

6 December 2010

Range Resources

Year End	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/09	0.2	(5.9)	(2.6)	0.0	N/A	N/A
06/10	0.7	(6.4)	(1.0)	0.0	N/A	N/A
06/11e	8.3	(2.3)	(0.2)	0.0	N/A	N/A
06/12e	10.9	(2.0)	(0.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Valuation upside

Range has been one of the key junior E&P success stories of 2010. Particularly noteworthy have been some savvy investments in production and development assets in Texas and Trinidad and the recent positive news surrounding the Georgia play. We believe the potential for further positive newsflow in the coming months is excellent, reflecting the active exploration and development programme. The current share price is largely underpinned by the Texas and Trinidad producing assets.

Puntland: Drilling expected in Q311

Puntland continues to offer interesting frontier exposure, given what is believed to be analogous geology to the prolific oilfields to the north in Yemen and the promising drilling results obtained by Conoco and Agip in the late 1980s and early 1990s. The operator, Africa Oil, is now expected to drill its first well in Q311.

Republic of Georgia: Drilling possible in Q111

Range has recently announced that based on a RPS study, its fold-thrust play in Georgia could contain recoverable oil reserves of 613mm barrels gross. The drilling of the first well is a very real possibility in Q111.

Texas and Trinidad: Production gathering momentum

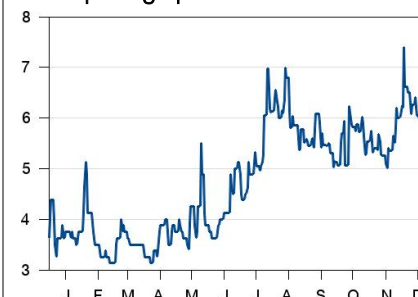
In the past 15 months, Range has acquired interests in two production and development projects in Texas. In the south-west of the state, the NCR property could produce about 1,970boe/d gross in 2010/11. A third well is expected to be spudded at NCR in Q111. In the north-east of Texas, Range has a 13.6% stake in a Cotton Valley formation development project with a horizontal well scheduled for December. Range is near to completing the acquisition of a 10% interest in three Trinidad oilfields and a local drilling company. Development potential is excellent.

Valuation: 11.5p/share

Using a sum of the parts approach, we believe Range can support a current valuation of £137m or 11.5p/share. This is based on the risked resource potential for each project and prices per boe for comparable situations. Our valuation overall implies a price of \$1.6/boe. In the event of commercial discoveries in Georgia and Puntland there would be scope for major valuation upside from 11.5p/share.

Price 6.0p
Market Cap £73m

Share price graph



Share details

Code & listings RRL: AIM
RRS: ASX
Sector Oil & Gas
Shares in issue 1,195m
Fully diluted shares 1,609m

Price

52 week High Low
7.4p 3.2p

Balance Sheet as at 30 November 2010*

Debt/Equity (%) N/A
NAV per share (c) 10
Net cash (A\$m) 7.8

*Estimated

Business

Range Resources is a dual ASX- and AIM-listed E&P junior with projects in Puntland-Somalia, the Republic of Georgia, Texas and Trinidad.

Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Geography based on revenues (2010)

UK	Europe	US	Other
0%	0%	100%	0%

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Review of operations

Puntland-Somalia

Project background

Range Resources potentially has substantial hydrocarbon resources in Puntland, the semi-autonomous region of Somalia located in the horn of Africa. Its assets here comprise 20% working interests in two licence areas, Dharoor and the Nugaal Valley. These are located in the Darin & Nogal Cretaceous and Jurassic-age sedimentary basins of the East African rift system. The operator of the Puntland project is the TSX-V-listed Africa Oil Corporation, which currently has a 45% stake. Africa Oil is part of the Lundin Group and focused on potentially high-impact oil and gas hydrocarbon exploration opportunities in the East African rift system. The other owners of the Puntland project are the juniors, the TSX-V-listed Lion Energy and the ASX-listed Red Emperor Resources with interests of 15% and 20% respectively.

The Puntland licences are considered highly prospective and capable of hosting multi-billion barrel reserves. This is based on the hypothesis that the Nogal and Darin basins are extensions of the prolific petroleum producing Marib Shawba and Sayun-Masila basins across the Gulf of Aden in Yemen. It is believed that the basins in Yemen and Puntland, having once been contiguous, were separated by rifting during the Miocene 16m-18m years ago. Exploration activity suggests similar sedimentary features between Yemen and Puntland. Importantly, the Puntland basins are believed to contain all the key requirements for a major petroleum province. Firstly, they comprise considerable depth of sediments that contain good-quality sandstone and carbonate reservoirs. Secondly, the sandstones and carbonates overlay organic-rich shales and marls, which are thought to be the source rocks for the petroleum system. Significantly, there are a number of places in Puntland where oil seeps have been observed. Thirdly, seismic studies have revealed the existence of fault-bounded traps and an excellent regional seal.

Following the multi-billion barrel discoveries made by Hunt Oil and Occidental Petroleum in Yemen in the 1980s, several majors subsequently commenced exploration in Puntland. Conoco was the most active. The company shot 2D seismic and drilled the Nogal and Kalis-1 wells in the Nogal basin in 1989 and 1990 to depths of 10,736ft and 5,100ft respectively. In both cases, drilling failed to reach the Jurassic sandstone targets but nevertheless revealed significant evidence of oil shows in the shallower Cretaceous. Furthermore, Conoco identified 15 large structural targets for drilling. Based on two significant leads, Conoco estimated greater than 500mm barrels of recoverable reserves in the Jurassic and Cretaceous zones of prospect 28/b in the Nogal block. AGIP (ENI) was also active in the Darin Basin and drilled the Darin -1 and Hordlo-1 wells. The former may have been a discovery but unfortunately the log data is not available.

Other companies with exploration programmes in Puntland during the late 1980s and early 1990s included AMOCO, Phillips Petroleum and Shell. Exploration activity by the majors in Puntland ceased in 1991 following the collapse of the regime of the former Somali president Siad Barre and the outbreak of civil war. Africa Oil, however, shot 775km of 2D seismic on the Dharoor block in January 2009.

Resource base

Resource assessment in Puntland remains at an early stage. Range Resources and Africa Oil have both commissioned independent reports on the resource potential. The more recent of the two undertaken in late 2009 by Gaffney Cline & Associates for Africa Oil pointed to un-risked oil initially in-place (OIIP) of 12.4bn and 5.8bn barrels in the Nugaal and Dharoor blocks respectively on a gross best-estimate basis. These estimates would translate into 2.5bn barrels and 1.2bn barrels net to Range. A study undertaken by Sproule International for Range in 2007 provided a best estimate for OIIP in the Nugaal block of 4.3bn barrels gross, with a low estimate of 2.2bn barrels and a high estimate of 10.4bn barrels. The Africa Oil report had the advantage of more seismic data and analysis, particularly with regard to Dharoor.

Based on the Gaffney Cline findings for OIIP and a conservative 25% recovery rate, un-risked gross recoverable resources could be assessed at 3.1bn for Nugaal and 1.5bn barrels for Dharoor. Net to Range this would translate into 620mm barrels and 300mm barrels respectively. Using Gaffney Cline's average chances of geological success across the different prospects in the two blocks of 0.11 and 0.06, the implied gross risked resources would be a still highly significant 431mm barrels. Net to Range risked resources would therefore be 86mm barrels. If the hypothesis concerning the common origins of the basins in Puntland and Yemen is correct, the scope for upside from this level could be considerable. Drilling should boost the odds of success and maybe also the estimate of OIIP. There is also the possibility of offshore exploration.

Drilling programme

The original plan was for Africa Oil to drill its first exploration well on the Dharoor Block in Q410. The proposed site was about 120km west of the Indian Ocean shoreline and roughly 200km south-east of the principal Gulf of Aden port of Boosaaso. The well was expected to be relatively deep at 4,000m to 5,000m and to target the Upper Jurassic horizons. Partly reflecting the depth, gross drilling costs were put at a hefty \$25m.

The original drilling schedule was formally aborted in September. According to Africa Oil, this was due to high well costs and security and contracting issues. Drilling is now unlikely to be undertaken much before Q311. The production sharing agreement calls for one well to be drilled in either block during the first exploration period ending January 2011 and a second well in the second exploration period ending January 2014. As a result of the change of plan, Africa Oil is seeking a one-year extension of the first exploration period to January 17 2012. It would seem very unlikely that the Puntland government will not accede to Africa Oil's wishes. Assuming Africa Oil drills on the Dharoor Block in H211, a second well is likely to be drilled in 2012/13. Previous indications had suggested that this will be in the Nugaal Block.

Range will be responsible for financing its share of drilling costs on a prospective Dharoor well. Assuming costs of \$25m gross, its share will be \$5m. As far as Nugaal is concerned, Range will be free carried on exploration expenditure until outlays reach \$22.5m. We believe that the drilling of a prospective Dharoor well is solidly underpinned financially. At the end of September Arica Oil had a cash position of C\$24m which subsequently should have been further enhanced by farm-out agreements. Additionally, Africa Oil has enhanced the acceleration expiration date for the exercise

of warrants that could raise another C\$50m or so while Lion Energy and Red Emperor are scheduled to pay a disproportionate share of the costs of a Dharoor well.

Security

Somalia, by common consent, has one of the most challenging security backdrops in the world, reflecting fighting between rival clans and political groups, and the virtual absence of a functioning central government and police force. These factors tend to be much more of an issue in the south of the country and particularly around the capital, Mogadishu, than in the north where Puntland is situated. Puntland, in fact, has been a functioning government and democracy for some time. Elections first took place in 2001 and the security situation in the region has been stable in recent years. Providing that there is no significant deterioration, the security backdrop should not constitute an insuperable problem for drilling activity. Significantly, the 2009 seismic survey was conducted without incident. The broad security plan regarding the prospective drilling site is to clear and secure the perimeter zone.

It should also be noted that there are no particular impediments to drilling activity in Puntland from infrastructural or natural environment perspectives. The terrain is quasi-desert and the population density is low. Oilfield services are available from nearby Yemen and, if necessary, the Persian Gulf.

Texas

Range has, in the past 15 months or so, acquired working interests in two low-risk oil and gas production and development projects in Texas: North Chapman Ranch and East Cotton Valley. The acquisitions have added defined reserves and cash flow and provide a counterweight to the frontier exploration plays in Georgia and Puntland. The initial consideration in both cases was modest. Multi-well development programmes are planned in both cases. The operator for both projects is the privately held Crest Resources of Tulsa, Oklahoma.

North Chapman Ranch

Overview

The North Chapman Ranch (NCR) project is located on the prolific Oligocene age Frio sandstone formation that extends along the Gulf of Mexico coast from Mexico to Louisiana. The property covers about 1,680 acres towards the western end of the formation in Nueces County to the west of Corpus Christi. Just to the north of NCR lies the Mobil Davy field which has cumulatively produced 250bcf of gas and 10mm barrels of oil since first being discovered in 1965. NCR is at an early stage of development and currently has two production wells, Smith-1 and, 1,900ft to the north-north-west, Russell Bevly-1. Range acquired a 25% stake in the former in September 2009 as part of a farm-in agreement with Crest. The consideration was A\$1.35m, which included the cost of drilling and completing the well. Range's working interest in Russell Bevly-1 and all subsequent NCR wells is 20%. Its share of the costs of Bevly-1 was \$0.76m.

So far, drilling at NCR has proved highly successful. Smith-1 was spudded in September 2009 and declared a commercial discovery three months later, while Bevly-1 was spudded in May 2010 followed by the announcement of a discovery in mid-June. Both wells were drilled to about 14,000ft and have flowed natural gas along with associated oil at rates that have exceeded

expectations. Significantly, Bevly-1's 130ft of net pay in the Howell Hight formation comfortably exceeded the 120ft of Smith-1.

Reserves

NCR has a significant, independently certified natural gas and hydrocarbon fluids recoverable reserve base. Based on the latest report by the petroleum engineers, Lonquist & Co LLC, which includes data for both Smith-1 and Bevly-1, proven and probable reserves are an estimated 30.7mm boe (184.2bcfe), split gas (53%), oil (24%) and condensates (23%). Range's share is an estimated 6.2mm boe (37.2bcfe). There is also a sizeable possible P3 reserve base of 45.0mm boe gross or 9.1mm boe net, which suggests there may be scope to boost the recoverable reserve base considerably in due course. Including 3P, reserves overall are put at 75.7mm boe and 15.3mm boe on a gross and net basis respectively.

Production and development programme

Production commenced at Smith-1 in February 2010 and at Bevly-1 in early September 2010. The trend is positive with gross production climbing from 194boe/d in Q110 to 270boe/d and 471boe/d in the two subsequent quarters. The last mentioned was split 1.97mmcf/d of gas and 143 b/d oil. Range's share of production in Q1-Q310 has averaged 49boe/d, 67boe/d and 112boe/d. Smith-1 in Q310 produced an average of 348boe/d.

Significantly, logs indicated that only the upper of the two pay zones was contributing to production. The intention is to bring the remaining zones on stream in the coming months, which should provide a significant boost to production. Bevly-1 is expected to flow naturally for a number of months before being temporarily shut-in to enable hydraulic fracture stimulation to take place and to add new pay zones. These measures should help boost flow rates and reserve recovery and thereby enhance field economics. Based on a flow rate of around 4mmcf/d of gas and 320b/d of oil (987boe/d), the estimated life of a well at NCR is expected to be about five years.

The near-term NCR drilling programme calls for another appraisal well, Albrecht-1, in January 2011. This will be located about 1.6km south-east of Smith-1. Albrecht-1 could be followed by a further two or three wells in the balance of the year. The medium-term plan for the property as a whole is 30 wells. Each well is expected to cost about \$2.8m gross including completion or \$0.56m net to Range.

Based on Smith-1 and Bevly-1, production from NCR in 2010/11 is expected to average about 1,973boe/d gross or 454boe/d net. The former is split 8mmcf/d (1,333boe/d) gas including condensates and 640 b/d oil. There is the potential for a modest positive variance if the drilling of a third well is successful and there are no delays on completion work. Assuming that two new wells are brought on-stream by the end of Q311, we believe production in 2011/12 could average around 2,900boe/d gross or 639boe/d net.

Economics

Since the NCR project includes both gas and liquids, operational economics is considerably less favourable than for pure oil plays reflecting depressed prices for the former. The royalty regime on the property is also relatively high at 30%. Partly offsetting depressed gas prices is the condensate-rich nature of the NCR gas. This helps boost realisations currently from about the \$4/mcf prevailing

for benchmark Henry Hub (Erath, Louisiana) dry gas to \$5.5/mcf. NCR's crude oil is of high quality and sells broadly in line with the price of WTI. Overall, price realisations on a blended basis are about \$50/boe or \$8.33/mcf. This would give rise to an operational netback of \$19/boe or \$3.2/mcf, reflecting royalties of \$15/boe, state severance taxes of \$4/boe and operating costs of \$12/boe. The last mentioned includes lifting, processing, pipeline tie-in/transportation and local administration.

Well payback periods are likely to be short. Based on completed well costs of \$2.8m, a netback of \$19/boe and the forecast production rate per well of 987boe/d, the payback period before state and federal tax would be 150 days.

East Texas Cotton Valley

Overview

East Texas Cotton Valley is an oilfield development project located in Red River County about 201km north-east of Dallas. The project covers 1,570 acres. Range acquired a 13.56% interest in East Texas Cotton Valley in June 2010 and paid \$254,000 for its share of the leasehold.

The project area includes the East Clarksville field discovery made in March 2008 in the Cotton Valley formation. This is an Upper Jurassic and Lower Cretaceous sandstone, limestone and shale formation that extends broadly over East Texas and Louisiana. The discovery was made from a vertical well which encountered more than 100ft of gross pay at 5,300 ft. A horizontal appraisal well, Morris 2H, was spudded in December 2008 and encountered high-quality reservoir sands. The lateral section was damaged during completion, however.

Reserves. Audited recoverable reserves at the East Texas Valley project are currently modest. Based on a study by Lonquist & Co proved and probable reserves are put at 2.7mm barrels gross and 0.36mm barrels net. There are in addition possible P3 reserves of 2.7mm barrels gross and 0.36mm barrels net.

Development programme. Crest Resources is scheduled to commence drilling the Morris 3H horizontal appraisal well in December 2010. We would expect a conclusion on commerciality by mid-January 2011. The horizontal section is expected to be 2,500ft and will pass within about 500ft of Morris 2H. Reflecting the shallow depth, easy terrain and ready availability of oilfield services, drilling costs are modest at \$2.7m gross or \$0.37m net. Assuming that Morris 3H is successful, it could be a prelude to a major development programme involving 20 or so wells. Provisionally each well is expected to recover about 225,000 barrels during a period of perhaps 8-10 years. We believe a further two wells could be drilled in 2011, but this is contingent partly on the success of Morris 3H and partly the availability of finance at Crest. We believe that production from two wells is a possibility in 2011/12, at a rate of perhaps 150b/d gross or 20b/d net.

Crude oil will be trucked from the East Texas Valley property. The nearest refinery is Valero's Ardmore, Oklahoma facility approximately 201km to the north-west. The alternatives would either be refineries roughly 402km to the north in the vicinity of Tulsa, Oklahoma or 483km to the south in the Houston metropolitan area.

Economics

We believe the East Texas Cotton Valley project has the potential for very attractive operating economics. This reflects a combination of high-quality oil and potentially low lifting and transportation costs. Low lifting costs reflect shallow wells and the possibility that enhanced recovery may not be required while low transportation costs stem from an excellent highway system and relatively short supply lines to refineries. As elsewhere in Texas, however, relatively high royalties detract a little from the overall netback picture. Provisionally we would look for a netback of \$47/barrel at current economics. This reflects WTI of \$85/barrel, royalties of \$23/barrel (27%), severance tax of \$3/barrel and operational costs of \$12/barrel.

Trinidad

Overview

Range announced in July 2010 a heads of agreement with SOCA Petroleum to acquire a 10% interest in three production licences containing three onshore fields in Trinidad. The deal also includes a drilling company, one of five in the country. ASX-listed junior, Monitor Energy, is in the final phase of acquiring a 90% interest in SOCA and is believed to be close to securing the necessary \$65m for financing the acquisition along with the necessary working capital. Monitor itself is believed to be close to securing the necessary \$65m or so of financing for the acquisition, including working capital. The consideration for Range's 10% stake is \$4.25m of which \$2.25m is payable on the formal completion of the acquisition which is expected by the end of 2010. The acquisition terms equate to \$8.9/barrel and \$6.2/barrel of 2P and 3P reserves respectively. Including prospective resources, the valuation drops to \$1.6/barrel. In assessing valuation it should be noted that the drilling business has a replacement value of \$20m gross, according to SOCA. The underlying valuation of the resource base therefore appears modest.

The licences cover 16,253 acres close to the southern shoreline of Trinidad, a mature oil producing zone. Southern Trinidad lies within the East Venezuelan Basin with the main producing areas associated with the Paleogene and Neogene formed Orinoco Thrust Belt. Folding is thought to have buried Cretaceous and older source rocks in the deeper parts of the basin. Typically oil is found at shallow depths of less than 1,500m in relatively young, Pliocene-age fluvial-deltaic sandstones. The key producing formations are the Middle Cruse and the Forest. Importantly, below the Pliocene sands there is a deeper oil-bearing formation at 2,400-3,400m, containing the Herrera turbidite sandstone of Miocene age.

SOCA's three fields extend from west to east about 30km². The largest in terms of current production is Morne Diablo with approaching 500b/d. The Beach Marcele and South Quarry fields produce around 200 b/d. Across the three fields there are over 200 producing wells, so output per well is currently very low.

Trinidad and Tobago is a well-established hydrocarbon-producing province. According to EIA data, crude oil production in 2009 from onshore and offshore sources was 107,000b/d while oil production in total, including natural gas liquids and refinery gains, was 150,000b/d. In the past 20 years or so the oil production trend has been flat, but from a 30-year perspective it has been significantly down. The largest crude oil producer in 2009 was state-owned Petrotrin, with output of 46,000b/d. Other producers include: BP; BG; BHP; EOG; Repsol; and Primera/Leni Gas & Oil.

Natural gas production in Trinidad has increased strongly in the past 20 years from about 200bcf to 1,400bcf. The country is a major supplier of LNG.

Reserves and resources

Proved and probable reserves in the shallow formations are presently modest at 4.83mm barrels gross or 0.48mm barrels net to Range. There are also P3 reserves of 2.09mm barrels and a further 19.87mm barrels on a prospective basis. The planned work programme should increase the shallow formation resource base and move some of the resources into 2P. The scale of the Herrera deep formation has yet to be fully appraised. Based, however, on a recent 3D seismic survey, SOCA estimates prospective resources across the three licences of around a sizeable 100mm barrels.

Production and development programme

The three fields are mature. Morne Diablo, for example, was discovered as long ago as 1938. From the late 1990s to 2010, the underlying trend appears to have been broadly flat. In that time, production ranged from a low of about 500b/d in 2003 to a high of 1,200b/d in 2004/5. Currently we believe production is running at about 700 b/d, equivalent to roughly 0.7% of Trinidad's production. The oil produced is of medium quality with an API of 28 degrees. All oil is sold to the state-owned Petrotrin refinery (175,000b/d) at Pointe-a-Pierre on the west coast of Trinidad. Reflecting the specification and Petrotrin's status as the sole buyer, the oil produced sells at a discount of about \$10/barrel to WTI.

SOCA has ambitious near-term plans in Trinidad to boost output in the shallow formations. The aim is for output from the existing fields of 3,500b/d gross or 350b/d net within 36 months. This is expected to be achieved by a programme of infill drilling at a cost of about \$24m. Drilling costs are relatively low at approximately \$100/ft and probably will not be much more than \$1m per well in the shallow formations. Significantly, Range is carried through the initial development phase. SOCA also intends appraising the deeper Herrera formation and is targeting production of about 6,000b/d gross in due course. On this scenario, we believe that Range could conceivably derive 800-1,000b/d in production from its Trinidad assets within five years or so.

Economics

We believe that production economics should be relatively favourable in Trinidad, with anything like the WTI prices prevailing over the past 18 months. This applies particularly as production expands and overheads are absorbed over considerably higher output than at present. For illustrative purposes, at the prevailing WTI price in mid-November of about \$85/barrel and assuming a \$10/barrel discount, the operational netback before allowing for profits tax would be \$50/barrel. This allows \$10/barrel for government petroleum tax of 12.5%, \$10/barrel for royalties and \$15/barrel for lifting, transportation and local administrative costs. Note here that lifting costs should be low given shallow wells. After taking into account depreciation of perhaps \$7/barrel and petroleum profits tax of 55%, the fully accounted after-tax net back might be around \$19/barrel.

Georgia

Project profile

Range has a 50:50 joint venture exploration project in the quasi-frontier zone of the Republic of Georgia. Its joint-venture partner is privately held UK company Strait Oil & Gas, which acquired two licences, V1a and V1b, in 2006. Range farmed-in to the project in July 2009. The licences cover 7,000km² in the centre of the country and are located 150-250km west of the Georgian capital, Tbilisi, in the Rioni/Black Sea Basin.

As per the joint venture agreement, Range financed a 410km 2D seismic programme in Q110 across the two licences. Range has recently announced some very encouraging initial findings stemming from the seismic programme, and a study of the hydrocarbon potential of the two Georgian blocks made by the independent petroleum engineers, RPS Energy. The key findings are as follows:

- Across blocks V1a and V1b there are 68 fold structures containing stacked reservoirs. All are viable targets for drilling.
- The oil-initially-in-place (OIIP) on a best-estimate un-risked basis is 2.05bn barrels gross across the 68 targets. Not at all controversially, RPS has suggested a recovery factor of 30%, which would point to potential recoverable resources of 615mm barrels gross or 308mm net. Range's Georgian project remains at an early stage, so uncertainty surrounding a commercial discovery is still high. We nevertheless believe that given the positive findings of the RPS study, the chances of success could be in the region of 10%. This would suggest risked recoverable resources of about 31mm barrels.
- Six-high priority drilling targets have been identified with an OIIP of 728mm barrels gross or 364mm barrels net. The targets range from 42mm barrels to 171mm barrels and are all in block V1a. Three of the targets are focused on potential Tertiary reservoirs and three on deeper Lower and Middle Jurassic plays.

Range, it now appears, is moving quickly to the drilling phase in Georgia. Site surveys have been completed and drilling/engineering contractors are being evaluated. Significantly, Range has commissioned St Petersburg-based AGI Ltd to undertake a geochemical helium survey on its three most prospective drilling locations. Work is scheduled to commence imminently and should be completed in six to eight weeks, including laboratory analysis. The application of geochemical helium technology in hydrocarbon exploration is a proven approach that increases the probability of selecting the optimal drilling location by identifying 'sweet spots'. The technology is widely used in Russia by the likes of Gazprom, Lukoil and Rosneft. The theory behind its application derives from two factors. Firstly, the emanation of helium gas from rock deep in the earth's surface as a result of radioactive decay and secondly, the solubility characteristics of helium in oil and particularly in natural gas. High concentrations of helium in the sub-soil can therefore point to the presence of oil and gas in underlying rock formations. The drilling of Range's first exploration well in Georgia would now seem a distinct possibility by early Q211. The proposed drilling location is in close proximity to a highway, a railway and power lines. The PSA calls for one well to be drilled in each licence by April 2012. Strait is finance carried through the first two wells.

Drilling costs are likely to be high relative to those in Range's Texas projects. Well costs are understood to be \$6-7m gross. A farm-out is a possibility, although Range has indicated it wishes to maintain a minimum 40% interest in the two licences.

Why is Georgia interesting?

Georgia contains two large sedimentary basins capable of hosting oil and gas. These are Kura in the east – extending from the Caspian Sea to about halfway across Georgia – and the Rioni/Black Sea Basin in the west. The basins are bounded to the north and south by the mainly carbonate Greater and volcanic Lesser Caucasus Mountains respectively. Intense geophysical activity associated with movements in several tectonic plates – starting in the Cretaceous and extending through the Eocene and Pliocene periods – generated the conditions for basin formation, successive rounds of sedimentary deposition and burial, and the structural features for oil and gas migration and trapping. The source rocks for hydrocarbons in the Kura Basin are typically Oligocene shales.

Range refers to Georgia as being a reasonably well-established hydrocarbon province. Indeed, oil exploration has been undertaken since the end of the 19th century. The oldest field is Supsa near the Black Sea, which was discovered in 1889 and still produces small amounts of oil. During late Soviet times, there was significant drilling activity in Georgia, although not always for hydrocarbons. Nevertheless, many of the mainly shallow wells had oil shows and there are numerous oil and gas seeps along the Greater Caucasus and Achara-Trialet fold zones. There were also a number of small-to-medium discoveries, particularly in the east of the Kura Basin. The largest field, Samgori, is situated close to the Georgian capital Tbilisi and was discovered in 1974. Cumulatively it has produced 165mm barrels, and according to Range has 200mm barrels of recoverable reserves. Recently, AIM-listed Frontera Resources announced some apparently successful results in fracking its Mirzaani 5 well in the Kura Basin. The Mirzaani Field was originally discovered in 1932, but according to Frontera contains extensive undeveloped and underdeveloped zones.

Valuation

We continue to believe that the most valid approach for assessing the valuation of a diverse E&P portfolio such as that of Range is on the basis of a sum of the parts calculation. Using this approach, valuations for each of the parts are based on an estimate of recoverable resource potential multiplied by an appropriate price per boe or bcfe for the comparables. Based on Range's five projects, our estimate of the risked resource potential is 136mm boe, split: Puntland 87mm boe, Texas (NCR and ECV) 16mm boe, Georgia 32mm boe, Trinidad 1mm boe.

In the case of East Africa, the Tullow/Heritage deal in Uganda has set the benchmark valuation for 2P reserves at around \$5/barrel. Allowing for the much earlier stage of development at Puntland, we would apply a much lower valuation quotient of \$1/barrel to this project. Following the RPS study and given the imminence of drilling, Georgia has clearly begun to move along the de-risking curve and we believe can now justify a somewhat higher quotient than Puntland. We would suggest \$1.5/boe. The Texas projects have made excellent progress in terms of development in recent months. We believe they are now potentially worth \$5/boe which is broadly in line with the market values in the US for oil and gas assets, with resource bases significantly weighted to P3.

The NPV 10 of \$248m calculated by Lonquist for NCR using the 3P reserves would imply \$16.3/boe which is more in line with an IP valuation basis. This view is supported by Exxon's acquisition earlier in 2010 of XTO, a leading independent, which was bought on \$16.4/boe of 1P reserves. For the Trinidad assets, we would propose using the price paid of \$4.25m, which would imply \$6.4/barrel of 3P reserves. It should be noted here that around \$1m of the transaction price may apply to the drilling operations, so the underlying price per barrel of 3P could be about \$4.6. The above would imply a valuation for Range of US\$218m which would translate into A\$221m or £137m. Based on the 1,195m shares outstanding, the latter is equivalent to 11.5p/share and compares to an early December share price of 6p/share.

Financials

Income statement

Range generated revenues from operations for the first time in 2009/10. These came in at A\$563,000. Reflecting the strong uptrend in production at NCR, revenues should surge in 2010/11. For the year as a whole, we look for revenues of A\$8.26m (pre-royalties) with momentum building in the second half as the Smith-1 and the Bevly-1 wells come fully on-stream. This forecast reflects the earlier production scenario plus an exchange rate of A\$1=\$0.935 and average price realisations of \$75/barrel for oil and \$5.5/mcf for gas, including condensates. Based purely on the production operations we would expect a comfortable EBITDA of about A\$2.7m. This, however, is likely to be more than offset by central administrative costs and overheads of perhaps A\$4m. At the EBIT level, we are looking for a loss of A\$2.3m in 2010/11.

The revenue outlook for 2011/12 is very much contingent on drilling and the success of such activity, particularly at NCR, but also at East Texas Cotton Valley and maybe Trinidad. Using our earlier production scenario – based on the assumption of an extra two wells at NCR coming on-stream by end-Q311 and unchanged commodity price and exchange-rate assumptions – we look for revenues for 2011/12 of A\$10.9m. This, we believe, could translate into an EBITDA of about A\$4m before central overhead and perhaps approximate breakeven after allowing for this factor. At the EBIT level, we forecast a loss of \$1.2m in 2011/12. Assuming that another two NCR wells are brought on-stream by the beginning of Q312 and holding all other factors constant, we would expect Range to generate about A\$1.3m in EBITDA in 2012/13 and to be at approximate breakeven on an EBIT basis.

Balance sheet and cash flow

We believe Range is comfortably financed over the near-term, but may need to raise new finance as 2011 advances, reflecting potentially heavy capital expenditure and project financing commitments. At the end of June 2010, Range had a cash position of A\$7.4m and no debt. Capital expenditure in the year to June 2011 is tentatively expected to be about US\$13m (A\$13.9m), split broadly as follows: Georgia \$7m (first exploration well and assuming no farm-out), Trinidad \$4.3m (acquisition costs), NCR \$1.1m (two appraisal wells), East Cotton Valley \$0.4m (horizontal appraisal well). In addition, there is likely to be some further well development work at NCR, plus operational outflows of approaching A\$0.2m per month. For 2010/11 as a whole, we are looking for a cash outflow of A\$15.8m including capital expenditure. This to a large degree is

covered by the June closing cash position plus equity issues totalling A\$7.2m so far in 2010/11. At the end of September 2010, the cash balance was A\$7.8m.

Capital expenditure is also likely to remain heavy in 2011/12. We provisionally look for outlays of around US\$13.5m, split: NCR \$1.1m (two appraisal wells), East Cotton Valley \$0.4m (appraisal well), Puntland \$5m (Dharoor exploration well), Georgia \$7m (second exploration well).

Exhibit 1: Financials

	A\$ '000s	2007	2008	2009	2010	2011e	2012e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	5,393	512	182	719	8,260	10,850	
Cost of Sales	0	0	0	0	(6,483)	(7,898)	
Gross Profit	5,393	512	182	719	1,777	2,952	
EBITDA	(693)	(3,871)	(4,731)	(6,236)	(1,397)	6	
Operating Profit (before GW and except.)	(730)	(3,919)	(4,772)	(6,285)	(2,283)	(1,189)	
Intangible Amortisation	0	(2,893)	(2,553)	(1,096)	0	0	
Share-based payments	(63)	(4,714)	(50)	(1,379)	(50)	(50)	
Exceptionals	0	(1,804)	(1,140)	0	0	0	
Operating Profit	(793)	(13,331)	(8,515)	(8,762)	(2,333)	(1,239)	
Net Interest	(1,004)	(9)	(8)	(76)	0	(850)	
Profit Before Tax (norm)	(1,734)	(3,928)	(4,780)	(6,361)	(2,283)	(2,039)	
Profit Before Tax (FRS 3)	(1,797)	(13,339)	(8,523)	(8,838)	(2,333)	(2,089)	
Tax	0	0	0	0	0	0	
Profit After Tax (norm)	(1,734)	(5,732)	(6,920)	(6,361)	(2,283)	(2,039)	
Profit After Tax (FRS 3)	(1,797)	(13,339)	(8,523)	(8,838)	(2,333)	(2,089)	
Average Number of Shares Outstanding (m)	88.6	180.2	229.4	639.6	1,159.0	1,181.0	
EPS - normalised (c)	(2.0)	(3.2)	(2.6)	(1.0)	(0.2)	(0.2)	
EPS - FRS 3 (c)	(2.0)	(7.4)	(3.7)	(1.4)	(0.2)	(0.2)	
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0	
BALANCE SHEET							
Fixed Assets	87,495	79,413	81,131	101,465	114,465	128,671	
Intangible Assets	84,026	77,121	79,889	87,208	100,000	113,939	
Tangible Assets	106	288	50	25	233	500	
Investments	3,364	2,005	1,192	14,232	14,232	14,232	
Current Assets	23,564	5,688	511	9,637	4,863	6,224	
Stocks	0	0	0	0	100	500	
Debtors	607	1,441	42	2,039	3,063	4,024	
Cash	22,897	4,137	416	7,398	1,500	1,500	
Other	61	109	52	200	200	200	
Current Liabilities	(53,220)	(815)	(770)	(1,594)	(4,917)	(21,561)	
Creditors	(53,220)	(815)	(770)	(1,594)	(2,262)	(2,971)	
Short term borrowings	0	0	0	0	(2,655)	(18,590)	
Long Term Liabilities	0	0	0	0	0	0	
Long term borrowings	0	0	0	0	0	0	
Other long term liabilities	0	0	0	0	0	0	
Net Assets	57,840	84,286	80,872	109,508	114,411	113,334	
CASH FLOW							
Operating Cash Flow	(4,389)	(3,631)	(2,412)	(3,713)	(1,853)	(646)	
Net Interest	216	458	54	(55)	0	(850)	
Tax	0	0	0	0	0	0	
Capex	(4,285)	(11,980)	(4,143)	(7,096)	(13,900)	(14,439)	
Acquisitions/disposals	(1,352)	(12,280)	0	(10,475)	0	0	
Financing	31,495	8,676	2,781	28,321	7,200	0	
Dividends	0	0	0	0	0	0	
Net Cash Flow	21,685	(18,758)	(3,721)	6,982	(8,553)	(15,935)	
Opening net debt/(cash)	(1,211)	(22,897)	(4,137)	(416)	(7,398)	1,155	
HP finance leases initiated	0	0	0	0	0	0	
Other	0	(2)	0	0	0	0	
Closing net debt/(cash)	(22,896)	(4,137)	(416)	(7,398)	1,155	17,090	

Source: Edison Investment Research, company accounts

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