

Leveraged to a Busy Drilling Program Through 2011

Investment Highlights

We are initiating coverage on Range Resources Ltd (RRS) with a **SPECULATIVE BUY** recommendation and a price target of **\$0.28/sh**. RRS is a unique oil and gas explorer with frontier exploration programs in Georgia and in Puntland and underpinned by its recently acquired Trinidad oil project. It is leveraged to significant upside via a busy exploration program through 2011, with the ongoing drilling of its first of two planned wells in Georgia, the upcoming drilling of the first two wells in Puntland in 20 years, a significant 21 well development drilling program underway in Trinidad aimed at doubling production and further drilling planned in the US at its Texas oil and gas projects.

- Drilling of Mukhiani-1 underway.** RRS's first exploration well in Georgia is underway, targeting a mean 115mmbbls of oil place in the Vani-3 prospect. This will be followed by a second well on Block VIa, targeting the Kersubi-2 with an estimate of 165mmbbls of oil in place. We estimate unrisksed upside for the program of \$0.20/sh.
- Mobilisation of rig in Puntland in the Sep Q.** Drilling of two prospects, targeting 300mmbbls and 375mmbbls of prospective resource is set to commence in the Dec Q. While Puntland is frontier exploration, it is potentially high value given RRS's coverage across two of the most prospective basins in Puntland - thought to be Anogulous to Yemen, located across the Gulf of Aden.
- Trinidad provides a profitable production base.** Trinidad provides a low cost and low risk production asset, with scope for a material expansion in production from targeting booked reserves. The company recently successfully drilled the first of a 21 well program aimed at doubling production from the current ~700bopd.
- Significant upside in reserves expansion and exploration.** There is significant upside potential in Trinidad via ramp-up of production, expansion of reserves from step-out drilling and significant upside potential in the underlying Herrera formations (and potentially Cretaceous) which has provided material discoveries in adjacent acreage.

12 August 2011

12mth Rating

SPECULATIVE BUY

Price	A\$	0.24
Target Price	A\$	0.28
12m Total Return	%	14.8

RIC: **RRS.AX**

BBG: **RRS AU**

Shares o/s	m	1706.9
Free Float	%	100.0
Market Cap.	A\$m	409.7
Net Debt (Cash)	A\$m	-17.4
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.17
52wk High/Low	A\$	0.38/0.08
2yr adj. beta		0.51

Valuation:

Methodology		DCF
Value per share	A\$	0.28

Analyst:

Scott Simpson

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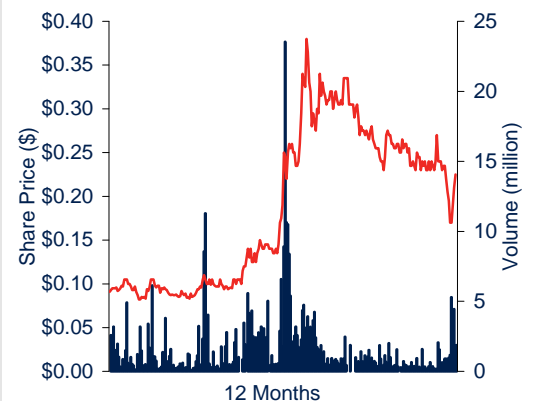
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Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(7.4)	(8.8)	(5.7)	16.6	35.8
Recurrent NPAT (\$m)	(7.4)	(8.8)	(5.7)	16.6	35.8
Recurrent EPS (cents)	(1.4)	(0.6)	(0.3)	0.9	1.9
EPS Growth (%)	na	na	na	na	114.9
PER (x)	(17.1)	(43.1)	(80.2)	27.6	12.8
EBITDA (\$m)	(7.3)	(8.7)	(5.4)	19.6	47.3
EV/EBITDA (x)	(17.1)	(42.9)	(81.6)	22.4	8.9
Capex (\$m)	0.0	3.4	2.5	15.0	23.6
Free Cashflow	(6.3)	(10.9)	(27.8)	(10.7)	19.0
FCFPS (cents)	(1.2)	(0.7)	(1.5)	(0.6)	1.0
PFCF (x)	(19.9)	(35.1)	(16.5)	(42.9)	24.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-19.1	-29.6	106.5
Rel. S&P/ASX 300	-3.6	-9.4	144.9

Company Overview

Range Resources Ltd is an oil and gas exploration and production company, which is dual-listed on the ASX (RRS) and AIM (RRL). Its initial focus was the exploration of 2 x highly prospective PSA's in Puntland, Somalia which were awarded in 2005 and then in 2009 RRS broadened its portfolio via an agreement to acquire an interest in 2 x exploration blocks in Georgia. Since then RRS has de-risked its portfolio of assets with the addition of a number of producing oil and gas fields. In 2009 RRS purchased interest in its first production asset, acquiring interest in a gas/condensate fields in Texas, followed by the acquisition of an interest in an oil project in East Texas in 2010 and in addition entered into an agreement to acquire a 10% interest in several producing oil assets in Trinidad. In early 2011 RRS acquired the remaining 90% interest in the Trinidad oil assets, which are currently producing at a rate of ~700bopd. Very little investment has been made in maintaining production over the previous years and RRS believes that a minimal work program should boost production to +4000bopd within 2-3 years. A key highlight of the Trinidad acquisition is the inclusion in the purchase of a fleet of drilling and work-over rigs, experienced personnel, workshops and other integrated equipment services that provides for an almost self-sufficient project.

Figure 1: Trinidad Oil Tank Battery



Source: RRS Investor Presentation – June 2011

Figure 2: Mukhiani Well Site, Georgia



Source: RRS Operations Update – August 2011

The recent acquisition of the remaining interest in Trinidad has significantly shifted the risk profile of the company, with a low risk development drilling program aimed at targeting certified reserves and is likely to result in a significant boost in production and earnings. In addition, the assets present the potential for significant upside with production currently focused on only 5% of the permitted area and the deeper Herrera and potentially Cretaceous formations providing significant exploration potential. The assets balance the company's exploration programs in Georgia and particularly in Puntland which is inherently high risk but potentially high value, given the location, prospectivity and size of the acreage.

RRS has a busy program ahead for the remainder of 2011 and is leveraged to a number of activities across its asset base, including the ongoing drilling of its first major exploration well in Georgia, mobilization of a rig in Puntland for the drilling of the states first exploration well in ~20 years, a significant 21 well development drilling program underway in Trinidad aimed at doubling production and further drilling planned in the US at its Texas projects.

Asset Overview

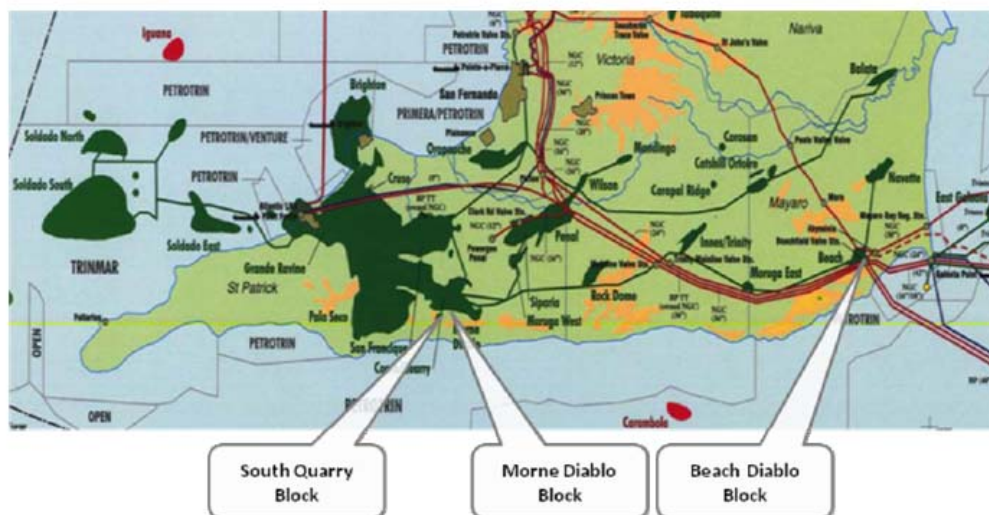
Trinidad Oil Project

Overview

During the June Q 2011 RRS completed the acquisition of the remaining interest 90% interest in the holding and subsidiary companies to three production licences in Trinidad. The acquisition provides operatorship of an oil producing asset with significant scope for expansion of production, based on the development of known reserves. The project consists of the Morne Diablo, Beach Marcelle and South Quarry Blocks which cover 16,253 acres onshore the southern region of Trinidad. The country has produced some 3bn bbls to date and currently produces at a rate ~100kbopd. It lies within the Orinoco Fold belt - which is a prolific producer in Venezuela, situated some 14km to the south-west. Some 94% of the country's oil is produced by the state oil company, Petrotrin, with other producers including BG, BHP, Repsol, EOG, Primera Energy and Parex Resources.

Historic and existing production is from the company's oil projects is from the regionally prolific and shallow Forest and Cruse formations which form that basis of the certified 6.9mmbbls of 3P reserves. However there is substantial exploration upside in the deeper Herrera formation which is productive in adjacent acreage. A key highlight of the acquisition was that in addition to the 3 x large acreage blocks, it included a 100% owned drilling company with a fleet of drilling rigs, work over rigs, drilling services, maintenance workshops and support services. The ownership of its own drilling rigs and services is invaluable, providing an almost self sufficient project which can schedule its activities as desired. RRS recently announced success from the drilling of 1st well in a 21 well program, encountering 145ft of oil pay in the Shallow Forest formation. The program is targeting an increase in production to 1,400-1,800bopd from current production levels of ~700bopd.

Figure 3: Trinidad License Locations



Source: RRS Investor Presentation – June 2011

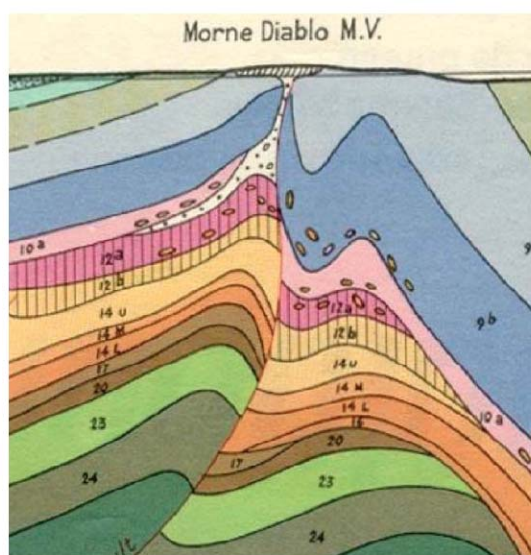
Geological Setting

Trinidad lies on the South American tectonic plate and is part of the Orinoco Fold belt which is a prolific producer in Venezuela. The three project licences are located within a complex thrust belt and along a surface geological feature called the Southern Range, which stretches from East to West along the southern coast of the island. There is a very active oil system with surface oil seeps commonly observed along the Southern Range. The shallower producing zones in the Morne Diablo and South Quarry fields are characterised by fluvial-deltaic sediments ranging to tidal and wave dominated sediments. Due to faulting in the Beach Marcelle area, the sands are thicker in this area and better developed.

The Pliocene aged Forest zones (pink in the figure below) provide the shallow targets, with the Lower Forest from 250-300m and the Shallow Forest at depths of 100-150m. In the beach Marcelle area, the sands are known as the Gros Morne formation, where RRS is considering a water flood program to increase production. The Cruse formation (orange in the figure below) ranges in depth from 600m to 2,000m and is divided into three distinct zones, namely the Upper, Middle and Lower formations, with the middle Pliocene aged reservoir providing the most extensive and productive zone in the region. The Lower Cruse is productive but is relatively underexplored in the region. Most of the fields are simple 4-way dip structures with sufficient closure to provide multiple oil bearing horizons, as detailed in the cross section below.

The deeper Herrera formation is productive in adjacent acreage and provides considerable exploration upside. The formation is a Miocene-aged deepwater turbidite that is predominantly found in to the north east of the acreage. The Penal/Barrackpore oil field provides a prolific field analogue, located some 5-10km to the Northeast of Morne Diablo block and has produced some 60mmbbls to date from the Herrera formation which ranges in thickness from 50-800ft at depths of 1,200m to 3,000m. In mid-2010, Parex Resources drilled the successful Firecrown-1 well on the Moruga Block, intersecting oil bearing Herrera at 8,400ft some 5-10km from Morne Diablo. Existing 3D seismic across the permit provides a large inventory of Herrera prospects and RRS is hoping to spud a Herrera well in late 2011. Success in the Herrera could have a substantial impact on production and reserves, despite a relatively low well estimated cost of US\$1.5m. The deeper upper Cretaceous formation is also highly prospective; however at this stage no drilling is planned.

Figure 4: Morne Diablo Cross Section



Source: RRS Release – April 2011

Figure 5: Independent Reserves Assessment for Trinidad

	Oil and Condensate (MMbbl) (100%) Recoverable
Proved Reserves*	2.6
Probable Reserves	2.2
Possible Reserves	2.1
Total Reserves (3P)*	6.9
Prospective Resources (Undeveloped - Best Estimate)	20

*Net Reserves (3P) take into account payment of government royalty and over

Source: RRS Release – April 2011

Asset Background

In July 2010 the company announced that it had entered into a binding Heads of Agreement (HOA) through SOCA Petroleum, to acquire a 10% interest in companies and wholly owned subsidiaries that hold production licences for 3 x onshore production licences in Trinidad and 100% of a local drilling contractor for a total of \$US4.25m. Then in April it announced it had entered into an agreement for the acquisition of the remaining 90% interest, which was completed in June 2011. The cost of the acquisition was a further US\$52m, the issue of 35.84m ordinary shares plus the potential for two additional milestone share issues of 17.9m shares a piece upon reaching production of 1,250bopd and 2,500bopd.

The Morne Diablo block is the main producing field, comprising the vast majority of booked reserves. The field was discovered in 1938 and some 340 wells have been drilled on the block in depths ranging from 200-6,000ft. Approximately 50% of these wells remain in production with 9.75mmbbls produced to date. Current production is around 500bopd.

The South Quarry and Beach Marcelle blocks total 7,200 acres, with 220 wells drilled to date in the Cruse and Forest formations. Current production is estimate at ~200bopd.

Reserves Certification

An independent recoverable reserves assessment was completed by Forrest Garb and Associates. The assessment estimates some 6.9mmbbls of 3P reserves and a prospective resource of a further 20mmbbls. The certification did not include the Beach Marcelle acreage or any potential for the Herrera formation. It is also worth noting that a large proportion of the probable reserves are incremental recoveries for proven locations that RRS believe are easily recoverable with modern techniques but were unable to be included in the proven undeveloped category, given historic production. We would view the additional probable reserves as low risk given the large amount of well data and production history available for the acreage and hence have used the 3P figure as the basis of our valuation.

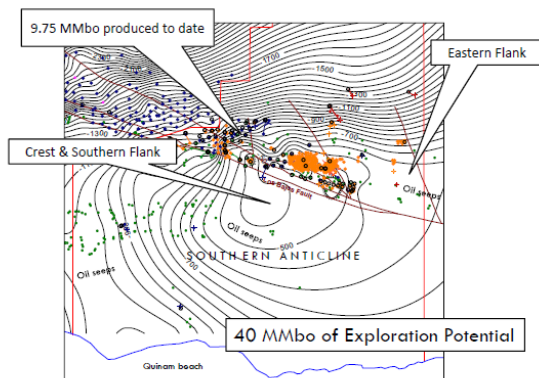
Drilling and Services

A key highlight of the acquisition was the inclusion of the drilling equipment and services sub-contractor. It includes 5 x drilling rigs, 3 x work-over rigs, 1 x swab rig, plus a service workshop, pipe yard, storage tanks and production facilities. The drilling and services is an invaluable asset, eliminating reliance on third parties in terms of cost and schedule. Replacement cost of the business is estimated at US\$25m. It is worth noting that several of the rigs have the capability of drilling the Herrera formation.

Current Operations and Forward Program

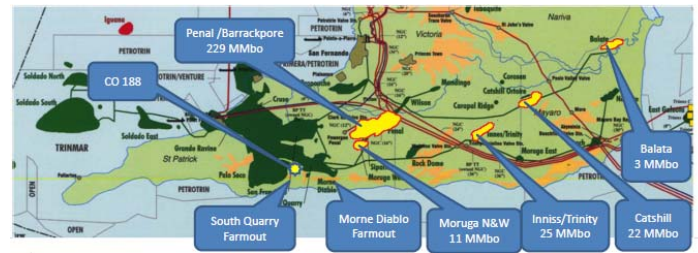
RRS suggests that the current production of around 700bopd is a result of underinvestment in drilling and work-over activities at the project and is undertaking an initial 21 well production program to boost production to 1,400 to 1,800bopd. Drilling will initially focus entirely on the Morne Diablo permit, with development plans for the other two permits currently being assessed. RRS recently announced the completion of drilling at its first well in the program and its first well as operator, completing the MD247 well at 900ft into the Shallow Forest formation. The well intersected 145ft of oil pay and will be completed as a producer with an expected IP (Initial Production) rate of ~30bopd. The forward program will target the Lower Forest formation at 1000ft and the Upper Cruse at 2,000ft, plus the Lower Cruse at 6,500ft via a series of infill and step-out wells on the primary Morne Diablo block which should result in an increase and reclassification of reserves, plus expansion of mapped field limits. Following this initial program, RRS believes that a dedicated work program could lift production to 4,000bopd within 24-36months and success in the Herrera could boost production to 8,000-10,000bopd. Herrera wells in adjacent acreage range on IP from 1,000-3,000bopd.

Figure 6: Morne Diablo Field



Source: RRS Investor Presentation – June 2011

Figure 7: Herrera Prospectivity – Nearby Discoveries



Source: RRS Investor Presentation – June 2011

Project Economics

We have valued the Trinidad project based on NPV analysis of a full field development to target the recovery of certified 3P reserves. We have assumed that a targeted drilling program achieves an increase in production from current rates of ~700bopd to around 4,000bopd over a period of 36-months. Well costs are expected to range from \$100k for the shallower Forest formation, US\$200k for an Upper Cruse, US\$650k for Lower Cruse and ~US\$1.5k for a Herrera well. In total we forecast expenditure of US\$35m to target reserves of 6.9mmbbls, equating to ~\$5/bbl in finding costs. Production results will vary from well to well depending on location. However in broad terms wells are expected to IP at ~30bopd in the lower Forest and 50-100bopd in the Upper to Lower Cruse. Herrera wells in adjacent acreage range in IP from 1,000-3,000bopd.

We have assumed operating costs average US\$10/bbl. Produced oil is sold to Petrotrin's Pointe-a-Pierre Refinery and attracts a ~\$10/bbl discount to WTI. Trinidad Government and over-riding royalties total 27.5% and a Special Petroleum Tax is levied at 18% of net revenue, after deductions for 100% of exploration costs and 40% of development costs. Tax is then levied at 55%.

Note that there is material scope for exploration upside, given that the current fields only cover 5% of the licence area and 3D seismic across its acreage has yielded a number of Herrera prospects for drilling. While we have not included any Herrera wells in our project NPV we have included Herrera prospects in our exploration and appraisal valuation. Our valuation is based on certified reserves over the Morne Diablo and South Quarry areas and did not include the Beach Marcelle area. We believe that there is also material upside in booking reserves in this area and have allowed for some reserves upside in our valuation.

North Chapman Ranch – Texas, USA

Overview

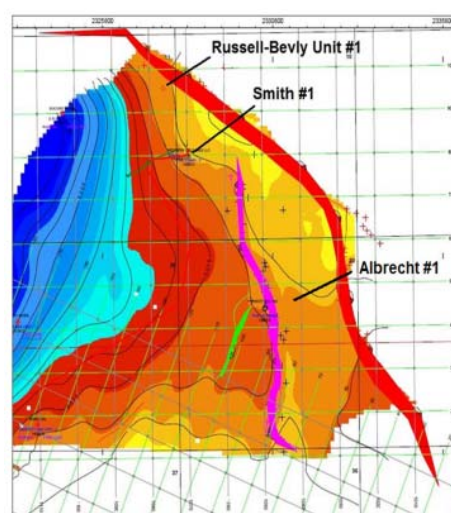
RRS holds a 20-25% interest in the Chapman Ranch project, a gas/condensate field located in South Texas. There have been 2 x wells drilled on the project to date and over the June Q gross production averaged ~4.8mmscf/d and 400bcpd but was reportedly as high as 9.3mmscf/d and 800bcpd. The field is located in the Nueces County in Texas on North Chapman Ranch which is situated in the prolific Frio trend north of the large Mobil David and Doughty fields. The Mobil David field was discovered in 1965 and has produced some 250bcf and 10mmbbls of condensate, predominantly from the Anderson sandstone. More recently, several operators in the area have successfully produced from the Howell Hight formation, the key target in the company's project area. Based on the results of the first Smith#1 well, an independent reserve assessment was completed and then upgraded on the back of subsequent data to gross 3P reserves of 239.5bcf of gas, 18.4mmbbls of condensate and 17.3mmbbls of NGL's (Natural Gas Liquids). The 3P certification is based on reasonable assumptions for well spacing and recoveries and represents a full development of the field. However at this stage we have conservatively based our assessment on recovery of the 2P volumes only, until further results become available. With over 30 potential well locations the field provides a productive development asset which will continue to de-risk as additional wells are brought online, resulting in conversion if 3P to 2P reserves.

Figure 8: Chapman Ranch - Wellhead



Source: RRS Investor Presentation – June 2011

Figure 9: Chapman Ranch – Field Outline



Source: RRS Investor Presentation – June 2011

Background

In 2009 RRS farmed into the North Chapman Ranch Project, acquiring a 25% interest in the Smith#1 well which was already underway and 20% in subsequent wells on the 1,680acre project. It acquired its interest from Crest Resources Inc, a private US company, which had previously drilled the Zdansky#1 well into the targeted formation but due to hole problems was unable to complete the well. The Smith#1 well was the first successful well on the project and RRS secured entry at a minimal upfront cost contribution of \$1m for the drilling of the well plus \$350k to fund costs to production. This vertical well was drilled 13,975ft into the target formation, cased and then connected to sales. In February 2010 the well was flowed (pre-frac) at an IP of 2.5mmscf/d at a pressure of 8,000psi from one of three prospective zones before stabilising at 3.3mmscf/d and 290bcpd (barrels of condensate per day). In May 2010 the JV spudded its second well, the Russell Bevly #1, some 1,900ft north-northwest of Smith#1, with Range meeting its 20% WI share of the US\$3.8m cost. The well was drilled to a depth of 14,225ft and completed for production after open-hole logging confirmed the presence of 130ft of net oil and gas pay in the Howell Hight formation. In September 2010 the well was tested from an 11ft of perforation into a single zone, with an IP of 1mmscf/d and 90bcpd at a pressure of 8,000psi. The two wells were produced for several months before a fracture stimulation program was undertaken in the March Q 2011 which dramatically increased rates. Specialists FracTech, fraced the middle

and largest zone in the Russell Bevly #1 and the upper zone in Smith#1 and in late March a combined rate of 9.2mmscf/d and 769bcpd were reported - a large improvement on a pre frac combined rate of 3.3mmscf/d and 247bcpd. In the June Q production was lower at an average ~4.8mmscf/d and 400bcpd, with Smith#1 offline while production tubing was installed. It is worth noting that additional un-fracced zones provide longer term reserves potential.

Reserves

In May 2010 RRS commissioned Independent Petroleum Engineers, Lonquist & Co. LLC, to complete an independent reserves assessment and valuation for the North Chapman Ranch field, based on the initial Smith#1 well result and was subsequently upgraded in June following the production test at Russell Bevly #1. The report provided estimates for gross recoverable resources together with an economic assessment of the project. The reserves assessment is provided below:

Figure 10: Independent Reserves Certification and Economic Evaluation

Category	Gross			Net			Net Cash Flows	
	Gas (bcf)	Oil (mmbbls)	NGL (mmbbls)	Gas (bcf)	Oil (mmbbls)	NGL (mmbbls)	Undiscounted (US\$m)	NPV (10) (US\$m)
Proved	62.4	4.8	4.5	12.7	1.0	0.9	100	69
1P	62.4	4.8	4.5	12.7	1.0	0.9	100	69
Probable	34.6	2.7	2.5	6.9	0.5	0.5	60	37
2P	96.9	7.4	7.0	19.6	1.5	1.4	160	106
Possible	142.5	10.9	10.3	28.5	2.2	2.1	252	142
3P	239.4	18.4	17.3	48.1	3.7	3.5	412	248

Source: RRS Information

The report also provided a summary of an economic evaluation for the project, on a P1, P2 and P3 basis for on an undiscounted and discounted NPV(10) basis. The figures provided are based on net cash flows to RRS and are pre-corporate tax. Hence the pre-tax 2P value of (P1+P2) US\$106m is close to our post-tax net NPV valuation of A\$63m and highlights the upside from conversion if 3P to 2P reserves.

Field Development

The North Chapman Ranch provides a material development asset with some 30+ possible well locations across the 1,680acre field required to develop the estimated 3P reserves. The company suggests it is targeting an average IP rate (post-frac) of 4mmscf/d and 320bcpd which represents a CGR (Condensate to Gas Ratio) of 80bbls/mmscf. The operator recently reported that it had signed a rig for the drilling of a 3rd and potentially 4th well, expected to commence in mid-October. The next well to be drilled will be Albrecht #1, located 1 mile south-east of Smith#1. The well is important in confirming reserves to in the southeast of the field and in addition will test the Anderson and an additional formation. It is also important in securing acreage under production which eliminates the requirement for re-negotiating leases, thought to be in the order of \$500-600/acre initially but likely higher now.

Project Economics

Our project valuation of \$63m is currently based on development of 2P reserves only but will look to move to risked valuation of 3P reserves and further production results become available. We have assumed a total of 18 wells are drilled to recover gross 2P reserves as detailed above, with individual well EUR's of 5.2bcf of gas, 0.4mmbbls of condensate and 0.4mmbbls of NGL's. Our production assumptions for gas have been grossed-up to reflect the full gas stream (inclusive of NGL's) which we have later accounted for by assuming gas shrinkage of 20%, an NGL ratio of 57bbls/mmscf and sales at 50% of the assumed oil price. Well costs are estimated at a \$3.8m dry hole, \$5.5m completed for production and \$7.0m including frac. However there is potential for lower longer term costs as the project moves into costs to development phase. We have allowed for operating expenses of US\$10k/well/month, plus production taxes. Royalties are believed to be in the order of 30%. We have assumed the JV drills 2 more wells this year followed by 4 wells in 2012 and 8 wells per year thereafter. As discussed later in the document we have also allowed for some risked 3P reserves upside, to capture the value from conversion of 3P to 2P reserves.

Cotton Valley - Texas, USA

Overview

RRS holds a 21.75% interest in the East Texas Cotton Valley project, located in the Red River County in East Texas. The project covers an area of 1,570 acres across a shallow oil reservoir in the Cotton Valley formation which was discovered in 2008 with the drilling of a vertical well to 5,300ft which encountered more than 100ft of gross oil pay. In June 2010 RRS entered into the project and in early 2011 the Ross 3H was drilled to total depth of 8,900ft with a 3,400ft horizontal section through the targeted horizon. Prior to fracture stimulation, swabbing tests of the perforated section revealed unexpected water. The presence of this water may be due to water flooding operations in the adjacent acreage and is the subject of ongoing investigation. Independent assessment of the project has estimated 3P reserves of some 5.4mmbbls of oil which appears reasonable on the assumed recoveries and well spacing. However given that the project is yet to produce commercially, we have provided a risked valuation for the project based on development of the 2.7mmbbls of gross 2P reserves, with the additional possible volumes providing potential upside.

Background

In June 2010 RRS announced that it had entered into an agreement to acquire a 13.56% interest across some 1,570 acres comprising the newly discovered East Cotton Valley Oil Field for total leasehold acquisition costs of US\$254k. The field was discovered in 2008 with the drilling of a vertical well to 5,300ft which discovered some 100ft of gross pay and was immediately put into production. A subsequent horizontal appraisal well was drilled but was never tested due to damage incurred during completion. However the well reportedly encountered good quality reservoir in the horizontal section. In January 2011 the company increased its stake in the project to 21.75% after acquiring an additional 8.1875% WI for a total of US\$148k in lease acquisition costs and an overriding royalty (ORR) retained by the seller. Then in March 2011 the JV commenced drilling of the Ross 3H well. The well was drilled to a depth of 5,500ft vertically before commencing the 3,400ft horizontal section which reached a total measured depth of 8,900ft. Open-hole logs, samples and consistent oil shows while drilling provided significant encouragement for a successful production test. However following perforation, two swabbing runs yielded unexpected water which is the subject of ongoing investigations. The operator believes that there is a strong likelihood that neighbouring water flood operations may be the cause of the issue and water samples are currently being analysed. Given the proven production from an offset well and indications while drilling, RRS remains confident that the Ross 3H will be successfully completed for production.

Reserves

In June 2010 Independent Petroleum engineers, Lonquist & Co LLC completed and independent reserves assessment and valuation for the project. The report provided a summary of estimated commercially recoverable oil for the P1, P2 and P3 cases plus an assessment of forecast project cash flows net to range. The reserves summary is provided below.

Figure 11: Independent Reserves Certification and Economic Evaluation

Category	Gross	Net	Net Cash Flows	
	Oil (mmbbls)	Oil (mmbbls)	Undiscounted (US\$m)	NPV (10) (US\$m)
Proved	1.5	0.3	14	9
1P	1.5	0.3	14	9
Probable	1.2	0.3	11	7
2P	2.7	0.6	25	16
Possible	2.7	0.6	24	13
3P	5.4	1.2	48	29

Source: RRS Information

Field Development

The forward field development plan is largely dependent on the outcome of investigations into the source of water at Ross 3H and the subsequent successful completion of the well. However assuming that these issues are resolved the RRS will move to implement a full field development of the field, with potential for +20 horizontal wells to be drilled into the shallow oil formation to target an estimated 5.4mmbbls of 3P volumes. Each horizontal well is expected to initially produce at a rate of around 1,000bopd with an EUR of 0.22mmbbls and is expected to cost \$1.6m per well on a dry hole basis. The well recovery assumptions appear conservative given that vertical wells in adjacent projects have reportedly averaged 0.2mmbbls and a horizontal well should provide 3-4 x these volumes.

Project Economics

While the 3P volumes are representative of a full field development at East Cotton Valley, based on reasonable well spacing and EUR assumptions, our current valuation is based on development of 2P estimates at this stage. In addition we have risked our 2P valuation at this stage at 50% until the water issues are resolved and production is demonstrated inline with our assumptions. Our valuation is based on the drilling of 10 horizontal wells with individual well EUR's of ~0.3mmbbls, assuming that 2 wells are drilled in 2012 followed by 4 wells in 2013 and 3 wells in 2013. However, following drilling and successful production from 1-2 further wells it is likely that the JV could accelerate drilling to 6 wells per year to drill the 20+ 3P locations. We have assumed completed well costs of \$2.8m and allowed for operating expenses of US\$10k/well/month plus production taxes. Royalties are believed to be in the order of 30%.

Blocks VIa and VIb, Georgia

Overview

RRS holds a 40% interest in two large and prospective exploration permits in Georgia where the company's first major exploration well is currently underway. Drilling of the Mukhiani well commenced in mid July on Block VIa, targeting the Vani-3 prospect at a depth of 3,500m and is expected to take 55 days to complete (at TD in mid-September). The well is the first of an initial 2 x well program which follows extensive technical work, the acquisition of over 400km of seismic and a geochemical survey. In 2010 Independent Expert RPS Energy released its assessment for the permit which included the identification of over 68 prospects plus further details regarding the first 6 "drill-ready" prospects.

Brief Overview of Georgia

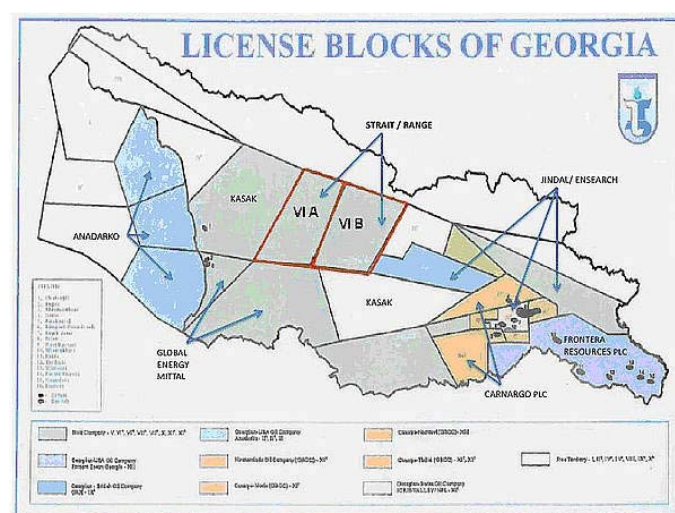
Georgia plays an important strategic role in the Caucasus region as transit country between the Caspian producing region and the major demand centres of Western Europe. Two major pipelines pass through the country including the Baku-Tbilisi oil pipeline from Azerbaijan to Turkey and the South Caucasus Gas Pipeline from the Shah Deniz gas field in the Caspian Sea to customers in Georgia and Turkey. A rail system also transports oil from the Caspian region through Georgia, to be exported from one of its Black Sea ports.

Figure 12: Georgia and Neighbouring Countries



Source: Wikipedia Maps

Figure 13: Georgia Exploration Permits



Source: RRS Investor Presentation – June 2011

Geological Setting

The country contains two sedimentary basins, the South Caspian Basin (Kura sub-basin) and Black Sea (Rioni) basin which are bounded by mountain ranges to the North and to the South. Early exploration in the 1800's targeted surface seeps and resulted in the discovery of the Supsa field in 1889 which reportedly still produces some amounts of oil today. The vast majority of exploration to date has focussed on the South Caspian basin which is located in the east of the country and continues into Azerbaijan, where it forms a highly prolific petroleum system. An active working petroleum system is evident in Georgia with existing oil and gas production and oil gas seeps reported along the Greater Caucasus and Achara-Trialet frontal folds, which are present on the northern and southern extents of the acreage. However only a small number of oil and gas discoveries have been made in Georgia, with the largest, the Samgori oil field, discovered in 1974 and has produced 164mmbbls to date from an estimated EUR of 200mmbbls.

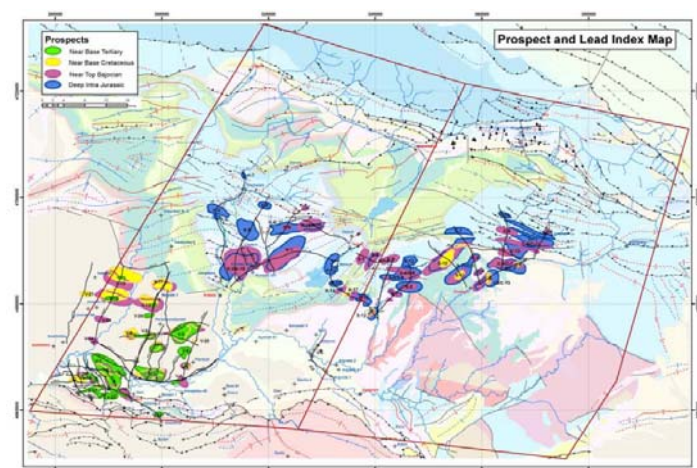
RRS's acreage is located in the onshore portion of the Rioni basin. Drilling to date has focussed on the tertiary rocks and there is little reservoir information gathered on the older Jurassic horizons. Studies of outcropping rocks which are prognosed to be at sufficient burial depth in the licence area has provided some information on prospective reservoir characteristics. The JV's initial focus is on the Vani and Kursebi areas where the relatively

sparse seismic data is sufficient to define structure across a number of prospects. Prospective horizons range from the deeper Jurassic which potentially hold the biggest unexplored upside to the upper Cretaceous which are at the minimum burial depth considered to have a sufficient preserved seal, given the degree of regional uplift.

Blocks VIa and Block VIb

RRS holds a 40% interest in 2 x prospective permits in Georgia. In July 2009 RRS entered into a Heads of Agreement with UK based Strait Oil and Gas Ltd to acquire a 50% interest in blocks VIa and VIb in the Republic of Georgia. Under the terms of the agreement Range completed the Phase II commitment works which included of a minimum 350km of 2D seismic acquisition (est. cost \$4-5m), well selection, plus a series of equity issues to Strait and is required to finance Straits remaining interest in the drilling of 2 wells. In January 2011 RRS announced that the JV had reached an agreement with ASX/AIM dual listed Red Emperor Ltd (RMP) to acquire a 20% interest in the two permits. Under the agreement RMP will earn a 20% interest (10% from both RRS and Strait) by funding 40% of the upcoming 2 x well program.

Figure 14: Prospects and Leads across Blocks VIa and VIb



Source: RRS Release - 18th November 2010

Figure 15: 'Drill-Ready' Prospects

Prospect	Unrisked Oil-in-Place (gross)
Kursebi 1 (K1)	123 million barrels
Kursebi 2 (K2)	160 million barrels
Kursebi 3 (K3)	42 million barrels
Vani 1 (V1)	171 million barrels
Vani 2 (V2)	89 million barrels
Vani 3 (V3)	145 million barrels
TOTAL	728 million barrels

Source: RRS Release - 18th November 2010

Blocks VIa and VIb cover an area of 7,000km² which represents approximately 10% of the country by area. The southern portions of the blocks are the key focus areas, with the mountainous areas to the north likely to be relinquished at a later date. The southern areas are divided into sub-blocks, with the Kursebi and Vani areas in Block VIa and the Sach and Chiatura areas in block VIb. Over 200 wells were drilled in and adjacent to the blocks during the 1980's and 1990's for surface geological mapping, and for deeper stratigraphic mapping however very few wells were drilled to target oil and gas reservoirs specifically. Many of the deeper stratigraphic wells exhibited oil and gas shows but were not tested. In March 2010 RRS announced that the 410km of 2D seismic had been successfully acquired across the acreage position, meeting its farm-in commitments for completion of the Phase II program.

In November 2010 the company released the results of RPS Energy's interpretation of the processed data. The report identified 68 individual structures containing stacked objectives and a gross combined best-estimate oil in place of over 2bn bbls across both blocks. The report also identified 6 drill-ready prospects, located on Block VIa, as detailed above.

Geochemical Survey

In late 2010 RRS commissioned international geochemical company, Actual Geology International Ltd (AGI) to conduct a geochemical helium survey across 3 of its most prospective targets on Blocks VIa and VIb. The technology utilises the natural emissions of Helium from the Earth's surface and the absorption properties of oil, gas and surrounding materials to map helium anomalies. Helium is 10 x more soluble in oil and 150 x more

soluble in gas than in strata water, so high concentrations levels measured in the subsoil can be indicative of oil and gas bearing horizons in the underlying formations.

The survey was completed 'blind,' with AGI receiving no seismic information and the result then integrated into RRS's model in order to optimise the surface drill location and was conducted using a 100m x 100m grid pattern. The resultant 10km² grid covered only a portion of the structures identified by RPS but was used to evaluate the proposed drill locations. The results of the survey reportedly provided positive confirmation as to the suitability of the first two drill locations on the Mukhiani and Kursebi structures and identified priority zones which are likely to contain productive systems.

The geochemical Helium survey is not a widely used technology but should be viewed as a tool to supplement other exploration techniques. It is of particular use for screening of large onshore frontier exploration plays to identify priority targets for further evaluation.

Current Program

In June 2011 the company announced the arrival of the Edeco drilling rig from the UK into Georgia to commence its 2 x well program. Following mobilisation and site preparations, the Mukhiani exploration well was spudded on the 13th of July. The well is targeting the Vani-3 prospect, located in Block VIa and is the 1st well of a proposed 2 well initial program. The well will be drilled to 3,500m which is expected to take 45-55 days to drill. The well is targeting a gross mean estimated oil in place of 115mmbbls with a high case (P10) of 178mmbbls and a low (P90) case of 42mmbbls.

Following drilling of Mukhiani the rig will be relocated to the second well site which is likely to be Kursebi-2. All up the 2 x well program is estimated to cost a gross \$14m on a dry hole basis, including the significant mob/demob costs.

The Vani-3 and Kursebi-2 prospects will be drilled first give that they reportedly presented the highest priority ranking due to the best seismic definition and are likely to be the least effected by faulting. The RPS in-place volume estimates provide a fairly wide range of potential volumes due to uncertainty over the mapping of closure plus fairly limited data on other input parameters at this time. On this basis the first well carries a high level of geological risk, given the degree of uncertainty. However, as with all frontier plays, the first well will provide considerable information and help to de-risk the play and the subsequent assigned GPOS.

Fiscal Terms

RRS interest in Blocks VIa and VIb operates under a Production Sharing Agreement. The agreement allows for only a 50% cost recovery from cost oil in any given period, with profit oil then split 50:50 with the government. Following recovery of all upfront costs, the governments share increases to 65% of profit oil. There are no additional royalties or tax payable.

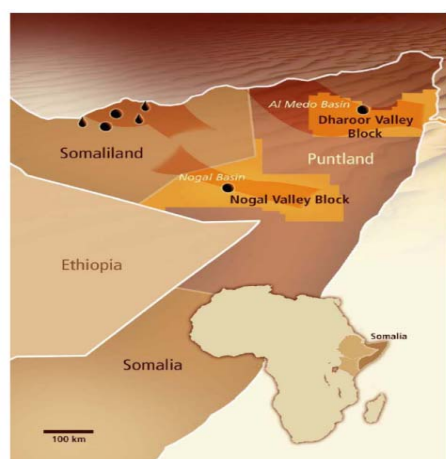
Under the farm-in agreement RRS is required to finance carry Straits remaining 50% interest through the drilling of 2 wells on the permit on the basis that the loan account will be repaid at LIBOR + 2% from production cashflow. It is also required to issue Strait 30m RRS share and 30m options upon completion of the first 2 x wells or a commercial discovery. The subsequent Red Emperor farm-in for a 20% interest for a 40% cost contribution will see RRS carry the finance the remaining \$8.4m in cost.

Puntland

Overview

RRS holds a 20% interest in 2 x highly prospective PSA's, located in the Dharoor and Nugaal Valley regions of the Democratic State of Puntland, an autonomous region of Somalia. The Nugaal PSA and the Dharoor PSA cover the majority of the Nugaal and Darin Valleys. The acreage located in the most North Eastern area of Africa which is considered highly prospective given the minimal exploration to date and is believed to be analogous to Yemen, located immediately across the Gulf of Aden. In October 2006 RRS entered into an agreement with Africa Oil to farm-out 80% and operatorship of the permits for a free-carry on the first \$22.5m of gross expenditure on each block. While Africa Oil has met its commitment on the Dharoor Block, it is required to meet a remaining \$15m of expenditure on the Nugaal farm-in which after a recent amendment to the agreement will be applied to expenditure on the Dharoor permit. Work to date has consisted of 775km of 2D seismic acquisition across the Dharoor Block and the reinterpretation of existing seismic across the Nugaal block. The upcoming program will consist of 2 x back-to-back wells, both targeting ~1bnbbbls of oil in place and will be the first exploration wells drilled in Puntland in 20years. Mobilisation is expected to commence shortly for drilling to commence in the Dec Q.

Figure 16: Puntland Permit Overview



Source: RRS Investor Presentation – June 2011

Figure 17: Cretaceous Basin Rifting



Source: Africa Oil Corporation

The Democratic State of Puntland, Somalia.

Somalia is located on the most North Eastern tip of Africa, known as the 'Horn of Africa.' Puntland is a democratic autonomous region of Somalia, covering some 210,000km² in the North Eastern region of the country. While the country has seen minimal exploration to date it is considered highly prospective for oil and gas. The blocks cover the majority of the Nugal and Darin Basins which are part of a larger Mesozoic rift, following the separation of the African and Arabian plates. These Mezoic basins of northern Somalia are interpreted to be extensions and analogous to the Marib-Shawba and Sayun-Masila basins in Yemen.

Following the collapse of the ruling regime in 1991 the country of Somalia descended into turmoil which saw the entry of the UN in 1993. In 1995 the UN withdrew but it was not until 2000 that peace was restored with the appointment of a Transitional National Government (TNG). Following a failure of the government to establish security an intervention by Kenya led to the election of a Transitional Federal Government (TFG) and the appointment of a 275 seat Transitional Federal Parliament (TFP). The president has since changed a number of times and is presently Mohamed Abdullahi Mohamed (known as Farmajo) who was appointed in late 2010, however the concept of a TFG is still in place which aims to appoint a representative government following national elections. Puntland declared itself an autonomous region in 1998. Unlike Somaliland, which declared an independent Republic in 1991, Puntland does not seek to be independent of Somalia and is recognised by the TFG of Somalia. It is currently governed by the 4th elected leader of the region, Abdirahman Mohamud Farole and is relatively stable and secure region.

Asset Background

In 2005 RRS entered into an agreement with the government to acquire a 50.1% interest and sole rights to all mineral and hydrocarbon exploration and development in Puntland and in July 2006 entered into an agreement to acquire the remaining 49.9% interest. In October 2006 entered into an agreement with TSX listed Africa Oil Corporation to farm-out an 80% interest in the Dharoor and Nugaal Valley Exploration Areas for a total of US\$50m, which was formalised in early 2007 with the signing of a PSA (Production Sharing Agreement) between the two parties and the Puntland government. Africa Oil subsequently farmed out a 15% interest in the permits to AIM Listed Lion Energy Corp., which it recently acquired and a 20% interest to ASX listed Red Emperor Resources. In early 2010 the JV renegotiated the terms of the PSA extending the First Exploration Agreement for 12 months to 17th January 2012. Under the amended terms the JV is required to spud a minimum of one exploration well in the Dharoor Valley Exploration Area by the 27th July 2011 and a second well in the Nugaal Valley Exploration Area, or in Dharoor, by the 27th of September 2011. However these milestone dates were again recently extended to allow for the program to commence in the Dec Q and an agreement that will see 2 x wells in Dharoor meet the commitments for both blocks.

Over 2008 and 2009 Africa Oil completed of 775km of 2D seismic acquisition across the Dharoor Valley Exploration Area to infill the existing 1975 seismic that consisted of 550km of reportedly poor quality data. It also completed an extensive review and reinterpretation of 4,500km of better quality data on the Nugaal Valley Exploration Area which was acquired by Conoco in the 1980's. Work is more advanced in the Dharoor valley region and is the key focus of RRS efforts given the support of local communities. The Nugaal area is a lower priority for drilling as security is an issue given its proximity to Somaliland and uncertain borders between the two states.

Geological Setting

Early exploration in Somalia was spurred-on by the successful exploration efforts across the Gulf of Aden in Yemen, where multi-billion barrel discoveries were made and by the theory that Northern Somalia is part of a rift system which is analogous to and previously contiguous to the prolific Yemen rift system. Success in Yemen led to the entry of several major oil companies including Conoco, Shell, Phillips, Amoco and AGIP which pursued active programs both onshore in Puntland in the 1980's and 1990's. Drilling was initially focussed on anticlinal structural closures which had delivered success in the Arabian Peninsula, however folding in Somalia and the anticlines in the North of the country are associated with younger formations and it is therefore believed that older structures and stratigraphic traps needed to be targeted. Prior to the withdrawal of foreign interest, due to the civil unrest, several exploration wells drilled with 5 wells in the Nugaal Valley, including Conoco's Nogal-1 and Kalis-1 wells. The Nogal-1 well was drilled to depth of 10,700ft and failed to reach the targeted Jurassic sandstones however oil shows were reported and logged in 3 zones in the shallower upper cretaceous sandstones which were never tested. The Kalis-1 well was drilled to some ~9,000ft which was well short of the planned 14,850ft for unknown reasons. Agip drilled the Darin-1 which was potentially a discovery given local reports of a large flare, however significant amounts of data is missing from the well logs. There is limited information found on the other wells.

The Nugaal and Darin Basins are the most clearly defined basins in Puntland and it is thought that the oil found in the cretaceous and Jurassic sequence in Yemen is likely to be present in these formations in the Northern Basins of Somalia. Prior to the opening of the Gulf of Aden in the Oligocene-Miocene, these areas were contiguous and similar sedimentary sequences and structural styles are likely to be present. The basin sediment is extremely thick at some 10,000ft. The primary objective is the Jurassic aged sandstones in the Gabredarre formation followed by upper cretaceous secondary marine sandstone and carbonate targets in the Gumburo formation. These reservoir targets overly rich source rocks in the Uarandab formation (please refer to the Appendices for an illustration of the basin stratigraphy).

Given the underexplored nature of the area, information is limited, however based on the existing well data and regional geology, RRS believes that the permits have the necessary workings of a prospective petroleum system with the middle to upper Jurassic and upper cretaceous providing good reservoir potential; a good regional seal in the Gumburo formation plus intra-formational shales; a principle source rock in the Jurassic Uarandab formation supported by oil recovered in previous wells; and fault bounded trap mechanisms providing the most likely traps.

In 2007 RRS commissioned a competent persons report which was completed by Sproule Consultants, Canada. It estimated undiscovered oil in place across the Nugaal Block only of between 2 to 10 bnbbbls in the targeted Jurassic and upper Cretaceous horizons. In 2009 Africa Oil commissioned an independent assessment by Gaffney Cline and Associates (GCA) for its exploration permits which estimated a total gross undiscovered oil in place of 12.4bn bbls and 5.8bn bbls for the Nugaal and Dharoor PSA's, respectively. This correlates to net resources of 2.48bnbbbls and 1.16bnbbbls, respectively. The report details a summary of key leads which include multi-billion barrel in place targets and the summary table is provided in the appendices. RRS was able to obtain early data for the permit area which includes the mapping of several drill-ready prospects by Conoco. One of these, named Prospect 28/B-1 was to be drilled in 1991 targeting a prospective resource of ~500mmbbls in the upper cretaceous and Jurassic reservoirs.

Forward Program

RRS recently announced that Africa Oil is in the final stages of negotiating contracts for the drilling rig and third party services for a 2 x well drilling program to commence in the Dec Q. Drilling locations have been selected for two prospects to be drilled in the Dharoor PSA, targeting prospective resources of 300mmbbls and 375mmbbls, respectively. The first well will be drilled on the Dharoor PSA where RRS will need to meet its \$5m net share of the ~\$25m well cost. However it has been agreed that the second well, although drilled on Dharoor, will settle the remaining \$15m of carried expenditure on the Nugaal permit. The wells are expected to take approximately 60-days to be drilled to 4000-5000m into the upper Jurassic objectives.

Political and Security Risk

The key risks to RRS's project come from the security of operations and the impact of political risk to its permit tenure. Puntland is an autonomous state of Somalia which is recognised by the TFG of Somalia and unlike nearby Somaliland, the state does not seek independence. Puntland is founded on strong clan loyalty which provides a secure political environment and civil order. It is governed by a respected president which is a very different situation to the remainder of Somalia. The company enjoys a strong working relationship with government which has minimal income and will benefit significantly from oil and gas exploration. Likewise locals in the Dharoor region are very supportive of any activity given the positive impact on the local economy and employment. An unforeseen change in the political regime could have impact on permit tenure, as would the threat of nationalisation of the assets in the event of a successful discovery. However this would be unlikely, given the strong economic benefits increased exploration and development activity would bring to the country.

The key risks to RRS assets come from the potential for terrorist activity on drilling and other operations from terrorist groups such as Al Shabaab, the terrorist arm of the Islamic Courts. While not active in Puntland, due to the strong clan leadership, there is the potential threat of a targeted attack. Operations will have all pertinent mitigating security measures in place, as advised by private security consultants, with a secure area established around operations and the area secured by the local security forces. The previous seismic acquisition in 2008/2009 was successfully undertaken without incident.

Issued Capital / Funding

As at the end of June 2011 the company had \$17.3m in cash and no debt. There are some 1706.9m ordinary shares on issue and some 269m options outstanding. The completion of phase III drilling in Georgia will require the issue of a further 30m shares and 30m options to Strait Oil and Gas Ltd under the farm-in agreement and in Trinidad 2 x milestone share issues of 17.9m shares are payable as production reaches 1,250bopd and 2,500bopd.

We estimate exploration and development expenditure of \$30m for FY2011. Some 198m options expire on the 31st of December at \$0.05/sh and a further 60m at \$0.10/sh, which should provide additional funding of \$15.9m. Together with incoming cash-flow, RRS appears to be funded to pursue our assumed exploration, appraisal and development plan.

Investment Summary

Base Case Valuation

We are initiating coverage on RRS with a SPECULATIVE BUY recommendation and a price target of \$0.28/sh based on a risked assessment of its producing asset and its planned exploration and appraisal programs. Our valuation is summarised below:

Figure 18: Base Case Valuation

Valuation	A\$m	A\$/sh
North Chapman Ranch	63	0.03
East Texas Cotton Valley	5	0.00
Trinidad Oil Project	138	0.07
Trinidad Drilling Services	25	0.01
Exploration and Appraisal	327	0.17
Corporate	(60)	(0.03)
Other	28	0.01
Cash	17	0.01
Total @ 10% Discount Rate	544	0.28
Price Target		0.28

Source: Patersons Estimates

Our valuation for the North Chapman Ranch project is based on an NPV assessment of 2P reserves. Our analysis is based on conservative cost and development assumptions, as detailed previously with a long term real gas price of US\$4.50/mmbtu and long term oil price of US\$95/bbl. In addition, we have allowed for the upside via conversion of 3P to 2P reserves, valuing additional possible volumes at \$10/boe and risked at 25%. Cotton valley is valued on a similar basis, however we have risked our base case at 50% at present given the current water-issues and 3P upside at 10%. Our valuation for Trinidad is based on development of 3P reserves plus additional exploration upside for 4 x 10mmbbls Herrera prospects and an allowance for reserves certification at the Beach Marcelle block, as detailed below.

Figure 19: Risked Exploration and Appraisal Valuation Summary

Country	Field / Prospect	Interest	Gross Unrisked Resource			Attributable Resource			POS	Value	Risked Value		Unrisked Upside	
		%	Oil (mmbbl)	Gas (bcf)	Equiv (mmbboe)	Oil (mmbbl)	Gas (bcf)	Equiv (mmbboe)	%	(US\$/boe)	(A\$m)	(\$ ps)	(A\$m)	(\$ ps)
Trinidad	Beach Marcelle Reserves Upside	100.0%	3.0	0.0	3.0	3.0	0.0	3.0	25%	15.00	11	0.01	45	0.02
Trinidad	4 x Herrera Prospects	100.0%	40.0	0.0	40.0	40.0	0.0	40.0	20%	15.00	120	0.06	600	0.30
USA	North Chapman 3P Upside	20.0%	21.2	142.5	45.0	4.3	28.5	9.0	25%	10.00	23	0.01	91	0.05
USA	Cotton Valley 3P Upside	21.8%	2.7	0.0	2.7	0.6	0.0	0.6	10%	10.00	1	0.00	6	0.00
Georgia	Vani -3	40.0%	40.3	0.0	40.3	16.1	0.0	16.1	8%	12.00	15	0.01	193	0.10
Georgia	Kursebi-2	40.0%	56.0	0.0	56.0	22.4	0.0	22.4	8%	12.00	22	0.01	269	0.14
Puntland	Dharoor	20.0%	675.0	0.0	675.0	135.0	0.0	135.0	8%	10.00	108	0.05	1,350	0.68
Puntland	Nugaal	20.0%	350.0	0.0	350.0	70.0	0.0	70.0	4%	10.00	28	0.01	700	0.35
Sub total			1,188	143	1,212	291	29	296			327	0.17	3,253	1.65

Source: Patersons Estimates

In addition to our core NAV we have included risked exploration and appraisal upside that will be tested over the coming 12-24 month period. We have not included all prospective resources estimated across exploration acreage, only including upside that will be tested in the coming program. In Trinidad we have allowed for the drilling of 4 x Herrera prospects with prospective resource estimates of 10mmbbls per well and risked this at a 20% POS. In Georgia and in Puntland we have used a lower POS of 8% given that these are more frontier exploration plays. We have allowed for the first 2 x prospects in the Dharoor Block and in addition have made an allowance for a 350mmbbl prospect to be drilled in the Nugaal Permit, but have risked this at a further 50% given the less mature exploration status of the permit. We have applied a US\$15/bbl NPV for Trinidad and \$12/bbl for Georgia, based on indicative modelling and a lower \$10/bbl for Puntland exploration.

We highlight that our recommendation is SPECULATIVE given that a large component of our valuation is subject to exploration risk and additional political risk. In addition our NAV, is largely based on early stage development assets with projected ramp-up in production.

Upside to our Valuation

Our valuation is underpinned by \$0.10/sh in NAV and \$0.17/sh in conservatively risked exploration and appraisal upside. While RRS is currently trading close to our valuation it is leveraged to the success of its 2 x wells in Puntland, its 2 x wells in Georgia, ramp-up of production and additional exploration in Trinidad. Success in any of its exploration campaigns will likely have a significant impact on the share price given its substantial acreage positions across these prospective plays. In addition to the relatively low cost / high impact Herrera potential in Trinidad, the upper Cretaceous horizon provides additional potential that we have not included in our valuation.

We believe that Trinidad will provide the most likely source of exploration success and upside via expansion of activities. Firstly the company is targeting a substantial expansion in production to 4,000bopd based on development of proven reserves alone. This will be based on infill and step-out drilling in known productive areas and prolific productive zones. In addition there is upside from exploration in un-explored regions and deeper targets. The lack of investment over the previous few years suggest that work-over and other recovery techniques will also likely improve the field performance. As an example, the company is currently trailing a water-flood project to target higher recoveries of residual oil in the shallow Forest formations. An increase in recoverable oil via secondary recovery could have a large impact on ultimate recoverable reserves if applicable across a wide area.

Figure 20: One of the Acquired Drilling Rigs



Source: RRS Presentation - June 2010

Figure 21: Water flood Trials



Source: RRS Site Visit - June 2012

There is material scope for exploration upside in Trinidad, given that the current fields only cover 5% of the licence area and 3D seismic across its acreage has yielded a number of Herrera prospects for drilling. Also, our valuation is based on certified reserves over the Morne Diablo and South Quarry areas and did not include the Beach Marcelle area. We believe that there is also material upside in booking reserves in this area and have allowed for some risked reserves upside in our valuation.

In addition to upside from existing exploration and development projects RRS has demonstrated it has good access to new ventures and we would anticipate additional projects to be added to the portfolio in time. The share price performance over the previous 2-year period is evident that these projects have been value accretive.

Key Risks

Political/Security Risk in Puntland – As previously discussed RRS has a good working relationship with the Puntland Government and in particular the local communities in the Dharoor region. However an unforeseen political issue does present tenure risk. The security of personal and equipment during operations is a key concern with the risk of a targeted terrorist attack from groups such as Al Shabaab, the terrorist arm of the Islamic Courts. While not active in Puntland, due to the strong clan leadership, there is the potential threat of a targeted attack. Operations will have all pertinent mitigating security measures in place, as advised by private security consultants, with a secure area established around operations and the area secured by the local security forces. The previous seismic acquisition in 2008/2009 was successfully undertaken without incident.

Political Risk in Georgia – We would view the political risk in Georgia as low given the stability in government over the past decade, open market policies and existing oil and gas fiscal regime. However Georgia and Russian relations are somewhat strained following a 5-day conflict in 2008 over the status of South Ossetia. Corruption has been a large issue in the country; however fighting corruption is a key target of the government and a fundamental target of economic reforms.

Commodity Pricing – Our valuation fro North Chapman ranch utilises a long term average gas price of \$4.50/mmbtu and is leveraged to improvements in pricing. It is too early to assess the impact of the latest market volatility on our long term oil price and maintain our long term assumption of US\$95/bbl. While RRS's operations are profitable at lower oil prices, our valuation is sensitive to any prolonged period of low oil prices.

Exploration Risk – A significant portion of our valuation is comprised of risked exploration which we have risked on a conservative basis given the geological risks associated with some of the more frontier exploration plays. However, with much anticipation of the ongoing Georgia and upcoming Puntland program factored into the current share price it is likely that the share price would trade down on any unsuccessful well. Given the portfolio of opportunities we would anticipate this to be a short-term impact.

Appraisal and Development Risk- As evidenced by the recent water issues at Cotton Valley, appraisal / development wells targeting the recovery of proven reserves are not without risk. However given the technical and commercial analysis performed by the independent experts, RRS and JV in-house expertise we would expect that on average, the assets should perform in line with expectations and independent verification.

Funding Risk – RRS appears well funded to pursue its planned activities given our modelled performance of the company. Its history of funding would suggest that it has good access to capital. However the current market volatility will impact equity funding and could impact or delay project expansion or other potential acquisitions.

Looking Ahead

RRS has a busy 2011 program with drilling activity across all of its projects and a number of programs currently underway. Its key short term catalysts include the following:

- Production test at Ross-3H well at the East Texas Cotton Valley – Sep Q 2011
- Ongoing 21-well drilling program at Trinidad – Sep Q/Dec Q 2011.
- Completion of Drilling at Vani-3 in Georgia - September 2011
- Drilling of Kursebi-1 in Georgia – Dec Q 2011
- Spudding of 1st well in the Dharoor Permit in Puntland - Sep Q 2011
- Spudding of 1st well in the Nugaal Permit in Puntland - Dec Q 2011
- Drilling of additional development well at North Chapman – Dec Q 2011.
- Drilling of a Herrera Prospect in Trinidad – Dec Q 2011.
- Drilling of an additional development well at Cotton Valley – Mar Q 2012.

Appendix A - Directors and Management

Figure 22: Board and Directors

Sir Sam Jonah - Non-Executive Chairman

Sir Samuel Jonah is non-executive Chairman of Range Resources Limited. He is Executive Chairman of Jonah Capital (Pty) Limited, and investment holding company in South Africa and serves on the boards of various public and private companies, including The Standard Bank Group and Vodafone Group Plc. He previously worked for Ashanti Goldfields Company Limited, becoming Chief Executive Officer in 1986, and was formerly Executive President of AngloGold Ashanti Limited and oversaw its growth and listing as the first operating sub-Saharan African company on the NYSE. He is also a member of the Advisory Council of the President of the African Development Bank.

He is an advisor to the Presidents of Ghana, South Africa, Nigeria and Namibia. An Honorary Knighthood was conferred on him by Her Majesty the Queen in 2003 and in 2006 he was awarded Ghana's highest national award, the Companion of the Order of the Star.

Mr. Peter Landau - Executive Director

Mr. Landau is a corporate lawyer and corporate advisor, having previously worked with Grange Consulting Group, Clayton Utz and as general counsel at Co-operative Bulk Handling. Mr. Landau is responsible for providing general corporate, capital raising, transaction and strategic advice to numerous ASX listed and unlisted companies. Mr. Landau has project managed a significant number of mining exploration and development transactions around the world including capital raisings, M & A, joint ventures and financings. Mr. Landau is a director of a number of ASX listed companies with particular focus on mining, oil and gas exploration and development in Africa.

Mr. Marcus Edwards-Jones - Non-Executive Director

Mr. Edwards-Jones is currently Managing Director (and co-founder) of Lloyd Edwards-Jones S.A.S, a financial boutique firm specialising in selling European equities to institutional clients and introducing resource companies to an extensive institutional client base in the UK, Europe and Asia/Middle East. Mr. Edwards-Jones has previously held senior positions with Bank Julius Baer Paris (European equities), and UK/Continental European equity sales at Credit Lyonnais Securities. In addition, Mr. Edwards-Jones has significant experience in world wide institutional capital raisings for large resource projects in Africa.

Mr. Anthony Eastman - Executive Director & Joint Company Secretary

Mr. Eastman is a Chartered Accountant with a number of years experience in financial management and corporate advisory services. He has previously worked with Ernst & Young and CalEnergy Gas Ltd, a subsidiary of the Berkshire Hathaway Group of Companies in both Australia and the United Kingdom.

Ms Jane Flegg - Joint Company Secretary

Ms Flegg has over 20 years of experience in finance and administration. During the past decade she has been a Corporate Advisor to several ASX Public Listed Companies, specialising in corporate and financial management, compliance and company secretarial advice. Ms Flegg is currently Joint Company Secretary to Continental Coal Limited.

Source: RRS Website

Appendix B – Puntland Prospective Resources

Figure 23: GCA Prospective Resource Assessment for Puntland – As at 1st December 2009

Licence	Lead	Reservoir	Gross Best Estimate In Place Oil (MMBbl)	Gross Best Estimate (MMBbl)	AOC Working Interest (%)	Net Best Estimate (MMBbl)	GCoS
Nogal Block	Kalis East	Jesomma	1,830	457	65	297.1	0.11
		Gumbero	681	171	65	111.5	0.09
		Gabredarre	1,663	416	65	270.4	0.13
	Kalis South	Jesomma	207	52	65	33.8	0.08
		Gumbero	114	28	65	18.2	0.07
		Gabredarre	278	70	65	45.5	0.09
	Kalis SE	Jesomma	1,079	268	65	174.2	0.11
		Gumbero	611	154	65	100.1	0.09
		Gabredarre	1,457	364	65	236.6	0.13
	Kalis SW	Jesomma	330	83	65	54	0.1
		Gumbero	184	46	65	29.9	0.08
		Gabredarre	453	113	65	73.4	0.12
	Kalis West	Jesomma	319	80	65	52	0.1
		Gumbero	176	44	65	26	0.08
		Gabredarre	421	105	65	68.3	0.12
	Nogal SE-A	Jesomma	378	95	65	61.8	0.11
		Gumbero	210	53	65	34.5	0.09
		Gabredarre	507	126	65	81.9	0.13
	Nogal SE-B	Jesomma	227	57	65	37.1	0.11
		Gumbero	126	32	65	20.8	0.09
		Gabredarre	308	77	65	50.1	0.13
Nogal South	Jesomma	293	73	65	47.5	0.12	
	Gumbero	162	40	65	26	0.1	
	Gabredarre	391	98	65	63.7	0.14	
Darin Block	Dharoor	Jesomma	1,196	299	65	194.4	0.08
		Gumbero	664	166	65	108	0.06
		Gabredarre	1,760	440	65	286	0.09
	Lead 1	Jesomma	360	90	65	58.5	0.06
		Gumbero	200	50	65	32.5	0.05
		Gabredarre	520	130	65	84.5	0.07
	Lead 2	Jesomma	220	55	65	37.8	0.06
		Gumbero	120	30	65	19.5	0.05
		Gabredarre	320	80	65	52	0.07
	Lead 3	Jesomma	144	36	65	23.4	0.06
		Gumbero	80	20	65	13	0.05
		Gabredarre	220	55	65	35.8	0.07

Source: RRS Release – January 2009

Appendix C – Puntland Basin Stratigraphy

Figure 24: Basin Stratigraphy

AGE		FORMATION	LITHOLOGY	OBJECTIVE	Thickness (feet)	
TERTIARY	OLIGOCENE RECENT	BASIN FILL	Non marine basin fill clastics	SEAL	2000'	
	Eocene	FAULT			Evaporites	600'
		TALEH				
PALEOCENE	AURADU	Shelf carbonates		2000'		
CRETACEOUS	UPPER CRETACEOUS	JESOMMA	Shelf carbonates Clastics marginal marine	SECONDARY OBJECTIVE	1350'	
		GUMBURO	marginal marine Deep marine Deltaic marginal marine	SECONDARY OBJECTIVE	2450'	
	L.CRET	GORRAHEI	Shallow marine shales - carbonates	SEAL	400'	
			Evaporites	PRIMARY RESERVOIR	650'	
JURASSIC	TITHONIAN	GABREDARRE	Fluvial Deltaic Sandstones	PRIMARY RESERVOIR	650'	
	KIMMERIDGIAN	UARANDAB	Organic rich shale carbonates	SOURCE ROCK	2300'	
	OXFORDIAN	HAMANLEI	Ooid banks	SECONDARY RESERVOIR	2450'	
			Carbonates evaporites			
	L. MID JURASSIC	ADIGRAT	Clastics	SECONDARY RESERVOIR	200'	
UPPER TRIASSIC	BASEMENT	Metamorphics				

Source: Sproule Independent Experts Report - 2007

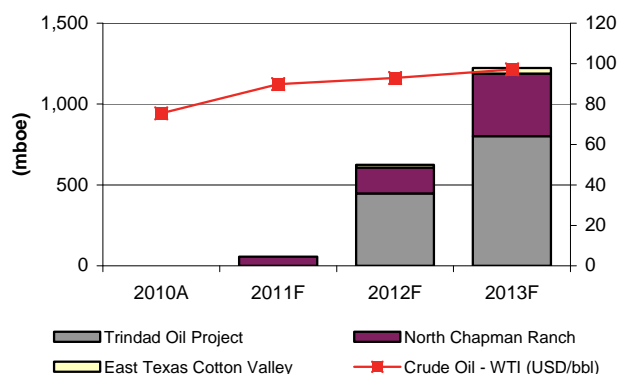
Range Resources Ltd	\$0.24	
Valuation	A\$m	A\$/sh
North Chapman Ranch	63	0.03
East Texas Cotton Valley	5	0.00
Trinidad Oil Project	138	0.07
Trinidad Drilling Services	25	0.01
Exploration and Appraisal	327	0.17
Corporate	(60)	(0.03)
Other	28	0.01
Cash	17	0.01
Total @ 10% Discount Rate	544	0.28
Price Target		0.28

Valuation Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A\$/sh)	0.26	0.28	0.29
Exchange Rate Sensitivity (A\$/sh)	0.28	0.28	0.27

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Net 2P Reserves	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
North Chapman Ranch	2.9	19.6	6.1
East Texas Cotton Valley	0.6	0.0	0.6
Trinidad Oil Project	4.8	0.0	0.0
Total Group	8.3	19.6	6.7

Directors

Name	Position
Sir James Jonah	Non-Executive Chairman
Peter Landau	Managing Director
Anthony Eastman	Executive Director
Marcus Edwards-Jones	Non-executive Director
Alan Hitchins	Executive Consultant
Mark Patterson	Executive Consultant
Gregory Smith	Executive Consultant

Commodity Assumptions	2010A	2011F	2012F	2013F
A\$:US\$	0.89	0.99	1.05	0.98
Crude Oil - WTI (USD/bbl)	75.43	89.86	92.85	97.14
Gas Price - Henry Hub (USD/mn)	4.00	4.00	4.53	4.63

Production Summary	2010A	2011F	2012F	2013F
Trinidad Oil Project	0.00	0.00	0.45	0.80
North Chapman Ranch	0.00	0.06	0.16	0.39
East Texas Cotton Valley	0.00	0.00	0.02	0.03
Total (mmboe)	0.00	0.06	0.62	1.22
Total (boepd)	0	155	1,712	3,351

Profit & Loss (A\$m)	2010A	2011F	2012F	2013F
Sales Revenue	0.6	2.4	45.6	96.1
Other Income	0.2	0.4	0.5	0.8
Operating Costs	0.2	1.3	3.0	6.0
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	9.2	5.7	6.0	6.2
Royalty	0.0	1.2	17.6	37.5
EBITDA	(8.7)	(5.4)	19.6	47.3
Depn & Amort	0.0	0.0	2.9	6.9
EBIT	(8.8)	(5.4)	16.6	40.4
Interest	0.1	0.3	0.0	0.0
Operating Profit	(8.8)	(5.7)	16.6	40.4
Tax expense	0.0	0.0	0.0	4.6
Minorities	0.0	0.0	0.0	0.0
FX Adjustment	0.0	0.0	0.0	0.0
NPAT	(8.8)	(5.7)	16.6	35.8

Normalised NPAT	(8.8)	(4.5)	16.6	35.8
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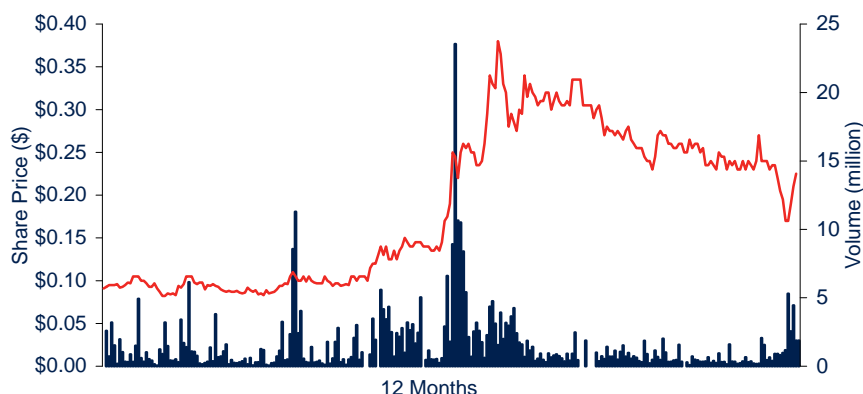
Cash Flow (A\$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(8.8)	(4.5)	16.6	35.8
+ Interest/Tax/Expl Exp	0.1	0.3	0.0	4.6
- Interest/Tax/Expl Inc	3.8	20.1	15.2	4.6
+ Depn/Amort	0.0	0.0	2.9	6.9
+/- Other	5.0	(0.3)	0.0	0.0
Operating Cashflow	(7.5)	(24.5)	4.3	42.6
- Capex (+asset sales)	3.4	2.5	15.0	23.6
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	(10.9)	(27.0)	(10.7)	19.0
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	26.7	87.9	15.0	0.0
+ Debt drawdown (repaid)	1.6	(0.3)	0.0	0.0
+ Other	(10.5)	(51.5)	0.0	0.0
Net Change in Cash	7.0	9.1	4.3	19.0
Cash at End Period	7.4	17.4	21.7	40.7
Net Cash/(Debt)	7.4	17.4	21.7	40.7

Balance Sheet (A\$m)	2010A	2011F	2012F	2013F
Cash	7.4	17.4	21.7	40.7
Total Assets	111.1	207.7	239.3	275.1
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	1.6	15.1	15.1	15.1
Shareholders Funds	109.5	192.6	224.3	260.0

Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	na	7.4	13.7

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
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