopper commences international arbitration proceedings, seeking very significant monetary damages, as a result of the Republic of Italy's breaches of the Energy Charter Treaty in relation to the Ombrina Mare project.

2016

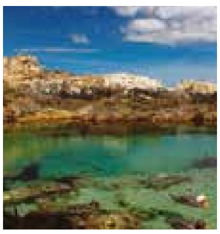
Sea Lion enters FEED

Sea Lion project enters FEED with set of world-class contractors.

Rockhopper completes merger with Falkland Oil & Gas following shareholder approval from both Rockhopper and FOGL shareholders.

Rockhopper acquires non-operated production and exploration assets in Egypt.

2013



Consolidates interests in NFB acreage

Rockhopper consolidates its interests in the Falklands through the farm-in to acreage held by Desire Petroleum. As a result, Rockhopper increases its interests in licences PL004a, PL004b and PL004c to 24%.

2012

Farm-Out

In July, Rockhopper announced it had entered into a farm-out agreement with Premier Oil plc ("Premier"), whereby Premier acquired a 60% operated interest in Rockhopper's North Falkland Basin licences for undiscounted consideration of c.$1bn (comprising cash, development carry and exploration carry).

In recognition of Rockhopper's unrivalled understanding of the North Falkland Basin, it was agreed that Rockhopper would retain the sub-surface lead in relation to future exploration activities.

> Continued to progress the development of the large scale Sea Lion project:

- > FEED contracts for the Sea Lion Phase 1 development awarded to a set of world-class contractors
- > Independent resource audit confirmed 517 mmbbl (2C) and 900 mmbbl (3C) oil resources (gross), and near-field, low-risk exploration upside of 207 mmbbl (gross, mid case, unrisked)
- > Updated draft Field Development Plan and draft Environmental Impact Statement submitted to Falkland Islands Government

> Protecting financial strength to enable growth:

- > Debt-free and fully funded for current commitments
- > Strong balance sheet maintained with cash and term deposits of US$81 million (at 31 December 2016)
- > General and Administrative costs expected to be largely covered by existing production going forward
- > Initiated international arbitration to seek significant monetary damages in relation to Ombrina Mare

2015

NFB exploration campaign commences
In March, the Eirik Raude rig arrives in the North Falkland Basin to commence a multi-well drilling campaign. Exploration successes at Zebedee and Isobel Deep with multiple oil discoveries made.

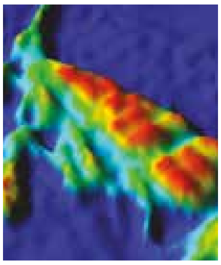
In November, Rockhopper announced the terms of its all-share merger with Falkland Oil & Gas. Through the merger with FOGL, Rockhopper consolidates its leading acreage and resource position in the North Falkland Basin.

2014

Mediterranean Oil & Gas plc

Acquisition of MOG
In May, Rockhopper announced a recommended cash and share offer to acquire AIM listed Mediterranean Oil & Gas plc. The transaction completed in August. Through the acquisition Rockhopper acquired a portfolio of production, development, appraisal and exploration interests in Italy, Malta and France.

2011



Sea Lion Appraisal
Following the successful flow test in late 2010 a further eight exploration and appraisal wells were drilled by Rockhopper across the complex, six of those being discoveries.

In addition, Rockhopper participated in a further five non-operated wells.

2010

Sea Lion Discovery
In February, the Ocean Guardian drilling rig arrived in Falklands waters to carry out a multi-well programme on behalf of multiple operators. In the spring, Rockhopper (as operator) drilled its first exploration well on the Sea Lion prospect which resulted in an oil discovery. The well was successfully flow tested in September.

Rockhopper at a glance

Falkland Islands

North Falkland Basin

Sea Lion Phase 1 (PL032)

> 40% working interest
> 220 mmbbls gross*
88 mmbbls net to Rockhopper*
> Targeting FID in mid 2018, subject to securing funding

Sea Lion Phase 2 (PL032/PL004)

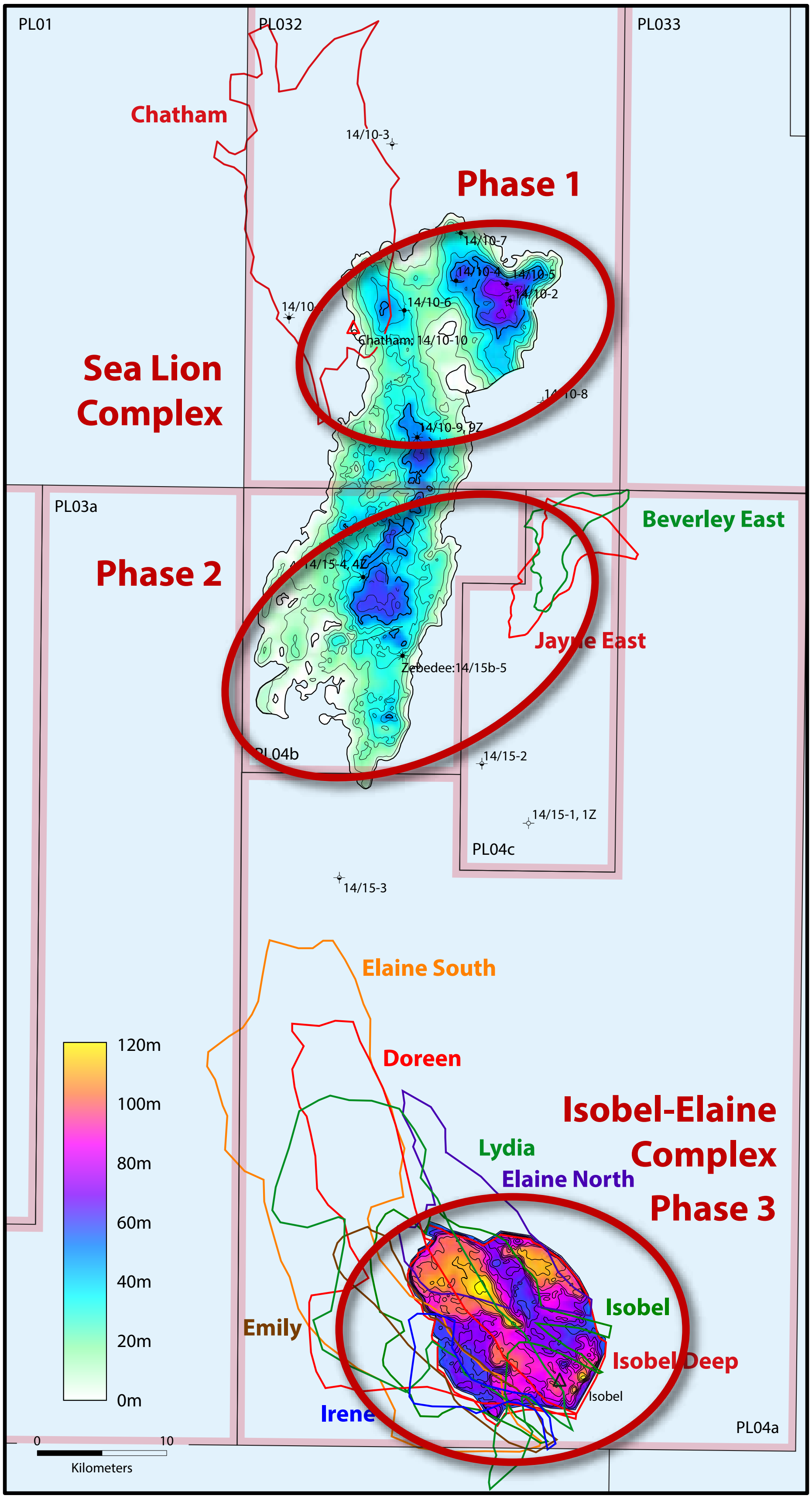
> 40-64% working interest†
> 300 mmbbls gross*
120-192 mmbbls net to Rockhopper*

Phase 3 – Isobel-Elaine (PL004)

> 64% working interest
> Isobel-Elaine complex significantly de-risked during recent NFB exploration campaign

* Operator's estimate

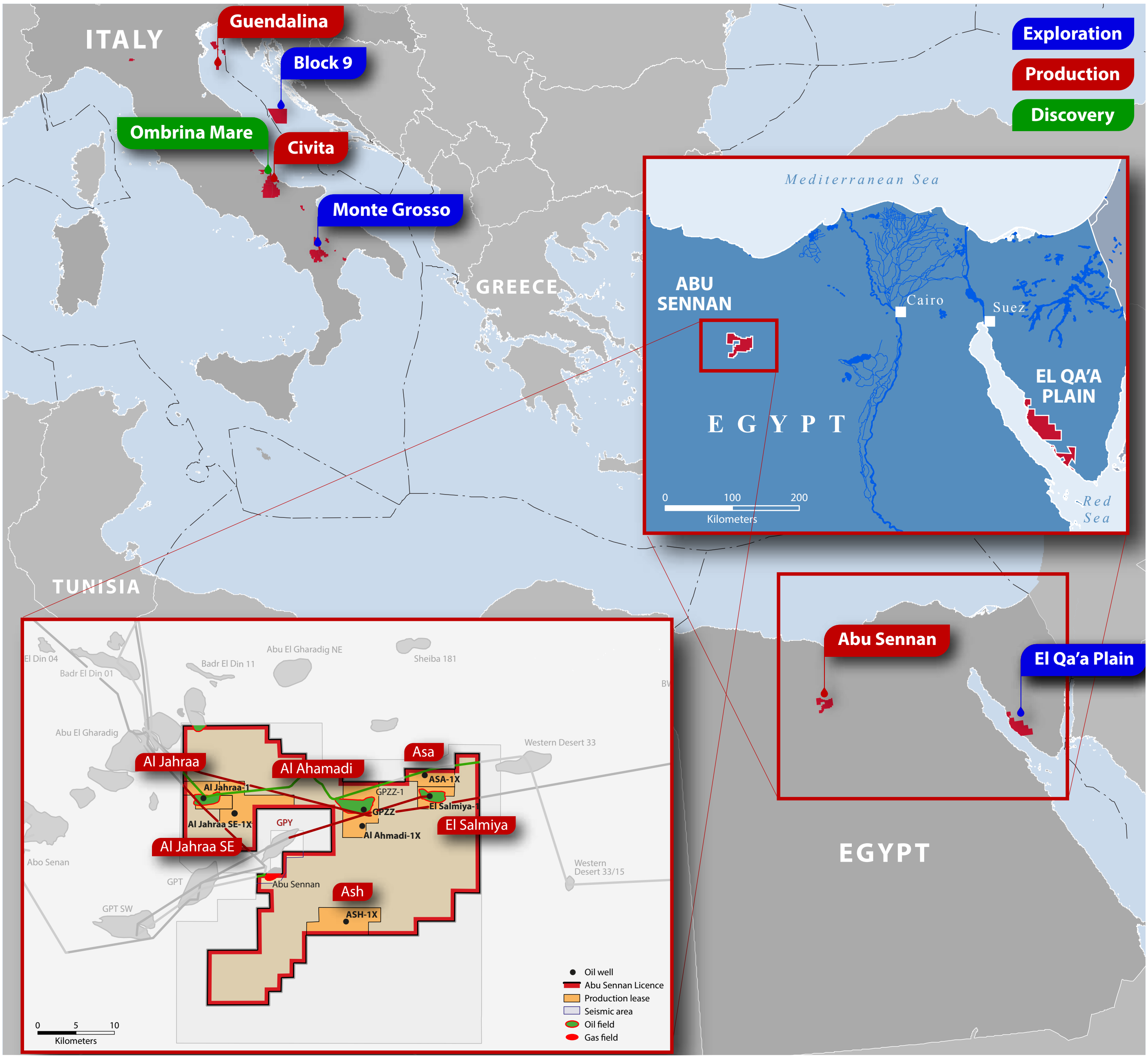
† Sea Lion Phase 2 straddles licences PL032 in which Rockhopper holds a 40% interest and PL004 in which Rockhopper holds a 64% interest.



Head Office
London, UK

Regional Offices
Rome, Italy
Cairo, Egypt

Greater Mediterranean



Italy

Guendalina
> 20% working interest
> Northern Adriatic production

Ombrina Mare
> 100% working interest
> International arbitration commenced

Civita
> 100% working interest
> Onshore gas production

Monte Grosso
> 23% working interest
> Exploration stage

Egypt

Abu Sennan
> 22% working interest
> Western Desert production

Croatia

Block 9
> 40% working interest
> Block awarded in 2015 – subject to signature of PSA

Vision

To build a well-funded, full-cycle, exploration-led E&P company

Strategy

Strategic aim

> Building a balanced portfolio in core areas

> Focus on North Falkland Basin and Greater Mediterranean

> Across the full asset life cycle

> Production base to enable growth through exploration

> Maintaining balance sheet strength

> Prudent balance sheet management

> Partial monetisation of assets to fund development

> Disciplined approach to cost management

> Value accretive exploration

> Leveraging technical skillset

> Focus on proven hydrocarbon basins

> Managed exposure to high-impact opportunities

Delivery in 2016

✔ **Acquisition and integration of exploration and production assets in Egypt**

✔ **Material increase in economic production* to 1,350 boepd**

✔ **Year-end cash and term deposits $81 million; no debt**

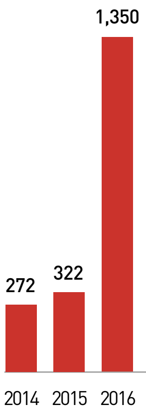
✔ **Reduced recurring G&A by 30% over last two years**

✔ **Independent resources audit confirmed 517 mmbbl (2C) in Sea Lion Complex with 207 mmbbl of near-field exploration upside**

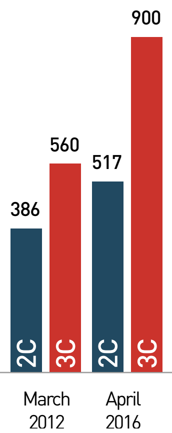
* Economic production includes production from the effective date (being 1 January 2016) of the acquisition of assets in Egypt.

Delivering on strategy

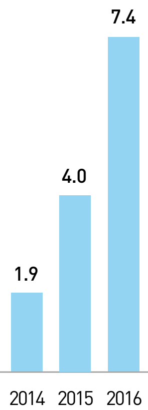
Economic production
(boepd)



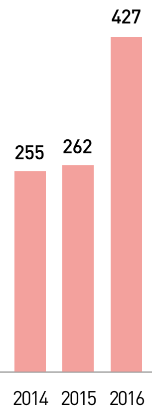
Gross Sea Lion Complex resources
(mmbbl)



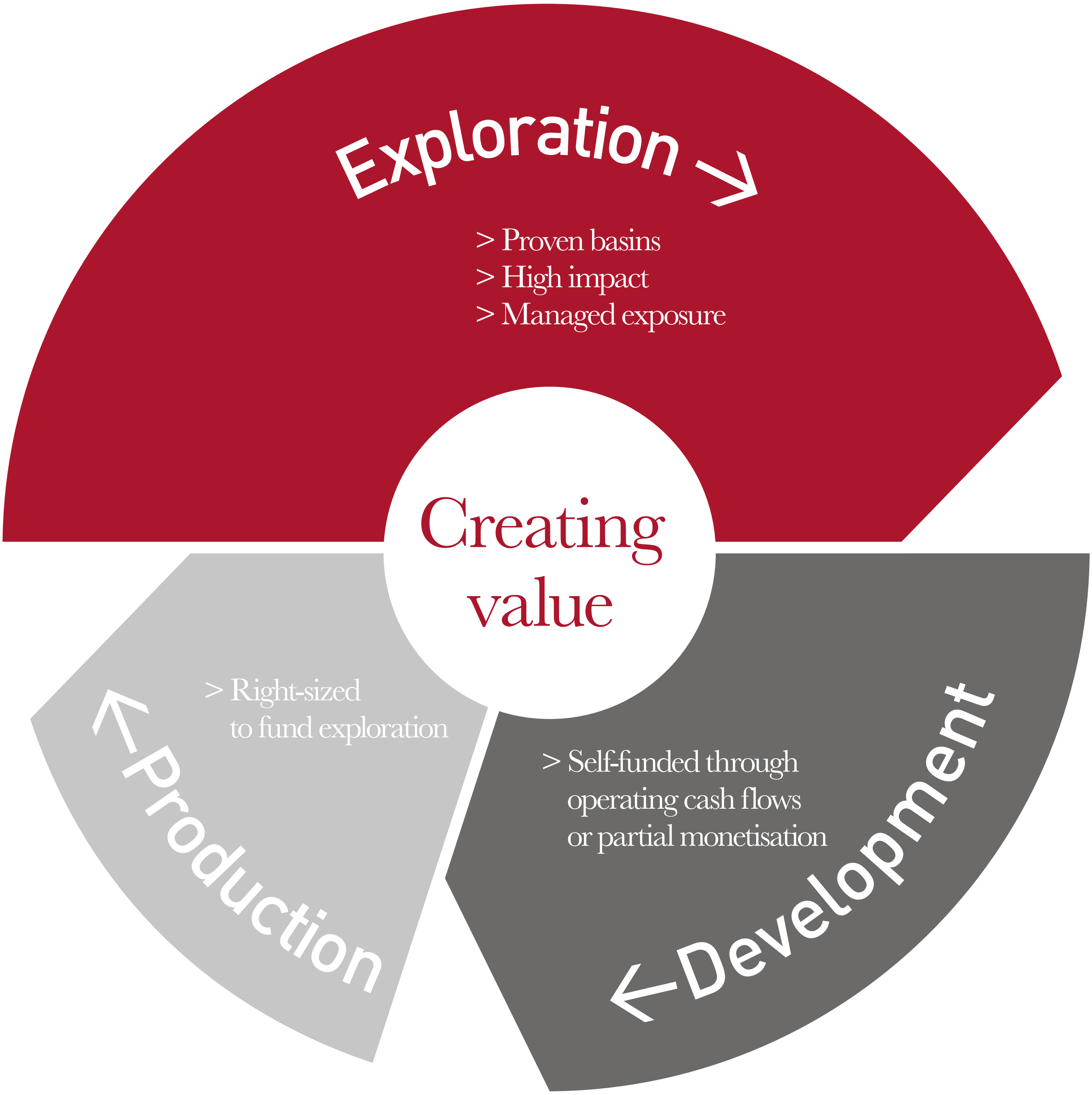
Revenue
(US$m)



Net assets
(US$m)



Business model



Chairman and Chief Executive Officer's Review

Rockhopper's strategy is to build a well-funded, full-cycle, exploration-led E&P company.

In 2016, Rockhopper delivered on a number of operational, corporate and strategic objectives: completing a highly successful exploration campaign in the Falklands, progressing the Company's flag-ship Sea Lion development into FEED, whilst at the same time adding material incremental production in the Greater Mediterranean.

Our balance sheet remains strong with no debt, which ensures we are well placed to take advantage of the opportunities created by the challenging commodity price environment.

In the Falkland Islands, we have grown our resource position substantially through exploration and acquisition

In January 2016, we completed the merger with Falkland Oil & Gas Limited. The Board believes the combination of Rockhopper and FOGL will create significant value for shareholders, not only by positioning Rockhopper as the largest acreage holder in the North Falkland Basin, but our enhanced interests provide us with a stronger strategic position in the future commercialisation of our world-class Sea Lion project.

In February 2016, we concluded our highly successful North Falkland Basin exploration drilling campaign, which saw material oil discoveries at each of Zebedee, Isobel Deep and Isobel Elaine.

Following the conclusion of the exploration campaign, ERC Equipoise Limited ("ERCE") were appointed to conduct an independent audit of resources in the North Falkland Basin. Further details are outlined in the Chief Operating Officer's Review but the Board was particularly pleased to see the audit confirm oil in place on the Sea Lion Complex is estimated at more than 1.6 billion barrels gross with estimated gross recoverable contingent oil resources of 517 mmbbls (2C) and 900 mmbbls (3C).

The impressive results of this campaign and the subsequent independent resource audit endorse Rockhopper's view that the North Falkland Basin has the potential to deliver multiple future phases of development and, ultimately, a billion barrels of recoverable oil.

Continued cost optimisation materially reduces project break-even cost at Sea Lion

In January 2016, the Sea Lion Phase 1 project entered FEED with a set of world-class contractors. The Phase 1 development aims to commercialise the resources in the north of the Sea Lion Complex in licence PL032.

The latest estimates of capex to first oil are US$1.5 billion which, combined with other cost and efficiency improvements, has resulted in a life-of-field cost (capex, opex and lease) of approximately US$35 per barrel. The project "break-even" oil price is approximately US$45 per barrel (with break-even economics premised on achieving an ungeared project IRR of 10%).

A draft Environmental Impact Statement and revised draft Field Development Plan were submitted to the Falkland Islands Government ("FIG") in late 2016.

Rockhopper is an engaged and active participant in the Sea Lion joint venture providing support and challenge to Premier Oil plc ("Premier") across the range of subsurface, engineering, commercial and financing aspects of the project.

Left: **David McManus**
Chairman
Right: **Samuel Moody**
Chief Executive Officer

Having operated in the Falklands for over 12 years we have unparalleled insights and bring these to bear as we move the project towards sanction.

In September 2016, the Board noted with interest the joint statement between the British Government and the Government of Argentina in relation to closer cooperation on areas of mutual interest. This announcement is believed to be the first positive statement made by both countries on South Atlantic issues since 1999 and sets out a commitment to work towards removing restrictive measures affecting the oil and gas and other industries in the Falkland Islands.

Building a second core area in the Greater Mediterranean

In our Greater Mediterranean portfolio, we have benefitted from a material increase in production following the completion of the successful Guendalina side-track and the Rockhopper operated Civita development in H2 2015. Production further increased in 2016 following the acquisition of a portfolio of interests in Egypt. Economic production* in 2016 averaged 1,350 boepd.

Following the decision in February 2016 by the Ministry of Economic Development not to award the Company a Production Concession covering the Ombrina Mare field, in March 2017 the Company commenced international arbitration proceedings against the Republic of Italy. Based on legal and other expert opinions, Rockhopper has been advised that it has strong prospects of recovering very significant monetary damages as a result of the Republic of Italy's breaches of the Energy Charter Treaty. Damages would be sought on the basis of lost profits, with the arbitration process expected to take 2-3 years.

Portfolio management and corporate cost reduction initiatives

Over the last 24 months a corporate cost reduction program has been implemented across the Group – as a result, headcount in Italy has reduced to eight (a reduction of over two-thirds since the acquisition of Mediterranean Oil & Gas plc in August 2014). Initiatives to streamline the Group's UK operations have been achieved by combining our London and Salisbury staff in a single office in London. As a result, the Group's net recurring general and administrative ("G&A") cost in 2016 has reduced to US$7.4 million (compared with US$9.4 million in 2015 and US$10.8 million in 2014†) – further G&A savings are anticipated in 2017.

Board changes

Following the Company's AGM in May, Dr Pierre Jungels retired as Non-executive Chairman having served as Chairman of the Company for over 10 years. David McManus, an existing Non-executive Director, was appointed Non-Executive Chairman following Pierre's retirement. We pay tribute to Pierre's achievements over that time and offer our sincere thanks for the leadership provided.

In addition, Robert (Bob) Peters, Senior Independent Director, retired from the Board effective 31 December 2016. We thank Bob for his significant contribution and input to Board deliberations over his six years with the Company. Keith Lough, Non-executive Director and Chairman of the Audit and Risk Committee, was appointed Senior Independent Director following Bob Peters' retirement.

Outlook

As the technical engineering phase of the Sea Lion FEED approaches conclusion, focus will shift in 2017 to the commercial, fiscal and financing elements of the project. Engagement with FIG on a range of operational, fiscal and regulatory matters is expected to continue through H1 2017.

With the spot price for Brent crude fluctuating around $55 per barrel in early 2017, and the cost efficiencies realised through the FEED process, the Board is convinced the economics of the Sea Lion project are sufficiently robust to be sanctioned in the current environment, assuming the required capital investment can be secured.

With that in mind, Premier, Rockhopper's partner in the Sea Lion project, has confirmed that, given their financing position, any final investment decision on Sea Lion will be subject to the successful conclusion of a farm-down or alternative financing process.

Given the importance of the Sea Lion project to Rockhopper and our shareholders, we are dedicated to investigating every possible means to progress the development, including assisting Premier in their financing efforts, actively engaging with a number of oil industry participants with regard to potential farm-in transactions and a number of initiatives to further reduce the pre-first oil capital required to sanction the project. We believe the completion of the Premier's refinancing will significantly enhance the discussions around the funding and resulting sanction of the Sea Lion development.

As a result of the acquisition of Beach Egypt, combined with corporate cost savings achieved through the year, operating cash flows are expected to broadly cover the Group's overheads during 2017. The Board believes that this production and cash flow, when combined with our existing balance sheet, helps secure the long-term sustainability of the Company whilst preserving flexibility to further grow our Greater Mediterranean business in 2017.

David McManus	**Samuel Moody**
Non-Executive Chairman	Chief Executive Officer

10 April 2017

* Economic production includes production from the effective date (being 1 January 2016) of the acquisition of Beach Egypt.

† Based on audited results for the nine month period to 31 December 2014, pro-rated for a full year.

Key Performance Indicators (KPIs)

The Board monitors the Company's progress against its Key Performance Indicators to assess performance and delivery against pre-defined strategic objectives.

KPIs have been set based on short-term targets designed to ensure the Company achieves its long-term strategy.

The Company measures a number of operational and financial metrics to ascertain performance. In 2016, Rockhopper continued to deliver on a number of its key metrics.

2016	Definition	Performance	Attainment
KPI #1	Bringing an additional paying partner into the Sea Lion development project.	Discussions held with a range of potential capital providers to establish appetite to invest in the Sea Lion project.	Not achieved
KPI #2	Completion of a Competent Person's Report that meets specific objectives set by the Board.	Independent resource audit prepared by ERC Equipoise announced in May 2016. Audit confirmed Sea Lion Complex 2C resources of 517 mmbbl and 3C resources of 900 mmbbl.	Fully achieved
KPI #3	Achievement of production related targets.	Economic production of 1,350 boepd achieved during 2016, a material increase over 2015 levels.	Partially achieved
KPI #4	Achievement of specific milestones for the Final Investment Decision for the Sea Lion development.	Project entered FEED with a set of world class contractors. Draft Field Development Plan prepared and submitted to the FIG. Significant cost savings achieved and project break-even oil price reduced to $45 per barrel.	Partially achieved

2017	Definition
KPI #1	Bringing an additional paying partner into the Sea Lion Development project and/or working closely with the operator to deliver a financing solution to enable the joint venture to advance project sanction.
KPI #2	Addition of a material new venture that adds substantial production and meets the Company's corporate investment criteria.
KPI #3	Preservation of the Company's cash position.

Market overview

Economic and political
> Significant political and economic uncertainty through 2016 as a result of:
– UK decision to leave the European Union
– US Presidential election
– Eurozone instability

> Sterling weakness and interest rate cut following Brexit

> In Europe, continued easing of monetary policy with a focus on quantitative easing

> In contrast, the US continues to experience GDP recovery and declining unemployment leading to increased confidence and interest rate rises.

Equity market
> Strong UK equity market performance across FTSE 100 and 250

> High volatility following Brexit decision in June with recovery driven in large part by Sterling weakness and large-cap exposure to US earnings

> Whilst the FTSE 350 Oil & Gas sector outperformed the wider market, investor appetite for small and mid – cap E&P remains muted.

Oil price
> Significant recovery in Brent oil prices through the year

> January 2016 saw lows of below $30 per barrel driven by oversupply concerns and demand uncertainty

> OPEC and non OPEC supply cuts in H2, the first in many years, saw Brent re-rate above $50 per barrel

> The balance of demand and supply going forward remains uncertain with many contributing factors – on the one hand demand growth in 2017 looks strong (driven by China and the Far East) on the other, sustainable US shale production growth could cap prices in the medium term

> Consensus forecasts for 2017/18 generally sit in the $50-60 per barrel range.

Industry dynamics
> Early signs of stability in oil prices not yet sufficient to turn around focus on cost reductions and project deferrals

> Cost reductions achieved through “across-the-sector” price cuts – leading to service sector consolidation and in some cases financial restructuring or insolvency

> Next phase of cost reductions likely to be driven by efficiencies of design and engineering, industry standardisation and co-operation around shared infrastructure

> Industry will continue to focus on capital allocation with capital employed only on those projects which deliver the most competitive risk adjusted returns.

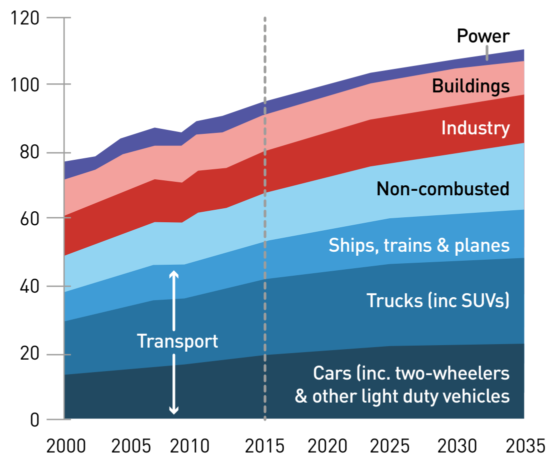
Mergers and acquisitions
> Outside of North America mergers and acquisition activity remained relatively subdued

> Asset recycling remains major theme with Oil Majors seeking to release capital from legacy/mature/low growth/low return projects

> Industry farm-out market limited to select geographic “hot-spots”

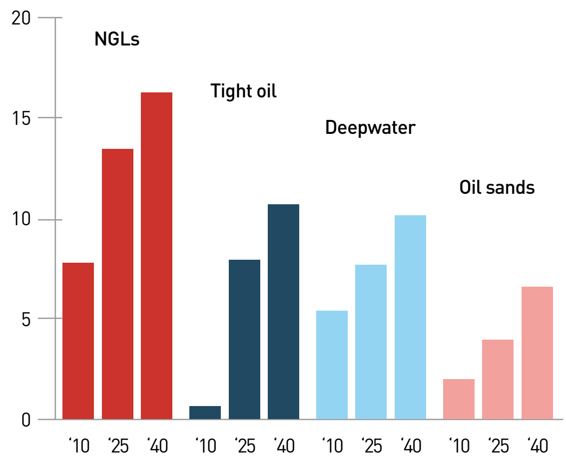
> Super Majors increasing focus on gas – BP/Senegal; Shell/BG; ExxonMobil/Mozambique.

Liquids demand



Source: BP 2007 Energy Outlook

Technology-driven supplies



Source: ExxonMobil Outlook for Energy 2040

Chief Operating Officer's Review

Sea Lion FEED targets significant cost reductions

2016 was a year of intense activity following the commencement of Front End Engineering and Design ("FEED") for the Sea Lion Phase 1 development. FEED contracts were awarded to an aligned partnership of world-class contractors comprising SBM Offshore for the FPSO, Subsea 7 for the subsea installation, National Oilwell Varco for the flexible flowlines and One Subsea for the subsea production system. The innovative contractor partnership having been designed to create collaborative engagement with a view to optimising the facilities design and installation methodology and to reduce project costs. In tandem engagement with drilling and logistics service providers is progressing, again with a range of innovative commercial and contractual arrangements being discussed.

The joint venture team of Premier and Rockhopper have worked collaboratively to support and challenge the design specifications throughout the FEED process, leading to significant savings across the project.

Additionally, support from Rockhopper has enabled a right sizing of the operators project team and a significant reduction in the project management costs for 2017.

Cost estimates for field support services, including supply boats, helicopters and shuttle tankers have seen a material reduction. As a result, field operating costs for Sea Lion Phase 1 are now estimated at $15 per barrel, down from over $20 per barrel, while the total project breakeven cost has reduced to just below $45 per barrel from $55 per barrel.

Given the magnitude of resources already discovered in the North Falkland Basin, a phased approach to development is being pursued. Phase 1 will commercialise approximately 220 mmbbls in the north of PL032 (in which Rockhopper has a 40% working interest). The Phase 2 development will commercialise a further 300 mmbbls from the remaining resources in PL032 and the adjacent resources in PL004 (in which Rockhopper has a 64% working interest). Subject to further appraisal drilling, Phase 3 will develop the resources in the Isobel-Elaine Complex to the south of PL004.

An application was made to FIG to extend the licence for the Sea Lion Discovery Area. FIG has confirmed that an extension to April 2020 has been granted by the Secretary of State. Additionally, extensions are being granted to all licences held in the North Falkland Basin by FIG.

Fiona MacAulay
Chief Operating Officer

Supply base,
Falkland Islands

Success of recent North Falkland Basin exploration campaign confirmed by independent resource audit

In February 2016, we concluded the Isobel Elaine well, the last in our multi-well exploration campaign in the North Falkland Basin and continued our success in the role of sub-surface lead for exploration, in which Rockhopper have had unparalled success in the basin.

Following the success of the exploration campaign, ERCE were appointed to conduct an independent audit of the contingent and prospective resources in licences PL032 and PL004 which was completed in April 2016. A summary of the resource update is outlined below.

Sea Lion complex

ERCE audit

> Discovered STOIIP 1,667MMstb, 834MMstb net to RKH (Mid Case)
> Discovered 2C resources 517MMstb oil, 258MMstb net to RKH
> Discovered 3C resources 900MMstb oil, 452MMstb net to RKH
> Total discovered 2C resources including gas 747MMboe, 392MMboe net to RKH
> Total discovered 3C resources including gas 1,462MMboe, 798MMboe net to RKH.

Upside

> ERCE audited near field low risk exploration upside of 207MMstb, 105MMstb net to RKH (Mid Case, unrisked)
> Management estimates additional resource upside in West Flank of 60MMstb if oil-bearing.

Isobel-Elaine complex

ERCE audit

Utilising the operationally compromised data suite ERCE audited significant discovered and prospective STOIIP and resources in the Isobel-Elaine Complex of:

> Discovered STOIIP 277MMstb oil, 177MMstb net to RKH (Mid Case)
> Discovered STOIIP 832MMstb oil, 532MMstb net to RKH (High Case)
> Discovered 2C resources for Isobel Deep (F3H Fan) 20MMstb oil, 13MMstb net to RKH
> Prospective STOIIP 282MMstb oil, 180MMstb net to RKH (Mid Case)

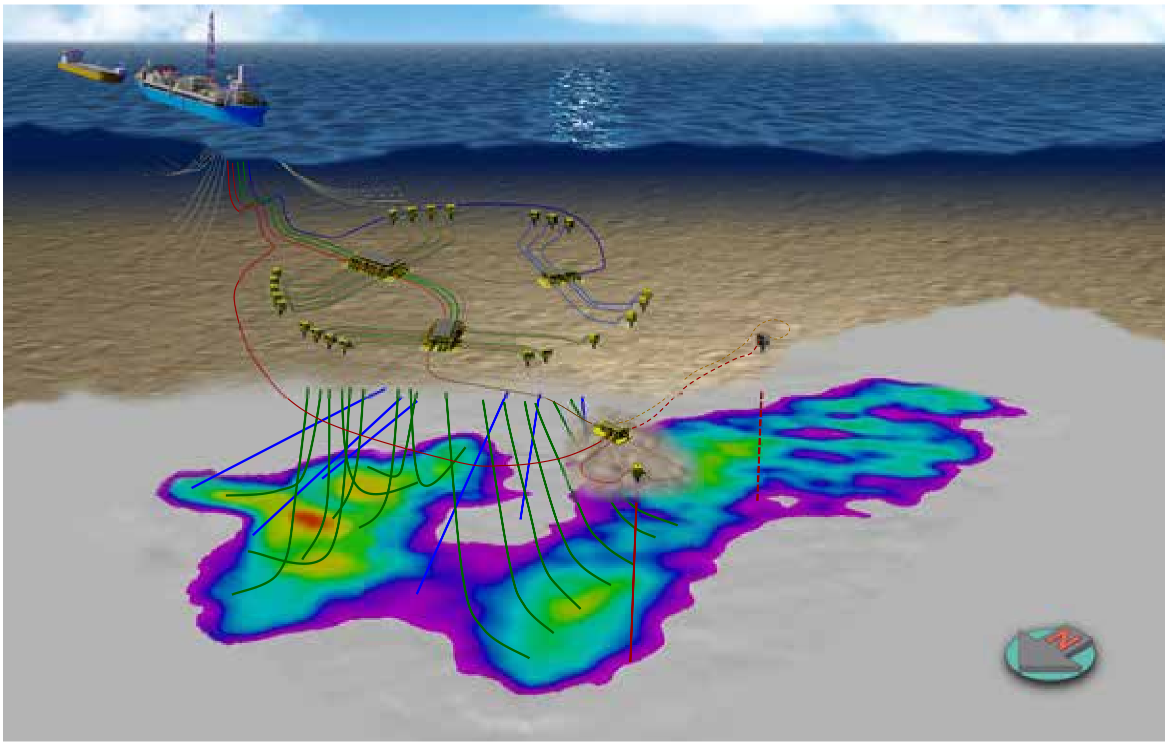
Management estimates

Without the benefit of completed formation pressure data, management has applied conservative recovery factors of 25% and 35% respectively for 2C and 3C resources against audited STOIIP for each of the Emily, Isobel and Isobel Deep (J) fans:

> Management 2C resources 49MMstb oil, 31MMstb net to RKH
> Management 3C resources 198MMstb oil, 127MMstb net to RKH.

Management plus ERCE audited resources

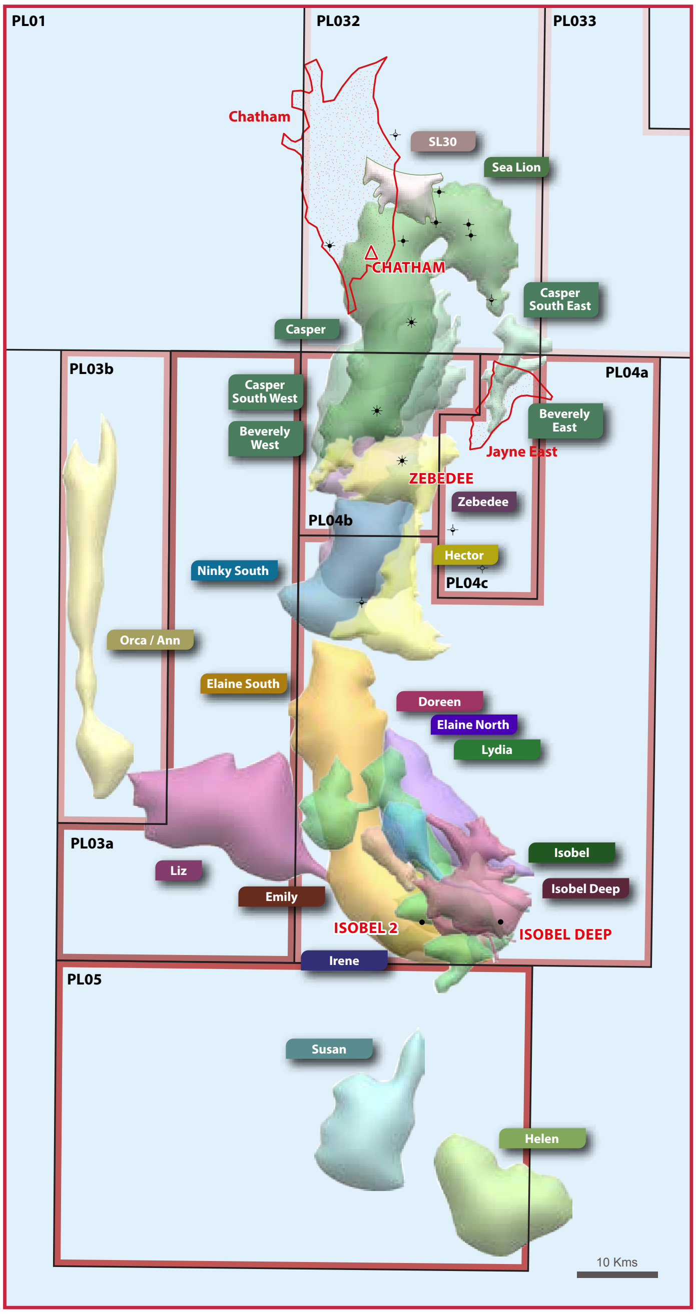
> 2C resources 69MMstb oil, 43MMstb net to RKH
> 3C resources 270MMstb oil, 173MMstb net to RKH
> Prospective (Mid Case) resources 70MMstb, 45MMstb net to RKH
> Prospective (High Case) resources 350MMstb, 224MMstb net to RKH.



Sea Lion development schematic

SEA LION PROJECT

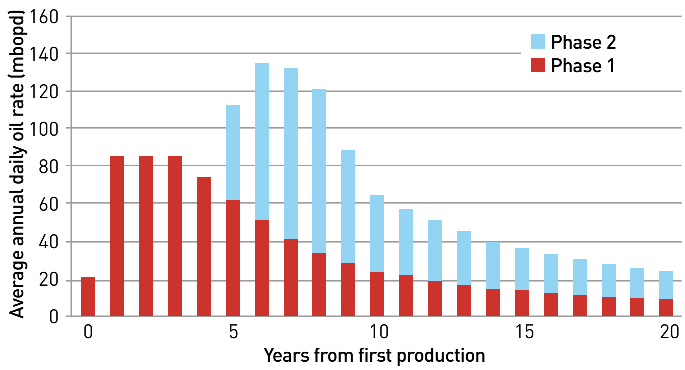
North Falkland Basin snapshot



Leading acreage position post acquisition of FOGL

	Rockhopper	FOGL	Combined Group	Operator
PL032	40%	n/a	40%	Premier
PL003a	3%	92.5%	95.5%	Rockhopper
PL003b	3%	57.5%	60.5%	Rockhopper
PL004a	24%	40%	64%	Premier
PL004b	24%	40%	64%	Premier
PL004c	24%	40%	64%	Premier
PL005	n/a	100%	100%	Rockhopper

Projected production profile



Rockhopper was delighted that the audit confirmed the Company's net 2C oil contingent resource base in the North Falkland Basin, as a result of the exploration campaign and the acquisition of FOGL, had increased to over 270 million barrels, or over 300 million barrels including management estimates for the Emily, Isobel and Isobel Deep J fans.

In the Isobel-Elaine Complex, where data collection was compromised for operational reasons, ERCE has evaluated the discovered STOIIP for each of the fans and attributed contingent resources to the Isobel Deep (F3H) fan from which significant oil was recovered to surface. For the other oil-bearing fans (Emily, Isobel and Isobel Deep J), ERCE believes that recovery factors comparable to those applied to discoveries could be achieved if an appraisal programme demonstrates the potential to flow oil at a rate comparable to wells in these offset discoveries. For these fans, management has assigned a 25% recovery factor for the 2C and 35% for the 3C resources.

In addition to the discovered resources, management believes there are a large number of near field prospects in the attractive and relatively low risk Isobel/Elaine appraisal area for which estimates of STOIIP and oil prospective resources have been made.

South and East Falkland Basin

Through the acquisition of FOGL, Rockhopper acquired a 52% interest in Noble operated acreage to the South and East of the Falkland Islands. Following the results of the Humpback well, Noble Energy and Edison have given notice to withdraw from this acreage (although retain an interest in PL001 in the North Falkland Basin). As a result, Rockhopper expects to become operator of the South and East Falkland Basin acreage with a 100% working interest when the process of assignment is complete. Selective technical work by the Rockhopper sub-surface team will continue to establish the remaining prospectivity on the acreage and a decision on whether to extend the current phase of the licences will then be made.

Step-change in production in Greater Mediterranean following acquisition in Egypt

Rockhopper is focused on building a second core area in the Greater Mediterranean region following its acquisition of Mediterranean Oil & Gas plc in 2014.

In August 2016, Rockhopper completed the acquisition of Beach Petroleum (Egypt) Pty Limited ("Beach Egypt"), as a result acquiring a 22% interest in the Abu Sennan concession and a 25% interest in the El Qa'a Plain concession.

Abu Sennan, Egypt (Rockhopper 22%)

Operated by Kuwait Energy, the Abu Sennan Concession is located in the Abu Gharadig basin in the Western Desert. The Concession was signed in June 2007 with first commercial production achieved during 2012.

During the second half of 2016, both the Al Jahraa SE-1X exploration well and the ASH-1X ST2 development wells were brought onto production with additional zones in the wells to be brought into production at a later date.

A new development lease of c.30 square km was awarded around the Al Jahraa SE-1X well with EGPC attributing gross reserves of over 9 mmbbl to the development area, a material increase to the net 4.5 mmbbl of 2P/2C acquired in August 2016.

The 2017 work programme and budget for the Abu Sennan Concession sees the drilling of both an exploration and a development well close to the Al Jahraa and Al Jahraa SE fields during the first half of 2017. These wells are aimed at improving the joint ventures technical understanding of Al Jahraa SE as well as maintaining production levels by offsetting natural decline from existing wells within the Concession.

The Rockhopper sub-surface team have been working closely with the operator since completion of the acquisition to both prioritise the large prospect inventory and to better understand the reservoir management of the fields already on production.

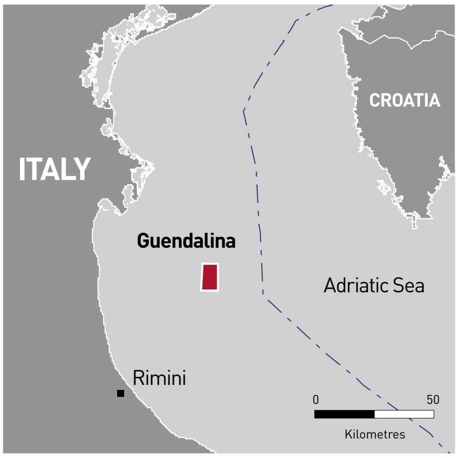
The exploration well, Al Jahraa-SE2, which is due to spud shortly, will target the AR-C reservoir in the fault block immediately to the south of the Al Jahraa SE field and which has the potential to increase the Al Jahraa SE field area to the upthrown side of that fault.

On completion of the exploration well, the rig will move directly to Al Jahraa-9, which is a development well. This development well targets the AR-C reservoir at a location deeper than the current deepest oil penetration at Al Jahraa-4 (no oil water contact has yet been encountered in the field) thereby aiming to prove additional reserves. The well also seeks to demonstrate the connection between the Al Jahraa and Al Jahraa SE fields through the oil leg. In addition, the operator has proposed two work-over operations during Q2 2017.

The outcome of operations in H1 2017 on the Abu Sennan Concession will determine the activities during the second half of the year.

In addition, the Company expects to receive final ratification for a 5-year extension to the Abu Sennan exploration licence in H1 2017. Once approved, the Company will undertake to participate in at least two exploration wells over the next 3 years at a commitment (net to Rockhopper's 22% working interest) of approximately US$1.3 million.

Greater Mediterranean snapshot



Italy
Guendalinia

- 20% working interest
- Northern Adriatic
- 2016 production 410 boepd

Italy
Civita

- 100% working interest
- Onshore gas production
- 2016 production 130 boepd

Egypt
Abu Sennan

- 22% working interest
- Western Desert
- 2016 economic production 810 boepd

Italy
Monte Grosso

- 23% working interest
- ~250 mmbbl oil prospect
- 23% chance of success

Italy
Ombrina Mare

- 100% working interest
- International arbitration commenced

Croatia
Block 9

- 40% working interest
- Block awarded in 2015 – subject to signature of PSA

Guendalina, Italy (Rockhopper 20%)

Operated by Eni, the Guendalina gas field, located in the Northern Adriatic, has been in production since October 2011.

Guendalina has continued to produce to forecast during 2016 and production over the year averaged 68,000 scm per day net to Rockhopper (approximately 410 boe per day). Plant availability over the year has been close to 100% and production from the side track well in 2015 continues to make a material contribution to field production.

The Rockhopper team have worked closely with the operator to look at more efficient and cost effective methodologies of produced water disposal which should have a significant reduction on field opex going forward.

Civita, Italy (Rockhopper 100%)

Operated by Rockhopper, the Civita gas field located onshore Abruzzo, came into production in November 2015.

During 2016, production from the field averaged approximately 21,000 scm per day (approximately 130 boe per day). Gas compression was successfully commissioned at the site in December 2016.

Ombrina Mare, Italy (Rockhopper 100%)

Following the decision in February 2016 by the Ministry of Economic Development not to award the Company a Production Concession covering the Ombrina Mare field, a decision was made to plug and abandon ("P&A") the existing OM-2 well and remove the tri-pod structure which had been constructed in 2008 and at that time intended to form part of the future production facilities on the field. The P&A operation was successfully completed without incident in early August 2016 using the Attwood Beacon rig, taking advantage of depressed rig rates. The decommissioning and removal of the tri-pod structure is anticipated to take place during H2 2017 and a fixed price contract for this work has been awarded.

Monte Grosso, Italy (Rockhopper 23%)

Operated by Eni, the Serra San Bernado permit which contains the Monte Grosso oil prospect is located in the Southern Apennine thrust-fold belt on trend with Val D'Agri and Tempa Rossa, in the largest onshore oil production and development area in Western Europe. Monte Grosso remains one of the largest undrilled prospects onshore Western Europe.

Rockhopper transferred the operatorship of the Serra San Bernado permit to Eni during 2016. It is hoped that the transfer of operatorship will accelerate the regulatory and permitting process to enable drilling.

Rockhopper operated Civita production site

El Qa'a Plain, Egypt (Rockhopper 25%)

Operated by Dana Petroleum, the El Qa'a Plain concession is located on the eastern shore of the Gulf of Suez and contains a number of oil leads identified on existing 2D seismic data. The concession was signed in January 2014. Approximately 470 sq km of 3D seismic plus 35 km of 2D seismic was acquired in early 2016 and is currently being processed. The drilling of an exploration commitment well is planned in late 2017/ early 2018.

Area 3, Malta (Rockhopper 40%)

In line with Rockhopper's highly selective approach to new exploration ventures and following completion of seismic and geological evaluation work, the Company has given notice to the operator and the Maltese regulator that it does not intend to participate in any extension of the current term of the Area 3 Exploration Study Agreement which expired in December 2016.

Block 9, Croatia (Rockhopper 40%)

In January 2015, Rockhopper was awarded a 40% interest in offshore Block 9 in Croatia in partnership with Eni (60% interest and operator). The award was made subject to the execution of a Production Sharing Agreement ("PSA") with the Croatian Hydrocarbon Authority ("CHA"). Given the general elections in Croatia in November 2015 and September 2016, significant delays have been experienced in the signing of a PSA with the CHA. Rockhopper is in discussions with the CHA to understand the status of the Block award and options going forward.

Fiona MacAulay
Chief Operating Officer

10 April 2017

Chief Financial Officer's Review

Overview

During 2016, Rockhopper continued to allocate capital primarily to its world-class assets in the North Falkland Basin whilst at the same time actively pursuing value-accretive acquisitions to meet our strategic objectives. Rockhopper retains its robust financial position despite the low oil and gas price environment experienced through much of 2016.

In the North Falkland Basin, we have grown our asset base through the merger with Falkland Oil & Gas Limited ("FOGL") and through exploration drilling on the Isobel-Elaine complex.

As in 2015, we have seen a step change in production and revenues compared with the previous year, primarily as a result of the acquisition of a portfolio of assets in Egypt.

Our balance sheet remains strong with year-end cash and term deposits of US$81 million.

Results summary

$m (unless otherwise specified)	FY2016	FY2015	9 months 2014
Economic production* (boepd)	1,350	322	272
Revenue	7	4	2
Profit after tax	98	11	(8)
Cash flow from operating activities	(21)	(7)	(11)
Cash	81	110	200
Net assets	427	262	255

Results for the period

For the year ended 31 December 2016, the Company reported revenues of US$7.4 million and a profit after tax of US$98 million. The profit after tax in the year arose primarily due to the excess of fair value over consideration associated with the acquisition of FOGL. Excluding the impact of the excess fair value over consideration associated with the FOGL acquisition would have resulted in a loss after tax in the year of US$14 million.

Stewart MacDonald
Chief Financial Officer

Revenue

The Group's revenues of US$7.4 million (2015: $4.0 million) during the year relate entirely to the sale of oil and natural gas in the Greater Mediterranean (Egypt and Italy). The increase in revenues from the comparable year reflects: (i) the acquisition of production assets in Egypt, which completed in August 2016; and (ii) the increase in realised oil and gas prices.

Working interest economic production* averaged 1,350 boepd in 2016, a more than trebling of production from the prior year (2015: 322 boepd).

During the year, the Group's gas production in Italy was sold under short-term contract with an average realised price of €0.15 per standard cubic metre (scm), equivalent to US$4.85 per thousand standard cubic feet ("mscf"). Gas is sold at a price linked to the Italian "PSV" (Virtual Exchange Point) gas marker price.

In Egypt, all of the Group's oil and gas production is sold to the Egyptian General Petroleum Company ("EGPC"). The average realised price for oil was US$46.2 per barrel, a small discount to the average Brent price over the same period. Gas is sold at a fixed price of US$2.65 per mmbtu.

Operating costs

Cash operating costs, excluding depreciation and impairment charges, amounted to US$4.4 million (2015: US$3.0 million). The increase in underlying cash operating costs is principally due to the addition of Egyptian production. Cash operating costs on a per barrel of oil equivalent basis reduced from US$25.5 per boe in 2015 to US$14.4 per boe in 2016.

The Group's general and administrative ("G&A") cost, excluding non-recurring expenses related to acquisitions and group restructuring, reduced further in 2016 to US$7.4 million (2015: US$9.4 million) – further G&A savings are anticipated in 2017.

Impairment of oil and gas assets

Rockhopper has tested the carrying value of our assets for impairment. Carrying values are compared to the value in use of the assets based on discounted cash flow models. Future cash flows were estimated using an oil price assumption equal to the Brent forward curve during the period 2017 to 2019, with a long-term price of US$75/bbl (in "real" terms) thereafter. A post-tax nominal discount rate of 12.5% was used for the Group's Falkland Island assets.

With no cash flow generation expected from Sea Lion until 2020 at the earliest, the impact of the Brent forward curve during the period 2017 to 2019 on the fair value calculation is limited. As such, no impairment arises on the Sea Lion project. A range of sensitivities have been considered as part of the impairment testing process. Even in the event of a $20 per barrel reduction in its long-term oil price, no impairment on Sea Lion arises. Equally, no impairment would arise even if the Company assumed project sanction was delayed by 10 years.

Cash movements and capital expenditure

At 31 December 2016, the Company had cash resources of US$81.0 million (31 December 2015: US$110.4 million) and no debt.

Cash and term deposit movements during the period:	US$m
Opening cash balance (31 December 2015)	110
Revenue	7
Cost of sales	(4)
Falkland Islands (net of insurance proceeds)	7
Greater Mediterranean	(4)
Recurring administration	(7)
Acquisition of subsidiaries (FOGL and Beach Egypt)	(14)
Other	(14)
Closing cash balance (31 December 2016)	81

There was a net inflow for the Falkland Islands in 2016 of US$7 million due to (i) insurance proceeds exceeding outflows that primarily relate to the 2015/16 drilling campaign, as well as (ii) spend relating to the pre-development activities on Sea Lion. For a variety of reasons, the costs of drilling the Zebedee, Isobel Deep and Isobel-Elaine wells were higher than originally anticipated. Certain costs incurred during the North Falkland Basin exploration campaign were the subject of an insurance claim which settled in late 2016. In total, US$49 million of insurance proceeds were received, net to Rockhopper.

Spend on assets in the Greater Mediterranean largely relates to residual costs associated with the Guendalina side-track and Civita development in H2 2015 and the plugging and abandonment of the Ombrina Mare-2 well following the decision earlier in the year by the Ministry of Economic Development not to award the Company a Production Concession covering the Ombrina Mare field. In addition there has been expenditure on the Abu Sennan production concession and El Qa'a exploration concession in Egypt.

Other cash outflows include foreign exchange losses, movements in working capital balances, group restructuring costs as well as non recurring liabililites acquired as part of the FOGL acquisition.

Less than 15% of the Group's cash resources as at mid June 2016 were held in Sterling and therefore the impact of the weakness in Sterling:US dollar exchange rates on the Group's cash position, following the UK referendum decision to leave the European Union, was limited.

Mergers, acquisitions and disposals

The merger with Falkland Oil & Gas Limited completed in January 2016. Through the merger of FOGL, Rockhopper consolidated its leading North Falkland Basin acreage position.

Under the terms of the merger, shareholders of FOGL received 0.2993 new Rockhopper shares for each FOGL share held.

The transaction has been accounted for by the purchase method of accounting with an effective date of 18 January 2016 being the date on which the Group gained control of FOGL. Information in respect of the assets and liabilities acquired and the fair value allocation to the FOGL assets in accordance with the provisions of "IFRS 3 – Business Combinations" has been determined on a firm basis as follows:

	Recognised values on acquisition US$m
Intangible exploration and appraisal assets	170.0
Property, plant and equipment	0.1
Inventories	0.2
Trade and other receivables	21.0
Trade and other payables	(19.2)
Net identifiable assets and liabilities	172.0

The fair value of the net assets acquired was US$172.0 million resulting in an excess of fair value over consideration of US$111.8 million, recorded as a credit in the income statement.

The fair value of equity instruments has been determined by reference to the closing share price on the trading day immediately prior to the completion of the acquisition.

In determining the fair value of the assets, the Directors acknowledge the inherent subjectivity and wide range of possible values given the unique nature of the FOGL assets acquired, a lack of truely comparable transactions and the highly volatile commodity price environment at the time of acquisition.

The excess of fair value over consideration has arisen primarily due to the fact that the financial position of FOGL had deteriorated due to cost overruns at the Humpback exploration well as well as merger terms being agreed prior to the Isobel-Elaine well results, which substantially de-risked the Isobel-Elaine complex.

In April 2016, Rockhopper announced revised terms for the acquisition of Beach Egypt for cash consideration of US$11.9 million. The acquisition of Beach Egypt completed in August 2016.

In September 2016, Rockhopper completed the sale of a package of non-core assets in Italy including interests in the Monteardone and Fornovo di Taro fields to a local company for nominal consideration. As a result of this transaction, US$1.1 million of provisions related to future abandonment and decommissioning have been removed from the balance sheet.

* Economic production includes production from the effective date (being 1 January 2016) of the acquisition of Beach Egypt.

Taxation

On the 8 April 2015 the Group agreed binding documentation ("Tax Settlement Deed") with the Falkland Islands Government in relation to the tax arising from the Group's farm out to Premier Oil plc.

The Tax Settlement Deed confirms the quantum and deferment of the outstanding tax liability and is made under Extra Statutory Concession 16.

As a result of the Tax Settlement Deed the outstanding tax liability was confirmed at £64.4 million and is payable on the earlier of: (i) the first royalty payment date on Sea Lion; (ii) the date of which Rockhopper disposes of all or a substantial part of the Company's remaining licence interests in the North Falkland Basin; or (iii) a change of control of Rockhopper Exploration plc.

Due to the movement in the Sterling:US dollar exchange rate, the outstanding tax liability in US dollar terms has reduced to US$79 million (31 December 2015: US$95 million).

The outstanding tax liability is classified as non-current and discounted to a year end value of US$39 million.

As the Company received the full Exploration Carry from Premier during the 2015/16 North Falkland Basin exploration campaign, the Company is entitled under the terms of the Tax Settlement Deed to request the outstanding tax liability is reduced by £4.7 million. Such a request has been made to FIG although no adjustment in the outstanding tax liability has yet been recorded as this is subject to agreement with the Falkland Islands' Commissioner of Taxation.

Full details of the provisions and undertakings of the Tax Settlement Deed were disclosed in the Company's 2014 Annual Report but these include "creditor protection" provisions including undertakings not to declare dividends or make distributions while the tax liability remains outstanding (in whole or in part).

Liquidity, counterparty risk and going concern

The Company monitors its cash position, cash forecasts and liquidity on a regular basis and takes a conservative approach to cash management with surplus cash held on term deposits with a number of major financial institutions.

Following the Company's acquisition of production and exploration assets in Egypt, the Company is exposed to potential payment delay from EGPC, which is an issue common to many upstream companies operating in the country. As at 31 December 2016, Rockhopper's EGPC receivable balance (net of amounts due to Beach Energy) was $4.2 million. The Company maintains an active dialogue with EGPC and has seen a material increase in monthly payments following the year-end. Payments from EGPC are received in US dollars directly to bank accounts held in the UK.

The Directors have assessed that the cash balance held provides the Company with adequate headroom over forecast expenditure for the following 12 months – as a result, the Directors have adopted the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

A detailed review of the potential risks and uncertainties which could impact the Company are outlined elsewhere in this Strategic Report. The Company identified its principal risks at the end of 2016 as being:

- sustained low oil price;
- joint venture partner alignment and funding issues; both of which could ultimately create a delay to the Sea Lion Final Investment Decision.

Outlook

Our balance sheet remains strong with year-end 2016 cash of $81 million. Adjusting the year-end cash position for Rockhopper's contribution to anticipated North Falkland Basin exploration campaign close out costs and the previously announced settlement with Ocean Rig, maintains Rockhopper's adjusted year-end 2016 cash balance in line with the Company's previous guidance of $60-65 million.

Following the completion of the acquisition of Beach Egypt, revenues from our Greater Mediterranean assets are estimated to be in excess of US$10 million in 2017 (based on current commodity prices, foreign exchange rates and production projections).

2017 development, exploration and abandonment spend is expected to be approximately US$13 million, of which US$8 million relates to pre-development activities on Sea Lion, US$3 million to exploration and development activities in Egypt and US$2 million to abandonment costs. The abandonment spend principally relates to the decommissioning and removal of the Ombrina Mare tripod – the cost of which Rockhopper will seek to recover through the recently commenced international arbitration process the costs of which will be funded on a non-recourse basis from a specialist arbitration funder.

Rockhopper has been an active acquirer during 2016 as we seek to take advantage of the current market environment to grow our business. We have significantly increased production and cash flow in the Greater Mediterranean region during 2016 and see further scope to materially grow that business in the year ahead.

Stewart MacDonald
Chief Financial Officer

10 April 2017

* Economic production includes production from the effective date (being 1 January 2016) of the acquisition of Beach Egypt.

Internal controls and risk management

Internal Controls

> The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2016.

Rockhopper Board

Ongoing review and control
There is ongoing review of the risks and controls in place to mitigate these risks by the Audit & Risk Committee.

Executive Committee

Process

> Risks and mitigation validated with the Executive Committee and presented to Audit & Risk Committee for review

Audit & Risk Committee

Review and confirmation

> Review and confirmation by the Board

Senior Management

Identification and mitigation

> Identify key risks and develop mitigation actions

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 given the current size and complexity of the business. However, an initial internal audit review was conducted during 2016 using an independent third party audit firm. That review focused on the Group's financial controls and encompassed the key financial transaction cycles including:

> capital projects
> monthly financial reporting
> bank and treasury
> revenue to receivables.

The process of monitoring and updating internal controls and procedures continues throughout the year and a risk management process is in place. Existing processes and practices are reviewed to ensure that risks are effectively managed around a sound internal control structure.

A fundamental element of the internal control structure involves the identification and documentation of significant risks, the likelihood of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks. These assessments are reviewed by the board. The plans are discussed, updated and reviewed at each board meeting, and any matters arising from internal reviews or external audit are also considered.

Principal risks and uncertainties

Strategic risks

Description	Impact
Delay in Sea Lion Final Investment Decision due to low oil price outlook, increased project costs or partner funding issues	> Increased costs > Delay in future cash flow > Reduced value creation > Loss of investor confidence
Concentration risk through focus on the North Falkland Basin	> Over-reliance on a single operating region > Changes in operating, sovereign, political or fiscal matters could have a material impact on the Company's operations
Poor execution of M&A activity	> Reduced liquidity and balance sheet strength > Value loss
The sovereignty of the Falkland Islands is disputed	> Open aggression is not expected > Certain service providers and financial institutions may choose not to provide services for fear of the impact an association may have on their business in Argentina

Operational risks

Description	Impact
Reliance on JV operators for asset performance	> Cost and schedule overruns > Poor performance of assets > HSE performance
The North Falkland Basin is remote and at the end of a long supply chain	> Cost and schedule overruns > Ability to secure certain contractors
The assumptions used to estimate hydrocarbon resources may prove incorrect or inaccurate	> Exploration and appraisal efforts may target ultimately uncommercial volumes of hydrocarbons

Mitigants	Recent changes and ongoing initiatives
> Active engagement with the operator and regulators to establish constructive and trusted working relationships > Active participation in technical meetings to challenge, influence and/or support partners to establish a cohesive JV view and decision making > Active support to operator in its objective of introducing another partner/securing alternative funding for the JV	> Project entered FEED with set of world class contractors in January 2016 > Commercial arrangements between the Company and the operator were revised in January 2016 to ensure greater alignment > Draft Field Development Plan and draft Environmental Impact Statement submitted to Falkland Island Government in late 2016 > Company to support operator during its farm-out/alternative funding process
> Diversify portfolio through asset additions outside of the North Falkland Basin > Continued pursuit of low-cost, low-commitment, value-accretive acquisitions in the Greater Mediterranean region	> Acquisition of Mediterranean Oil & Gas plc in August 2014 added production, development and exploration assets in Greater Mediterranean region > Acquisition of Beach Egypt Pty Limited in August 2016 added production and exploration assets in Egypt
> Experienced Board oversees and approves all M&A decisions > Established processes in place to ensure that an appropriate level of technical, commercial, financial, tax and legal due diligence is performed on every opportunity assessed	> Merger with Falkland Oil & Gas Limited ("FOGL") completed in January 2016 > Continued pursuit of selective and value accretive M&A opportunities
> The British Government has issued strong rebuttals to the Argentine claims > The Company is in regular contact with the Foreign & Commonwealth Office	> Recent change of government in Argentina is expected to mitigate impact > In September 2016, the British Government and the Government of Argentina agreed a joint statement on areas of cooperation, including working towards removing restrictive measures affecting the oil & gas industry in the Falkland Islands

Mitigants	Recent changes and ongoing initiatives
> Actively engage with all JV partners to establish trusted working relationships > Active participation in technical meetings to challenge, apply influence and/or support partners to establish a cohesive JV view and decision making	> Following award of FEED on the Sea Lion project, a Management Board comprising key project managers from each of the JV partners and contractors has been established to oversee the FEED process. Rockhopper's General Manager for the Falkland Islands attends such meetings
> Active co-operation with operators in the South Falkland Basin to achieve operational and cost synergies through rig and infrastructure sharing > Supply chain well understood given history of operations in the basin	> Active engagement with FIG and Ministry of Defence to cooperate and share infrastructure > Additional commercial flight route to the Falkland Islands under advanced consideration
> The Company employs qualified and experienced technical personnel > External consultants are regularly commissioned to support technical evaluations or provide independent assessments > A prudent range of possible outcomes are considered within the planning and budgeting process – current development scenario planning for Sea Lion conservatively assumes the presence of a gas cap > Analysis of commerciality thresholds is inherent in exploration planning and licence acquisition analysis	> In May 2016 the Company announced completion of an independent audit of the contingent and prospective resources in licences PL032 and PL004 in the North Falklands Basin

Financial risks

Description	Impact
Insufficient liquidity and funding capacity	> Uncertain financial outcome > Inability to meet financial obligations
Uncertainty of fiscal regime and regulatory requirements; Sea Lion remains the only commercial oil discovery declared in the Falkland Islands	> Schedule risk > Loss of value > Uncertain financial outcome
Failure by JV partners to fund their financial obligations	> Increased costs > Potential failure to meet financial and operational obligations > In extreme, potential loss of licence interests
Uncertainty and volatility of commodity prices	> Impact on expected future revenues and cash flow > Impact on capital and operating costs > Impact on future debt capacity
Recoverability of receivables and exposure to foreign exchange	> Uncertainty on timing of receipt and currency of payments

Health, safety and environment risks

Description	Impact
Health, safety and environment incidents	> Serious injury or death > Environmental impacts > Loss of reputation > Regulatory penalties

Organisational risks

Description	Impact
Staff recruitment, development and retention	> Disruption to business > Loss of key knowledge and experience

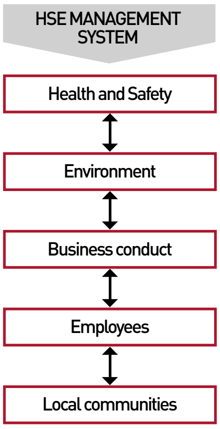
Mitigants	Recent changes and ongoing initiatives
> Short-term and long-term cash forecasts are reported to the Board on a regular basis > The Company has no debt > Through the 2012 farm-out and subsequent revisions, Rockhopper secured a $337 million Development Carry for the initial phase of development of Sea Lion, a $337 million Development Carry for the subsequent phase of development of Sea Lion and a $750 million Standby Loan facility from Premier Oil > Agreement reached to defer tax liability associated with 2012 farm-out	> Under the revised commercial arrangements with Premier, Rockhopper accessed the full $48m Exploration Carry during the 2015/16 campaign > Active engagement with commercial bank market to secure funding for the uncarried portion of Sea Lion development costs on more attractive (cost and flexibility) terms compared with the Standby Loan available from Premier > Agreement reached with FIG as to quantum and timing of tax payment – tax deferred until the first royalty payment date on Sea Lion
> Regular engagement with regulators > Legal agreements in place to protect interests > Seek appropriate legal and tax advice	> Participation, in conjunction with other operators in the Falkland Islands, in recent FIG Tax consultation exercise > Continued participation in consultation with FIG in relation to optimal approach to oil export
> Partner selection is a critical component of any investment decision > Joint Operating Agreements and other commercial arrangements provide legal protections in the event joint venture partners fail to meet their obligations	> Active engagement with joint venture partners to ensure alignment > Ongoing monitoring and regular review of the Company's financial exposure to joint venture partner credit risk
> Contingency built into planning and budgeting process to allow for downside movements in commodity prices (and expected impact on costs) > The Company may consider it appropriate in the future to hedge a proportion of its production, particularly if the Company is reliant on such production to service debt	> Oil price weakness continued through 2016 > As a result, industry and service costs have reduced and, through the Sea Lion FEED process, it is anticipated that further costs reductions can be achieved
> Monitor macro-economic environment and lobby through established relationships if required > Active treasury management to minimise funds held in foreign currencies and match with creditor balances	> Active engagement with EGPC and joint venture partners to manage payments and the Company's foreign currency liquidity > Recent macro-economic changes in Egypt have allowed access to additional IMF funding which should improve government liquidity > EGPC payments received in US dollars, direct to bank accounts held in the UK

Mitigants	Recent changes and ongoing initiatives
> Regular review of HSE policies and procedures to ensure full compliance with industry "best practice" as well as all appropriate international and local rules and regulations	> Changes as a result of recently introduced EU legislation and operational directives were implemented across the Company's operating procedures > The Company fully fulfilled the enhanced risk assessment authorisation process ahead of the recent Ombrina Mare well abandonment

Mitigants	Recent changes and ongoing initiatives
> Training and development opportunities are considered for all staff > Executive directors and senior staff have notice period of between six and 12 months to ensure sufficient time to handover responsibilities in the event of a departure > Succession planning considered regularly at Board level > The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure they remain competitive	> A short-term succession plan is in place for executive directors and key staff members > Consideration is being given to implement an all employee share scheme

Health, Safety, Environmental and Social Management

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



Maintaining high standards of Health, Safety and Environmental (HSE) protection is achieved through:

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

This policy is implemented through our HSE Management System, which has been prepared to be consistent with international standards for HSE management including ISO14001 and ISO18001.

Our HSE Management System is used to guide all our activities and will not be compromised by other business priorities. Application of the HSE Management System will include preparation of detailed Environmental Impact Statements ("EISs") for all of the Group's activities. The preparation of the EIA includes consultation with interested parties and the local Government as well as public meetings to present findings and obtain feedback from the local community. For our non operated ventures one of our key roles is to seek to ensure (wherever possible) that the operator maintains high standards of HSE protection in line with our management systems.

Operational stakeholders

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

Local community stakeholders

The Falkland Islands has a population of approximately 3,000 people and each member is considered a stakeholder in the Group's strategy. We recognise that a key element in maintaining stakeholder support is regular communication at all levels. Our primary point of contact is the Falkland Islands Government Department for Mineral Resources and since inception we have had good communication with all of the team there. Since the start of operations, we have increasingly liaised with other government departments, such as the Secretariat and the Tax Office as well as the Governor.

In the Greater Mediterranean region we maintain regular dialogue with various operators, regulators, local communities and other stakeholders to build constructive relationships and support.

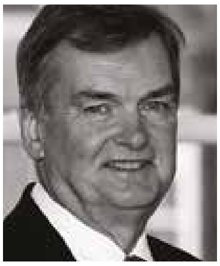
Approval of Strategic Report

This Strategic Report was approved by the directors and signed on their behalf on 10 April 2017 by:

Samuel Moody
Chief Executive Officer

Governance

Chairman's Governance Report



David McManus
Chairman

The Company is an AIM listed company and is not required to comply with the provisions of the 2016 UK Corporate Governance Code (the "Code") applicable to FTSE 350 companies as long as it remains on AIM. The Company has not voluntarily adopted the Code but the board's corporate governance policy is to observe the Code provisions as far as practicable given the size of the Company. The audit & risk committee undertakes an annual review of the provisions in the Code and reviews and reports on the Company's corporate governance practices in this context.

The Board

The board's structure and composition complies with the provisions of the Code. The board currently consists of three executive and five non-executive directors including the chairman, four of whom are independent under the Code definition. There were a number of board changes during the year:

> T P Bushell and J E Martin were appointed as non-executive directors on 18th January 2016 following the merger with Falkland Oil and Gas Limited.
> P J Jungels retired as chairman at the 2016 annual general meeting and was replaced by D McManus.
> R J Peters retired as non-executive director at the end of the year.

R J Peters was the senior independent director throughout 2016 and K G Lough was appointed as senior independent director following R J Peter's retirement. The Group's website contains an email contact for K G Lough, who is also chairman of the audit & risk committee, should shareholders have concerns which have not been adequately addressed by the chairman or chief executive officer. The email address is also disclosed at the back of these accounts.

The board has a qualified company secretary and all directors have access to her for advice and services. The company secretary ensures that the board and its committees are supplied with papers of sufficient quality to enable them to consider matters in good time for meetings and to discharge their duties properly.

The board meets regularly throughout each financial year and there is a schedule of matters reserved for its approval to ensure that it exercises control over the Group's strategy, key financial and compliance issues and significant operational and management matters. These include capital structure, risk management, communication with shareholders, board appointments and major contracts and commitments. Executive management is responsible for the day-to-day operation of the business and has a number of financial and operational responsibilities delegated to it. From time to time sub-committees of the board are established to approve the detail of matters tabled at full board meetings. The chairman meets regularly with the non-executive directors without management present and also in the forum of the nomination committee.

A clearly defined organisational structure exists, with lines of responsibility and delegation of authority to executive management. The division of responsibilities between the chairman and chief executive officer was approved by the board following the appointment of the new chairman during the year.

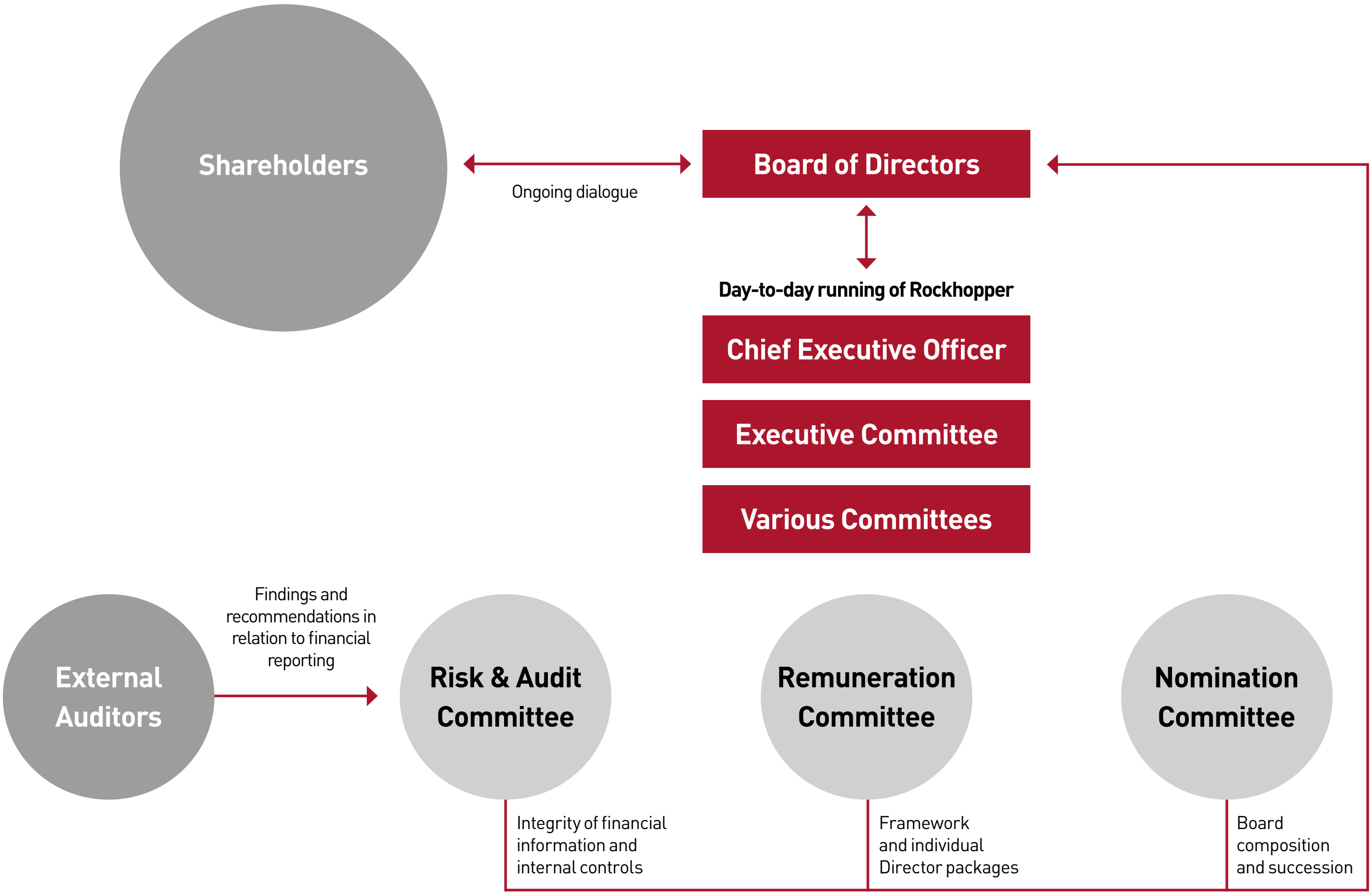
The board supports directors who wish to receive ongoing training and education relating to their duties. Independent legal advice is available at the Group's expense if necessary.

During 2016, an external performance evaluation of the board was facilitated with specific focus on the skills set and structure of the board. The conclusions were considered by the board. The chairman's performance was not reviewed during the year due to the change of chairmanship but feedback on chairman performance was provided by individual directors to the external evaluator.

The board's chairman, D McManus, was independent upon appointment. Three of the other non-executive directors, K G Lough, J E Martin and A J Summers are independent. TP Bushell does not satisfy the independence criteria in the Code due to his previous executive position at FOGL and his short-term consultancy arrangement with the Company in respect of the integration of the business of FOGL which came to an end in July 2016. However the board considers TP Bushell to be independent as he has demonstrated independence of character and judgement since joining the board and that there are no circumstances which are likely to affect, or could appear to affect, his judgement. Other than any shareholdings in the Company and fees, the non-executives have no financial interests in the Company or business relationships that would interfere with their independent judgement. The appointment of directors is a formal process involving all members of the board which considers the recommendations of the nomination committee.

All directors stand for re-election at the annual general meeting.

How your Board works



Board diversity

Board composition/Nationality

Non-executive director tenure

< 3 years	3-6 years	6-9 years	> 9 years
40%	40%	20%	0

“ The Group is committed to maintaining high standards of corporate governance to ensure that it is managed with openness, honesty and transparency.”

Board of Directors

David McManus
Chairman

David is a petroleum engineer with a degree from Heriott Watt University with over 35 years experience in the Oil and Gas industry, with Shell, Ultramar, ARCO, BG Group and Pioneer.

Samuel Moody
Chief Executive Officer

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

Stewart MacDonald
Chief Financial Officer

Stewart has 15 years of energy and corporate finance experience. 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.

Fiona MacAulay
Chief Operating Officer

Fiona is a geologist with over 25 years of experience in the oil and gas industry including time at Mobil, Amerada Hess and BG. She joined Rockhopper in 2010 immediately following the Sea Lion discovery and was an integral member of the senior team which managed the appraisal of the Sea Lion field and discovered the Casper, Casper South and Beverley fields.

	David McManus	Samuel Moody	Stewart MacDonald	Fiona MacAulay
Age:	63	47	36	53
Appointed to board:	September 2010	February 2005	March 2014	March 2013
Meetings attended:	7/7	7/7	7/7	7/7
Committee membership:	Nomination (Chairman)	—	—	—
External appointments:	Chairman: FLEX LNG Director: Hess Corporation, Costain plc	Greenland Gas & Oil Limited	—	President Elect: American Association of Petroleum Geologists Europe

Keith Lough
Senior Independent Director

Keith has over 30 years experience in the natural resources sector in both senior finance and general management roles with LASMO, Petrokazakhstan, British Energy and Hutton Energy. He was also a founder shareholder and CEO of unconventional gas explorer Composite Energy Limited.

John Summers
Non-Executive Director

Dr John Summers is a geologist with degrees from the University of Liverpool. He worked for British Gas/BG Group plc for 29 years holding a variety of roles from Exploration Manager, Vice President Exploration, Chief Geologist, General Manager Technology and Performance and VP New Ventures.

Tim Bushell
Non-Executive Director

Tim is a qualified geologist with more than 30 years' experience in the oil and gas industry. He worked at Ultramar, British Gas and Schlumberger and was with Lasmo for 10 years where his roles included General Manager of its South Atlantic business unit which participated in the drilling campaign in the North Falkland Basin in 1998. Tim was Managing Director, Norway at Paladin Resources plc from 2001 until joining Falkland and Gas Limited in 2006 where he was Chief Executive Officer.

John Martin
Non-Executive Director

John has more than 30 years' experience in international banking in the oil and gas industry. He worked at ABN Amro for 26 years specialising in the oil and gas sector after which he joined Standard Chartered Bank where he was a Senior Managing Director in the Oil & Gas group. He was previously a Non-Executive Director of Total Upstream UK Limited and Bowleven and Chairman of Falkland Oil and Gas Limited.




Keith Lough	John Summers	Tim Bushell	John Martin
58	61	57	67
January 2014	February 2014	January 2016	January 2016
6/7	7/7	7/7	7/7
Audit & Risk (Chairman) Remuneration Nomination	Audit & Risk Remuneration Nomination	Audit & Risk Remuneration (Chairman) Nomination	Audit & Risk Remuneration Nomination
Chairman: Gulf Keystone Petroleum Ltd Director: Cairn Energy plc UK Gas and Electricity Markets Authority	—	Director: Point Resources AS Petro Matad Limited	Senior Vice President: World Petroleum Council

Corporate Governance Statement

Keith Lough
Audit & Risk Committee Chairman

Audit & Risk, Remuneration and Nomination Committees

Audit & risk, remuneration and nomination committees, with formally delegated duties and responsibilities, operate under the chairmanship of K G Lough, T P Bushell and D McManus respectively. The terms of reference of the committees reflect the provisions of the Code where relevant and can be found on the Company's website.

The nomination committee comprises the chairman and all the non-executive directors with the chief executive officer attending by invitation from time to time. The make up of the committee complies with the Code.

The audit & risk committee comprises all the non-executive directors and the chairman, chief financial officer, Group financial controller attend as invitees. The make up of the committee complies with the Code.

The remuneration committee comprises all the non-executive directors and the chairman attends as an invitee. The make up of the committee complies with the Code.

Audit & Risk Committee

The members of the audit & risk committee are K G Lough as chairman, T P Bushell, J E Martin and A J Summers. R J Peters retired at the end of the year and T P Bushell has been appointed to the audit & risk committee since the year end. The board considers all the members of the committee to be independent and is satisfied that at least one member of the audit & risk committee, K G Lough, has recent and relevant financial experience. The committee constitution is therefore compliant with the Code.

The external auditor, the chief financial officer and Group financial controller are invited to meetings with observer status.

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

> the audit plans of the external auditor;
> the Group's overall framework for financial reporting and internal controls;
> the Group's overall framework for risk management;
> the accounting policies and practices of the Group; and
> the annual and periodic financial reporting carried out by the Group.

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

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

The audit & risk committee has established procedures for receiving and handling complaints concerning accounting or audit matters. The audit & risk committee is responsible for the approval of the provision of all audit services and permitted non-audit services undertaken by the external auditor.

In general, the external auditor will only be used for audit, audit related and tax compliance services. Other services need specific authorisation from the audit & risk committee. The only non-audit services provided during the period were in relation to tax compliance and review of the half yearly report. The status of all services provided by the external auditor are monitored and the audit and risk committee is satisfied that there were no conflicts during the financial period. The audit & risk committee was satisfied throughout the financial period that the objectivity and independence of the external auditor were not in any way impaired by the nature of the non-audit work undertaken, the level of non-audit fees charged for such work or any other factors.

The audit & risk committee's terms of reference are available on the Company's website and on request from the company secretary. The audit & risk committee held two formal meetings during the period and informal discussions were also held both with and without management present. The committee met with the external auditors without management present.

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

During the year, the issues considered by the audit & risk committee included:

> Group financial disclosures and accounting matters;
> assumptions and estimates around the fair value accounting for the acquisition of FOGL
> reports of the external auditor concerning its audit and review of the financial statements of the Group and the status of follow-up actions with management;
> effectiveness of the Group's system of internal controls and risk management and the systems and processes that management has developed pertaining to risk identification, classification and mitigation including disaster recovery;
> structure of the finance department;
> corporate governance practice with reference to the Code;
> whistleblowing procedures and shareholder concerns; and
> external auditor's audit and non-audit fees.

Details of the meetings attended during the financial year were as follows:

Director	Audit & risk committee meetings attended
K G Lough – Chairman	2
R J Peters	2
J E Martin	2
A J Summers	2
S MacDonald	2†
D McManus	1†
T P Bushell	1†
Total meetings during year	2

† Invitee.

Since the year end, the audit & risk committee has reviewed its performance and the appropriateness of its terms of reference. It concluded that, having considered the size and complexity of the business, the terms of reference were appropriate and that performance was satisfactory.

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

Tim Bushell
Remuneration Committee Chairman

Remuneration Committee

The principal role of the remuneration committee is to consider, on behalf of the board, the remuneration packages of the executive directors and the chairman's fees which are subject to board approval. In addition the remuneration committee sets the broad framework and reviews the recommendations of the chief executive officer for salary adjustments and bonus payments for all other members of staff including the company secretary. It also administers and makes awards under the Long Term Incentive Plan (LTIP) and Share Incentive Plan (SIP). Further detail of the responsibilities of the remuneration committee is given in the directors' remuneration report.

The members of the remuneration committee are T P Bushell as chairman, K G Lough, J E Martin and A J Summers. During the year, T P Bushell replaced D McManus as chairman. R J Peters retired at the end of the year and J E Martin and A J Summers have been appointed to the remuneration committee since the year end. The board considers all members of the remuneration committee to be independent and the committee constitution is therefore compliant with the Code.

The committee met four times during the financial year. Details of the matters discussed are given in the directors' remuneration report.

Director	Remuneration committee meetings attended
D McManus – Chairman until July 2016	4
T P Bushell – Chairman since July 2016	4
K G Lough	4
R J Peters	4
P J Jungels	2†
J E Martin	1†
A J Summers	1†
Total meetings during year	4

† Invitee.

David McManus
Nomination Committee Chairman

Nomination Committee

The nomination committee's role is to consider board member succession, review the structure and composition of the board and its committees and identify and make recommendations for any changes to the board. Any decisions relating to the appointment of directors are made by the entire board based on the merits of the candidates and the relevance of their background and experience, measured against objective criteria, with care taken to ensure that appointees have enough time to devote to the job. Rockhopper is committed to appointing, retaining and developing an experienced team which can effectively manage the Company's objectives and deliver its strategy. The board recognises the benefits of diversity and the nomination committee has regard to this when considering succession planning.

The committee is chaired by the chairman with all the non-executive directors as its members. The board considers all the non-executive directors to be independent and the committee constitution is therefore compliant with the Code.

There were a number of discussions amongst the non-executive directors during the year regarding board constitution and the board evaluation process. The nomination committee met once during the financial year to consider the proposed appointment of S J Moody to the board of Greenland Gas & Oil Limited.

Going concern

At 31 December 2016, the Group had available cash and term deposits of $81 million. In addition the first phase of the Group's main development, Sea Lion, is fully funded from sanction through a combination of Development Carries and a loan facility from the operator.

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

Remuneration Report

Annual statement

On behalf of the Board and Remuneration Committee ("Committee"), I am pleased to present the Directors' Remuneration Report ('Report') for the year ended 31 December 2016. The Report has been prepared largely in compliance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Group Regulations 2013 where deemed appropriate given the size and structure of the Company.

The Report is divided into two sections:

> The Policy report which sets out the current Remuneration Policy

> The Annual Report on Remuneration which sets out details of the operation of the Committee and details of the directors' remuneration packages for the year ended 31 December 2016. It also sets out details of the implementation of the Executive Director Policy for the year ending 31 December 2017.

The Committee aims to ensure that remuneration is linked to the performance of the Company and believes that the Long Term Incentive Plan, which is based on total shareholder return measured against an appropriate peer group of companies, ensures that management is aligned with shareholders in respect of the share incentive element of their remuneration packages. The Committee is satisfied that the outcomes in respect of the incentives and remuneration during the financial year under review are appropriate.

In respect of the current financial period, the Committee does not propose any substantial changes to the Remuneration Policy which is laid out on the following pages. The Committee will ensure that the Company's remuneration policy and practices are kept under review to ensure that they remain appropriate for the Company at its stage of development and that they do not encourage any unnecessary risk taking by the executive team.

Yours sincerely

Tim Bushell
Chairman of the Remuneration Committee

10 April 2017

Remuneration policy

This part of the Report sets out the remuneration policy for the Company. The policy for the executive directors is determined by the Committee and the Committee approves any adjustments to salary and bonus awards. The Committee also sets the parameters for the remuneration packages of senior and support staff including the company secretary. Authority is delegated to the chief executive officer to implement salary adjustments and make bonus awards for staff within the agreed parameters. The proposals of the chief executive officer in this regard are reviewed by the Chairman of the Committee to ensure that they are in line with the parameters set down by the Committee. The Committee decides on all awards under the Company's Long Term Incentive Plan ('LTIP') and approves the operation of the Company's Share Incentive Plan ('SIP').

The aim of the Committee is to ensure that the remuneration packages are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the objectives of the group and thereby enhance shareholder value. The Committee also aims to ensure that all employees receive rewards that fairly reflect their seniority, level of work and contribution to the Company.

Executive Director Policy

The summary of the remuneration policy for the executive directors is set out below. Full details of the remuneration packages are given in the Report on Remuneration:

Tim Bushell
Remuneration Committee Chairman

Salary

Purpose and link to strategy	To provide an appropriate salary level to support retention and recruitment of executive directors and ensure that executive directors are appropriately rewarded in relation to their role and responsibilities.
Operation	This is reviewed annually on 1 January with regard to average industry increases, each executive's role and responsibilities and salary adjustments across the Company.
Opportunity	Salary increases will be awarded taking into account the outcome of the review and relative salary differentials across the executive team. Salary increases will usually be in line with increases awarded to other employees but the Committee may make additional adjustments where there has been a change in role or responsibilities or to reflect a gap in market positioning.
Performance metrics	Not applicable for base salaries.

Benefits

Purpose and link to strategy	To provide a competitive and comprehensive range of benefits to assist in the attracting and retaining the calibre of executive directors required for delivery of corporate and strategic objectives.
Operation	The benefits package for executive directors includes private medical insurance, critical illness, income protection and life assurance cover. Benefits are administered internally and a review of providers and prices is conducted every two years to ensure that the level of rates and cover remains competitive. Executive directors also receive a travel allowance.
Opportunity	The benefits package is set at a level that the Committee considers is appropriate for the Company's size. The value of benefits will vary each year according to the cost of provision.
Performance metrics	Not applicable for benefits package.

Pension

Purpose and link to strategy	To provide an appropriate level of pension contribution for directors whilst minimising the administrative burden for the Company.
Operation	Contributions are made to a private or group personal pension plan. With effect from April 2017, contributions will be made up to the maximum Annual Allowance of £10,000 with the excess contribution paid by way of a pension cash allowance which will be subject to deductions for tax and national insurance.
Opportunity	An annual contribution equal to 12.5% of salary.
Performance metrics	Not applicable for pension contributions.

Annual bonus

Purpose and link to strategy	To reward the achievement of annual corporate and individual targets.
Operation	Objectives are set as early as possible in the financial year. The executive directors are treated as a team in respect of target setting. This policy is reviewed annually to ensure that it remains appropriate. The bonuses are paid in cash after the end of the financial year to which they relate.
Opportunity	The maximum annual bonus award is 100% of salary although in exceptional circumstances a higher bonus award may be made. The bonus is non-contractual and is discretionary.
Performance metrics	The targets for the executive directors comprise the corporate, strategic and financial objectives agreed by the Board for the year. The Committee uses its judgement to decide the extent to which the objectives have been achieved and will have regard to overall Company performance when agreeing the bonus payments. The Committee considers whether operations were completed to acceptable HSE standards and considers whether there were any HSE incidents when considering the level of bonus payments.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	To support alignment with shareholders through the use of Total Shareholder Return ('TSR') measured against a peer group as the performance target for awards under the LTIP.
Operation	The LTIP was approved by shareholders in 2013. The Committee makes annual awards of free shares in the form of nil cost options or a conditional right to acquire shares which vest after three years subject to the extent that the performance targets attached to the awards have been achieved. Awards will usually be granted within a period of 42 days from the release of the annual financial results and will be calculated using the market value of the shares at the date of grant. The LTIP performance period will be three years and the commencement date of the performance period is at the discretion of the Committee. Malus provisions exist so that the awards may be reduced or further conditions imposed in the case of financial misstatement, the misleading of shareholders or management/the Board regarding technical or financial performance, serious misconduct or conduct that results in a serious loss to the Company. The Committee has discretion to amend the size and constitution of the peer group to ensure that it remains an appropriate comparator group and to reflect any corporate deals. The Company has an employee benefit trust which can purchase shares in the market and/or subscribe for shares to satisfy the exercise/vesting of awards under the LTIP.
Opportunity	The maximum annual award is 200% of salary.
Performance metrics	Performance measurement will be TSR measured against a peer group based on an average price over a 90 day dealing period to be agreed by the Committee measured against the average 90 day dealing period up to the end of the three year performance period. Awards vest on a sliding scale from 35% up to 100% for performance between the median and highest performing stock. No awards will vest for performance below the median. In respect of the 2014 LTIP awards made to S J Moody and S MacDonald, an inflator will be applied for first and second place peer group ranking. In respect of the 2016 LTIP awards, 133% of awards will vest conditional on the Company having taken a Final Investment Decision on the Sea Lion Development by 31 December 2017. The Committee has discretion to scale back the percentage of awards that will vest if it considers that this is appropriate having regard to underlying Company performance.

Share Incentive Plan (SIP)

Purpose and link to strategy	To encourage share ownership in Rockhopper.
Operation	A tax-advantaged scheme under which employees (including executive directors) can elect to make contributions from gross salary for the purchase of Rockhopper shares which are then matched by the Company at a ratio agreed by the Committee at the beginning of each tax year. The Committee can also decide to make an award of 'free' shares up to legislative limits in any one tax year. The shares need to be held for a term of five years to obtain the full taxable benefit of the SIP. There is a qualification period of three months from joining before employees are eligible to participate.
Opportunity	Since the implementation of the SIP the Committee has approved its operation up to the maximum permissible limits so that employees receive two 'matching' shares for every one 'partnership' share purchased and an annual award of free shares at or below HMRC limits. Directors and senior employees have on occasion been precluded from participating where the Company has been in a close period at the time of the awards.
Performance metrics	Not applicable for the SIP.

Further details on the policy

Performance measurement

Annual bonus – the annual bonus is based on a range of objectives that the Board have agreed are key to progressing and delivering the Company's strategy. These can be operational, strategic and financial. Performance targets are designed to be stretching but achievable having regard to the Company's strategic priorities and external factors such as the activities of joint venture partners and the economic environment.

LTIP – the LTIP ensures alignment with shareholders being based on relative Total Shareholder Return measured against a peer group of other oil and gas companies comprising FTSE 250, larger AIM and Falkland Island oil and gas companies. The Committee has determined that the minimum number of companies in the peer group will be nine. The size of the peer group was increased in 2016 to reduce the impact of corporate activity on the size and structure of the peer group. The Committee will also have regard to the underlying performance of the Company when confirming the vesting of LTIP awards to ensure that the impact of external factors is taken into consideration where appropriate.

Remuneration policy for other employees and consultation

The Company's policy for all employees is to provide remuneration packages that reward them fairly for their contribution and role within the Company.

All employees are entitled to receive the full range of Company benefits but with different qualifying periods and levels of cover depending on seniority. All employees are eligible to receive an annual bonus based on performance against individual targets which are cascaded down from the corporate targets. The maximum level of bonus is 100% of salary although in exceptional circumstances a higher bonus award may be made.

All employees are eligible to participate in the SIP. The Committee has stated that the LTIP will be used for executive directors and senior staff. This ensures that an element of remuneration is deliverable through a scheme that aligns participants with shareholders.

The Company does not consult with employees on the effectiveness and appropriateness of the policy but, in considering individual salary increases, the Committee does have regard to salary increases across the Company.

Recruitment

In the case of recruiting a new executive director, the Committee can use all the existing components of remuneration as set out in the policy table.

The salary of a new appointee will be determined by reference to the experience and skills of the individual, market data, internal relativities and the candidate's current remuneration. New appointees may be entitled to receive the full range of Company benefits on joining and, if the Committee considers it appropriate, a relocation allowance and an annual contribution of up to 12.5% of base salary to the Group Personal Pension Plan with the balance of any amount over the prevailing maximum annual allowance set by HMRC paid as a pension cash allowance. The new appointee will also be eligible to participate in the Company's SIP after a qualifying period.

In relation to any elements of variable pay, the Committee will take the following approach:

Component	Approach	Maximum annual opportunity
Annual Bonus	The annual bonus would operate as outlined in the Policy for existing executive directors. The relevant maximum will be pro-rated to reflect the period of employment over the year. Consideration will be given to the appropriate performance targets at the time of joining.	100% of base salary in any financial year except in circumstances deemed by the Committee to be exceptional.
LTIP	The LTIP would operate as outlined in the policy for existing directors. An award may be granted on joining subject to the Company being in an open dealing period. The Committee would retain discretion to decide on the scale, performance period and performance targets attaching to any award.	200% of base salary in any financial year.

In the case of an external hire, the Committee may deem it appropriate to 'buy-out' incentive or benefit arrangements which the new appointee would have to forfeit on leaving their previous employer. The Committee would consider the potential value of the arrangement being forfeited and wherever possible would use the existing components of the Company's remuneration structure to compensate the incoming director. The value of any buy-out arrangements would be capped at no higher, on recruitment, than the awards or benefits which the individual forfeited on leaving their previous employer. In the case of an internal hire, the new appointee may retain awards made to him/her under arrangements entered into prior to appointment to the Board even if such awards are not within the directors' remuneration policy as outlined in the policy table.

Service contracts, exit payments and change of control provisions

The executive directors have rolling term service agreements with the Company. Details of the directors' service contracts and appointment dates are as follows:

Executive Directors	Appointment date	Original contract	Revised contract
S J Moody	21 February 2005	8 August 2005	8 March 2011
S MacDonald	10 March 2014	27 March 2014	—
F M MacAulay	15 March 2013	10 January 2011	—

The directors' service contracts are available to view at the Company's registered office and prior to each Annual General Meeting at the venue for the meeting.

The notice period for the executive directors is 12 months' notice in writing by either party. The Company has the right to make a payment in lieu of notice of 12 months' salary and the fair value of any benefits. There is no entitlement to payment for any accrued holiday where a payment in lieu of notice is made. The Committee will consider termination payments on a case-by-case basis. It will consider the terms of the director's contract and the circumstances of the termination and might consider making an ex gratia payment where the circumstances and/or a director's contribution to the Company justifies this. If an ex gratia payment is to be made, the Committee will satisfy itself that it is in the best interests of the Company to make such a payment and that there is no "reward for failure".

The Committee also has discretion to settle any other amounts which it considers are reasonably due to the director such as where the parties agree to enter into a settlement agreement and the individual is required to seek independent legal advice. The Committee can approve new contractual arrangements with a departing director covering matters such as confidentiality or restrictive covenants and/or consultancy arrangements where it believes this is in the best interests of the Company.

Treatment of incentives for leavers

In relation to annual bonuses, a bonus payment will not usually be made if the director is under notice at the bonus payment date or has already left. In the event of a change of control, the Committee retains the right to declare a bonus in respect of the part of the year worked prior to the change of control becoming effective.

In relation to awards granted under the LTIP, awards will generally lapse on the date of cessation of employment except in certain 'good leaver' circumstances which are generally defined as retirement, ill-health, disability, death, redundancy, transfer or sale of the employing company or any other circumstances at the discretion of the Committee. In these circumstances any unvested award will usually continue and vest on the normal vesting date. The Committee will decide the extent to which the unvested award will vest taking into account: (i) the period of time that has elapsed since the start of the performance period; and (ii) the extent to which any performance target is satisfied at the date the director ceases to be employed by the Company. Final treatment is subject to the Committee's discretion.

In relation to share appreciation rights (SARs) granted under the Company's Employee Share Option Scheme, SARs will generally lapse on the date of cessation of employment except in certain 'good leaver' circumstances which are generally defined as retirement, ill-health, disability, death, redundancy, transfer or sale of the employing company or any other circumstances at the discretion of the Committee. In the case of death, SARs shall be exercisable immediately for a period of one year from the date of death. In other good leaver circumstances, SARs will be exercisable for a period of six months from the date of cessation.

In the event of termination of employment or a change of control, shares held under the SIP will be dealt with in accordance with the SIP rules. The Committee does not have any discretion in relation to the operation of the SIP in these circumstances.

External appointments

Executive directors are permitted to engage in other activities and businesses outside the group provided that there is no risk of conflict with their executive duties and subject to full Board disclosure.

Non-Executive Director Policy

The Company's Articles of Association provide that the Board can determine the level of fees to be paid to the non-executive directors within limits set by the shareholders. This is currently set at an aggregate of £500,000 per annum. The Policy for the Chairman and non-executive directors is as follows:

Fees

Purpose and link to strategy	To provide a competitive level of fee which will attract and retain high calibre directors with the range of skills and experience required to support the executive directors and assist the Company in delivering its objectives.
Operation	The fees for the Chairman and non-executive directors are determined by the Board as a whole with directors absenting from discussions regarding their own remuneration. The Board has regard to the level of fees paid to the non-executive directors of other similar sized companies and the time commitment and responsibilities of the role. Neither the Chairman nor the non-executive directors participate in any of the Company's share schemes.
Opportunity	The current annual fees are: Chairman: £115,000. Non-executive director basic fee: £40,000. Committee Chairmanship: £10,000. Senior Independent Director: £2,500. The fee levels will be reviewed on a periodic basis with reference to the time commitment of the role and fee levels in comparative companies. No benefits or other remuneration are provided.
Performance metrics	Not applicable to non-executive directors.

Recruitment

The Committee will follow the non-executive director remuneration policy as set out above in relation to the appointment of a new non-executive director.

Terms of appointment

The non-executive directors do not have service contracts but have been appointed for terms of three years. The appointment can be terminated at any time by either party giving one month's notice to the other. Details of the appointments are set out below:

Director	Appointment date	Original engagement letter	Revised engagement letter
D McManus	30 September 2010	30 November 2010	8th July 2016
K G Lough	14 January 2014	14 January 2014*	—
A J Summers	1 February 2014	3 February 2014*	—
T P Bushell	18 January 2016	18 January 2016	
J E Martin	18 January 2016	18 January 2016	

* appointments extended for a further three year term by letter agreement dated 1st February 2017

Directors are subject to annual re-election by shareholders at the Annual General Meeting in accordance with the 2016 UK Corporate Governance Code and each director is subject to election by shareholders at the first Annual General Meeting following their appointment. The directors' letters of appointment are available to view at the Company's registered office and prior to each Annual General Meeting at the venue for the meeting.

Report on Remuneration

Remuneration Committee membership and meetings

As at 31 December 2016, the Committee comprised the Committee Chairman and three non-executive directors deemed by the Board to be independent. R J Peters retired on 31 December 2016 and J E Martin and A J Summers have been appointed as members of the Committee since the year end. The Committee met four times during the financial year. The members of the Committee during the year and as at the year end and their attendance are summarised below:

Committee member	Meeting attendance
D McManus (Committee Chairman until July 2016)	4/4*
T P Bushell (Committee Chairman since July 2016)	4/4*
K G Lough	4/4
R J Peters	4/4

* D McManus and T P Bushell attended 1 and 3 meetings respectively as invitees.

During the financial year, the Committee's main areas of activity included:

> Confirming the salary adjustments for 2016, bonus awards for the period ended 31 December 2015 and an interim bonus award for 2016
> Setting the targets for the bonus awards for the bonus scheme for the forthcoming financial year
> Approving the Directors' Remuneration Report for the year ended 31 December 2015
> Approving the 2016 LTIP awards and reviewing the constitution of the peer group
> Approving the vesting of the 2013 LTIP and Cash Incentive Plan awards
> Overseeing the operation of the Employee Benefit Trust
> Approving the annual implementation of the SIP
> Reviewing the pension arrangements for executive directors following the reduction in the Annual Allowance.

The company secretary acted as secretary to the Committee and provided advice in relation to the operation and implementation of incentive schemes and remuneration packages. The Chairman of the Board attended Committee meetings as appropriate.

The Board considers that the membership of the Committee is compliant with the 2016 UK Corporate Governance Code. No individual is involved in determining his or her own remuneration.

External advice

The Committee received external legal advice in relation to employment matters and the operation of the share schemes. The Committee considers that the advice it received during the financial year was objective and independent.

Total Remuneration

The table below reports a single figure for total remuneration for each executive director:

	Salary £'000		Taxable benefits £'000		Annual bonus £'000		Long-term Incentives £'000		Pension[3] £'000		SIP awards £'000		Total £'000	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Year ended 31 Dec 2016	Year ended 31 Dec 2015
S J Moody	362.1	362.1	14.3	2.9	153.9	253.5	—	318.8[2]	44.6	36.2	6.6	6.6	581.5	980.1
F M MacAulay	317.8	317.8	13.4	3.0	166.2[1]	222.4	—	—	39.7	31.8	6.6	6.6	543.7	581.6
S MacDonald	297.0	297.0	2.0	2.0	146.3[1]	207.9	—	—	37.1	29.7	6.6	6.6	489.0	543.2

(1) Includes proceeds of vesting of awards under Cash Incentive Plan held by F MacAulay and interim bonus paid to S MacDonald. Net proceeds were re-invested in Company shares.
(2) Represents gross proceeds on exercise of share options in April 2015. Sufficient shares were sold from option exercise to discharge cost of exercise and tax and national insurance obligations and remaining shares were retained.
(3) Represents pension contributions paid in 2016 for the period from 1 January 2016 to 31 March 2017.

The table below reports a single figure for total remuneration for each non-executive director:

	Base fee £'000		Additional fees £'000		Long term incentives £'000		Total £'000	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
P J Jungels (retired 17 May 2016)	65.3	140.0	—	—	—	318.8[1]	65.3	458.8
R J Peters	45.0	45.0	—	—	—	—	45.0	45.0
D McManus (appointed as Chairman 17 May 2016)	92.8	50.0	—	—	—	—	92.8	50.0
K G Lough	50.0	50.0	—	—	—	—	50.0	50.0
A J Summers	40.0	40.0	—	—	—	—	40.0	40.0
T P Bushell (appointed 18 January 2016)	22.6	—	150.0[2]	—	—	—	172.6	—
J E Martin (appointed 18 January 2016)	38.2	—	—	—	—	—	38.2	—

(1) Represents gross proceeds on exercise of share options in April 2015. Sufficient shares were sold from option exercise to discharge cost of exercise and tax and national insurance obligations and remaining shares were retained.

(2) Represents fees for provision of consultancy services in respect of merger with FOGL No other fees were paid to T P Bushell during the period of the consultancy agreement which terminated in July 2016.

P Jungels was Chairman of the Company until 17 May 2016.

D McManus was appointed as Chairman of the Company on 17 May 2016 and was Chairman of the Remuneration Committee until July 2016.

R J Peters was Senior Independent Director until his retirement on 31 December 2016.

K G Lough is Chairman of the Audit & Risk Committee and was appointed as Senior Independent Director in January 2017.

T P Bushell and J E Martin were appointed to the Board on 18 January 2016.

T P Bushell was appointed as Chairman of the Remuneration Committee in July 2016.

No fees were paid to non-executive directors for membership of a committee or for attending committee meetings. Additional fees were payable of £5,000 for acting as Senior Independent Director and £10,000 as Chairman of the Audit & Risk and Remuneration Committees. The Chairman of the Company does not receive any additional fees for chairing the Nomination Committee.

Additional information in respect of single figure table of remuneration for the year ended 31 December 2016

Annual bonus

In respect of the financial period, the Committee agreed that the executive director annual bonus opportunity would be up to 100% of base salary and that the executive directors would be treated as a team for the purpose of objective setting. The following objectives were agreed for the financial year:

(i) Bringing an additional paying partner into the Sea Lion Development Project
Farmout discussions had been pursued with a number of parties but, as no deal had been agreed at the year end, the Committee agreed that this target had not been achieved.

(ii) Completion of a Competent Person's Report (CPR) that meets specific objectives set by the Board
The CPR had been completed in accordance with criteria laid down by the Board and had raised the technical profile of the Falkland Islands. The Committee agreed that this target had been achieved in full.

(iii) Achievement of production related targets
The production target for the Company's existing assets had been achieved and the acquisition of Beach Egypt had brought in additional production. The Committee agreed that this target had been partially achieved.

(iv) Achievement of specific milestones for the Final Investment Decision (FID) for the Sea Lion Development
There had been further progress towards FID with completion of the project definition for Phase 1 of the Sea Lion Development, completion of an updated draft Field Development Plan and Budget and good progress on FEED. The Committee agreed that this target had been achieved but that, as overall progress to FID had not been in line with expectations, this should be recognised in the percentage of this target that was considered as having been achieved.

The Committee agreed that a final bonus of 42.5% of basic salary should be paid to each of the executive directors in recognition of the extent to which the 2016 corporate targets had been achieved. An interim bonus had been paid during the year to S MacDonald in recognition of his work on the acquisition of Beach Egypt.

Bonuses were paid in cash and were as follows:

Director	2016 Bonus as % of salary	Cash £
S J Moody	42.50	153,893
F M MacAulay	42.50	135,044
S MacDonald	42.50	126,225
	Interim bonus as % of salary	Cash £
S MacDonald	6.75	20,061

LTIP awards granted during the financial year

The table below summarises the LTIP awards granted to executive directors during the financial year in accordance with the policy.

Director	Date of grant	Share price at date of grant	Exercise price	Number of options subject to TSR performance condition — see 1 below (Award as % of salary)	Number of options subject to TSR performance condition — see 2 below (Award as % of salary)	Maximum number of shares that may vest	Face value of maximum award*
S J Moody	22 April 2016	£0.3125	—	1,738,080 (150%)	579,360 (50%)	2,317,440	£724,200
F M MacAulay	22 April 2016	£0.3125	—	1,525,200 (150%)	508,400 (50%)	2,033,600	£635,500
S MacDonald	22 April 2016	£0.3125	—	1,425,600 (150%)	475,200 (50%)	1,900,800	£594,000

* The face value of the awards is calculated using the share price at the date of grant. The actual value of the awards to participants will be dependent on the percentage of the award that vests and the share price at the date of exercise.

1. Total shareholder return ('TSR') measured against a peer group of 18 companies over a three year period; and
2. TSR measured against a peer group of 18 companies over a three year period and conditional on the Company having taken a Final Investment Decision on the Sea Lion Development by 31 December 2017.

The key features of the 2016 LTIP awards are as follows:
> Awards are in the form of nil cost options.
> Performance will be measured over the three year period to 31 March 2019.
> Performance measurement is based on the average price over the 90 day dealing period to 31 March 2019 measured against the 90 day dealing period to 31 March 2016.
> Performance is based on Total Shareholder Return ('TSR') measured against an original peer group of 17 other oil and gas companies comprising EnQuest, Amerisur Resources, Providence Resources, Ithaca Energy, Petroceltic International, Faroe Petroleum, Bowleven, Borders & Southern, Premier Oil, Hurricane Energy, Sound Energy, Parkmead, IGas Energy, Xcite Energy , Gulf Keystone, Chariot Oil & Gas and Ophir Energy. The Committee has discretion to amend the size and constitution of the peer group to ensure that it remains appropriate and to reflect corporate changes. It was subsequently agreed to remove Petroceltic and Xcite Energy from the peer group following their de-listing during the year.
> Awards will vest on a sliding scale from 35% up to a maximum of 100% for performance in the top two quartiles with no awards vesting for performance in the bottom two quartiles.

Implementation of executive director remuneration policy for 2017

Base salaries

As part of the annual remuneration review, the Committee considered industry and general economic conditions in the UK and had regard to current market practice in relation to salary adjustments. In the light of this review, the Committee agreed that no salary increases should be awarded for 2017.

Annual bonus

For 2017, the executive director annual bonus opportunity is up to 100% of base salary except in exceptional circumstances where the Committee has discretion to make a higher award. The Committee has agreed that the executive directors will be treated as a team for the purpose of objective setting and has agreed the following objectives for the financial year ending 31 December 2017:
> Bringing an additional paying partner into the Sea Lion Development project and/or working closely with the operator to deliver a financing solution to enable the joint venture to advance project sanction
> Addition of a new material venture that adds substantial production and meets corporate investment criteria
> Preservation of the Company's cash position.

Long Term Incentive Plan

The Committee intends to grant LTIP awards in 2017 in line with the Policy. The Committee will consider the appropriate performance period and quantum at the time of the awards. It is intended that the performance condition will remain as TSR measured against a peer group.

Benefits, pension contributions and share plans

The executive directors will receive the range of Company benefits, pension contribution and allowance and participation in the SIP in line with the policy.

Implementation of non-executive remuneration policy for 2017

Non-executive director fees (excluding the Chairman) were last increased in 2014 and no further review is scheduled. The fees payable to the Chairman and for the role of Senior Independent Director have been reduced from those paid to the previous Chairman and Senior Independent Director. The fees are set out in the table below:

Role	Type of fee	From 1 January 2017
Chairman	Total fee	£115,000
Other non-executive directors	Basic fee	£40,000
	Chairman of Remuneration and Audit & Risk Committees	£10,000
	Senior Independent Director	£2,500

Statement of directors' shareholdings

The table below summarises the interests in shares including those held in the SIP of the directors in office at the year end:

	At 31 December 2016 Ordinary 1p shares	At 31 December 2015 Ordinary 1p shares
S J Moody	2,051,456	2,022,556
F M MacAulay	129,620	50,853
S MacDonald	97,971	23,846
D McManus	132,803	132,803
T P Bushell	103,606	—
K G Lough	—	—
J E Martin	91,600	—
A J Summers	—	—

The Committee has agreed that the executive directors should be encouraged to build up a stake of Rockhopper shares equivalent to one times base salary in the case of F M MacAulay and S MacDonald and two times salary in the case of S J Moody over five year period. It is intended that this should be achieved through the retention of any vested LTIP awards and Share Appreciation Rights. There is no requirement for directors to purchase shares on the open market but F M MacAulay and S MacDonald invested the net proceeds of the vested CIP award and net interim 2016 bonus award respectively in Company shares.

Outstanding awards under the LTIP, Employee Share Option Scheme and Cash Incentive Plan

(a) LTIP

Director	Date of grant	Awards held at 31 Dec 2015	Granted	Lapsed	Vested	Awards held at 31 Dec 2016	Market price at date of award	Performance period	Earliest vesting date
S J Moody	08.10.13	508,007	—	330,205	177,802(1)	—	—	—	—
	13.10.14	665,625(2)	—	—	—	665,625	£0.8000	01.10.14-30.09.17	30.09.17
	13.04.15	855,354	—	—	—	855,354	£0.6350	01.04.15-31.03.18	31.03.18
	22.04.16	—	2,317,440	—	—	2,317,440	£0.3125	01.04.16-31.03.19	31.03.19
F M MacAulay	08.10.13	312,849	—	203,352	109,497(1)	—	—	—	—
	13.10.14	775,000	—	—	—	775,000	£0.8000	01.10.14-30.09.17	30.09.17
	13.04.15	750,591	—	—	—	750,591	£0.6350	01.04.15-31.03.18	31.03.18
	22.04.16	—	2,033,600	—	—	2,033,600	£0.3125	01.04.16-31.03.19	31.03.19
S MacDonald	10.03.14	201,117	—	130,186	70,391(1)	—	—	—	—
	13.10.14	506,250(2)	—	—	—	506,250	£0.8000	01.10.14-30.09.17	30.09.17
	13.04.15	701,575	—	—	—	701,575	£0.6350	01.04.15-31.03.18	31.03.18
	22.04.16	—	1,900,800	—	—	1,900,800	£0.3125	01.04.16-31.03.19	31.03.19

(1) The 2013 LTIP awards have vested but exercise is subject to Rockhopper's share price exceeding £1.80 averaged over any 90 dealing period ending no later than 31 March 2023.
(2) An inflator will be applied to the 2014 LTIP awards held by S J Moody and S MacDonald in the event that the Company ranks first or second in the peer group at the end of the performance period.

(b) Share options

As at 31 December 2015 and 31 December 2016 there were no share options held by individuals who were directors during the year ended 31 December 2016.

(c) Share appreciation rights

The share appreciation rights outstanding as at 31 December 2016 and held by individuals who were directors during the year ended 31 December 2016 are:

Director	Date of grant	Awards held at 1 January 2016	Exercised during the year	Lapsed during the year	Awards held at 31 December 2016	Exercise price Pence
S J Moody	11.01.11	76,056	—	—	76,056	372.75
	17.01.12	77,777	—	—	77,777	303.75
	30.01.13	91,077	—	—	91,077	159.00
F M MacAulay	11.01.11	15,929	—	—	15,929	372.75
	17.01.12	22,505	—	—	22,505	303.75
	30.01.13	49,086	—	—	49,086	159.00
		332,430	—	—	332,430	

(d) Cash Incentive Plan

The award was made on the same basis as the 2013 LTIP awards in relation to performance measurement and conditions. The Committee had agreed to remove the £1.80 hurdle rate on condition that the net proceeds from the vesting of the CIP award were re-invested in Rockhopper shares to be held for a minimum of three years. The CIP award vested during 2016 and the net proceeds were invested in Company shares. Details of the award and vesting are as follows:

Director	Date of grant	Number of notional shares held as at 31 December 2015	Granted	Lapsed	Vested	Number of notional shares held as at 31 December 2016
F M MacAulay	23.12.14	312,849	—	203,352	109,497	—

Share price movements during year ended 31 December 2016

The mid market closing price of the Company's shares as at 31 December 2016 was 22.75 pence (31 December 2015: 27.75 pence). The range of the trading price of the Company's shares during the year was between 39.00 pence and 19.25 pence.

Executive director external appointments

S J Moody was appointed as a non-executive director of Greenland Gas & Oil Limited in January 2017 for which he receives a fee. None of the other executive directors have any external directorships for which they are paid a fee.

By order of the Board

T P Bushell
Chairman of the Remuneration Committee

10 April 2017

Statutory information

Principal activity
The principal activity of the Group is the exploration and exploitation of its oil and gas acreage. Group strategy is to explore, appraise develop and manage production from its acreage both safely and responsibly.

Results and dividends
The trading results for the year, and the Group's financial position at the end of the period are shown in the attached financial statements. The directors have not recommended a dividend for the year (period ended 31 December 2015: £nil).

Key performance indicators "KPIs"
See page 10 for more details.

Substantial shareholders
At 10 April 2017 the Company had been notified of the following interests of three percent or more of the Company's voting rights.

Shareholder/Fund manager	Number of shares	% of issued share capital
Carlson Capital	24,911,045	5.46
UBS Investment Bank	23,391,253	5.12
Majedie Asset Management	23,152,016	5.06
Odey Asset Management	14,808,732	3.25
Credit Suisse	14,292,898	3.13

Directors
The present members of the board are as listed in the board of directors section on page 30. The interests of the directors in office at the period end in the share capital of the Company are shown in the directors' remuneration report along with details of their service contracts and terms of appointment.

Post balance sheet events
Particulars of important events affecting the Group since the financial year end are set out in note 30.

Principal risks and uncertainties
Information relating to the principal risks and uncertainties facing the Group is set out in the Risk Management report section of the Strategic report and note 31.

Related party transactions
Related party transactions are disclosed in note 28.

Financial instruments
For the period under review the Group held no financial instruments, outside of cash and receivables. Financial risk management policies are disclosed in note 31.

Political and charitable contributions
The Group made no charitable donations (period ended 31 December 2015: £nil) and no political donations (period ended 31 December 2015: £nil) during the period.

Creditor 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. Average creditor days for the period were 20 days (period ended 31 December 2015: 10 days), on the basis of accounts payable as a percentage of amounts invoiced during the period.

Qualifying indemnity provisions
The Company has entered into separate indemnity deeds with each director containing qualifying indemnity provisions, as defined at section 236 of the Companies Act 2006, under which the Company has agreed to indemnify them in respect of certain liabilities which may attach to them as a director or as a former director of the Company. At the date of this directors' report indemnity deeds containing qualifying indemnity provisions are in force for all of the Company's directors. The Company has also issued an indemnity to directors and the company secretary in respect of any personal liability to Falkland Islands tax by the Company or its subsidiaries.

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

Employees
The Group had 25 employees at the year end, three of whom are directors. The Group seeks to employ people on the basis of merit and ability to perform the required roles. The Group does not discriminate on any grounds including race, gender, religion, age, nationality or sexual orientation.

Environment
The Group's operations are, and will be, subject to environmental regulation (with regular environmental impact assessments and evaluation of operations required before any permits are granted to the Group) in the jurisdiction in which it operates. Although the Group intends to be in compliance with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances, that could subject the Group to extensive liability. Further, the Group may fail to obtain the required approval from the relevant authorities necessary for it to undertake activities which are likely to impact the environment. The Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area.

Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

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

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

Jan Davies
Company Secretary

10 April 2017

Independent auditor's report to the members of Rockhopper Exploration plc

We have audited the financial statements of Rockhopper Exploration Plc for the year ended 31 December 2016 set out on pages 49 to 83. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the group's profit for the year then ended;

> the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

> the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

> we have not identified material misstatements in those reports; and

> in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

> the Parent Company financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

10 April 2017

Group income statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Revenue		7,417	3,966
Other cost of sales		(4,373)	(2,951)
Depreciation and impairment of oil and gas assets		(3,294)	(8,098)
Total cost of sales	4	(7,667)	(11,049)
Gross loss		(250)	(7,083)
Exploration and evaluation expenses	5	(8,237)	(22,934)
Costs in relation to acquisition and group restructuring		(2,529)	(1,544)
Recurring administrative costs		(7,441)	(9,351)
Total administrative expenses	6	(9,970)	(10,895)
Excess of fair value over cost	29	111,842	—
Charge for share based payments	9	(994)	(1,937)
Foreign exchange movement	10	5,679	1,927
Results from operating activities and other income		98,070	(40,922)
Finance income	11	307	975
Finance expense	11	(333)	(4,750)
Profit/(loss) before tax		98,044	(44,697)
Tax	12	—	55,395
Profit for the year attributable to the equity shareholders of the parent company		98,044	10,698
Profit per share: cents			
Basic	13	21.98	3.65
Diluted	13	21.98	3.64

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

Group statement of comprehensive income

for the year ended 31 December 2016

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Profit for the year	98,044	10,698
Exchange differences on translation of foreign operations	192	(4,943)
Total comprehensive profit for the year	98,236	5,755

Group balance sheet

as at 31 December 2016

	Notes	31 December 2016 $'000	31 December 2015 $'000
Non-current assets			
Exploration and evaluation assets	14	426,419	256,658
Property, plant and equipment	15	18,025	12,637
Goodwill	16	9,439	9,803
Current assets			
Inventories		1,608	1,670
Other receivables	17	17,184	6,199
Restricted cash	18	495	2,192
Term deposits	19	30,000	60,000
Cash and cash equivalents		51,019	50,434
Total assets		554,189	399,593
Current liabilities			
Other payables	20	34,012	30,457
Tax payable	21	9	9
Non-current liabilities			
Tax payable	21	39,115	47,405
Provisions	22	14,914	20,343
Deferred tax liability	23	39,145	39,145
Total liabilities		127,195	137,359
Equity			
Share capital	24	7,194	4,910
Share premium	25	3,149	2,995
Share based remuneration	25	6,251	5,491
Own shares held in trust	25	(3,407)	(3,513)
Merger reserve	25	74,332	11,112
Foreign currency translation reserve	25	(8,968)	(9,160)
Special reserve	25	462,549	472,967
Retained losses	25	(114,106)	(222,568)
Attributable to the equity shareholders of the company		426,994	262,234
Total liabilities and equity		554,189	399,593

These financial statements were approved by the directors and authorised for issue on 10 April 2017 and are signed on their behalf by:

Stewart MacDonald
Chief Financial Officer

Group statement of changes in equity

for the year ended 31 December 2016

	Share capital $'000	Share premium $'000	Share based remuneration $'000	Shares held in trust $'000	Merger reserve $'000	Foreign currency translation reserve $'000	Special reserve $'000	Retained losses $'000	Total equity $'000
Balance at 31 December 2014	4,854	662	4,960	(628)	11,112	(4,217)	536,976	(298,681)	255,038
Total comprehensive income for the year	—	—	—	—	—	(4,943)	—	10,698	5,755
Share based payments	—	—	1,937	—	—	—	—	—	1,937
Share issues in relation to SIP	3	186	—	(152)	—	—	—	—	37
Exercise of share options	53	2,147	(1,406)	—	—	—	—	1,406	2,200
Purchase of own shares	—	—	—	(2,733)	—	—	—	—	(2,733)
Other transfers	—	—	—	—	—	—	(64,009)	64,009	—
Balance at 31 December 2015	**4,910**	**2,995**	**5,491**	**(3,513)**	**11,112**	**(9,160)**	**472,967**	**(222,568)**	**262,234**
Total comprehensive income for the year	—	—	—	—	—	192	—	98,044	98,236
Share based payments	—	—	884	—	—	—	—	—	884
Issue of shares	2,278	—	—	—	63,220	—	—	—	65,498
Share issues in relation to SIP	6	154	110	(128)	—	—	—	—	142
Exercise of share options	—	—	(234)	234	—	—	—	—	—
Other transfers	—	—	—	—	—	—	(10,418)	10,418	—
Balance at 31 December 2016	7,194	3,149	6,251	(3,407)	74,332	(8,968)	462,549	(114,106)	426,994

Group cash flow statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cash flows from operating activities			
Net profit before tax		98,044	(44,697)
Adjustments to reconcile net losses to cash:			
Depreciation	15	4,725	2,744
Loss on impairment on property, plant and equipment	15	—	5,649
Other non-cash movements	15	(1,205)	—
Share based payment charge	9	994	1,937
Excess fair value over cost	29	(111,842)	—
Exploration impairment expenses	14	3,549	22,335
Loss on disposal of property, plant and equipment		139	12
Finance expense		333	4,742
Finance income		(317)	(800)
Foreign exchange	10	(6,187)	(1,921)
Operating cash flows before movements in working capital		(11,767)	(9,999)
Changes in:			
Inventories		—	291
Other receivables		277	(981)
Payables		(7,962)	3,765
Movement on other provisions		(1,748)	68
Cash utilised by operating activities		(21,200)	(6,856)
Cash flows from investing activities			
Cash proceeds received on North Falkland Basin exploration insurance claim		45,507	—
Capitalised expenditure on exploration and evaluation assets		(38,985)	(70,661)
Purchase of property, plant and equipment		(1,218)	(10,258)
Acquisition of FOGL	29	5,312	—
Acquisition of Beach Egypt	29	(18,839)	—
Interest		559	617
Investing cash flows before movements in capital balances		(7,664)	(80,302)
Changes in:			
Restricted cash		1,689	(826)
Term deposits		30,000	40,000
Cash flow from investing activities		24,025	(41,128)
Cash flows from financing activities			
Share options exercised		—	2,200
Share incentive plan		31	37
Purchase of own shares		—	(2,733)
Finance expense		(33)	(18)
Cash flow from financing activities		(2)	(514)
Currency translation differences relating to cash and cash equivalents		(2,238)	(794)
Net cash flow		2,823	(48,498)
Cash and cash equivalents brought forward		50,434	99,726
Cash and cash equivalents carried forward		51,019	50,434

Notes to the group financial statements

for the year ended 31 December 2016

1. Accounting policies

1.1 Group and its operations

Rockhopper Exploration plc, the 'Company', a public limited company quoted on AIM, incorporated and domiciled in the United Kingdom ('UK'), together with its subsidiaries, collectively, the 'Group' holds certain exploration licences granted in 2004 and 2005 for the exploration and exploitation of oil and gas in the Falkland Islands. In 2014, it diversified its portfolio into the Greater Mediterranean through the acquisition of an exploration and production company with operations principally based in Italy and during 2016 augmented this through the acquisition of exploration and production assets in Egypt. The registered office of the Company is 4th Floor, 5 Welbeck Street, London, W1G 9YQ.

1.2 Statement of compliance

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with UK company law. The consolidated financial statements were approved for issue by the board of directors on 10 April 2017 and are subject to approval at the Annual General Meeting of shareholders on 16 May 2017.

1.3 Basis of preparation

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

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

Items included in the results of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the "functional currency").

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

1.4 Change in accounting policy

Changes in accounting standards

In the current year new and revised standards, amendments and interpretations were effective and are applicable to the consolidated financial statements of the Group but did not affect amounts reported in these financial statements.

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

- IFRS9 Financial Instruments (effective date for annual periods beginning on or after 1 January 2018);
- IFRS15 Revenue from Contracts with customers (effective date for annual periods beginning on or after 1 January 2018); and
- IFRS16 Leases (effective date for annual periods beginning on or after 1 January 2019);

Management does not believe that the application of these standards will have a material impact on the financial statements.

1.5 Going concern

At 31 December 2016, the Group had available cash and term deposits of $81 million. In addition the first phase of the Group's main development, Sea Lion, is fully funded from sanction through a combination of Development Carries and a loan facility from the operator.

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

Notes to the group financial statements continued

for the year ended 31 December 2016

1. Accounting policies continued

1.6 Significant accounting policies

(A) Basis of accounting

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

Since these policies involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results. The measurement basis that has been applied in preparing the results is historical cost with the exception of financial assets, which are held at fair value.

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

(B) Basis of consolidation

The consolidated financial statements include the results of Rockhopper Exploration plc and its subsidiary undertakings to the balance sheet date. Where subsidiaries follow differing accounting policies from those of the Group, those accounting policies have been adjusted to align with those of the Group. Inter-company balances and transactions between Group companies are eliminated on consolidation, though foreign exchange differences arising on inter-company balances between subsidiaries with differing functional currencies are not offset.

(C) Segmental reporting

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

The Group's operations are made up of three segments, the oil and gas exploration activities in the geographical regions of the Falkland Islands and the Greater Mediterranean region as well as its corporate activities centered in the UK.

(D) Oil and gas assets

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

Exploration and evaluation ("E&E") expenditure

Expensed exploration & evaluation costs

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

Capitalised intangible exploration and evaluation assets

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

Treatment of intangible E&E assets at conclusion of appraisal activities

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

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

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

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

Furthermore:

(i) Reserves may only be considered proved and probable if producibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proved includes: (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both; and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successful testing by a pilot project, the operation of an installed programme in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or programme was based.

Development and production assets

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

Depreciation of producing assets

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

Disposals

Net cash proceeds from any disposal of an intangible E&E asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the income statement.

Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. The amount recognised is the present value of the estimated future expenditure. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included in finance cost.

(E) Capital commitments

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

(F) Foreign currency translation

Functional and presentation currency:

Items included in the results of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, the functional currency. The consolidated financial statements are presented in US$ as this best reflects the economic environment of the oil exploration sector in which the Group operates. The Group maintains the accounts of the parent and subsidiary undertakings in their functional currency. Where applicable, the Group translates subsidiary accounts into the presentation currency, US$, using the closing rate method for assets and liabilities which are translated at the rate of exchange prevailing at the balance sheet date and rates at the date of transactions for income statement accounts. Differences are taken directly to reserves.

Notes to the group financial statements continued

for the year ended 31 December 2016

1. Accounting policies continued

1.6 Significant accounting policies continued

(F) Foreign currency translation continued

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are capitalised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

	31 December 2016	31 December 2015
£ : US$	1.22	1.48
€ : US$	1.05	1.09

(G) Revenue and income

(i) Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

(ii) Investment income

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

(H) Non-derivative financial instruments

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

(i) Other receivables

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

(ii) Term deposits

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

(iii) Restricted cash

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

(iv) Cash and cash equivalents

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

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

(vi) Account and other payables
Account payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

(vii) Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

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

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

(J) Share based remuneration
The Group issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for non market based vesting conditions.

Fair value is measured by use of either Binomial or Monte-Carlo simulation. The main assumptions are disclosed in note 9.

Cash settled share based payment transactions result in a liability. Services received and liability incurred are measured initially at fair value of the liability at grant date, and the liability is remeasured each reporting period until settlement. The liability is recognised on a straight line basis over the period that services are rendered.

Notes to the group financial statements continued

for the year ended 31 December 2016

2. Use of estimates, assumptions and judgements

The Group makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Carrying value of intangible exploration and evaluation assets (note 14) and property, plant and equipment (note 15)

The amounts for intangible exploration and evaluation assets represent active exploration and evaluation projects. These amounts will be written off to the income statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are indications of impairment in accordance with the Group's accounting policy.

In addition for assets under evaluation where discoveries have been made, such as Sea Lion, and property plant and equipment assets their carrying value is checked by reference to the net present value of future cashflows which requires key assumptions and estimates in relation to: commodity prices that are based on forward curves for a number of years and the long-term corporate economic assumptions thereafter, discount rates that are adjusted to reflect risks specific to individual assets, the quantum of commercial reserves and the associated production and cost profiles. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Carrying value of goodwill (note 16)

Following the acquisition of Mediterranean Oil & Gas plc during 2014, Rockhopper recognised goodwill in line with the requirements of IFRS 3 – Business Combinations. Management performs annual impairment tests on the carrying value of goodwill and the Greater Mediterranean CGU that the goodwill is attributed to. The calculation of the recoverable amount is based on the likely future economic benefits of the exploration and evaluation assets in the acquired portfolio and is based on estimated value of the potential and actual discoveries as noted above.

Decommissioning costs (note 22)

Decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new technology or experience at other assets. The expected timing, work scope and amount of expenditure may also change. Therefore significant estimates and assumptions are made in determining the provision for decommissioning. The estimated decommissioning costs are reviewed annually by an external expert and the results of the most recent available review used as a basis for the amounts in the Financial Statements. Provision for environmental clean-up and remediation costs is based on current legal and contractual requirements, technology and price levels.

Fair value on acquisition (note 29)

Following the acquisition of Falkland Oil and Gas Limited ("FOGL") assets and liabilities acquired and the fair value allocation in accordance with the provisions of "IFRS3 – Business Combinations" has been determined. Inherently determining fair values, particularly of intangible exploration and evaluation assets, is subjective. The valuation was based on the $ per barrel multiples applied in transactions in the market place involving similar early stage development assets. Not all factors in any particular transaction may be known and the market provides only a range of possible values. For reasonableness, this fair value was compared and supported by the net present value of future cashflows which requires key assumptions and estimates in relation to: commodity prices that are based on forward curves for a number of years and the long-term corporate economic assumptions thereafter, discount rates that are adjusted to reflect risks specific to individual assets, the quantum of commercial reserves and the associated production and cost profiles.

3. Revenue and segmental information

	Falkland Islands $'000	Greater Mediterranean $'000	Corporate $'000	Total $'000
Year ended 31 December 2016				
Revenue	—	7,417	—	7,417
Cost of sales	—	(7,667)	—	(7,667)
Gross loss	—	(250)	—	(250)
Exploration and evaluation expenses	(35)	(7,427)	(775)	(8,237)
Costs in relation to acquisition and group restructuring	—	(1,350)	(1,179)	(2,529)
Other administrative costs	—	(2,557)	(4,884)	(7,441)
Total administrative expenses	—	(3,907)	(6,063)	(9,970)
Excess of fair value over cost	111,842	—	—	111,842
Charge for share based payments	—	—	(994)	(994)
Foreign exchange movement	8,292	27	(2,640)	5,679
Results from operating activities and other income	120,099	(11,557)	(10,472)	98,070
Finance income	—	—	307	307
Finance expense	—	(325)	(8)	(333)
Profit/(loss) before tax	120,099	(11,882)	(10,173)	98,044
Tax	—	—	—	—
Profit/(loss) for period	120,099	(11,882)	(10,173)	98,044
Reporting segments assets	424,867	36,369	92,953	554,189
Reporting segments liabilities	77,952	18,968	30,275	127,195
Depreciation	—	4,529	196	4,725

	Falkland Islands $'000	Greater Mediterranean $'000	Corporate $'000	Total $'000
Year ended 31 December 2015				
Revenue	—	3,966	—	3,966
Cost of sales	—	(11,049)	—	(11,049)
Gross loss	—	(7,083)	—	(7,083)
Exploration and evaluation expenses	(52)	(22,382)	(500)	(22,934)
Costs in relation to acquisition	—	—	(1,544)	(1,544)
Other administrative costs	—	(1,943)	(7,408)	(9,351)
Total administrative expenses	—	(1,943)	(8,952)	(10,895)
Charge for share based payments	—	—	(1,937)	(1,937)
Foreign exchange movement	1,990	196	(259)	1,927
Results from operating activities	1,938	(31,212)	(11,648)	(40,922)
Finance income	—	—	975	975
Finance expense	(4,354)	(396)	—	(4,750)
Loss before tax	(2,416)	(31,608)	(10,673)	(44,697)
Tax	55,391	4	—	55,395
Gain/(loss) for period	52,975	(31,604)	(10,673)	10,698
Reporting segments assets	251,424	37,687	110,482	399,593
Reporting segments liabilities	86,542	25,978	24,839	137,359
Depreciation	—	2,468	276	2,744

Notes to the group financial statements continued

for the year ended 31 December 2016

4. Cost of sales

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cost of sales	4,373	2,951
Depreciation of oil and gas assets	4,499	2,449
Impairment of oil and gas assets	—	5,649
Other non-cash movements	(1,205)	—
	7,667	11,049

5. Exploration and evaluation expenses

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Allocated from administrative expenses (see note 6)	754	310
Capitalised exploration costs impaired (see note 14)	3,549	22,335
Other exploration and evaluation expenses	3,957	318
Amounts recharged to partners	(23)	(29)
	8,237	22,934

6. Administrative expenses

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Directors' salaries and fees, including bonuses (see note 7)	2,469	3,008
Other employees' salaries	3,157	3,975
National insurance costs	1,098	1,377
Pension costs	1,337	455
Employee benefit costs	333	180
Total staff costs (including group restructuring costs)	8,394	8,995
Amounts reallocated	(3,375)	(4,438)
Total staff costs charged to administrative expenses	5,019	4,557
Costs in relation to acquisition	1,179	1,544
Auditor's remuneration (see note 8)	278	293
Other professional fees	1,832	1,962
Other	2,905	3,185
Depreciation	283	352
Amounts reallocated	(1,526)	(998)
	9,970	10,895

The average number of staff employed during the year was 31 (31 December 2015: 39). The relative decrease between years reflects the restructuring of the Greater Mediterranean operation. As at 31 December 2016 the number of staff employed had reduced to 25 following a review of staffing levels.

Amounts reallocated relate to the costs of staff and associated overhead in relation to non administrative tasks. These costs are allocated to exploration and evaluation expenses or capitalised as part of the intangible exploration and evaluation assets as appropriate.

7. Directors' remuneration

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Executive salaries	1,283	1,497
Executive bonuses	508	1,013
Company pension contributions to money purchase schemes	139	150
Benefits	52	33
Non-executive fees	487	498
Gain on exercise of share options	—	946
	2,469	4,137

Gain on exercise of share options during the prior period relates to the exercise by two Directors of the Company of 3,000,000 shares in the Company at an exercise price of 42 pence per share. The options were due to expire during the year.

The total remuneration of the highest paid director was:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Annual salary	362,100	362,100
Bonuses	153,900	253,470
Money purchase pension schemes	44,600	36,210
Benefits	14,361	7,069
Gain on exercise of share options	—	318,750
	574,961	977,599

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

8. Auditor's remuneration

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
KPMG LLP		
Fees payable to the Company's auditor for the audit of the company's annual financial statements	148	152
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	79	82
Half year review	41	48
Tax compliance services	10	11
	278	293

Notes to the group financial statements continued

for the year ended 31 December 2016

9. Share based payments

The charge for share based payments relate to options granted to employees of the Group.

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Charge for the long term incentive plan options	934	1,796
Charge for shares issued under the SIP throughout the period	60	141
	994	1,937

The models and key assumptions used to value each of the grants and hence calculate the above charges are set out below:

Long term incentive plan

During 2013 a long term incentive plan ("LTIP") was approved by shareholders. The LTIP is operated and administered by the Remuneration Committee. During the year a number of LTIP awards ('Awards'), structured as nil cost options, were granted to executive directors and senior staff.

LTIP awards will generally only vest or become exercisable subject to the satisfaction of a performance condition measured over a three year period ("Performance Period") determined by the Remuneration Committee at the time of grant. The performance conditions must contain objective conditions, which must be related to the underlying financial performance of the Company. The current performance condition used is based on Total Shareholder Return ("TSR") measured over a three-year period against the TSR of a peer group of at least 9 other oil and gas companies comprising both FTSE 250, larger AIM oil and gas companies and Falkland Islands focused companies ("Peer Group"). The Peer Group for the Awards may be amended by the Remuneration Committee at their sole discretion as appropriate.

Performance measurement for the Awards are based on the average price over the relevant 90 day dealing period measured against the 90 dealing day period three years later. Awards will typically vest on a sliding scale from 35% to 100% for performance in the top two quartiles of the Peer Group. Certain awards have an escalator applied which means that they vest in excess of 100% if the Company is the top or second highest performer in the Peer Group. No awards will vest for performance in the bottom two quartiles.

The Awards granted on 8 October 2013 and 10 March 2014 had an additional performance condition so that no awards would vest if the Company's share price did not exceed £1.80 based on the average price over the 90 day dealing period up to 31 March 2016. The Remuneration Committee has exercised its discretion to vary the performance condition so that the period for achievement of the £1.80 hurdle rate is extended to 31 March 2023. As a result, any LTIP awards that would have vested on 31 March 2016 will not be exercisable unless the Company's share price exceeds £1.80 based on an average price over any 90 day dealing period up to 31 March 2023. At the same time, the Remuneration Committee agreed to remove its discretion to allow vesting for performance in the third quartile for all existing and future LTIP awards.

The LTIP has been valued using a Monte Carlo model the key inputs of which are summarised below

Grant date:	22 Apr 2016	13 Apr 2015	13 Oct 14	13 Oct 14	10 Mar 14	8 Oct 13
Closing share price	31.5p	64p	76p	76p	115p	131p
Minimum exercise/base price	N/A	N/A	N/A	N/A	180p	180p
Escalation applied for being best of peer group	N/A	N/A	N/A	33%	N/A	N/A
Escalation applied for being second of peer group	N/A	N/A	N/A	29%	N/A	N/A
Number granted	10,047,885	4,111,838	1,063,750	2,382,581	201,117	1,757,786
Weighted average volatility	60.4%	44.5%	36.5%	36.5%	60.1%	60.1%
Weighted average volatility of index	71.2%	55.8%	42.2%	42.2%	62.0%	62.0%
Weighted average risk free rate	0.58%	0.70%	1.27%	1.27%	0.30%	0.30%
Correlation in share price movement with comparator group	27.5%	33.5%	32.0%	32.0%	49.0%	49.0%
Exercise price	0p	0p	0p	0p	0p	0p
Dividend yield	0%	0%	0%	0%	0%	0%

The following movements occurred during the year:

Issue date	Expiry date	At 31 December 2015	Issued	Lapsed	At 31 December 2016
8 October 2013	8 October 2023	1,560,418	—	(1,014,273)	546,145
10 March 2014	10 March 2024	201,117	—	(130,726)	70,391
13 October 2014	13 October 2024	3,446,331	—	(404,143)	3,042,188
13 April 2015	13 April 2025	4,111,838	—	(383,303)	3,728,535
22 April 2016	22 April 2026	—	10,047,885	—	10,047,885
		9,319,704	10,047,885	(1,932,445)	17,435,144

Share incentive plan

The Group has in place an HMRC approved Share Incentive Plan ("SIP"). The SIP allows the Group to award Free Shares to UK employees (including directors) and to award shares to match Partnership Shares purchased by employees, subject to HMRC limits.

Throughout this and the prior year the Group issued two Matching Shares for every Partnership Share purchased.

In the year the Group made a free award of £50,997 (year ended 31 December 2015 £49,547) worth of Free Shares to eligible employees.

This resulted in 177,772 (year ended 31 December 2015:92,277) Free Shares and 216,778 (year ended 31 December 2015:99,456) Matching Shares being issued under the SIP in the period.

	31 December 2016	31 December 2015
The average fair value of the shares awarded (pence)	29	52
Vesting	100%	100%
Dividend yield	Nil	Nil
Lapse due to withdrawals	Nil	Nil

The fair value of the shares awarded will be spread over the expected vesting period.

Share appreciation rights

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

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

The following movements occurred during the period on SARs:

Issue date	Expiry date	Exercise price (pence)	At 31 December 2015	Exercised	Lapsed	At 31 December 2016
22 November 2008	22 November 2018	19.25	355,844	—	—	355,844
3 July 2009	3 July 2019	30.87	103,368	—	—	103,368
11 January 2011	11 January 2021	372.75	212,641	—	—	212,641
14 July 2011	14 July 2021	239.75	43,587	—	—	43,587
16 August 2011	16 August 2021	237.00	17,035	—	—	17,035
13 December 2011	13 December 2021	240.75	29,594	—	—	29,594
17 January 2012	17 January 2022	303.75	291,531	—	—	291,531
30 January 2013	30 January 2023	159.00	366,931	—	—	366,931
			1,420,531	—	—	1,420,531

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for the year ended 31 December 2016

10. Foreign exchange

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Foreign exchange gain on Falkland Islands tax liability	8,290	1,990
Foreign exchange loss on term deposits, cash and restricted cash	(2,103)	(69)
	6,187	1,921
Foreign exchange on operating activities	(508)	6
Total foreign exchange gain	5,679	1,927

11. Finance income and expense

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Bank and other interest receivable	307	975
Total finance income	307	975
Unwinding of discount on provisions	300	378
Unwinding of discount on long term tax liability	—	4,347
Other	33	25
Total finance expense	333	4,750

12. Taxation

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Current tax:		
Overseas tax	—	9
Adjustment in respect of prior years	—	(55,405)
Total current tax	—	(55,396)
Deferred tax:		
Overseas tax	—	1
Total deferred tax – note 23	—	1
Tax on profit on ordinary activities	—	(55,395)
Profit/(loss) on ordinary activities before tax	98,044	(44,697)
Profit/(loss) on ordinary activities multiplied at 26% weighted average rate (31 December 2015: 26%)	25,491	(111,621)
Effects of:		
Income and gains not subject to taxation	32,055	—
Expenditure not deductible for taxation	253	10,365
Depreciation in excess of capital allowances	(349)	(597)
IFRS2 Share based remuneration cost	216	174
Losses carried forward	6,894	2,537
Effect of tax rates in foreign jurisdictions	(436)	(539)
Adjustments in respect of prior years	—	(55,405)
Other	(14)	(309)
Tax (credit)/charge for the year	—	(55,395)

On the 8 April 2015 the Group agreed binding documentation ("Tax Settlement Deed") with the Falkland Island Government ("FIG") in relation to the tax arising from the Group's farm out to Premier Oil plc ("Premier"). As such the Group is able to defer this tax liability under Extra Statutory Concession 16. As it is deferred, the liability is classified as non-current and discounted. Additional information is given in Note 21 Tax payable.

The total carried forward losses and carried forward pre trading expenditures available for relief on commencement of trade are as follows:

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
UK	59,529	53,161
Falkland Island	123,732	127,388
Italy	54,051	19,917
Egypt	3,010	—

No deferred tax asset has been recognised in respect of temporary differences arising on losses carried forward, outstanding share options or depreciation in excess of capital allowances due to the uncertainty in the timing of profits and hence future utilisation.

13. Basic and diluted loss per share

	31 December 2016 Number	31 December 2015 Number
Shares in issue brought forward	296,579,834	292,805,453
Shares issued		
– Issued in relation to acquisitions	159,684,668	—
– Issued in relation to share options	—	3,532,920
– Issued under the SIP	394,550	241,461
Shares in issue carried forward	456,659,052	296,579,834
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	446,106,108	293,442,707
Effects of dilutive potential Ordinary shares		
Contingently issuable shares	—	321,330
	446,106,108	293,764,037

	$'000	$'000
Net profit after tax for purposes of basic and diluted earnings per share	98,044	10,698
Earnings per share – cents		
Basic	21.98	3.65
Diluted	21.98	3.64

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was on quoted market prices for the year during which the options were outstanding.

14. Intangible exploration and evaluation assets

	Falkland Islands $'000	Greater Mediterranean $'000	Total $'000
As at 31 December 2014	175,504	28,660	204,164
Additions	75,920	2,577	78,497
Written off to exploration costs	—	(22,335)	(22,335)
Foreign exchange movement	—	(3,668)	(3,668)
As at 31 December 2015	251,424	5,234	256,658
Acquisitions through business combinations	170,000	—	170,000
Asset additions	—	5,772	5,772
Additions	(2,840)	587	(2,253)
Written off to exploration costs	—	(3,549)	(3,549)
Foreign exchange movement	—	(209)	(209)
As at 31 December 2016	418,584	7,835	426,419

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for the year ended 31 December 2016

14. Intangible exploration and evaluation assets continued

Falkland Islands licences

The Acquisition during the period of $170 million reflects the fair value of the licences held by Falkland Oil & Gas Limited and its subsidiary, principally being its 40% interest in the PL004 licences, further details are given in note 29.

The additions during the period relate to $7.2 million of costs for the exploration campaign in the North Falkland Basin including the exploration successes at Zebedee and Isobel Deep. $17.2 million relates to the Sea Lion development. These have been offset by $27.7 million as a result of insurance proceeds received on a claim relating to costs incurred on the Isobel deep well during the 2015/16 North Falkland Basin exploration campaign. This reflects that portion of the total insurance proceeds of $48.5 million that was not recognised as a receivable on acquisiton of FOGL. These costs have been previously capitalised.

The carrying value of Phase 1 of the Sea Lion Development, a discovered asset still under evaluation was checked for impairment by reference to a discounted cashflow model. The key inputs to this model were a 2016 real terms oil price of $75/bbl, a post-tax discount rate of 12.5% and utilising the operator's current estimates of capital and operating costs and production profiles. The project is targeting project sanction decision in mid 2018 (with such decision dependent on funding) and is expected to take three and half years from sanction to first oil. The remaining barrels in Sea Lion are expected to be recovered along with those in near field discoveries in a second phase of the development. This second phase has been checked for impairment in a similar manner.

Sensitivity analysis was performed by, in turn, reducing oil price by $10/bbl, reducing production by 10%, increasing capital expenditure by 10%, increasing operating expenditure by 10% and delaying the development by one year. None of these sensitivities would have led to an impairment charge in the year.

Costs associated with Isobel/Elaine discoveries and a potential Phase 3 development are carried at cost and no indication of impairment currently exist although the assets require further appraisal.

Greater Mediterranean licences

The asset additions in the period ($5.8 million) relate to the Egyptian exploration assets acquired as part of the acquisition of Beach Petroleum (Egypt) Pty Limited, further details are provided in note 29.

The additions during the period ($0.6 million) predominantly relate to work on the Egyptian and Italian license interests.

As at the end of the prior year the costs associated with the Ombrina Mare exploration permit were impaired due to the Italian Parliament approving the 2016 Budget Law which reintroduces restrictions on offshore oil and gas activity including the general ban on exploration and production activity within 12 nautical miles of the coast of Italy. The Budget Law came into force on 1 January 2016 and directly affects the Ombrina Mare Field Area.

The Group was also informed by the Ministry of Economic Development that, following the re-introduction of the ban, the Production Concession covering the Ombrina Mare Field Area will not be awarded. This is despite the Ombrina Mare project having completed all the required technical and environmental authorisations.

Given the current legal position the decision was made to plug and abandon the Ombrina Mare well, the unprovided costs associated with this activity have been initially capitalised in intangible assets and then impaired.

Following the decision in February 2016 by the Ministry of Economic Development not to award the Company a Production Concession covering the Ombrina Mare field, in March 2017 the Company commenced international arbitration proceedings against the Republic of Italy. Based on legal and expert opinions, Rockhopper has been advised that it has strong prospects of recovering very significant monetary damages as a result of the Republic of Italy's breaches of the Energy Charter Treaty. Damages would be sought on the basis of lost profits.

The write-off in relation to Ombrina Mare has been taken without prejudice to the legal remedies that may be obtained through the legal proceedings against the Republic of Italy and organs of the Italian State.

At the end of the year, following a review of the operator's technical evaluation of the Maltese assets, the decision was made to relinquish the licence. This was the main component of the $3.5 million written off to exploration costs in the Greater Mediterranean region as all costs associated with the licence were written off.

15. Property, plant and equipment

	Oil and gas assets $'000	Other assets $'000	31 December 2016 $'000	Oil and gas assets $'000	Other assets $'000	31 December 2015 $'000
Cost brought forward	23,245	1,645	24,890	14,413	1,990	16,403
Acquisitions	—	58	58	—	—	—
Asset additions	9,696	33	9,729	—	—	—
Additions	1,615	96	1,711	10,513	60	10,573
Foreign exchange	(787)	(7)	(794)	(1,681)	(22)	(1,703)
Disposals	(1,391)	(729)	(2,120)	—	(383)	(383)
Cost carried forward	32,378	1,096	33,474	23,245	1,645	24,890
Accumulated depreciation and impairment loss brought forward	(11,208)	(1,045)	(12,253)	(3,245)	(1,012)	(4,257)
Current year depreciation charge	(4,499)	(226)	(4,725)	(2,449)	(295)	(2,744)
Impairment loss	—	—	—	(5,649)	—	(5,649)
Foreign exchange	566	3	569	135	2	137
Disposals	310	650	960	—	260	260
Accumulated depreciation and impairment loss carried forward	(14,831)	(618)	(15,449)	(11,208)	(1,045)	(12,253)
Net book value brought forward	12,037	600	12,637	11,168	978	12,146
Net book value carried forward	17,547	478	18,025	12,037	600	12,637

All oil and gas property plant and equipment assets relate to the Greater Mediterranean region, specifically producing assets in Italy and Egypt.

Asset additions in the period relate almost entirely to the addition of the Abu Sennan production asset in Egypt which was acquired as part of the acquisition of Beach Petroleum (Egypt) Pty Limited, further information is provided in note 29.

Impairment testing was performed across the Group's oil and gas assets and was calculated by comparing the future discounted cash flows expected to be derived from production of commercial reserves (the value in use being the recoverable amount) against the carrying value of the asset. The future cash flows were estimated using a realised gas price assumption equal to existing contracts in place and relevant forward curve in 2017 and 2018, and €0.25/sm^3 in 2017 real terms thereafter and were discounted using a post-tax rate of 10%. Assumptions involved in the impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain. No impairment was recognised in the period (2015: charge of $5.6 million).

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16. Goodwill

	Greater Mediterranean $'000	Total $'000
As at 31 December 2015	9,803	9,803
Foreign exchange movement	(364)	(364)
As at 31 December 2016	9,439	9,439

Goodwill relates to the corporate acquisition of Mediterranean Oil & Gas plc ("MOG") during the period ended 31 December 2014. This goodwill is fully allocated to the Italian CGU and arises due to the difference between the fair value of the net assets and the consideration transferred and relates more specifically to Monte Grosso and Ombrina Mare, which have the optionality and potential to provide value in excess of this fair value as well as the strategic premium associated with a significant presence in a new region. The functional currency of MOG is euros. As such the goodwill is also expressed in the same functional currency and subject to retranslation at each reporting period end. The reduction in the period of $364,000 (2015: $1,137,000) is entirely due to this foreign currency difference. None of the goodwill recognised is expected to be deductible for tax purposes.

The Group tests goodwill annually for impairment or more frequently if there are indicators goodwill might be impaired. The recoverable amounts are determined by reference to a value in use calculations. Future cashflows are estimated using long term realised gas price of €0.25/sm^3 and a realised oil price of $75/bbl in 2016 real terms and were discounted using a post-tax rate of 10%. Assumptions involved in the impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain.

17. Other receivables

	31 December 2016 $'000	31 December 2015 $'000
Current		
Receivables	12,633	1,104
Prepayments	374	391
Accrued interest	106	349
Income tax	74	77
Other	3,997	4,278
	17,184	6,199

The carrying value of receivables approximates to fair value. The increase in receivables in the year is due to the acquisition of Beach Petroleum (Egypt) Pty Limited which came with an associated receivable due from EGPC. At 31 December 2016, the receivable balance due from EGPC was $11.4 million of which net $4.2 million was due to Rockhopper after offsetting the amount payable to the former parent company, Beach Energy Limited. Further details regarding this balance are disclosed in note 29.

18. Restricted cash

	31 December 2016 $'000	31 December 2015 $'000
Charged accounts	—	874
Other amounts including in relation to exploration licence applications	495	1,318
	495	2,192

19. Term deposits

	31 December 2016 $'000	31 December 2015 $'000
Maturing after the period end:		
Within three months	—	30,000
Three to six months	—	10,000
Six to nine month	10,000	10,000
Nine months to one year	20,000	10,000
	30,000	60,000

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

20. Other payables and accruals

	31 December 2016 $'000	31 December 2015 $'000
Accounts payable	687	2,377
Accruals	25,202	25,390
Other creditors	8,123	2,690
	34,012	30,457

The increase in other creditors in the year is due to the acquisition of Beach Petroleum (Egypt) Pty Limited and a payable balance due to the former parent company Beach Energy Limited related to the associated receivable from EGPC (see note 17). The balance outstanding as at 31 December 2016 was $7.2 million. Further details on this transaction are disclosed in note 29.

All amounts are expected to be settled within twelve months of the balance sheet date and so the book values and fair values are considered to be the same.

21. Tax payable

	31 December 2016 $'000	31 December 2015 $'000
Current tax payable	9	9
Non current tax payable	39,115	47,405
	39,124	47,414

On the 8 April 2015, the Group agreed binding documentation ("Tax Settlement Deed") with the Falkland Island Government ("FIG") in relation to the tax arising from the Group's farm out to Premier Oil plc ("Premier").

The Tax Settlement Deed confirms the quantum and deferment of the outstanding tax liability and is made under Extra Statutory Concession 16.

As a result of the Tax Settlement Deed the outstanding tax liability was confirmed at £64.4 million and payable on the first royalty payment date on Sea Lion. Currently the first royalty payment date anticipated to occur within six months of first oil production which itself is estimated to occur approximately three and a half years after project sanction. As such the tax liability has been reclassified as non-current and discounted at 15%. The movement in the tax liability since the 31 December 2015 relates to an $8.3 million foreign exchange gain. Management are considering strategies to mitigate currency risk in relation to this balance.

The tax liability may be revised downward if the Falkland Islands' Commissioner of Taxation is satisfied that either: (i) the Exploration Carry from Premier is utilised to fund exploration activities; or (ii) any element of the Development Carry from Premier becomes "irrecoverable". The full benefit of the $48.0 million Exploration Carry has been received from Premier during the current campaign and a request has been made to the Falkland Islands Commissioner of Taxation to reduce the tax liability by £4.7 million. No adjustment in the tax liability has been made as this is still subject to agreement with the Falkland Islands' Commissioner of Taxation.

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22. Provisions

	Abandonment provision $'000	Other provisions $'000	31 December 2016 $'000	31 December 2015 $'000
Brought forward	20,059	284	20,343	21,816
Amounts utilised	(4,003)	(242)	(4,245)	(45)
Amounts arising in the period	—	66	66	64
Change in estimate	(849)	—	(849)	382
Unwinding of discount	300	—	300	393
Foreign exchange	(695)	(6)	(701)	(2,267)
Carried forward at period end	14,812	102	14,914	20,343

The abandonment provision relates to the Group's licences in the Greater Mediterranean region. The provision covers both the plug and abandonment of wells drilled as well as any requisite site restoration. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Other provisions include amounts due to employees for accrued holiday and leaving indemnity for staff in Italy, that will become payable when they cease employment.

23. Deferred tax liability

	31 December 2016 $'000	31 December 2015 $'000
At beginning of period	39,145	39,144
Movement in period	—	1
At end of period	39,145	39,145

The deferred tax liability arises due to temporary differences associated with the intangible exploration and evaluation expenditure. The majority of the balance relates to historic expenditure on licences in the Falklands, where the tax rate is 26%, being utilised to minimise the corporation tax due on the consideration received as part of the farm out disposal during 2012.

Total carried forward losses and carried forward pre-trading expenditures available for relief on commencement of trade at 31 December 2016 are disclosed in note 12 Taxation. No deferred tax asset has been recognised in relation to these losses due to uncertainty that future suitable taxable profits will be available against which these losses can be utilised. The potential deferred tax asset at the 31 December 2016 would be $59 million (31 December 2015: $49 million).

24. Share capital

	31 December 2016		31 December 2015	
	$'000	Number	$'000	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	7,194	456,659,552	4,910	296,579,834

For details of all movements during the year, see note 13.

25. Reserves

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

Share premium	Amount subscribed for share capital in excess of its nominal value.
Share based remuneration	The share incentive plan reserve captures the equity related element of the expenses recognised for the issue of options, comprising the cumulative charge to the income statement for IFRS2 charges for share based payments less amounts released to retained earnings upon the exercise of options.
Own shares held in trust	Shares held in trust represent the issue value of shares held on behalf of participants in the SIP by Capita IRG Trustees Limited, the trustee of the SIP as well as shares held by the Employee Benefit Trust which have been purchased to settle future exercises of options.
Merger reserve	The difference between the nominal value and the fair value of shares issued on acquisition of subsidiaries
Foreign currency translation reserve	Exchange differences arising on consolidating the assets and liabilities of the Group's subsidiaries are classified as equity and transferred to the Group's translation reserve.
Special reserve	The reserve is non distributable and was created following cancellation of the share premium account on 4 July 2013. It can be used to reduce the amount of losses incurred by the Parent Company or distributed or used to acquire the share capital of the Company subject to settling all contingent and actual liabilities as at 4 July 2013. Should not all of the contingent and actual liabilities be settled, prior to distribution the Parent Company must either gain permission from the actual or contingent creditors for distribution or set aside in escrow an amount equal to the unsettled actual or contingent liability.
Retained losses	Cumulative net gains and losses recognised in the financial statements.

26. Lease commitments

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

	31 December 2016 $'000	31 December 2015 $'000
Total committed within 1 year	902	1,258
Total committed between 1 and 5 years	1,117	2,951
	2,109	4,209

27. Capital commitments

Capital commitments represent the Group's share of expected costs in relation to its interests in joint ventures net of any carry arrangements that are in force.

The Group also committed to fund its share of the approved work program for PL032 for the calendar year ending 31 December 2017 of US$8 million.

In addition, the Group has approved a capital work plan and budget commitments of US$3 million in relation to its portfolio of assets in the Greater Mediterranean region.

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28. Related party transactions

The remuneration of directors, who are the key management personnel of the Group, is set out below in aggregate. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 35 to 45.

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Short term employee benefits	2,538	3,041
Pension contributions	139	150
Other long term employee benefits	—	946
Share based payments	508	1,013
	3,185	5,150

Other long term employee benefits relate to the gain on exercise of share options during the previous period. Additional details are disclosed in note 7 Directors' remuneration.

The Company was notified that directors of the Company exercised options over shares in the Company during the prior year. In addition a former director of the Company also exercised options. The options were due to expire during that year and were exercised during one of the few remaining open periods prior to their expiry. The directors and former director elected to sell shares to discharge the cost of exercise and their tax and national insurance obligations (where applicable). These shares were purchased by the Rockhopper Employee Benefit Trust (the "EBT") which was established in 2013 for the purpose of holding shares to satisfy future exercises of options and vesting of awards under the Company's Long Term Incentive Plan. The shares were acquired by the EBT by way of an off market purchase at the closing share price on the date prior to exercise. The remaining shares were retained.

Year ended 31 December 15	Number of shares subject to option	Exercise price	Shares sold to EBT	EBT share purchase price	Shares retained
Sam Moody	1,500,000	42 pence	1,236,472	63.25 pence	263,528
Pierre Jungels	1,500,000	42 pence	1,222,827	63.25 pence	277,173
Former director	525,000	42 pence	434,565	63.25 pence	90,435

29. Acquisition of subsidiaries

Acquisition of Falkland Oil and Gas Limited

In January 2016 Rockhopper completed the acquisition of the entire issued share capital of Falkland Oil and Gas Limited ("FOGL").

The boards of Rockhopper and FOGL believe that a combination of the Rockhopper and FOGL Groups (together, the "Combined Group") represents a significant value opportunity arising from the combination of their highly complementary portfolios. Specifically, the Combined Group is expected to:

- be the largest North Falkland Basin licence and discovered resource holder with a material working interest in all key licences;
- have enhanced prospects of progressing the Sea Lion project through final investment decision;
- have greater exposure to exploration and appraisal upside potential; and
- benefit from enhanced scale and capabilities creating value in the current market environment.

Under the terms of the agreement announced on 24 November 2015, shareholders of FOGL received 0.2993 shares of the Company per FOGL share.

At acquisition FOGL had a portfolio of assets and internal technical resources and management and administrative processes. In addition it has potential future outputs through monetisation of its 2C resources as such it is a business and the transaction has been accounted for by the purchase method of accounting with an effective date of 18 January 2016 being the date on which the group gained control of FOGL. Information in respect of the assets and liabilities acquired and the fair value allocation to the FOGL assets in accordance with the provisions of "IFRS3 – Business Combinations" has been determined as follows:

	Recognised values on acquisition $'000
Intangible exploration and appraisal assets	170,000
Property, plant and equipment	58
Inventories	162
Trade and other receivables	21,031
Trade and other payables	(19,222)
Net identifiable assets and liabilities	172,029
Fair value in excess of consideration	(111,842)
Satisfied by:	
Equity instruments 159,684,668 ordinary shares	65,499
Less cash acquired	(5,312)
Total consideration	60,187

The fair value of equity instruments has been determined by reference to the closing share price on the trading day immediately prior to the completion of the acquisition.

Inherently determining fair values, particularly of intangible exploration and evaluation assets, is subjective. The valuation of intangible assets acquired was based on the $ per barrel multiples applied in transactions in the market place involving similar early stage development assets. Not all factors in any particular transaction may be known and the market provides only a range of possible values over a relatively small population of analogous transactions. Analysis of $ per barrel multiples implied a wide range of reasonable possible outcomes between $1.5 per barrel and $2.5 per barrel although actual transactions ranged from near zero to values well in excess of $5 per barrel. The value above equates to just under $2 per barrel of 2C resource acquired in the Sea Lion complex and around $1.6 per barrel if management's view of the additional 2C resource discovered in the Emily, Isobel and Isobel Deep J fans is included.

For reasonableness, this fair value was compared and supported by both historic investment in the basin and the net present value of future cashflows which requires key assumptions and estimates in relation to: commodity prices that are based on forward curves for a number of years and the long-term corporate economic assumptions thereafter, discount rates that are adjusted to reflect risks specific to individual assets, the quantum of commercial reserves and the associated production and cost profiles.

The fair value in excess of consideration arises due to the difference between the fair value of the net assets and the consideration transferred and relates to the fact that the financial position of FOGL had deteriorated due to cost overruns at the Humpback exploration well as well as merger terms being agreed prior to the Isobel Elaine well results, which as noted above added additional 2C resource and substantially de-risked the Isobel-Elaine complex.

Acquisition costs of $1,430,000 arose as a result of the transaction in this and the prior period. These have been recognised as part of administrative expenses in the statement of comprehensive income.

Since the acquisition date, FOGL has contributed $nil to group revenues and added $873,000 to the group loss. If the acquisition had occurred on 31 December 2015, group revenues and group profit for the period would be materially the same.

Acquisition of Beach Petroleum (Egypt) Pty Limited

In August 2016 Rockhopper completed the acquisition of the entire issued share capital of Beach Petroleum (Egypt) Pty Limited ("Beach Egypt"). Beach Egypt holds a 22% interest in the Abu Sennan concession and a 25% interest in the El Qa'a Plain concession. Whilst the Company acquired had assets and outputs the processes of Beach Egypt were all managed by the former parent company. As such the acquisition has not been accounted for as a business combination under IFRS 3 but an asset acquisition; the upfront consideration paid for the asset acquisition was $11.9 million excluding working capital adjustments and further consideration of $7.4 million to be paid in line with the recovery of Beach Energy's retained interest in the gross transferred EGPC receivable. Under the transaction terms the former parent company Beach Energy Limited retains the economic benefit of the EGPC receivable balance as at 31 December 2015, being US$8.6 million. Rockhopper pays the receivable due to Beach Energy Limited as the funds are received by Rockhopper post-completion.

Notes to the group financial statements continued

for the year ended 31 December 2016

30. Post balance sheet events

Ocean Rig settlement

The Company announced on 14 September 2016, the operators of the 2015/16 North Falkland Basin exploration campaign had entered into arbitration with Ocean Rig in relation to the termination of Eirik Raude rig.

The Company confirmed in February 2017 that a settlement had been reached between the operators and Ocean Rig. The financial impact of this settlement is fully reflected in the results to 31 December 2016.

Commencement of international arbitration

On the 23 March 2017, Rockhopper announced that it has commenced international arbitration proceedings against the Republic of Italy in relation to the Ombrina Mare project.

Following the decision in February 2016, by the Ministry of Economic Development not to award the Company a Production Concession covering the Ombrina Mare field, the Company, with its legal advisers, has considered its options with regard to obtaining damages and compensation from the Republic of Italy for breaching the Energy Charter Treaty ("ECT").

Based on legal and expert opinions, Rockhopper has been advised that it has strong prospects of recovering very significant monetary damages as a result of the Republic of Italy's breaches of the ECT. Damages would be sought on the basis of lost profits.

In addition, the Company has secured non-recourse funding for the arbitration from a funder that specialises in financing commercial litigation and arbitration claims. In the event of success (with an award above a nominal threshold) Rockhopper retains a very material proportion of any award.

31. Risk management policies

Risk review

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

Foreign exchange risks: The Group's functional currency is US$ and as such the Group is exposed to foreign exchange movements on monetary assets and liabilities denominated in other currencies, in particular the tax liability with the Falkland Island Government which is a GB£ denominated balance. In addition a number of the Group's subsidiaries have a functional currency other than US$, where this is the case the Group has an exposure to foreign exchange differences with differences being taken to reserves.

Asset balances include cash and cash equivalents, restricted cash and term deposits of $81.5 million of which $71.4 million was held in US$ denominations. The following table summarises the split of the Group's assets and liabilities by currency:

Currency denomination of balance	$ $'000	£ $'000	€ $'000	EGP £ $'000
Assets				
31 December 2016	520,607	7,811	27,064	7
31 December 2015	346,295	15,546	37,752	—
Liabilities				
31 December 2016	72,908	41,852	12,735	—
31 December 2015	60,585	52,262	24,512	—

The following table summarises the impact on the Group's pre-tax profit and equity of a reasonably possible change in the US$ to GB£ exchange rate and the US$ to euro exchange:

	Pre tax profit		Total equity	
	+10% US$ rate increase $'000	−10% US$ rate decrease $'000	+10% US$ rate increase $'000	−10% US$ rate decrease $'000
US$ against GB£				
31 December 2016	(2,519)	2,519	(2,519)	2,519
31 December 2015	(3,672)	3,672	(3,672)	3,672
US$ against euro				
31 December 2016	(1,060)	1,060	(1,060)	1,060
31 December 2015	(126)	126	1,198	(1,198)

Capital risk management: the Group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The capital structure consists of cash and cash equivalents and equity. The board regularly monitors the future capital requirements of the Group, particularly in respect of its ongoing development programme.

Credit risk: the Group recharges partners and third parties for the provision of services and for the sale of Oil and Gas. Should the companies holding these accounts become insolvent then these funds may be lost or delayed in their release. The amounts classified as receivables as at the 31 December 2016 were $12,633,000 (31 December 2015: $1,104,000). Credit risk relating to the Group's other financial assets which comprise principally cash and cash equivalents, term deposits and restricted cash arises from the potential default of counterparties. Investments of cash and deposits are made within credit limits assigned to each counterparty. The risk of loss through counterparty failure is therefore mitigated by the Group splitting its funds across a number of banks, two of which are part owned by the British government.

Interest rate risks: the Group has no debt and so its exposure to interest rates is limited to finance income it receives on cash and term deposits. The Group is not dependent on its finance income and given the current interest rates the risk is not considered to be material.

Liquidity risks: the Group makes limited use of term deposits where the amounts placed on deposit cannot be accessed prior to their maturity date. The amounts applicable at the 31 December 2016 were $30,000,000 (31 December 2015: $60,000,000).

Parent company financial statements – company balance sheet

As at 31 December 2016

	Notes	31 December 2016 $'000	31 December 2015 $'000
Non current assets			
Property, plant and equipment	2	317	433
Investments	3	93,617	2,100
Current assets			
Other receivables	4	404,998	405,431
Restricted cash		495	1,974
Term deposits		30,000	60,000
Cash and cash equivalents		49,653	47,106
Total assets		579,080	517,044
Current liabilities			
Other payables	**5**	**28,769**	**22,839**
Total liabilities		28,769	22,839
Equity			
Share capital	6	7,194	4,910
Share premium	11	3,149	2,995
Share based remuneration	11	6,251	5,491
Own shares held in trust	11	(3,407)	(3,513)
Merger reserve	11	74,575	11,355
Special reserve	11	462,549	472,967
Retained losses	11	—	—
Attributable to the equity shareholders of the company		550,311	494,205
Total liabilities and equity		579,080	517,044

These financial statements were approved by the directors and authorised for issue on 10 April 2017 and are signed on their behalf by:

Stewart MacDonald
Chief Financial Officer

Registered Company number: 05250250

Company statement of changes in equity

for the year ended 31 December 2016

	Share capital $'000	Share premium $'000	Share based remuneration $'000	Shares held in trust $'000	Merger reserve $'000	Special reserve $'000	Retained losses $'000	Total Equity $'000
Balance at 31 December 2014	4,854	662	4,960	(628)	11,355	536,976	—	558,179
Total comprehensive loss for the year	—	—	—	—	—	—	(65,415)	(65,415)
Share based payments	—	—	1,937	—	—	—	—	1,937
Share issues in relation to SIP	3	186	—	(152)	—	—	—	37
Exercise of share options	53	2,147	(1,406)	—	—	—	1,406	2,200
Purchase of own shares	—	—	—	(2,733)	—	—	—	(2,733)
Other transfers	—	—	—	—	—	(64,009)	64,009	—
At 31 December 2015	4,910	2,995	5,491	(3,513)	11,355	472,967	—	494,205
Total comprehensive loss for the year	—	—	—	—	—	—	(10,418)	(10,418)
Share based payments	—	—	884	—	—	—	—	884
Share issues in relation to acquisition	2,278	—	—	—	63,220	—	—	65,498
Share issues in relation to SIP	6	154	110	(128)	—	—	—	142
Exercise of share options	—	—	(234)	234	—	—	—	—
Other transfers	—	—	—	—	—	(10,418)	10,418	—
Balance at 31 December 2016	7,194	3,149	6,251	(3,407)	74,575	462,549	—	550,311

Notes to the company financial statements

for the year ended 31 December 2016

1. Accounting policies

Company and its operations

Rockhopper Exploration plc, the 'Company', a public limited company quoted on AIM, incorporated and domiciled in the United Kingdom ('UK'), holds, through its subsidiaries, certain exploration licences granted in 2004 and 2005 for the exploration and exploitation of oil and gas in the Falkland Islands. In 2014, it diversified its portfolio into the Greater Mediterranean through the acquisition of an exploration and production company with operations principally based in Italy and during 2016 augmented this through the acquisition of exploration and production assets in Egypt. The registered office of the Company is 4th Floor, 5 Welbeck Street, London, W1G 9YQ.

Authorisation of financial statements and statement of compliance with financial reporting standard 101 reduced disclosure framework (FRS101)

The financial statements of Rockhopper Exploration plc. for the year ended 31 December 2016 were approved and signed by the group chief financial officer on 10 April 2017 having been duly authorised to do so by the board of directors. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the provisions of the Companies Act 2006. The amendment to FRS101 (2014/15 cycle) issued in July 2015 and effective immediately have been applied.

In these financial statements, the Company as permitted by FRS101 has taken advantage of the disclosure exemptions available under that standard in relation to accounting standards issued but not yet effective or implemented, share-based payment information, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions..

Basis of accounting

These financial statements are prepared on a going concern basis. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial.

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

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

— IFRS9 Financial Instruments.

Management does not believe that the application of these standards will have a material impact on the financial statements.

Going concern

At 31 December 2016, the Group had available resources of $81 million. In addition the Group's main development, Sea Lion, is fully funded through a combination of Development Carries and a loan facility from the operator.

It is for these reasons that the board is of the opinion, at the time of approving the financial statements, that the Group and Company has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of the financial statements. For this reason, the board has adopted the going concern basis in preparation of the financial statements.

Share based payment

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for non market based vesting conditions.

Fair value is measured by use of either Binomial or Monte-Carlo simulation.

Cash settled share based payment transactions result in a liability. Services received and liability incurred are measured initially at fair value of the liability at grant date, and the liability is remeasured each reporting period until settlement. The liability is recognised on a straight line basis over the period that services are rendered.

Investments

The investments in the subsidiary undertakings are included in the Company financial statements at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Income taxes and deferred taxation

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

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

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

Foreign currencies

The functional and presentation currency of the Company is US$.

Transactions denominated in foreign currencies are translated at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the exchange rates ruling at the balance sheet date and any differences thereon are included in the income statement.

The period end rates of exchange actually used were:

	31 December 2016	31 December 2015
£ : US$	1.22	1.48
€ : US$	1.05	1.09

Property, plant and equipment

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

Office equipment	Over three years
Leasehold improvements	Over five years

Notes to the company financial statements continued

for the year ended 31 December 2016

1. Accounting policies continued

Non-derivative financial instruments

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

(i) Other receivables

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

(ii) Term deposits

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

(iii) Restricted cash

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

(iv) Cash and cash equivalents

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

(v) Financial liabilities and equity

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

(vi) Trade payables

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

(vii) Equity instruments

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

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. Property, plant and equipment

	31 December 2016 $'000	31 December 2015 $'000
Cost brought forward	1,448	1,673
Additions	275	47
Disposals	(713)	(272)
Cost carried forward	1,010	1,448
Accumulated depreciation brought forward	(1,015)	(999)
Depreciation charge	(167)	(276)
Disposals	489	260
Accumulated depreciation carried forward	(693)	(1,015)
Net book value brought forward	433	674
Net book value carried forward	317	433

3. Investments

	31 December 2016 $'000	31 December 2015 $'000
Cost brought forward	47,600	47,600
Additions	91,517	—
Cost carried forward	139,117	47,600
Amounts provided brought forward	(45,500)	(420)
Impairments	—	(45,080)
Amounts provided brought forward	(45,500)	(45,500)
Net book value brought forward	2,100	47,180
Net book value carried forward	93,617	2,100

All amounts relate to subsidiary undertakings. Additions during the period relate to the acquisition of 100% of the ordinary issued share capital of Falkland Oil and Gas Limited and Beach Petroleum Egypt Pty Limited (now Rockhopper Egypt Pty Limited). See note 29 of the group accounts for full details of the acquisition.

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

Company	Incorporated	Class of share	Percentage held %
Rockhopper Resources Limited	England & Wales	Ordinary	100
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 Mediterranean Limited	England & Wales	Ordinary	100
Rockhopper Civita Limited	England & Wales	Ordinary	100
Rockhopper Italia SpA	Italy	Ordinary	100
Melita Exploration Company Limited	Malta	Ordinary	100
Malta Oil Pty. Limited	Australia	Ordinary	100
Falkland Oil and Gas Limited	England & Wales	Ordinary	100
Desire Petroleum Limited	England & Wales	Ordinary	100
Rockhopper Egypt Pty. Limited	Australia	Ordinary	100

4. Other receivables

	31 December 2016 $'000	31 December 2015 $'000
Receivables	70	—
Prepayments	302	293
Accrued interest	106	349
Other	127	327
Group undertakings	404,393	404,462
	404,998	405,431

Amounts with Group undertakings are subject to loan agreements, repayable on demand and interest free. Amounts with Group undertakings are net of provisions of $12,408,000 (31 December 2015: $12,408,000).

5. Other payables

	31 December 2016 $'000	31 December 2015 $'000
Trade creditors	310	1,090
Group undertakings	—	—
Other creditors	7,392	264
Accruals	21,067	21,485
	28,769	22,839

Notes to the company financial statements continued

for the year ended 31 December 2016

6. Share capital

	31 December 2016 Number	31 December 2015 Number
Shares in issue brought forward	296,579,834	292,805,453
Shares issued		
– Issued in relation to acquisitions	159,684,668	—
– Issued in relation to share options	—	3,532,920
– Issued under the SIP	395,050	241,461
Shares in issue carried forward	456,659,552	296,579,834

	31 December 2016		31 December 2015	
	$'000	Number	$'000	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	7,194	456,659,552	4,910	296,579,834

7. Salaries and directors' remuneration

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Salaries and fees	4,436	5,441
National insurance costs	563	843
Pension costs	293	285
Employee benefit costs	126	108
Average number of employees	15	18

Disclosures in relation to directors' remuneration are given on a consolidated basis in the directors' report and note 7 of the Group accounts.

8. Auditor's remuneration

Note 8 of the Group accounts provides details of the remuneration of the Company's auditor on a Group basis.

9. Share based payments

Note 9 of the Group accounts provides details of share based payments of the Group. The amounts disclosed are the same as those of the Company.

10. Capital and reserves

For description of each of the reserves of the Company please see Note 25 of the Group accounts.

11. Financial Commitments

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

	31 December 2016 $'000	31 December 2015 $'000
Total committed within 1 year	452	604
Total committed between 1 and 5 years	798	1,678
	1,250	2,282

12. Post balance sheet events

See note 30 within the Group accounts.

13. Related parties

Note 28 of the Group accounts provides details on remuneration of key management personnel of the Group. The amounts disclosed are the same as those of the Company.

14. Risk Management Policies

Risk Review

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

Foreign exchange risks: The Company's functional currency is US$ and as such the Company is exposed to foreign exchange movements on monetary assets and liabilities denominated in other currencies. In addition a number of the Company's subsidiaries have a functional currency other than US$, where this is the case the Company has an exposure to foreign exchange differences potentially impacting the carrying value of investments with differences being taken to reserves.

The following table summarises the split of the Company's assets and liabilities by currency:

Currency denomination of balance	$ $'000	£ $'000	€ $'000	EGP £ $'000
Assets				
31 December 2016	570,179	7,813	1,080	8
31 December 2015	501,422	15,546	76	—
Liabilities				
31 December 2016	28,432	337	—	—
31 December 2015	2,818	337	—	—

14. Risk Management Policies continued

The following table summarises the impact on the Company's pre-tax profit and equity of a reasonably possible change in the US$ to GB£ exchange rate and the US$ to euro exchange:

	Pre tax profit		Total equity	
	+10% US$ rate increase $'000	–10% US$ rate decrease $'000	+10% US$ rate increase $'000	–10% US$ rate decrease $'000
US$ against GB£				
31 December 2016	598	(598)	598	(598)
31 December 2015	1,150	(1,150)	1,150	(1,150)
US$ against euro				
31 December 2016	181	(181)	181	(181)
31 December 2015	8	(8)	8	(8)

Capital risk management: the Company manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The capital structure consists of cash and cash equivalents and equity. The board regularly monitors the future capital requirements of the Company and Group, particularly in respect of its ongoing development programme.

Credit risk: the Company recharges partners and third parties for the provision of services. Should the company holding these accounts become insolvent then these funds may be lost or delayed in their release. The amounts classified as receivables as at the 31 December 2016 were $nil (31 December 2015: $nil). In addition the Company provides funding and services to subsidiary companies. These receivables are supported by the assets held by the various subsidiary companies and the expected cashflows from these assets. Should these assets not be monetised as expected then some or all of these funds may be lost or delayed in their release. The amounts classified as receivables, net of provisions, as at the 31 December 2016 were $404,393,000 (31 December 2015: $404,462,000). Credit risk relating to the Group's other financial assets which comprise principally cash and cash equivalents, term deposits and restricted cash arises from the potential default of counterparties. Investments of cash and deposits are made within credit limits assigned to each counterparty. The risk of loss through counterparty failure is therefore mitigated by the Group splitting its funds across a number of banks, two of which are part owned by the British government.

Interest rate risks: the Company has no debt and so its exposure to interest rates is limited to finance income it receives on cash and term deposits. The Company is not dependent on its finance income and given the current interest rates the risk is not considered to be material.

Liquidity risks: the Company makes limited use of term deposits where the amounts placed on deposit cannot be accessed prior to their maturity date. The amounts applicable at the 31 December 2016 were $30.0 million (31 December 2015: $60.0 million).

Key licence interests as at 1 April 2017

Falkland Islands

North Falkland Basin

Licence	Operator	Rockhopper working interest %	Field/Discovery
PL003a	Rockhopper	95.50	—
PL003b	Rockhopper	60.50	—
PL004a	Premier Oil	64.00	Isobel Deep
PL004b	Premier Oil	64.00	Beverley Casper South Zebedee
PL004c	Premier Oil	64.00	—
PL005	Rockhopper	100.00	—
PL032	Premier Oil	40.00	Casper North Sea Lion
PL033	Premier Oil	40.00	—

South Falkland Basin

Licence	Operator	Rockhopper working interest %	Field/Discovery
PL010–PL016	Noble Energy	52.50*	—
PL025–PL029	Noble Energy	40.00	—
PL031	Noble Energy	40.00	—

* Rockhopper's interest in licences PL010 – PL012 and PL016 is 20% below the APX-150 sands (which were located approximately 4,750 metres depth in the Humpback well).

Greater Mediterranean

Italy

Licence	Operator	Rockhopper working interest %	Field/Discovery
A.C35.AG	Eni	20.00	Guendalina
A.C19.PI	Eni	15.00	—
A.R81.FR	Eni	15.00	—
B.R269.GC	Rockhopper	100.00	Ombrina Mare
Serra San Bernardo (Monte Grosso)	Eni	22.89	—
Aglavizza	Rockhopper	100.00	Civita

Egypt

Licence	Operator	Rockhopper working interest %	Field/Discovery
Abu Sennan	Kuwait Energy	22.00	Various
El Qa'a Plain	Dana Petroleum	25.00	—

Croatia

Licence	Operator	Rockhopper working interest %	Field/Discovery
Block 9†	Eni	40.00	—

† Subject to signature of PSA.

Shareholder information

Glossary

AGM	Annual General Meeting
bbl	barrel
bcf	billion cubic feet
Beach Egypt	Beach Petroleum (Egypt) Pty Limited (now Rockhopper Egypt Pty Ltd)
Board	the Board of Directors of Rockhopper Exploration plc
boe	barrel(s) of oil equivalent
boepd	barrel(s) of oil equivalent per day
BOP	blow out preventer
bopd	barrel(s) of oil per day
Capex	capital expenditure
Company	Rockhopper Exploration PLC
E&P	exploration and production
EIS	Environmental Impact Statement
ESA	Exploration Study Agreement
ExCo	Executive Committee
Farm-in	to acquire an interest in a licence from another party
Farm-out	to assign an interest in a licence to another party
FDP	field development plan
FEED	front end engineering and design
FID	Final Investment Decision
FIG	Falkland Islands Government
FOGL	Falkland Oil & Gas Limited
FPSO	floating production, storage and offtake vessel
G&A	General & Administration expenses
Group	The Company and its sunsidiaries
GSA	Gas Sales Agreement
HoA	Heads of Agreement
HSE	health, safety and environment
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
JV	Joint Venture
kboepd	thousand barrels of oil equivalent per day
kbopd	thousand barrels of oil per day
KPI	key performance indicator
LoI	Letter of Intent
LTI	Lost Time Incident
LTIP	Long Term Incentive Plan
MOG	Mediterranean Oil & Gas plc
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmscfd	million standard cubic feet per day
mscf	thousand standard cubic feet
mt	metric tonne
NAV	net asset value
Premier	Premier Oil plc
PSA	Production Sharing Agreement
PSC	Production Sharing Contract
scm	standard cubic metre
SIP	Share Incentive Plan
spud	to commence drilling a well
STOIIP	stock-tank oil initially in place
TSR	total shareholder return
2C	best estimate of contingent resources
2P	proven plus probable
$/US$	United States dollar
WI	working interest

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Shareholder concerns:
Should shareholders have concerns which have not been adequately addressed by the chairman or chief executive,
please contact the chairman of the audit committee at:
rkh@rockhopperexploration.co.uk

Whistle-blowing procedures:
Should employees, consultants, contractors or other interested parties have concerns which have not been adequately addressed by the chairman or chief executive, please contact the chairman of the audit committee at:
rkh@rockhopperexploration.co.uk

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