Growth Equities & Company Research

Range Resources

Speculative Buy at 25.5p
Target price 56p

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Range Resources in a natural resources company dually listed on the ASX and AIM with exploration and development interest rights in key concession areas in the Somali State of Puntland. Range and its 80% farm-in partner, Africa Oil, are in possession of previous seismic and drilling data processed during the early 1980's by oil majors, which confirms the presence of abundant oil shows, thick and high porosity reservoirs, a number of large structures and an attractive regional seal. In addition, the company is undertaking mineral exploration from its base in the coastal regional capital of Bosasso. The area, which includes historical mines containing silver, lead and zinc, is considered geologically analogous to the Jabali deposit in Yemen. Uranium and mineral sand mineralization is also present within Range's exploration tenements.

Key Data

EPIC	RRL
Share Price	25.5p
Spread	24p - 27p
Market Cap	£49.78 million
12 Month Range	20p - 60p
Cash	£6 million
Shares in Issue	195.23 million shares (125 million options outstanding at 45p)
Market	AIM & ASX
Website	rangeresources.com.au
Sector	Natural Resources
Contact	Peter Landau - Director tel 0044 774 757815

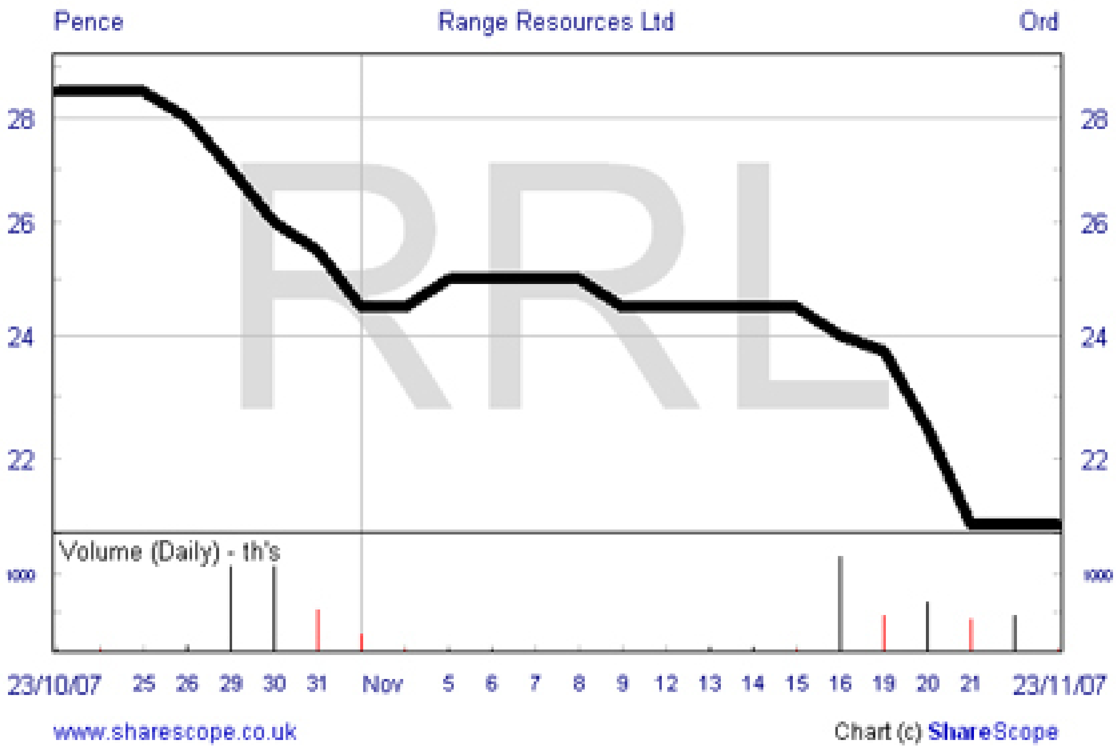
The company, which listed on AIM on October 23rd 2007 raising £4 million through the issue of 18.18 million new ordinary shares at 22p each, operates in one of the last under-explored countries with high potential for high hydrocarbon reserves. The Democratic State of Puntland is located in the north-eastern part of Somalia covering approximately 212,000 square kilometres. The area, known as the 'Horn of Africa' is believed to be a natural extension of the prolific hydrocarbon and oil producing Basins of Yemen, and there are several major structures with the right conditions for potential major oil accumulations. The area was systematically explored in the 1980's – predominantly by Conoco and to a lesser extent by Agip (ENI), Phillips, Amoco and Shell but political instability in the early 1990's prompted the abandonment of operations on a 'force majeure' basis.

The two main targets in the company's portfolio are the Nogal and Dharoor (aka Darin) Basins, which were explored in the past by Conoco and Agip respectively. The significant seismic work – 4,500 kilometres in the Nogal area, drilling and other data left by Conoco in particular has enabled Range and Africa Oil to fast-track the exploration programme and identify drilling targets in the Nogal Basin ready for spudding in the first quarter 2008. Given the work performed by the majors in the past and the recovery of previous exploration data which recognized the oil potential and identical geological structures in both the Yemen and northern Somalia provinces, Range Resources and its partner are confident of tapping into the unexplored natural resources in the region. This confidence is reinforced by the continuous co-operation and acknowledgement of the Puntland Government, which has asserted its autonomous power and control over natural resources under its jurisdiction. Range undertook significantdue diligence prior to investing in the region, having singed a Contract of Work (CoW) agreement with the Puntland Government. After rigorous legal review and extensive negotiations between all parties concerned, the final conclusion (based on both legal and advice and disclosures by previous concession holders) was that all previous hydrocarbon concessions had lapsed and/ or were unenforceable.

With a capital commitment of $50 million that includes a commitment to complete four exploration wells, Africa Oil, the operator of the onshore oil and gas exploration interests, has reinterpreted past exploration data and identified two drilling targets in the Nogal Block, with the intention of drilling two wells. The drilling programme is expected to start in early 2008, as soon as a drilling rig is secured. Range has received a Competent Persons report, prepared by oil and gas consultants Sproule International Ltd to substantiate the potential of its interests.

The Nogal Valley Block contains a number of prospects which could host significant oil and gas reserves, but at this stage these are unproven and hence more work needs to be undertaken by the partnership to establish oil and gas resources and confirm the technical feasibility and commercial viability of these prospects. Hence we have approached the Nogal Basin valuation conservatively, by relying on Sproule International's lower value of the estimated undiscovered oil-in-place (443 mmbbls net at 20% to Range) to arrive at a heavily risk-weighted base case valuation of US$239.22 million net to Range Resources. Assuming that options are exercised, bringing in £56 million, this therefore values the company on a fully diluted basis at 56p per share We have not attached any valuation to the Dharoor Block as there is insufficient information available to assess it. However, the Block holds significant upside as its size and proximity to the Nogal Basin points to a similar geological setting. We estimate that the company has currently £6 million cash reserves and assuming it will make a payment of A$6 million (£2.6 million) in the near future to meet its CoW obligations, our base case valuation for the company, ignoring any value on the company's equity stake in a Peruvian property operator, comes to £179 million or 56p per Range share on a fully diluted basis. Hence at 25.5p, we initiate coverage of Range Resources with a recommendation of speculative buy with a target price of 56p.

Year to 30 June	Sales (A$ Million)	Pre-tax Profits (A$ Million)	Basic Earnings per share (cents)	Basic Earnings per share (pence)
2006A	0.00	(10.7)	(1.40)	(0.6)
2007A	0.00	(1.8)	(0.15)	(0.1)
2008E	0.00	(3.4)	(1.74)	(0.8)



Background

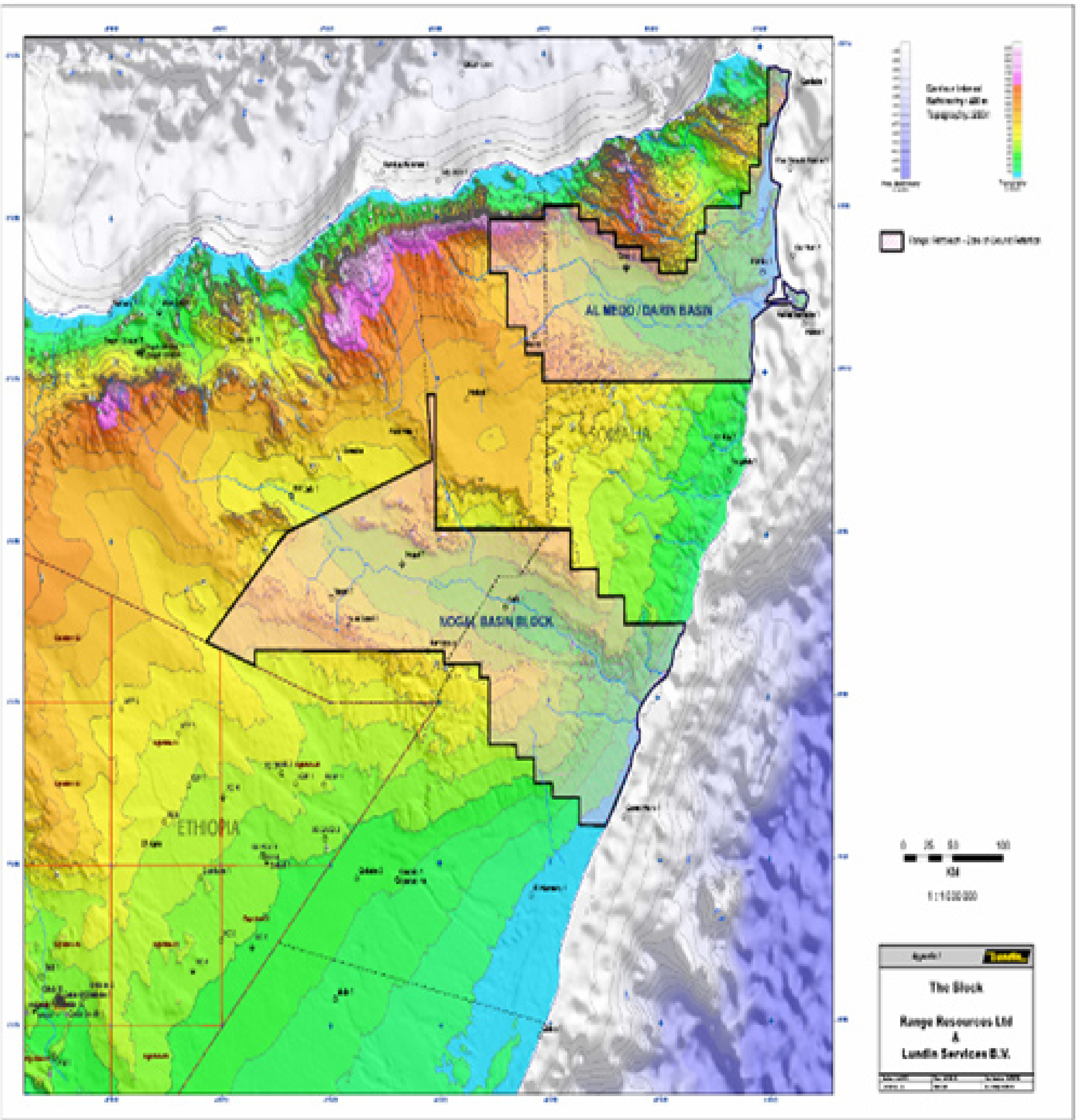
Range Resources is an ASX-listed Perth-based natural resources company with interests in Puntland, the autonomous state in Somalia. In October this year, the company listed on AIM, in an effort to significantly increase the company's international profile with investors. This should assist Range in undertaking the future fundraisings which may be required to develop its oil & gas and mineral exploration properties in Puntland. The company has been granted exclusive rights by the autonomous regional government of the Democratic State of Puntland over strategically placed onshore and offshore oil & gas interests in Puntland.

Source: Map of Puntland

Heads of Agreement (with the consent of the Government of the autonomous Puntland State) to acquire a 50.1% interest in the sole and exclusive rights to all mineral and hydrocarbon exploration and development in the Somali State of Puntland for a minimum of 4 year term with rights to extension. Nine months later, Range reached an agreement to acquire the remaining 49.9% interest in those exploration and development rights. The mineral and hydrocarbon potential of these properties has been investigated by the company which has been able to obtain - through Government authorities - previous exploration documentation relating to the hydrocarbon potential of the Nogal basin area in Puntland up to 1991. The Contract of Work (CoW) stipulates payments by Range totaling US$10 million over the four year period, and upon completion of the first hydrocarbon well, the issue of 45 million shares and 11.5 million options at an exercise price of A$0.50 expiring on 31st October 2010. In addition, Range is required to pay US$20 million upon completion of the first 4 hydrocarbon wells, whilst there's a 2.5% Net Royalty on Range's interests.

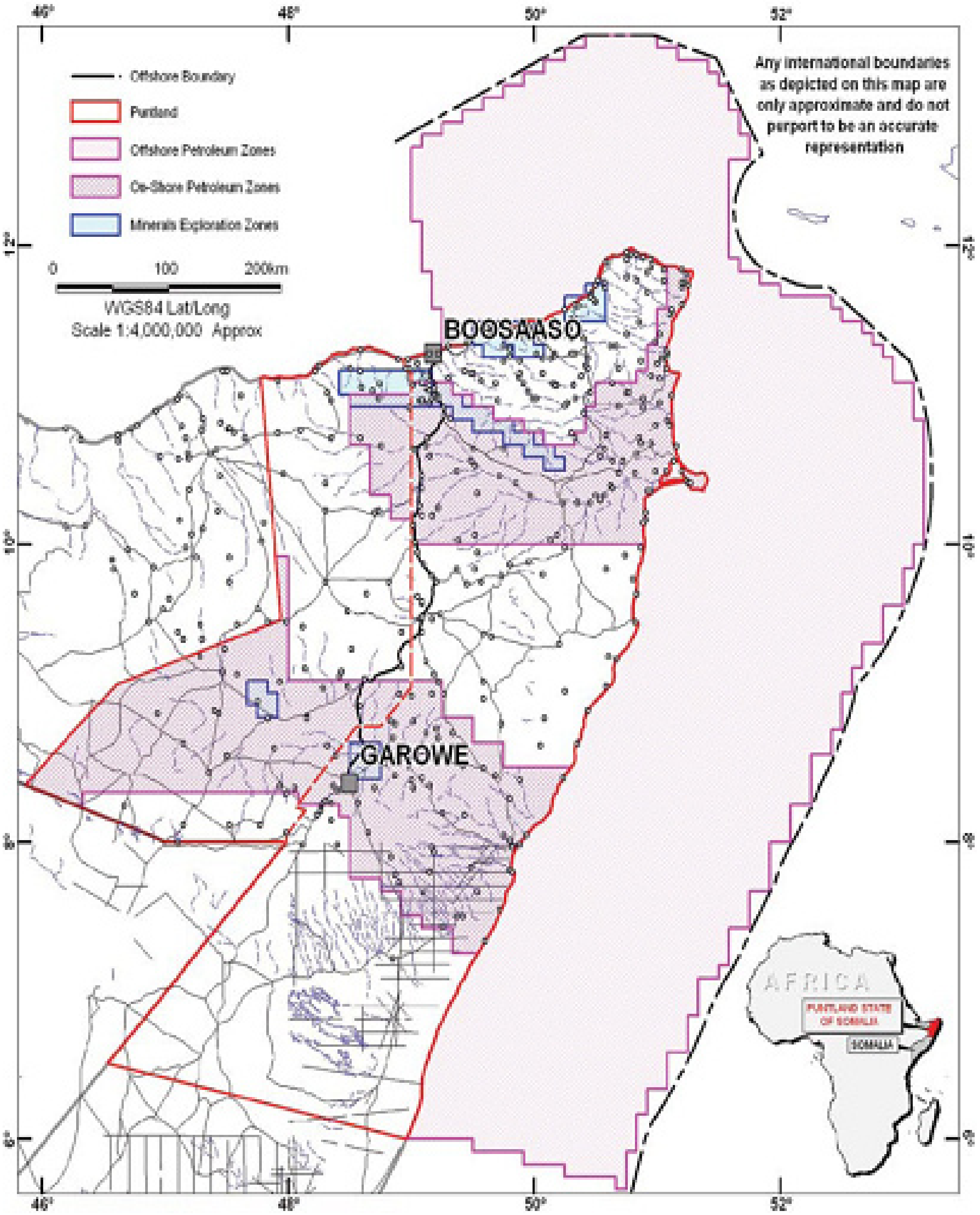
In October 2006, the company entered into an 80% farm-in agreement with Africa Oil Corporation (formerly Canmex Minerals Corporation) in relation to its onshore hydrocarbon interests. Under the terms of the agreement, Africa Oil undertakes to spend US$50 million, including the drilling of four wells, to earn an 80% interest in the Nogal Basin and Darin Basin blocks. This resulted in the signing of an official Production Sharing Agreement (PSA) with the Puntland Government and the two partners in January this year, which confirmed the willingness and the commitment of all three parties involved to explore and develop the natural resources of Puntland. The Puntland PSA agreement covers an initial exploration period of 6 years, divided into two 3-year periods, with further extensions possible subject to successful negotiation. Following the completion of the first 3-year period, the partnership will relinquish a 25% interest to the State.

Exploration Background



Source: Red Sea Gulf of Aden East African Triple Junction – geology (RRL Presentation)

The Puntland region remains one of the last under-explored potential areas of considerable reserves of hydrocarbons, which is a potential replica of the hydrocarbon basins in nearby Yemen. The search for oil in Somalia, including Puntland, can be traced back to the early 20th century, but the area was systematically explored in the late 1950s through to recent years. In the latter part of the 1980s, oil majors such as Conoco, Phillips, Amoco, Agip (ENI) and Shell, recognized that identical geological structures led to oil potential in both the Yemen and in the Northern Somalian provinces. The prospective hydrocarbons and petroleum geology of Puntland are similar in nature to the basins in Yemen, located directly across the Gulf of Aden. Early exploration success in Yemen in the early 1980's led to these oil majors taking up acreage covering Puntland beginning in 1986. Yemen had produced 2.1 billion barrels of oil by 2005, with remaining recoverable reserves of 2.8 billion barrels. In 2005, the region was producing 450,000 bopd.



Source: Map of Puntland Exploration map-blocks – Previous concession holders blocks (1991)

In the early 1980's, Puntland was divided into nine blocks, with Conoco benefiting substantially from the block allocation. These were shared between the five oil majors mentioned above plus Amerada Hess as a junior partner of Agip (ENI). Conoco was allocated five blocks, No 27,28,29,33 and 34 (the areas in yellow on the map above). Of all the majors Conoco carried out the most extensive research in Putland, spending an estimated $150 million on exploration, before being forced out of the country in 1991, recording over 4,500 kilometres of 2D seismic in its Nogal Basin tenements and drilling and interpreting two wells in Block 28 - Nogal-1 and Kalis-1 - with oil shows recorded in both. In addition, Conoco made substantial progress in preparing the Sinujif-1 well for drilling in the adjacent Block 29. Mapping prepared by Conoco identified a 50 kilometre wide by 250 kilometre long graben at Nogal Basin, whilst the Darin graben is considered to be of similar proportion. Agip drilled an exploration well in Block M-8, covering the Dharoor Basin but there were questions over the commercial viability of the discovery due to the flare witnessed at that time.

Political Background

The Puntland State of Somalia has considered itself autonomous since 1998, with its own capital city of Garoowe and has designated regions with recognized regional capitals. The Putland authorities, headed by President Adde Muse Hersi, maintain a low profile and do not seek independence from the Transitional Federal Government (TFG) of Somalia (Mogadishu being the capital). The autonomous State of Puntaland emerged after the fall of President Siyad Barre in 1991. In the south of Somalia, Islamic courts, warlords and regional tribes jostle for power and control whilst the State of Puntland experiences relative political stability with one dominant clan currently and historically controlling the region.

The stability of Puntland is largely a product of its clan system which creates an established order based on family loyalty and cultural bonds and creates a more proactive and solution oriented political system. The Government accepts that the region has a severe need for foreign capital investment in infrastructure, wealth and job creation. The region's natural resources are evidently one, if not the most, important economic asset but they need external help to be exploited and this drives the regional government's pro-foreign investment initiates. Key groupings within the Transitional Federal Government have acknowledged in principle Puntland's freedom to exploit its natural oil and mineral resources and have, signed acknowledgement letters to that effect.
Recent efforts by the former prime minister of the TFG (Gedi) to pass a proposed National Oil Law were thwarted as the TFG Parliament refused to consider Gedi's proposed national oil law which aimed to establish a national oil company with two foreign players (Pt Medco and KEC) owning 50%. Key TFG factions and Puntland's strong resistance to Gedi's proposed law ultimately led to Gedi resigning in late October 2007. The new TFG Prime Minister (Hassan Hussein) was appointed in November 2007 and is yet to make any public statement on Puntland's exploration of its oil and gas areas but it is believed that he will have a lot better working relationship with the President of the TFG (Yusuf) and Puntland President (Hersi). In addition, the possibility of oil majors returning to Somalia remains remote, with companies like Chevron indicating its lack of interest in returning to the country.
There still a number of factors that would deter oil majors operating in the country, including security, political and technical considerations. Question marks remain over who has the authority to grant exploration licences in the two breakaway regions of Somalia , namely Somaliland and the Puntland State. Despite the possible adverse effect over the perceived uncertainty of tenure, Range Resources remains optimistic about the company's prospects. Conoco, the previous tenant and operator of Range's main exploration concession areas, expressly stated in its 2003 Annual Report that it had removed acreage previously (12 years) under force majeure and has indicated to analysts that it has cut its losses from its operations in Somalia and has no intention of re-entering the country. In addition, Range Resources has received continuous support from the Puntland government, which remains the recognized authority entitled to grant a permit for mineral and hydrocarbon exploration under its territory.

Review of Operations

Nogal and Dharoor Basin Blocks

The company and its partner, Africa Oil have benefited from the recovery of significant historic seismic and other data from the Nogal Basin, which showed several major structures with potential oil accumulations. The centre point of reference for the two partners is the Nogal-1 well which reported oil shows during drilling, and indicated three oil zones broadly between 2,500-3,200 metres, with potentially recoverable reserves of 17.6 and 63 million bbl. It is estimated that the 20 square kilometre area around the Nogal-1 well alone could host total recoverable reserves of 90 million bbl. The three oil zones are being interpreted from wireline log analysis.

Adjacent to the Nogal-1 well, Conoco identified the 28/B-1 prospect, comprising two different horizons in the upper Jurassic and Cretaceous reservoirs, covering an area of 18.5 square kilometres and pay depth of 100 feet each. These reservoirs are consistent in structure with the Yemen major oil fields. Conoco's understanding of the Nogal well enabled it to interpret the 28/B-1 prospect and was ready to undertake drilling but its operations were interrupted by the civil unrest that ensued at the time. Several other major structures were mapped showing potential for major oil accumulations thought to be analogous to Hunt Oil's Alif fields and the CanOxy fields discovered in the 1980s. According to information recovered by Range, Conoco estimated that the prospect hosted over 500 million bbl recoverable reserves in a 'most likely' case scenario. Conoco also identified other similar size prospects for drilling, such as 28/B, G, S and 29/P, but work was interrupted by the civil war. Range believes that the exploration showed a Yemen style graben running through blocks 28 and 29.

Range has undertaken its own analysis of the recovered data and has come to an understanding that because these reservoirs are at a shallower depth than Yemen's much thicker pay depths of up to 1,500 feet, the recovery factor could be higher than the one forecast by Conoco. The company believes the prospects could attain similar recovery factors to those evidenced in the Yemen oil blocks, which are as high as 70%.

In November 2007, Africa Oil, the operator of the Nogal and Dharoor Blocks, announced the successful completion of a comprehensive seismic processing programme on the Nogal Block. This involved the review and integration of all geophysical and geological data and with this information processed the first of two back-to-back wells are expected to spud in first quarter of 2008. Work to date has identified 11 prospects which have been ranked in order of prospectivity with relation to the oil source migration and structural controls.

Following the progress at the Nogal Block, Africa Oil is expected to undertake a major seismic acquisition programme over the Dharoor area, followed by a drilling programme on the Dharoor Block. The company, which expects to mobilize a seismic crew early in the early months of next year, recently appointed a new Drilling Manager - Paul Colyer - who has 35 years experience in the industry. His appointment is expected to strengthen the progress the company makes in drilling and exploration in Puntland, as he has previously drilled and managed drill programmes in both Yemen and Somalia.

Farm-in Agreement with Africa Oil

Africa Oil, formerly known as Canmex Minerals Corporation, is a TSX-listed company, whose controlling shareholder is the Lundin Group. Africa Oil brings a wealth of experience and expertise in the region and enjoys strong financial backing. The 80% farm-in agreement signed in January this year relates to Range's onshore petroleum rights, which means that Range's offshore interests are still 100% owned. The $45 million commitment includes the completion of a minimum of 4 exploration wells, 2 in each basin, with a further $3.5 million payment commitment upon commercial production. Africa Oil will pay Range an additional $5 million as a signature bonus. Africa Oil is able to farm out 20% of the 80% interest to third parties, subject to both partners' agreement. Any sign-in bonuses will be split between Range and Africa Oil on a 60:40 basis.

In the event of a commercial discovery, an exploitation period of 20 years vests with the partnership, with an automatic extension of 5 years if the field(s) are still in commercial production at the end of the initial period. Other terms stipulate a 4%-10% sliding scale royalty and a 50:50 profit split with 70% cost recovery. Tax relief benefits on income especially in the early years of potential production, are also covered in the agreement. Africa Oil has reviewed recent data on the relevant concessions consisting of seismic sections and tapes by Conoco, and is expected to release seismic reinterpretation results and drill targets before January 2008.

Mineral Interests in Puntland

There are a number of possibilities for mineral exploration in the Puntland area on the company's acreage. Even though mineral exploration in Puntland has been relatively limited compared to oil and gas exploration, previous exploration work carried out in the 1970's by Russian explorers, identified mineralization of silver, zinc, lead, iron, manganese, tin and uranium. There is a possibility of the existence of commercial mineral sands in several coastal locations as well as coal deposits. We believe that Range could at some stage sell most, if not all, of its mineral exploration rights to a mining exploration company as Range's focus will remain on hydrocarbons. The most prominent prospects in the company's acreage are the Durbo coal deposits, the Qandala silver, lead, zinc historic mines located 80 kilometres East of Boosaaso, and the Majia Yahan tin/gold prospect, located 30 kilometres South West of Boosaaso. Historical reports have also indicated the presence of a uranium anomaly, but the data is of a preliminary nature.

Interests in Peru

In Peru, the company divested its interest in the Corachapi uranium prospect to ASX-listed Contact Uranium Ltd (ASX:CTS) in 2006, but has maintained an indirect interest in the prospect through an equity stake in CTS. The interest in the uranium project was originally acquired in April 2005, but due to Range's focus on Puntland, the decision was taken to sell the interest to Contact Uranium. The Corachapi prospect is located in the Puno Region, South-East Peru, 150 kilometres from the city of Cusco. Reverse circulation drilling on the prospect is underway with early indications showing encouraging results.

Strategy and Growth Outlook

Range Resources' strategy is to capitalize on the untapped potential of Puntland, which has the prerequisites to become a major oil producing province. In addition, the company is exploring ways of realizing value from the region's mineral potential. The company has de-risked its hydrocarbon investment via the farm in deal with Africa Oil and we would expect a similar transaction for the mining acreage to be concluded. The company will firm up the value of its hydrocarbon portfolio via drilling and two drill targets have been identified at the Nogal Block, one of which is the 28/B-1 prospect. The partners intend to further explore the potential of this prospect, which was drilled by Conoco in 1991 and showed a Yemen style grabben running through blocks 28 & 29.

Risk and Opportunities The principal risk to Range is the geopolitical risk that comes from operating in Somalia. The Democratic State of Puntland has its own government and autonomous political system which offers stability, economic and infrastructure development in the underdeveloped region. The Puntland Government has confirmed its commitment to Range and Africa Oil's exploration activities however, we are conscious that political risks are inherent to this proposition given the West's weariness of Somalian politics in the South. In addition, the passage of a TFG driven National Oil Law, could potentially threaten Range's concessions, acknowledging that the recent resignation of Gedi has strengthened Range's position. We believe that have reflected these risks in our valuation.

Range operates in a potentially prolific hydrocarbon province, and even though no reserves have been proven, the presence of oil majors in the past plus the significant amount of past exploration recovered by the company and its partner suggest that there is significant upside potential. However it is important to note that there has been ;limited drilling activity on range's concessions and therefore any estimates of reserves must be heavily risked to reflect this.
There remains the possibility that past players may lay claim on their historic concessions but we are lead to believe that Range has undertaken extensive due diligence on this matter. After extensive negotiations with the Puntland Government and other parties, the company believes that it is currently in a very strong position should a claim arise and that the key to defending any claim is primarily driven by establishing proven and probable reserves on its concession areas.

Management

Non-executive Chairman – Sir Sam Jonah. Jonah is the non-executive President of NYSE-listed Anglo Gold Ashanti Ltd, one of the world's largest gold companies and the largest African-based gold producer. Appointed to the position of chief executive officer of Ashanti Goldfields Company Ltd in 1986, Sir Jonah oversaw the company's growth and lis ting as the first operating sub-Saharan African company on the NYSE. He became President of AngloGold Ashanti in May 2004, when AngloGold Limited acquired Ashanti. In 2003, Sir Jonah was conferred with an Honorary Knighthood, in recognition for his services in Business and Industry.

Jonah is an advisor to four Presidents in Africa - President Kufuor of Ghana, President Obasanjo of Nigeria, President Mbeki of South Africa and President Hersi of Puntland. He is currently a director of a number of public and private company boards including AngloGold Ashanti, Anglo American Corporation of South Africa, Anglo American Platinum Corporation Ltd. (Amplats), Titanium Resources Group Ltd., and Standard Bank Group.

Managing Director – Michael Povey. Povey is a Mining Engineer with 28 years experience in the mining and explosives industry as a senior technical engineer to the North American explosives company, MSI International based in Salt Lake City. He was also the manager of the former ICI Explosives Group's commercial and production operations in North-West Australia. Previous experience has been gained in Southern Africa, North America and Australia and has included senior management positions with Rio Tinto Ltd ICI Explosives and the Anglo American Group of Companies. Povey has consulted widely to various exploration and mining companies and has held previous Board positions for several Australian public listed companies. Povey is currently a director of International Goldfields Limited.

Executive Director – Peter Landau. 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. Landau has managed a number of capital raisings, acquisitions and joint ventures associated with Africa and Australia resources projects. He is responsible for providing general corporate, capital raising, transaction and strategic advice to numerous ASX listed and unlisted companies. He is also a Director of a number of ASX listed companies with particular focus on mining, oil and gas exploration and development in Australia and Africa including NKWE Platinum Limited, Cape Lambert Iron Ore Limited and Continental Capital Limited.

Executive Director – Liban Bogor. Bogor is an economist with international experience in IT project management, having previously held various executive positions in IT and financial services with CIBC Bank, Scotia Bank and Qwest Communications. Bogor is currently Senior Economic Advisor to the President of Puntland and was instrumental in finalising the deal between Consort Pvt Ltd and subsequently Range Resources and the State of Puntland.

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

Significant Shareholdings

Prior to the company's recent admission to AIM on October 23rd, there were 177,046,048 shares in issue, with an extra 5,000,000 partly paid shares. Following the placing of 18.18 million shares on AIM at 22p per share, Range's issued share capital now consists of 195.226 million shares. In addition, the company has 125 million share options outstanding. 50 million of these options are unlisted with a strike price at 45p each and expiration in October 2008, with the remaining 75 million predominantly representing listed broker options with a strike price of 45p and expiring in October 2010. The following shareholders hold in excess of 3% of the issued ordinary shares in the company.

Shareholder	Percent of Outstanding shares
Consort Private Ltd	15%
UBS Nominees Pty Ltd	10.38%
Tosca Fund Asset Management	7%
Firebird Global Master Funds	6.5%
Tudor Capital	5.5%

Recent Results, Balance Sheet and Cashflow

The company's most recent results are for the year ended 30th June 2007. During the financial year, the company reported a loss from continuing operations of A$1.8 million compared to the 2006 loss figure of A$10.8 million. The basic loss per share was 0.15 cents per share, compared to 1.4 cents per share in 2006. During the year, the company strengthened its balance sheet with a period end reported net assets base of A$57.79 million (2006 A$21.14 million) and a cash and cash equivalent figure of A$22.86 million (2006:A$1.17 million). The company's major cash inflows comprised of A$31.53 million from the issue of shares and A$5 million proceeds from the farm-in signature bonus by Africa Oil. The company paid $4.2 million to fund its exploration and evaluation programme, and a similar amount of A$4.36 million to suppliers and staff. The company paid A$6 million as part of its Contract of Work agreement obligations over its exploration and development rights with the Puntland Government.

The company was admitted to AIM on 23rd October and has placed 18.18 million shares at 22p, raising approximately £4 million. 12.54 million of these shares were admitted at the end of October (31st Oct), whilst the remainder 5.64 million was admitted in the middle of Novermber (14th Nov). The split was required to comply with ASX listing rules, which limits the number of shares that can be issued in any 12 month window. The admission to AIM will widen the appeal and the company's investor audience, enhancing the liquidity and marketability of its shares. The funds raised are expected to fund ongoing exploration work in Puntland and meet working capital needs. Following admission to AIM, the company remains well capitalized, with net cash of £6 million.. This adequately meets any immediate needs and covers the company's exploration programme in Puntland for the foreseeable future.

Forecasts, Valuation and Conclusion

The table shown below provides a summary for the Nogal Basin resource estimate from the latest Competent Persons report, prepared by oil and gas consultants Sproule International Ltd to coincide with Range's listing on AIM. We note that the properties were assessed as unproved properties with no proven or probable reserves. As a result, no fair market value was assigned in the report.

Nogal Basin Resource Estimate as prepared by oil and gas consultants Sproule International Ltd
Summary of Unidiscovered In-Place Oil Resources for the Nogal Valley Block, Puntland

	Estimated Gross Oil-in-place			Estimated Net (20%) Oil-in-place (mmbbls)		
	Low	Best	High	Low	Best	High
Undiscovered Oil-in-place	2,213	4,301	10,397	443	860	2,079

Notes: (1) Estimates are on an unrisked basis; (2) Company Net interest of 20% (carried through exploration phase); and (3) Africa Oil is the operator

Source: Sproule International Ltd

We have applied heavily risk-weighted parameters in arriving at a base case valuation for Range's most prominent interest in Puntland – Nogal. The risks are both at an exploration level and at a political level. The Darin Block holds significant promise, but given the company's lower degree of knowledge and understanding of the Block's hydrocarbon structure extent formation, we choose to wait till more progress is reported by Africa Oil and Range before according it a significant valuation. The same applies to the mineral interests of the company although any corporate development of these assets would offer significant upside which is not, at this stage, reflected in our valuation.

The Nogal Valley Block hosts a number of prospects that could host significant oil and gas reserves, but at this stage these are unproven and hence more work needs to be undertaken by the partnership to establish oil and gas resources and confirm the technical feasibility and commercial viability of these prospects. Hence we approach the valuation of the Nogal Valley Block conservatively, by relying on Spoole International's lower value of the estimated undiscovered oil-in-place (443 mmbbls net to Range) to arrive at a heavily risk-weighted base case valuation for the Block. Our valuation table shows how we approached our Nogal Valley Block valuation.

Valuation Table- Nogal Valley Block (net to Range Resources)

Nogal Valley Block Valuation Parameters	Base	V1	Best	V2
Low case scenario-estimated net (20%) oil in place (mmbbls)	443	443	860	860
Recovery Factor 30%	0.3	0.3	0.3	0.3
mmbbls recovered net to Range	132.9	132.9	258	258
Risked Weighted Price per Barrel of Oil Equiv. (US$/boe)	4	6	4	6
Gross Value (US$ million)	531.6	797.4	1032	1548
Less : Royalties @10% (US$ million)	-53.16	-79.74	-103.2	-154.8
Value net of Royalties (US$ million)	478.44	717.66	928.8	1393.2
Less: Political Risk factor applied 50%	0.5	0.5	0.5	0.5
Risked Value (US$ million)	239.22	358.83	464.4	696.6
Risked Value (£ million)	119.61	179.42	232.20	348.30
No of shares in issue (million)	195	195	195	195
No of shares - fully diluted (million)	248.8	248.8	248.8	248.8
Value per share undiluted (p)	61.3	92.0	119.1	178.6
Value per share diluted (p)	48.1	72.1	93.3	140.0

We applied a conservative recovery factor of 0.3 throughout our valuation range and a risk weighted price per barrel of oil equivalent of US$4. Applying royalty rates of 10% for production of over 100,000 mmbbls per annum as per PSA royalty rate sliding scheme, and 50% political risk factor to cover the geopolitical uncertainties of the project, we value the Nogal Block at US$239.22 million net to Range Resources on a base case scenario. If we assume that £56 million is raised from the exercise of all options then on a fully diluted basis the we value the company at 56p per share

If we relax our risk weighted price for oil to US$6/boe (see V1 column above), we would value the Block at 80p per company share on a diluted basis. In addition, if we were to use the best estimated value of the undiscovered net oil-in-place at 860 mmbbls net to Range, at US$4/boe and leaving other parameters unchanged, this approach would value the project at 101p per share on a fully diluted basis.

Due to the insufficient data available to assess the Dharoor Block, we refrain from attaching any valuation for this block at this point in time. However, the Block holds significant upside as its size and proximity to the Nogal Basin points to a similar geological setting. Forthcoming exploration and release of more information and results will cause us to value this property on merit. We estimate that the company has currently £6 million cash reserves and assuming it will make a payment of A$6 million (£2.6 million) in the near future to meet its Contract of Works undertaking, our base case valuation for the company, ignoring any value on the company's equity stake in the Peruvian property operator, comes to £179 million or 56p per Range share on a fully diluted basis. With a strong and experienced management team and a strong balance sheet position to provide additional comfort, at 25.5p, we initiate coverage of Range Resources with a stance of buy and a target price of 56p.

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