Desire Petroleum Limited

Annual report and financial statements
For the year ended 2016

Company number 3168611 (England and Wales)

Contents

Directors' Report

The Directors present their report and the audited financial statements of Desire Petroleum Limited for the year ended 31 December 2016.

Principal activity and review of the business

The principal activity of the Company is oil and gas exploration. The Company is incorporated and domiciled in the United Kingdom.

On the 24th of November 2015, the Board of Falkland Oil and Gas Limited (the parent company of Desire Petroleum Limited) recommended an all share merger with Rockhopper Exploration plc. In January 2016, the merger between Rockhopper Exploration plc and Falkland Oil and Gas was completed. The Board believes that this will create significant value for shareholders and provide more strategic influence over the future pace and direction of oil and gas development in the Falkland basins.

On 11th January 2016, Rockhopper announced the results of the Isobel-Elaine re-drill well in PL004a. The well reached a total depth of 3,014 metres and encountered a total of five oil bearing fan packages of the F3 system, with net pay of 27 metres recorded within the Isobel Deep, Isobel and Emily reservoirs. The well did not encounter any gas nor did it penetrate an Oil Water Contact within any of the sands in this location, where the Isobel Deep reservoir is 350 metres downdip from the discovery well. The results indicate that the total oil column established by this well is likely to be in excess of 480 metres.

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

Following the success of the exploration campaign, ERC Equipoise ("ERC") was appointed to conduct an independent audit of the contingent and prospective resources in licences PL032 and PL004 which was completed in April 2016.

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

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

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

The profit for the year was US$2,000 (2015: US$711,000 loss). The prior year loss was largely attributable to management fees incurred from the Company's parent undertaking, Falkland Oil and Gas Limited. No management fees have been incurred in the year ended 31 December 2016. Exploration expenditures totalled US$3.1 million in 2016, however, this was more than offset by the receipt of insurance proceeds in the year of $17.8 million relating to costs incurred on the Isobel Deep well during the 2015/16 North Falkland Basin exploration campaign which had previously been capitalised.

Directors' Report (continued)

The Company is dependent on funding from its parent company, Rockhopper Exploration plc, to provide finance for administrative expenditure or any drilling cost overruns. The Directors have obtained assurances from Rockhopper Exploration plc that it shall continue to provide financial support for the Company to meets its obligations as and when they fall due. On this basis, it is the intention of the Directors of the Company that the business of the Company will continue for the foreseeable future and that preparing the accounts on the going concern basis is appropriate.

Results and dividends

The results for the year are set out on page 9.

The Directors do not recommend payment of a dividend (2015: $nil).

Directors and Directors' interests

The Directors of the Company during the year and since the year end are set out below.

	Appointed	Resigned
Samual Moody	18 January 2016	
Fiona MacAulay	18 January 2016	4 July 2017
Stewart MacDonald	18 January 2016	
Timothy Jones (Director)	5 December 2014	18 January 2016
Tim Bushell (Director)	5 December 2014	18 January 2016

No director held any interest in the share capital of the company at year end (2015: $nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the Rockhopper Exploration plc Group are set out in the Rockhopper Exploration plc annual report in the Risk management report in the Strategic report and note 31.

Qualifying third party indemnity provisions

The company has arranged qualifying third party indemnity for all of its directors.

Political contributions

The company made no political donations or incurred any disclosable political expenditure during the year (2015: $nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

During the year KPMG LLP was appointed as the Company's auditor. Pursuant to Section 487 of the Companies Act 2006, to the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' Report (continued)

Subsequent events

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

The Company confirmed in February 2017 that a settlement had been reached between the operators and Ocean Rig. The impact of the agreement has been fully reflected within the Intangible assets balance of the Company as at 31 December 2016 (see note 7).

By order of the Board

Stewart MacDonald
Director
18 July 2017

4th Floor, 5 Welbeck Street
London
W1G 9YQ

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year.

Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Desire Petroleum Limited

We have audited the financial statements of Desire Petroleum Limited for the year ended 31 December 2016 set out on pages 9 to 23. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

- we have not identified material misstatements in that report; and.
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's report to the members of Desire Petroleum Limited (Continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Lynton Richmond

Lynton Richmond (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada square

London

E14 5GL

24/7/2017

Desire Petroleum Limited

Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016	2015
		$000	$000
E&E expenses		9	-
Administrative expenses		11	(703)
Operating profit/(loss)	3	**20**	**(703)**
Foreign exchange (loss)		(19)	(10)
Finance income	5	1	2
Profit/(loss) before tax		**2**	**(711)**
Taxation	6	-	-
Profit/(loss) for the year		**2**	**(711)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**2**	**(711)**

The notes on pages 13 to 23 form an integral part of the financial statements.

Desire Petroleum Limited
Statement of Financial Position
As at 31 December 2016
Company number 3168611

	Note	2016	2015
		$000	$000
Non-current assets			
Intangible assets	7	97,507	109,575
Inventory	8	-	1,540
Property, plant & equipment	9	-	1,082
		97,507	112,197
Current assets			
Trade and other receivables	10	21,661	5,402
Cash and cash equivalents		-	3,258
		21,661	8,660
Total assets		**119,168**	120,857
Current liabilities			
Trade and other payables	11	(25,791)	(27,482)
Total liabilities		(25,791)	(27,482)
Net assets		**93,377**	93,375
Equity			
Share capital	12	6,406	6,406
Share premium		228,939	228,939
Accumulated losses		(141,968)	(141,970)
Total equity		**93,377**	93,375

The Financial Statements were approved by the Board of Directors and authorised for issue on 18 July 2017, and were signed on its behalf by

S. MacDonald

Stewart MacDonald
Director

The notes on pages 13 to 23 form an integral part of the financial statements.

Desire Petroleum Limited
Statement of Changes in Equity
As at 31 December 2016

	Share capital $000	Share premium $000	Accumulated Losses $000	Total $000
As at 1 January 2015	**6,406**	**228,939**	**(141,259)**	**94,086**
Loss for the year and total comprehensive income	-	-	(711)	(711)
Balance as at 31 December 2015	**6,406**	**228,939**	**(141,970)**	**93,375**
Profit for the year and total comprehensive income	-	-	2	2
Balance as at 31 December 2016	**6,406**	**228,939**	**(141,968)**	**93,377**

Desire Petroleum Limited

Statement of Cashflows

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Profit/(loss) for the year		**2**	(711)
Foreign exchange loss		**19**	10
Depreciation and amortisation		**-**	1
Finance income		**(1)**	(2)
Operating cash inflows/(outflows)		**20**	(702)
Decrease/(increase) in receivables		**4,533**	(5,023)
(Decrease)/increase in payables		**(2,266)**	24,109
Net cash from operations		**2,267**	19,086
Net cash from by operating activities		**2,287**	18,384
Investing activities			
Interest received	4	**1**	2
Capitalised expenditure on exploration and evaluation assets		**(5,546)**	(14,981)
Inventory		**-**	(586)
Net cash used in investing activities		**(5,545)**	(15,565)
Net (decrease)/increase in cash and cash equivalents		**(3,258)**	2,819
Cash and cash equivalents at 1 January		**3,258**	449
Effect of foreign-exchange rate changes		**-**	(10)
Cash and cash equivalents at 31 December		**-**	3,258

The notes on pages 13 to 23 form an integral part of the financial statements.

1 Accounting Policies

Desire Petroleum Limited is a private limited company incorporated in England and Wales. The Company's registered address is 4th Floor, 5 Welbeck Street, London, W1G 9YQ. The principal activity of the Company is oil and gas exploration.

The financial statements are based on the following significant accounting policies which have been consistently applied to all periods unless otherwise stated:

Basis of preparation

The results for the year ended 31 December 2016, have been prepared and approved by the directors in accordance with IFRS as adopted by the EU. The Financial statements have been prepared under the historical cost convention except, as set out in the accounting policies below, where certain items are included at fair value.

Going concern

The Company is reliant on financial support from its ultimate parent company, Rockhopper Exploration plc. The Directors have obtained assurances from Rockhopper Exploration plc that it shall continue to provide financial support for the Company to meets its obligations as and when they fall due. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

New Accounting Standards

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

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

Standards	**Issued Date**	**IASB mandatory effective date**
IFRS 15 Revenue from Contracts with Customers	28-May-14	01-Jan-18
IFRS 9 Financial Instruments	Various	01-Jan-18
IFRS 16 Leases	13-Jan-16	01-Jan-19

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

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

1 Accounting Policies (continued)

Intangible Assets

Oil and gas assets: exploration and appraisal costs

The Company applies the full cost method of accounting for Exploration and Evaluation (E&E) costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cash generating units ("CGUs"). Such CGU's are based on geographic areas such as a licence area or a basin and are not larger than an operating segment. As defined by IFRS 8 'Operating segments', the Company has one identified CGU, being the Northern basins in the Falkland Islands

E&E costs are initially capitalised within 'Intangible assets'. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the statement of comprehensive income as they are incurred.

Intangible E&E assets are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Company's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

If commercial reserves are discovered, the related E&E assets are assessed for impairment, and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified to development and production assets within property, plant and equipment and is amortised on a unit of production basis over the life of the commercial reserves of the CGU to which they relate.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying value of the E&E CGU to which they relate may exceed its future recoverable amount. Where the E&E assets concerned fall within the scope of an established CGU, the E&E assets are tested for impairment together with all development and production assets associated with that CGU, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell. Where the E&E assets to be tested fall outside the scope of any established CGU, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full. Any impairment loss is recognised in the income statement

Inventories

Inventories of drilling tubulars and drilling chemicals are valued at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition

Joint arrangements

Joint arrangements are arrangements in which the Company shares joint control with one or more parties. Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control.

1 Accounting Policies (continued)

Joint arrangements (continued)

Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement

Joint arrangements that are not structured through a separate vehicle are always joint operations. Joint arrangements that are structured through a separate vehicle may be either joint operations or joint ventures depending on the substance of the arrangement. In these cases, consideration is given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances. When the activities of an arrangement are primarily designed for the provision of output to the parties, and the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates the parties to the arrangements have rights to the assets and obligations for the liabilities. The Company accounts for all its joint arrangements as joint operations by recognising the assets, liabilities, and expenses for which it has rights or obligations, including its share of such items held or incurred jointly.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at historical cost less accumulated depreciation. Property, plant and equipment are depreciated using the straight line method over their useful lives, as follows:

Fixtures, fittings and equipment	-	4 years – 10 years
Assets under construction	-	are not depreciated until brought into use

Depreciation is charged in the period is recognised in the income statement as part of operating profit, unless it is included in the carrying value of another asset. Depreciation is accounted for within exploration and evaluation expenditure where the depreciation is considered to be directly attributable to the exploration and evaluation activities of the Company.

Development and production assets

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

Depreciation of producing assets

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

1 Accounting Policies (continued)

Taxation

a) Current income tax

Current tax, including UK corporation tax, is provided on amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the reporting date.
Interest and penalties are recognised, measured and presented as provisions under IAS 37, and these costs are classified as finance costs and other administrative costs, respectively, in the Income Statement

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary difference statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Cash and cash equivalents

Cash and cash equivalents includes cash held with banks

Financial instruments

The Company uses certain financial instruments in its operating and investing activities that are appropriate to its strategy and circumstances. Financial instruments currently comprise cash and short-term receivables and payables.
Receivables and payables are initially recognised at fair value and subsequently held at amortised cost.
The main risk arising from the Company's present use of financial instruments are currency foreign exchange movements relating to the Company's non-US dollar cash resources.

Operating segments

The Company considers itself to have a single purpose, the exploration and evaluation of its licences in the North Falkland Basin, and therefore concludes that it has only one business segment and only one geographic segment.

Foreign currencies

a) *Functional and presentation currency*

Items included in the financial statements of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency is US dollars, and the 2016 Annual Report is presented in US dollars as this reflects the primary economic environment in which the Company operates.

1 Accounting Policies (continued)

Foreign currencies (continued)

b) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the month end exchange rate preceding the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the year-end. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Estimates, assumptions and judgement

In the application of the Company's accounting policies, described in note 1, the Directors are required to make judgements, estimates and assumptions about assets, liabilities and disclosures that are not readily available from other sources. The estimates and associated assumptions are based on experience and other factors that are considered to be relevant. These may include expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The most significant areas relate to the assessment of the carrying value of the exploration and evaluation assets capitalised on the statement of financial position. This assessment requires management to make an assessment of the likelihood of commercial and geological success and when commerciality should be determined as well as future reserves and costs pertaining to the utilisation of the licence rights and the discount rate to be applied.

3 Expenses and auditor's remuneration

Included in profit/(loss) are the following:

	2016	2015
	$000	$000
Management fees	**6**	605

The auditor's remuneration costs for services provided to the Company of US$31,000 were borne entirely by the ultimate parent undertaking, Rockhopper Exploration plc.

4 Salaries and Directors' remuneration

During the year, there were no employees and therefore no staff costs.

The directors are also directors of Rockhopper Exploration plc, the immediate and ultimate parent undertaking. During the year, the directors received emoluments through Rockhopper Exploration plc but it is not practicable to allocate this between their services as directors of the above named company and other group companies. The directors work is spread across the range of companies within the Group and it can expected that typically within any given year between 5-10 per cent of their time would be allocated to Desire Petroleum Limited. Details of emoluments received by the directors for their services to the Group are disclosed in the accounts of Rockhopper Exploration plc.

5 Finance income

	2016	2015
	$000	$000
Interest on bank deposits	**1**	2

6 Taxation

	2016	2015
	$000	$000
a) Reconciliation of the total tax charge		
Accounting profit/(loss) before tax	**2**	(711)
	2	(711)
Tax at the standard rate of corporation tax in the UK 20.0% (2015:20.0%)	-	(149)
Effects of:		
Losses carried forward	-	149
	-	-

b) Factors that may affect future tax charges

The Company is carrying forward an amount of tax-deductible expenditure. Total tax allowances available to claim in future periods in respect of pre-trading capital expenditure for which a deferred tax asset has not been recognised are $200 million (2015: $215 million). Pre trading non capital expenditure expires after seven years and allowances available to claim in respect of future periods for which a deferred tax has not been recognised are $$15 million (2015: $17 million).

Deferred tax assets have not been recognised in respect of these items because at this point in the Company's development it is uncertain that future taxable profits will be available against which the Company can utilise the benefits of the tax losses.

Pre trading expenditure

Financial year	Expire year	$'000
2009	2016	3,591
2010	2017	4,397
2012	2019	2,037
2013	2020	3,000
2014	2021	1,432
2015	2022	711

7 Intangible assets

	Exploration and evaluation assets $000	Computer software $000	Total $000
Cost			
Balance as at 1 January 2015	93,662	128	93,790
Additions for the year	15,913	-	15,913
At 31 December 2015	109,575	128	109,703
Additions for the year	(12,068)	-	(12,068)
At 31 December 2016	**97,507**	**128**	**97,635**
Amortisation			
Balance as at 1 January 2015	-	128	128
Charge for the year	-	-	-
At 31 December 2015	-	128	128
Charge for the year	-	-	
At 31 December 2016	**-**	**128**	**128**
Net book value			
At 31 December 2016	**97,507**	-	**97,507**
At 31 December 2015	109,575	-	109,575
At 31 December 2014	93,662	-	93,662

The additions during the period relate to expenditure on the exploration campaign in the North Falkland Basin including the exploration successes at Zebedee and Isobel Deep ($3.1 million), along with $1.5 million of inventory and $1.1 million of PPE (Temporary dock) which has been transferred to intangible assets. These have been more than offset by insurance proceeds received on a claim relating to costs incurred on the Isobel deep well during the 2015/16 North Falkland Basin exploration campaign ($(17.8) million). These costs had previously been capitalized.

The carrying value of the exploration and evaluation assets were assessed for impairment by reference to a discounted cashflow model. The key inputs to this model were, a 2016 real terms oil price of $75/bbl, a discount rate of 12.5% and utilising the operator's current estimates of capital and operating costs.

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

8 Inventory

	2016 $000	2015 $000
Cost		
At Beginning of Year	**1,540**	954
Additions for the year	-	586
Written off to intangible assets	**(1,540)**	-
Closing Balance	-	1,540

Inventory relates to equipment purchased for the 2015 drilling campaign.

9 Property, plant and equipment

	Computer hardware $000	Temporary dock $000	**Total $000**
Cost			
At 1 January 2015	**8**	**2,164**	**2,172**
Additions	-	-	-
At 31 December 2015	**8**	**2,164**	**2,172**
Additions	-	-	-
At 31 December 2016	**8**	**2,164**	**2,172**
Depreciation and impairment			
At 1 January 2015	8	-	**8**
Charge for the year	-	1,082	1,082
At 31 December 2015	**8**	**1,082**	**1,090**
Charge for the year	-	1,082	1082
At 31 December 2016	**8**	**2,164**	**2,172**
Net book value			
At 31 December 2016	**-**	**-**	**-**
At 31 December 2015	-	1,082	1,082
At 31 December 2014	-	2,164	2,164

10 Trade and other receivables

	2016 $000	2015 $000
Amounts due from joint venture partners	21	233
Amounts due from ultimate parent undertaking	21,640	-
Other receivables	-	5,000
Other tax and social security Receivables	-	149
Prepayments and accrued income	-	20
	21,661	5,402

11 Trade and other payables

	2016	2015
	$000	$000
Amounts due to joint venture partners	4	357
Amounts due to immediate parent undertaking	25,786	25,728
Other payables	1	71
Accruals	-	1,326
	25,791	27,482

The amounts due to the parent company are unsecured, interest free and repayable on demand.

12 Share capital

Allotted, called up and fully-paid	**Ordinary £0.01 shares Number**	**Ordinary £0.01 shares $'000**
At 1 January 2016	342,282,198	6,406
Issued during the period	-	-
At 31 December 2016	342,282,198	6,406

13 Related party transactions

On the 18 January 2016, following the merger of Rockhopper Exploration plc and Falkland Oil and Gas Limited ("FOGL"), FOGL ceased to be the ultimate controlling Party of the company. Rockhopper Exploration plc is now the ultimate parent company of Desire Petroleum Limited. FOGL remains the company's immediate controlling party. The Company entered into transactions with FOGL of $58,000 (2015: $23,535,000) and Rockhopper Exploration plc of $19,369,000 (2015: $nil).

On the 21 September 2015, Desire Petroleum Limited signed a settlement Agreement with Premier Oil Exploration and Production Limited and Rockhopper Exploration plc. Under the terms of this agreement Rockhopper agree to pay certain sums to Desire Petroleum Limited in settlement of certain insurance claims. The financial impact of this settlement is fully reflected in the results to 31 December 2016.

Party	**Related Party**	**Services provided**
Falkland Oil and Gas Limited	Immediate controlling party	Management
Rockhopper Exploration plc	Ultimate controlling party	Management

13 Related party transactions (continued)

2016 - $000	Administrative and other expenses	Trade and other payables	Trade and other receivables
Rockhopper Exploration plc	-	-	19,369
Falkland Oil and Gas Limited	-	25,792	-
	-	25,792	19,369

2015 - $000	Administrative and other expenses	Trade and other payables	Trade and other receivables
Rockhopper Exploration plc	-	-	-
Falkland Oil and Gas Limited	605	25,728	-
	605	25,728	-

14 Financial Instruments

The Company's policies relating to financial instruments are set out in the accounting policies. The Company does not trade in financial instruments.

Currency rate risk

The Company's currency risk was primarily attributable to GBP cash deposits held at the bank. These deposits were held in GBP as the Company incurs expenditure in this currency. The Company's potential exposure is set out in the table below.

As at 31 December 2016	US$	GBP	Total
	$'000	$'000	$'000
Cash and cash equivalents	-	-	-

As at 31 December 2015	US$	GBP	Total
	$'000	$'000	$'000
Cash and cash equivalents	3,202	56	3,258

Credit risk and counter-party risk

The Company's principal financial assets are cash at bank, where the Company's credit risk is primarily attributable to the credit ratings of the financial institutions in which the cash is held. The maximum credit risk exposure relating to other financial assets is represented by the carrying values as at the reporting date.

The Company manages its counter-party risk by holding its cash with a range of recognised banks and institutions, which include Barclays plc and Standard Chartered plc.

The Company is subject to credit risk on an intercompany receivable balance as shown in note 13 that has arisen as a result of transactions in the Company's ordinary course of business. The credit quality of the Company's intercompany receivable is considered good and as such no material exposure is considered to exist by virtue of the non-performance of the counterparty.

14 Financial instruments (continued)

Liquidity risk

The Company manages liquidity risk via maintaining adequate cash reserves, and by continuously monitoring forecast and actual cash flows relating to oil exploration and administrative costs.

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the use of equity. The Company's capital structure consists of equity. The Company is not subject to any externally imposed capital requirements.

The Board regularly reviews the future capital requirements of the Company and notes that the Company is dependent on funding from its ultimate controlling party, Rockhopper Exploration plc.

15 Immediate and Ultimate Controlling party

The immediate parent of the Company is Falkland Oil and Gas Limited.

Following the change of control of Falkland Oil and Gas Limited on 18 January 2016, the ultimate controlling party of the Company is Rockhopper Exploration plc which includes the Company in its financial statements. Copies of the financial statements of Rockhopper Exploration plc can be obtained from the Company's registered office.

16 Commitments

Capital commitments at 31 December 2016 were $0.5m (2015: $1.8m). These represent drilling cost commitments which are part of the normal operational activity and will be incurred in 2017.

17 Subsequent events

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

Rockhopper Exploration plc confirmed in February 2017, that a settlement had been reached between the operators and Ocean Rig. The impact of the agreement has been fully reflected within the Intangible assets balance of the Company as at 31 December 2016 (see note 7).