

13 June 2011

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	3.6	(4.2)	(0.3)	0.0	N/A	N/A
06/12e	30.9	6.5	0.2	0.0	N/A	N/A

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

Investment summary: High-impact drilling

Range is entering a potentially transformational phase in its development that could take it from junior to mid-tier E&P play. Over the next four months Range has three high-impact exploration wells scheduled in Puntland and Georgia plus a development well in Texas. Near-term, Range is very much a play on the outcome of the high impact drilling projects, but investors should not lose sight of the Texas and Trinidad assets, which offer both excellent cash generating and development potential.

Puntland: Way paved for Q3 drilling

Africa Oil, the operator of the Puntland (Somalia) project, has recently announced that it has signed a letter of intent with a drilling contractor. This paves the way for a Q311 two-well wildcat drilling programme. A Gaffney Cline assessment pointed to oil initially in place (OIIIP) across the Puntland project of 18bn barrels gross. Recoverable reserves could be in the region of 4.5bn barrels. Range has a 20% working interest in Puntland.

Georgia: Poised to spud

Range is poised to spud its first well in the quasi-frontier zone of the Republic of Georgia. The Mukhiani-1 well will be the first of an initial two-well programme and will target a prospect with oil initially in place of 115m barrels. Based on an RPS report, the Georgia project has a recoverable reserve potential of 615m barrels gross. Range has a 40% working interest.

Texas and Trinidad: Development potential

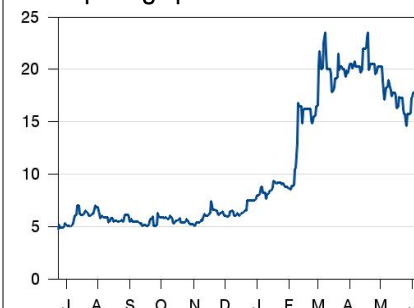
The Texas projects are proving a tremendous success. Following fracking at NCR, Russell-Bevly-1 and Smith-1, production has recently been running well above planned levels of 2,000boe/d gross. An infill drilling programme is scheduled to commence in Trinidad over the next 45 days. This is expected to take production in the shallow formations from around 650b/d currently to 4,000b/d over the next 36 months.

Valuation: Considerable scope for upside

Our sum of the parts calculation points to a valuation of \$1.14bn or 38p/share. The key news flow drivers over the next few months are potentially the high-impact drilling campaigns, firstly in Georgia and then Puntland. The Albrecht-1 well in Texas and the initiation of the infilling drilling programme in Trinidad are also of significance.

Price 16.75p
Market Cap £269m

Share price graph



Share details

Code RRL: AIM
RRS:ASX
Sector Oil & Gas
Shares in issue 1,604.9m

Price

52 week High 24.5p Low 4.00p

Balance Sheet as at 30 June 2011*

Net cash (A\$m) 20
Core NAV (p) 5.4
RENAV (p) 37.7

*Edison estimates

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	52.1
EV/Sales	N/A	N/A	13.7
ROE	N/A	N/A	1%

Geography based on revenues (2010)

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

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Review of operations

Puntland

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 & Nugal 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 prospectively has a 60% stake when the acquisition of Lion Energy has been completed. ASX-listed Red Emperor Resources is the third member of the Puntland consortium, with a working interest of 20% and an agreement to finance 30% of the cost of the first well.

The Puntland licences are considered highly prospective and capable of hosting multi-billion barrel reserves. This is based on the hypothesis that the Nugal 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 16-18m 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 a 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.

Resource base: Resource assessment in Puntland is at an early stage. A Gaffney Cline & Associates report commissioned by Africa Oil in 2009 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. Applying a 25% recovery rate to Gaffney Cline's OIIP estimates would give rise to un-risked gross recoverable resources of 3.1bn for Nugaal and 1.5bn barrels for Dharoor. This would imply 620mm and 300mm barrels net respectively. Using Gaffney Cline's average chances of success in the two blocks of 0.11 and 0.06, the gross risked recoverable resources would still be a highly significant 431mm barrels. Net risked resources would therefore be 86mm barrels.

Drilling programme: The important news of late concerning Puntland is that Africa Oil has signed a letter of intent with a drilling contractor. A two well exploratory drilling programme is planned for Q3 2011. The terms of the licence specify spudding the first well by 27 July 2011. Based on previous indications, the first well is likely to be on the Dharoor Block about 120km west of the Indian Ocean shoreline and roughly 200km south-east of the principal Gulf of Aden port of Boosaaso. The well is expected to be relatively deep at 4,000m to 5,000m and to target the Upper Jurassic horizons. Reflecting the depth, gross drilling costs will be substantial at about \$25m.

Range Resources will need to finance its share of drilling costs on the upcoming Dharoor well. Assuming \$25m gross, its share will therefore be \$5m. As far as a second well is concerned, Range will be free carried on exploration expenditure until outlays reach \$22.5m.

Georgia

Project profile: Range has a 40% working interest in an exploration project in the quasi-frontier zone of the Republic of Georgia. This is held via its investment in privately-held UK company Strait Oil & Gas Ltd. The private interests in Strait also have a 40% stake in the project leaving the balancing 20% owned by the Australian junior, Red Emperor. Strait is the operator and acquired the project's licences, V1a and V1b, in 2006.

The licences cover a very large area of 7,000km² in the centre of Georgia and are located 150-250km west of the Georgian capital, Tbilisi, in the Rioni/Black Sea basin. Since early 2010 a great deal of appraisal work has been undertaken. This has included a 410km 2D seismic programme, an independent resource assessment by the petroleum engineers RPS Energy and a geochemical helium survey that helps in selecting the optimal drilling location by identifying 'sweet' spots. The RPS study identified 68 fold structures containing stacked reservoirs with OIIP of 2.05bn barrels gross. This would point to 615mm barrels gross or 246mm barrels net based on RPS's suggested recovery factor of 30%. Reflecting the positive findings of the RPS report together with those of the helium survey, we believe the chances of success could be in the region of 25%. This would suggest risked recoverable reserves to Range of 62mm barrels.

Six high priority drilling targets have been identified by RPS on V1a with an OIIP of 728mm barrels gross or 291mm barrels net. Three of the targets are focused on potential Tertiary reservoirs and three on deeper Lower and Middle Jurassic plays. An initial two-well wildcat drilling programme is now underway with the spudding of the first well, Mukhiani-1, scheduled for June. Mukhiani-1 will target the Tertiary Vani 3 prospect at around 2,500m. The mean OIIP is an estimated 115mm barrels. We would expect the well to take about 30 days to drill. Drilling costs per well are an estimated \$7m gross. Red Emperor will finance 40% of the planned two-well programme with Range providing the balance on a finance carry basis for Strait's share.

Why is Georgia interesting? Georgia contains two large sedimentary basins capable of hosting hydrocarbons. These are Kura in the east, which extends from the Caspian Sea to about half way across Georgia and the Rioni/Black Sea Basin in the west. The basins are bounded to the north by the mainly carbonate Greater Caucasus Mountains and to the south by the Lesser Caucasus Mountains. 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. There are numerous oil and gas seeps along the Greater Caucasus and Achara-Trialet fold zones.

Texas

Range Resources has two low-risk oil and gas development and production projects in Texas: North Chapman Ranch (NCR) and East Texas Cotton Valley (ETCV). The former is providing significant production and cash flow while the latter, we believe, has the potential to do the same in

due course. The initial consideration in both cases was decidedly modest. The operator for both projects is the privately held Crest Resources of Tulsa, Oklahoma.

North Chapman Ranch

Overview: The 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. NCR is still 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 and development work at NCR has been 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 and natural gas liquids at rates that have exceeded expectations. A fracture stimulation programme was commenced in mid February 2011 at Russell Bevly-1 and later extended to Smith-1.

Reserves: NCR has a significant, independently certified recoverable reserve base. Furthermore, there is the potential for upgrading as development continues apace. Based on the latest report by petroleum engineers Lonquist & Co LLC, which includes data for both Smith-1 and Bevly-1, proven and probable reserves are estimated at 30.7mboe (184.2bcfe) gross. This is split gas 53%, oil 24% and condensates 27%. Range's share is estimated at 6.2mboe (37.2bcfe). The 3P reserve base is put at 75.6mboe gross and 15.2mboe net.

Production and development programme: Production commenced at Smith-1 in February 2010 and at Bevly-1 in early September 2010. The trend was upward between the first and fourth quarters of 2010 with a gain from 195boe/d to 564boe/d on a gross basis. First quarter 2011 production slipped to 544boe/d reflecting the disruptive effects of fracking activity. Range's share of production increased between the first and fourth quarters of 2010 from 48boe/d to 127boe/d and in the first quarter of 2011 was running at 120boe/d. During the first quarter, gross production was split 2.42mmcf/d gas and 141b/d oil.

The programme of well perforations to access new horizons, combined with fracture stimulation, has yielded very positive results. Production from the two wells during March was 2,350boe/d, gross or 470boe/d net which was up more than 500% from the levels prevailing prior to the fracking programme being implemented. At the end of May Range announced that following fracking of the uppermost Russell Bevly formation the stabilised flow rate from this zone alone was 3.5mmcf/d and 350b/d or 933boe/d gross. This is approaching planned production from the well's four horizons of about 1,000boe/d and apparently exceeds the performance of other operators in the vicinity of NCR. The outlook for production in the second quarter therefore appears promising. We believe production could come in at about 2,000boe/d gross or 400boe/d net. This would suggest an average for the year to June 2011 of 845boe/d gross or 190boe/d net.

The near-term development programme calls for Albrecht-1 to be spudded early in the third quarter of 2011. The well will be located about one mile south-east of Smith-1. Drilling and tie-in is expected to take two to three months. Assuming Albrecht-1 is successful, another well will probably follow early in the fourth quarter. There is also the possibility of further drilling over the balance of the year to June 2012. The medium-term plan for NCR is to drill about 25 wells. This would imply production of about 30,000boe/d gross or 6,000boe/d net based on the planned well flow rate of around 4mmcf/d of gas and 320b/d of oil. Including completion, each NCR well is expected to cost about \$2.8m gross or \$0.56m net to Range.

NCR production should be significantly higher in 2011/12, even without the benefit of prospective new well development. Based purely on Smith-1 and Bevely-1, we would expect production to run at about 8mmcf/d of gas and 600b/d of oil. This translates into 1,933boe/d gross or 406boe/d net. Assuming that Albrecht-1 comes on-stream by the end of the third quarter of 2011, production could conceivably be boosted in 2011/12 by perhaps another 500boe/d on average. This would take production to 2,433boe/d gross and 511boe/d net. For 2012/13 production of significantly over 3,000b/d gross is a very real possibility based on the drilling of a further two wells.

Economics: Given the weighting towards natural gas in the product mix and the depressed prices for this commodity, NCR's operational economics are less favourable than for a pure oil play. The royalty regime is also relatively high. Partly offsetting the negatives are two factors. Firstly, the natural gas is condensate rich, which helps boost the realisations from about \$4.2/mmbtu for benchmark Henry Hub dry gas currently to nearer \$6/mcf. Secondly, NCR's crude is high quality and sells broadly in line with the price of WTI. Overall, price realisations on a blended basis are about \$52/boe (\$6/mcf and \$96/barrel) or \$8.67/mcf. This would result in a netback of \$20/boe or \$3.3/mcf, reflecting royalties and state severance taxes of \$20/boe and operating costs of \$12/boe. Payback periods are likely to be short. Based on well costs of \$2.8m, a netback of \$20/boe and a production rate of 987boe/d, the payback would be about 140 days.

East Texas Cotton Valley

Overview: East Texas Cotton Valley is an oilfield development project located in Red River County about 125 miles north-east of Dallas. The project covers 1,570 acres. In January 2011 Range boosted its interest in ETCV from 13.56% to 21.75% for a consideration of \$148,000. The original stake was acquired in June 2010 for \$254,000.

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 5,300ft. A horizontal appraisal well, Morris 2H, was spudded in December 2008 and encountered high-quality reservoir sands. However, the lateral section was damaged during completion.

Reserves: Audited recoverable reserves at the East Texas Valley project are currently modest. Development activity could, however, substantially boost the existing reserve base. According to a study by Lonquist & Co, proved and probable reserves are 4.2mm barrels gross and 0.92mm barrels net. Reserves on a 3P basis are put at 9.6mm barrels and 2.1mm barrels respectively.

Development programme: Crest Resources commenced drilling operations in late February at the Ross 3H horizontal well in close proximity to the earlier Morris 2H. During April the well reached total depth of 8,900ft with a horizontal section of 3,400ft. Drilling results have been positive with consistent oil shows during operations from both the vertical and horizontal sections. A production liner has been inserted at Ross 3H. Fracking is expected to commence by mid June. Production at Ross 3H could come on-stream during the third quarter of 2011. We believe on the basis of Range's intimations that a production rate of about 150b/d gross is a possibility, which translates into 33b/d net. Reflecting the relatively shallow depth, easy terrain and ready availability of oilfield services drilling costs are modest at \$2.7m gross or \$0.59m net.

Ross 3H looks like being a prelude to a major development programme at ETCV involving perhaps 20 wells. Provisionally each well is expected to recover about 225,000 barrels over a period of perhaps eight to 10 years. Post Ross 3H, a further well may be drilled in calendar 2011.

Economics: We believe that ETCV 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 stem from shallow wells while transportation costs relate to an excellent highway system and relatively short supply lines to refineries. Provisionally we would look for a netback of \$55/barrel at current economics. This reflects WTI of \$96/barrel, royalties and severance taxes of \$29/barrel, severance and operational costs of \$12/barrel.

Trinidad

Overview: In a bold move Range has recently become a potentially significant player in the Trinidad petroleum industry through the purchase of the 90% of privately held SOCA Petroleum not already owned. Range's first involvement with SOCA was in July 2010 when a 10% stake was acquired for \$4.25m. An agreement to purchase the remaining 90% was announced on 20 April 2011. The consideration was \$52m in cash and approximately \$10m in shares. The agreement also calls for the issue of a further two tranches of shares worth about \$5m when production hits 1,250b/d and then 2,500b/d. Management of the SOCA interests will be overseen by two seasoned energy sector Range Executive Consultants plus an existing member of the SOCA team. Consolidation of the Trinidad assets is expected from 1 July 2011.

Assets: The SOCA assets essentially comprise three production licences containing three onshore oilfields in southern Trinidad plus a drilling company. The licences cover 16,253 acres close to the southern shoreline. 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 sandstone of Miocene age. SOCA'S three fields extend from west to east over about 30km. The largest in terms of current production is Mome Diablo with about 500b/d.

Reserves: Proved and probable reserves in SOCA's shallow formations are presently modest at 4.8mm barrels. The 3P reserves are 6.9mm barrels net of royalty interests while there are also prospective resources of 20mm barrels. The planned work programme should increase the shallow

formation resource base and move some of the 3P into 2P. The scale of the deep Herrera formation has yet to be appraised. Initial estimates suggest potential resources of 100mm barrels.

Production and development programme: SOCA's three fields are mature. Morne Diablo, for example, was discovered as long ago as 1938. From the late 1990s to 2010, the underlying trend has 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 2004/05. Presently, production is running at about 650b/d, equivalent to roughly 0.6% of Trinidad & Tobago's output. The oil produced is of medium quality with an API of 28 degrees. All oil is sold to the Petrotrin refinery at Pointe-a-Pierre on the west coast of Trinidad. Reflecting the specification and possibly Petrotrin's status as the sole buyer, the oil produced sells at a discount of about \$10/barrel to WTI.

SOCA has excellent development potential in both the shallow and deep formations. The aim is to boost output from the former over the next 36 months to 4,000b/d. This is expected to be achieved by a programme of infill drilling and we suspect well workovers. The work programme is scheduled to commence over the next 45 days. The first phase will consist of nine shallow wells drilled to 250 to 2,000ft in the Upper Cruse and Forest formations. The wells are expected to take one to two weeks to drill and complete. Conservatively, we believe development activity may be able to boost production in 2011/12 to at least 800b/d. Drilling costs are relatively low at \$100/ft and probably will not be much more than \$150,000 per well on average in the shallow formations. The intention is also to tap the Herrera formation over the next two to three years. Range believes that this could lift production to 8,000 to 10,000b/d.

Economics: We believe that production economics in Trinidad have the potential to be attractive at anything like prevailing WTI prices. This applies particularly as production expands and overheads are absorbed over a considerably higher output than at present. For illustrative purposes, at the prevailing WTI price at the end of May of about \$98/barrel and assuming a \$10/barrel discount, the operational cash netback before allowing for profits tax would be \$52/barrel. This allows \$11/barrel for petroleum tax of 12.5%, \$10/barrel for royalties and \$15/barrel for cash lifting, transportation and local administrative costs. Note, 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 \$20/barrel.

Valuation: Considerable upside potential

We believe that the most appropriate way to assess valuation for a diverse E&P play such as 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 the risked recoverable resource potential multiplied by an appropriate price/boe for the comparables. Based on Range's seven projects/operations the un-risked recoverable reserve base is 1,300mm barrels, while our estimate of the risked reserves is 125mm barrels split: Puntland 46mm, NCR 15mm, ETCV 2mm, Trinidad 3P 7mm, Trinidad shallow 15mm, Trinidad deep 20mm and Georgia 20mm.

The Tullow/Heritage deal in Uganda in 2010 has clearly set the valuation benchmark for 2P reserves in East Africa at around \$5/barrel. Puntland, of course, is at a much earlier stage of development than Uganda. This together with the less than benign location from a security perspective points to a high risk factor, which detracts somewhat from the Puntland contribution to

the valuation. The Georgia project has been moving rapidly along the de-risking curve of late. This factor, along with the benign economic and political backdrop, helps underpin a relatively high valuation quotient. We believe \$7/barrel is justifiable. The Texas assets have been making excellent progress in terms of development. NCR is now producing highly significant volumes while we believe ETCV is likely to do so shortly. A price per barrel of \$6/barrel would appear appropriate, which is in line with US market values for US oil and gas assets with resources weighted towards P3. For the existing SOCA assets in Trinidad we have used the recently agreed consideration of \$66m which equates to \$9.6/barrel of 3P, including an implicit allowance for the drilling operations. This could be around \$15m. In the case of the SOCA shallow and deep formation development projects we believe a valuation quotient of \$7.5/barrel is appropriate. This reflects the \$9.6/barrel valuation basis overall for Trinidad less a discount for the drilling operations. At this stage the risk attached to developing the deep formation in Trinidad is considerably lower than for the shallow formation development.

Exhibit 1: Range Resources valuation table

Assets	Country/ Licence	WI %	Hydroc. Fluid	CoS %	Gross mmboe	Net mmboe	NPV/boe \$/boe	EMV \$m	Value/sh p
Under Development									
North Chapman Ranch	Texas	21.0%	Gas/liquids	100%	71.4	15.0	6.0	90.0	3.0
East Texas CV	Texas	21.8%	Oil	100%	9.2	2.0	6.0	12.0	0.4
SOCA 3P	Trinidad	100.0%	Oil	100%	6.9	6.9	9.6	66.2	2.2
					TOT	23.9		TOT	5.6
Cash/(Net Debt)								20.4	0.7
G&A								-26.4	-0.9
Core NAV								TOT	5.4
Exploration / Appraisal									
Nugaal/Dharoor	Puntland	20%	Oil	7%	4550	910.0	5.0	318.5	10.6
SOCA Shallow	Trinidad	100%	Oil	80%	20.0	20.0	7.5	120.0	4.0
SOCA deep	Trinidad	100%	Oil	25%	100.0	100.0	7.5	187.5	6.2
V1a, V1b	Georgia	40.0%	Oil	20%	615	246.0	7.0	344.4	11.5
RENAV								TOT	37.7

Source: Edison Investment Research

After adjusting for the end year cash position and overheads the above results in a valuation of \$1.14bn. This translates into A\$1.08bn at an exchange rate of A\$0.947/US\$ and equates to 38p/fully diluted share. For comparison, the stock was trading at about 18p/share in early June. Over the next few months the key news flow drivers for the Range are likely to be drilling in Georgia and Puntland. In addition, the drilling of the Albrecht-1 well, the fracking of the Ross 3H well in Texas and the initiation of the Trinidad infill programme will be of significance.

Financials

Income statement

Reflecting the build up of production in Texas, Range is now beginning to generate meaningful revenues, although the pace has been somewhat slower than expected due to delays in development activity. In the first half of 2010/11 revenues came in at A\$1.1m and for the full year we are looking for A\$3.6m. Our forecasts for the second half reflect an exchange rate of A\$0.947/US\$,

average price realisations of \$98/barrel for oil and \$6/mcf for gas, including condensates. Based purely on the NCR production operations, we expect a very comfortable EBITDA for 2010/11 as a whole of about A\$1.5m, for a margin of 43%. However, central overheads were A\$2.7m in the first half and could approach A\$6m for the full year which will easily offset the EBITDA contribution from NCR. Our forecast for 2010/11 calls for a loss at the EBITDA level corporately of A\$4.2m. A narrowing in the EBITDA loss is anticipated between the first and second halves of 2010/11 from A\$2.3m to A\$1.9m stemming from a strong volume performance in Q4.

Range's revenue base and profit generating capability will be far greater in 2011/12 than the previous year. This stems from the first time consolidation of the SOCA assets (we are assuming consolidation from 1 July 2011) and the continuing build up in production at NCR in Texas. We forecast revenues of A\$30.9m split, NCR A\$9.8m and SOCA A\$21.1m. These forecasts reflect the volume scenario mentioned earlier which calls for 511 and 800boe/d respectively. In the case of NCR we have used the same pricing assumptions of \$86/barrel for WTI and \$6/mcf (including condensates). For SOCA the pricing assumption is \$78/barrel with the \$10/barrel discount to WTI reflecting grade differences. The exchange rate assumption is unchanged from the second half of 2010/11 at A\$0.947/US\$. Based on the above we would look for sizeable EBITDA contributions before central overhead from both NCR and SOCA in 2011/12 of around A\$4.7m and A\$11.9m respectively. Given the rapid expansion and growing complexity of the business, central overhead will probably be on a significant upward trajectory in 2011/12. We would nevertheless expect a very comfortable corporate EBITDA for the year of around \$10m for a margin of 32%.

It should be noted that the forecasts for 2011/12 are highly tentative at this stage due, in particular, to the lack of financial information on SOCA. Assuming that Range is successful in boosting SOCA production to 4,000b/d as planned and that two wells a year are added to production in Texas, revenues could be running at over A\$150m by 2014/15 on an unchanged pricing and exchange rate scenario. This might be consistent with EBITDA of around A\$60m.

Balance sheet and cash flow

Range, currently and prospectively in 2011/12, has heavy cash demands reflecting a very active exploration and development programme plus the SOCA acquisition in Trinidad. In the year to June 2011 we look for capital expenditure of around A\$8m split as follows: Georgia \$6.0m (Mukhiani-1 well), ETCV \$0.6m (Ross 3H well) and \$1.4m miscellaneous including the fracking project at NCR, the RPS Georgia seismic interpretation report and the AGI helium survey also in Georgia. Additionally, Range has acquired the SOCA assets in Trinidad for a cash consideration of \$56.3m while central overheads we believe may be running at about A\$6m. The cash outflow relating to operations, capital expenditure and acquisitions of around A\$67m has been comfortably financed by the opening cash balance of A\$7.4m plus capital injections totalling about A\$83m.

At end June 2011 we forecast a sizeable cash position of about A\$20m. In the early part of the new financial year Range will, however, have heavy cash demands relating, in particular, to the Albrecht-1 well at NCR, a possible second well at ETCV and the first wildcat well at Dharoor in Puntland. For 2011/12 as a whole capital outlays are expected to be around A\$25m allocated as follows: Puntland \$5m (one well), NCR \$1.2m (two wells), ETCV \$0.6m (one well), Georgia \$8.4m (two wells), Trinidad \$8m (nine shallow wells, one Herrera well, workover activity) and miscellaneous

\$2m including fracking in Texas. Bearing in mind that we expect Range to be cash flow positive operationally in 2011/12, a capital expenditure programme of A\$25m can probably be financed with existing resources. At the end of 2011/12 we forecast an approximate zero net cash position.

Exhibit 2: 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	3,580	30,865
Cost of Sales		0	0	0	0	(2,269)	(17,545)
Gross Profit		5,393	512	182	719	1,311	13,321
EBITDA		(693)	(3,871)	(4,731)	(6,236)	(4,167)	9,731
Operating Profit (before GW and except.)		(730)	(3,919)	(4,772)	(6,285)	(4,464)	6,458
Intangible Amortisation		0	(2,893)	(2,553)	(1,098)	0	0
Share-based payments		(63)	(4,714)	(50)	(1,380)	0	0
Exceptionals		0	(1,804)	(1,140)	0	105	0
Operating Profit		(793)	(13,331)	(8,515)	(8,763)	(4,359)	6,458
Net Interest		(1,004)	(9)	(8)	(76)	290	0
Profit Before Tax (norm)		(1,734)	(3,928)	(4,780)	(6,361)	(4,174)	6,458
Profit Before Tax (FRS 3)		(1,797)	(13,339)	(8,523)	(8,839)	(4,069)	6,458
Tax		0	0	0	0	(24)	(3,552)
Profit After Tax (norm)		(1,734)	(5,732)	(5,920)	(6,361)	(4,037)	2,906
Profit After Tax (FRS 3)		(1,797)	(13,339)	(8,523)	(8,839)	(4,093)	2,906
Average Number of Shares Outstanding (m)		88.6	180.2	229.4	639.6	1,278.0	1,641.0
EPS - normalised (c)		(2.0)	(3.2)	(2.6)	(1.0)	(0.3)	0.2
EPS - FRS 3 (c)		(2.0)	(7.4)	(3.7)	(1.4)	(0.3)	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	171,547	193,473
Intangible Assets		84,026	77,121	79,889	87,208	94,911	158,473
Tangible Assets		106	288	50	25	25	25,000
Investments		3,364	2,005	1,192	14,232	76,611	10,000
Current Assets		23,564	5,688	511	9,637	21,462	4,627
Stocks		0	0	0	0	98	846
Debtors		607	1,441	42	2,039	441	3,805
Cash		22,897	4,137	416	7,398	20,397	-224
Other		61	109	52	200	526	200
Current Liabilities		(53,220)	(815)	(770)	(1,594)	(373)	(2,884)
Creditors		(53,220)	(815)	(770)	(1,594)	(373)	(2,884)
Short term borrowings		0	0	0	0	0	0
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	192,636	195,216
CASH FLOW							
Operating Cash Flow		(4,389)	(3,631)	(2,412)	(3,713)	(3,888)	8,130
Net Interest		216	458	54	(55)	290	0
Tax		0	0	0	0	(24)	(3,552)
Capex		(4,285)	(11,980)	(4,143)	(7,096)	(8,000)	(25,200)
Acquisitions/disposals		(1,352)	(12,280)	0	(10,475)	(52,379)	0
Financing		31,495	8,676	2,781	28,321	77,000	0
Dividends		0	0	0	0	0	0
Net Cash Flow		21,685	(18,758)	(3,721)	6,982	12,999	(20,621)
Opening net debt/(cash)		(1,211)	(22,897)	(4,137)	(416)	(7,398)	(20,397)
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)	(20,397)	224

Source: Company accounts/Edison Investment Research

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