AZONTO PETROLEUM LTD

# ABN 17 117 227 086

## FINANCIAL REPORT

## For the year ended 31 December 2014

# Corporate information

**Directors**

| | |
|---|---|
| Andrew Bartlett | Non-executive Chairman |
| Gregory Stoupnitzky | Managing Director |
| Andrew Sinclair | Senior Independent Non-executive Director and Deputy Chairman |
| Neil Hackett | Non-executive Director |

**Company Secretary**
Neil Hackett

**London office – Head Office**
8th Floor
Portland House
Bressenden Place
London SW1E 5BH
United Kingdom

**Registered office – Perth Australia**
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| Website: | www.azpetro.com |

**Auditors**
Ernst & Young
11 Mounts Bay Road
Perth WA 6000

**Bankers**
National Australia Bank
226 Main Street
Osborne Park WA 6017

The Royal Bank of Scotland
Queen's Cross Branch
40 Albyn Place
Aberdeen AB10 1YN

**Nominated Advisor (AIM Market) and Joint Corporate Brokers**
RFC Ambrian Limited
Condor House
10 St Paul's Churchyard
London EC4M 8AL

**Joint Corporate Broker**
GMP Securities Europe LLP
Stratton House
5 Stratton Street
London W1J 8LA

# Corporate information

**Share registry**
Computershare Investor Services Plc
The Pavillions
Bridgewater Road
Bristol BS13 8AE
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Facsimile: +44 (0) 870 703 6116

Computershare Investor Services Pty Ltd
45 St. Georges Terrace Perth WA
Telephone: +61 (0) 8 9323 2000
Facsimile: +61 (0) 8 9323 2033

**Stock exchange listing**
The Company is listed on the ASX Limited ("ASX") and the Alternative Investment Market ("AIM") on the London Stock Exchange
Home branch: Perth, Western Australia
ASX Code: APY
AIM Code: AZO

## Contents

# Directors' report

The Directors present their report on Azonto Petroleum Limited (formerly Rialto Energy Limited) ("Azonto" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2014. All amounts are in Australian dollars ("$") unless stated otherwise.

**Principal activities**
The principal activity of the Group is investing in oil and gas exploration and production projects internationally and more specifically in West Africa.

**Results**
During the period to 31 December 2013 the Company changed its financial year end from 30 June to 31 December making the comparative period six months.

The Group's revenue for the year ended 31 December 2014 was $2,215,544 (6 months to 31 December 2013: $519,463). The net loss after tax was $19,601,654 (6 months to 31 December 2013: $6,148,446), which arose from a combination of the impairment of the Accra block in Ghana of $12,785,055 and general and administrative expenses of $9,097,900, offset by the revenue. The impairment of the Accra Block arose as a consequence of the Group's decision to withdraw from the licence in early 2015. The net loss for the six months to 31 December 2013 arose from a combination of general and administrative expenses of $3,501,401 and loss of $3,393,619 incurred upon the disposal of a 65% interest in a subsidiary, offset by foreign exchange gains of $687,911. Net cash used in operations for the year to 31 December 2014 was $5,863,679 (6 months to 31 December 2013: $5,605,058).

General and administrative costs overall have increased in the year to 31 December 2014 due to a significant increase in services provided to Vioco Petroleum Limited ("Vioco"); however this was partially offset by a higher recovery of costs from partners and increased other revenue. Other revenue is principally comprised of revenue from Vioco for services provided.

**Dividends**
No dividend has been paid since the end of the financial year and no dividend is recommended for the current period.

***Operating activities***

**Corporate**
In December 2014 the Board initiated a strategic review of the business with the goal of securing the Company's core asset and significantly trimming operating costs. As a result of the restructuring, Rob Shepherd and Andrew Rose resigned from the Company as Managing Director and Finance Director respectively, and Gregory Stoupnitzky became Managing Director. Several other cost saving initiatives and headcount reductions were effected at the same time, bringing total headcount excluding non-executive directors down from 17 to 11 and significantly reducing annual general and administrative expenditures, while retaining the ability to manage the core activities and continue to pursue a few key ongoing opportunities.

**West Africa**

**Block CI-202 - Côte d'Ivoire (Indirect Working Interest: 30.45%, Paying Interest: 35%)**
The Company has a 35% ownership interest in Vioco which holds an 87% operated working interest in offshore Block CI-202, offshore Côte d'Ivoire. Vioco's working interest can be reduced to 71% if the state oil company PETROCI exercises its 16% back-in right after development approval is granted.

**Gazelle Field and Greater CI-202 Development**
Azonto and the Vioco team continue to work towards achieving project sanction for the Gazelle gas field development. The delivery scope for the gas was revised midyear and the gas will now be delivered to a power plant with a capacity to take up to 50mmscf/d of gas. The Power plant will be built on behalf of CI-Energies, the state electricity company, on a site adjacent to Vioco's onshore processing plant. The Gazelle project scope has now been finalised and the pre-engineering contract awarded to Rosetti Marino, the selected Engineering contractor. The completion of their work was scheduled for March 2015, and has delivered a firm price proposal for the development of the field. CI-Energies has gone to market with a tender for the power plant and requested bids to be submitted by the middle of December 2014. CI-

Energies has established a memorandum of understanding ("MOU") with a reputable international Independent Power Producer ("IPP") company in March 2015 to deliver the power plant and associated infrastructure for the integrated gas to power project. In December 2014, following the approval of a revised Field Development Plan, the President of Cote d'Ivoire signed a decree granting an Exclusive Exploitation Area for 25 years covering the Gazelle field. Notwithstanding the midyear change of project scope, great progress has been made towards the sanction and execution of the Gazelle gas project which, as our core asset, remains our primary focus in line with the strategic review.

**Prospect Generation, Seismic Processing and Quantitative Analysis**
The final version of the Pre-Stack Depth Seismic data volume is being interpreted, with re-mapping of old prospects, and new prospectivity evaluation underway. As a result of the detailed geophysical work, Hippo North has now been high graded and will be proposed as the next exploration drilling candidate. Hippo North would be very suitable to provide additional gas resources, extending the production plateau for the Gazelle gas to power project. Additional exciting exploration prospects such as Arius are still being matured and provide further upside in the CI-202 block.

**Accra Block – Ghana**
In March 2015 the Group announced that, as a result of a continued strategic review of its operations and prolonged discussions with the government of Ghana and potential partners with regard to ongoing participation in the Offshore Accra Block, it had decided not to continue with its deep-water exploration acreage in the Offshore Accra Block, Ghana.

Following the exit from the Block of other partners in March 2014 Azonto's subsidiary Azonto Petroleum (Ghana) Limited, in which Vitol E&P Limited has a 43% interest, and the other remaining partner Afex Oil (Ghana) Limited (together the "JV Partners"), secured a 6-month extension of the Licence to 23 September 2014 for the purpose of determining whether suitable operating partners could be found to proceed with into the next phase of Exploration under the Petroleum Agreement. During the extension period the Company undertook extensive technical work, including further detailed evaluation of the seismic data and remapping, and set up a detailed Data Room which was visited by over ten companies.

However, as a result of the currently challenging market conditions, a farmout agreement could not be finalised and the JV Partners elected not to seek a further extension to the Initial Exploration Period, nor to apply to enter into the First Extension Period under the Petroleum Agreement. As a consequence, the JV Partners have formally advised the Ghana Ministry of Energy and Petroleum that all of the Contract Area is relinquished and that Azonto Petroleum (Ghana) Limited has withdrawn as temporary Operator in respect of the Licence.

There were no outstanding commitments under the work programme, which was completed in the period to 31 December 2013.

**Financial summary**
Interest revenue for the year to 31 December 2014 was $12,030 (6 months to 31 December 2013: $24,635). Other revenue for the year to 31 December 2014 was $2,203,514 (6 months to 31 December 2013: $494,828). Other revenue principally comprises income receivable from Vioco for services provided by Azonto to the CI-202 joint venture. The Group's total revenue for the year to 31 December 2014 was $2,215,544 (6 months to 31 December 2013: $519,463).

Impairment of exploration assets for 31 December 2014 was $12,785,055 (6 months to 31 December 2013: $96,980). The impairment in the year to 31 December 2014 relates to the Accra Block in Ghana which the Group is in the process of relinquishing. The impairment in the period to 31 December 2013 relates to licence WA-399-P in Australia that the Group relinquished.

Administrative expenses for the year to 31 December 2014 were $9,097,900 (6 months to 31 December 2013: $3,501,401) net of expenses capitalised or recovered from partners of $4,491,964 (6 months to 31 December 2013: $1,812,994). Within the gross expenses total employee and director compensation expense, excluding share-based payments, was $4,218,552 (6 months to 31 December 2013: $2,292,075), and other general administrative costs were $8,676,660 (6 months to 31 December 2013: $2,850,025). In the year to 31 December 2014 share based payments were $463,102 (6 months to 31 December 2013: $56,728). The higher share based expense is due to the timing of when share option awards and performance rights were granted to employees.

General and administrative costs overall have increased in the year to 31 December 2014 compared with the six months to 31 December 2013 on a comparative basis due to a significant increase in services provided to Vioco; however this was partially offset by a higher recovery of costs from partners and increased other revenue. Other revenue is principally comprised of revenue from Vioco for services provided.

A pro-forma comparison of general and administrative expenses in the two periods on a gross (after adding back expenses capitalised to exploration expenditure or recovered from partners) and a net basis is shown below:

| | 12 months to 31 December 2014 | 6 months to 31 December 2013 |
|---|---|---|
| | $ | $ |
| **General and administrative expenses** | | |
| General and administrative expenses | 9,097,900 | 3,501,401 |
| Less share based payments | (463,102) | (56,728) |
| Less depreciation | (231,550) | (115,567) |
| | 8,403,248 | 3,329,106 |
| Add expenses capitalised to exploration expenditure or recovered from partners | 4,491,964 | 1,812,994 |
| **Gross general and administrative expenses** | **12,895,212** | **5,142,100** |
| Less revenue from Vioco | (2,203,514) | (494,828) |
| Less expenses capitalised to exploration expenditure or recovered from partners | (4,491,964) | (1,812,994) |
| **Net general and administrative expenses** | 6,199,734 | 2,834,278 |

Capitalised costs, including time spent by employees on exploration interests, are charged to the applicable exploration activities. In addition costs of employee time spent on Block CI-202 since the 65% disposal and deconsolidation of Vioco in November 2013 which were originally capitalised to exploration expenditure are now included in other revenue as they are charged to Vioco. The amount of employee time spent on Block CI-202 in the year to 31 December 2014 was lower compared with the six month period to 31 December 2013 on a comparative basis. The majority of the 2014 expenses capitalised to exploration expenditure or recovered from partners is recovered from partners and principally relates to contractor consultancy services provided to Vioco.

The loss on disposal of subsidiary of $222,631 (6 months to 31 December 2013: $3,393,619) relates to adjustments to the original loss on disposal of 65% of Vioco recognised in the six month period to 31 December 2013.

The foreign currency gain for the year to 31 December 2014 was $463,743 (6 months to 31 December 2013: $687,911). The gain was due to the continued weakening of the Australian dollar in the year affecting the cash balances held in US dollars and British pounds.

The net loss before tax for the year to 31 December 2014 was $19,555,250 (6 months to 31 December 2013: $6,048,583) and the net loss after tax was $19,601,654 (6 months to 31 December 2013: $6,148,466).

Cash and cash equivalents at 31 December 2014 were $7,020,698 (2013: $9,430,190). Net cash used in operations for the year to 31 December 2014 was $5,863,679 (6 months to 31 December 2013: $5,605,058).

**Equity issues**

During the year, 3,610,000 performance rights were converted to 3,610,000 Ordinary Shares for nil consideration pursuant to the Azonto Petroleum Performance Rights Plan.

**Material business risks**
The Board has identified the following material business risks and adopted mitigating strategies as described below:

| Risk / Uncertainty | Description | Mitigation |
|---|---|---|
| Gazelle Development | The risk that the requisite approvals, financing and other requirements for the project to reach fruition are not forthcoming, including the delivery by CI-Energies of the planned power plant. The Company's 35% share in Vioco represents substantially all of its current value. | The Company's management is very focused on delivering value from Gazelle as its core asset and is focused on providing the necessary support to Vioco to allow it to satisfy all requirements for final project sanction, including maintaining active engagement with the authorities in Cote d'Ivoire and with potential sources of debt finance. |
| Subsurface Risk | The risk that a structure may be found not to contain hydrocarbons when drilled, or that a reservoir may not flow oil or gas as expected. This risk is common to all oil and gas exploration and production businesses. | Comprehensive analysis of subsurface data and petroleum systems is undertaken by qualified staff using sophisticated techniques. Where deemed necessary external expertise is sought to carry out analysis or to validate the Company's own judgements. |
| Funding Risk | The Gazelle development may require the Company to raise additional equity. There is a risk that debt or equity funds may not be available from the markets at the appropriate time. | Regular contact is maintained with investors, brokers and analysts in both Australia and the UK. Relationships are maintained with lending banks and other potential sources of debt finance. The Vitol-Azonto Shareholders' Agreement includes a mechanism for addressing any further funding requirements. |
| Retention of Key Staff | The risk that the Company is unable to attract and retain key staff of a sufficient calibre. | The Performance Rights Plan provides material equity incentives to deliver exceptional performance. |
| Country Risk | The risk of civil unrest, insurrection, delays to approvals and changes to contract terms. Operating in Africa may often carry many of these risks. | Close relations are maintained at all levels with host governments, so that if any such issues were to arise a dialogue may be initiated immediately. Security and evacuation procedures are in place for ex-pat staff. |
| Health, Safety, Security and Environment (HSSE) | Exploration and production activity involves many risks of an HSSE nature. | HSSE matters are accorded high priority at Board level and risk assessments are periodically carried out. Appropriate policies and procedures are in place to mitigate such risks. |

**Directors**
The names and details of the Company's Directors in office during the financial period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

| | | |
|---|---|---|
| A. Bartlett | Independent Non-executive Chairman | |
| G. Stoupnitzky | Managing Director | Appointed Business Development Director 14 January 2014 and Managing Director on 20 January 2015 |
| A. Sinclair | Senior Independent Non-executive Director and Deputy Chairman | Appointed Senior Independent Non-executive Director and Deputy Chairman 3 March 2014 |
| N. Hackett | Independent Non-executive Director | |
| R. Shepherd | Managing Director | Resigned 20 January 2015 |
| A. Rose | Director and Chief Financial Officer | Appointed Executive Director on 3 March 2014 and resigned 20 January 2015 |

**Andrew Bartlett – Independent Non-executive Chairman**
Mr Andrew Bartlett has over 30 years of experience in the oil and gas Industry. An experienced investment banker based in London, Mr Bartlett was both the Global Head of Oil and Gas Project Finance and Global Head of Oil and Gas Mergers & Acquisitions at Standard Chartered Bank until July 2011. In the period 1998 to 2001, prior to going into investment banking, Mr Bartlett helped to establish Shell Capital, a private equity/mezzanine debt group set up by Royal Dutch Shell to finance small producers in emerging markets. Prior to joining Shell Capital Mr Bartlett worked for Royal Dutch Shell as a Petroleum Engineer and Development Manager where he gained extensive experience in developing and operating oil and gas fields. Postings included the North Sea, Netherlands, Somalia, New Zealand and Syria. He is currently a director of Petroleum and Renewable Energy Company Limited ("Petrenel"), Impact Oil and Gas Plc and is a director of Bartlett Energy Advisers.

*Other current directorships*
Bartlett Energy Advisers – appointed 9 August 2011
Petrenel Limited – appointed 1 September 2011
Impact Oil and Gas PLC – appointed 10 July 2014

*Former directorships in last 3 years*
Energean Oil and Gas (Cyprus) Limited – appointed 31 July 2011, resigned 28 August 2012
Eland Oil and Gas PLC - appointed 1 January 2013, resigned 31 July 2014

**Mr Gregory Alexis Stoupnitzky – Managing Director**
Mr Stoupnitzky brings over 30 years of Investment Banking and Capital Markets experience, with a long track record in the natural resources and related sectors. During this time Mr Stoupnitzky has held senior positions with Bear Stearns, Morgan Stanley and most recently with Renaissance Capital in London. Mr Stoupnitzky is a founder and Managing Partner of CIS Capital LLC, which provides advice to private equity funds and small caps in valuation, disposal or merger of oil and gas and power assets. During the course of his career Mr Stoupnitzky has established an impressive track record of Emerging Markets transactions in geographies across Latin America, Russia and the Commonwealth of Independent States (CIS), and Sub-Saharan Africa.

In the last six years Mr Stoupnitzky has been an Advisory Board Member of Pace Financial Services, a member of the Advisory Council for the Center for Energy, Marine Transportation and Public Policy at Columbia University, and a Director of the US-Russia Business Council, in Washington DC.

*Other current directorships*
School of International and Public Affairs, Columbia University, New York, USA – appointed 16 January 2013

*Former directorships in last 3 years*
None

**Mr Andrew Ian Sinclair – Senior Independent Non-executive Director and Deputy Chairman**
Mr Andrew Sinclair is a senior oil and gas financier and is presently the Founder, Commercial Lead and Investment Committee Member at Giant Capital. Prior to this Mr Sinclair worked for Macquarie Bank for 16 years, where he held positions in the Sydney, Houston and London offices. He has extensive equity and debt transaction experience and his last 10 years at Macquarie Bank were spent entirely focusing on the provision of capital to the upstream oil and gas industry. Andrew has a BE (Honours) degree in Mechanical Engineering from the University of Sydney

*Other current directorships*
Giant Capital Management Limited – appointed 8 July 2011
Giant Capital Bermuda Limited – appointed 27 February 2013

*Former directorships in last 3 years*
Giant Investment Manager Limited – appointed 27 November 2012, resigned 28 February 2014
Giant Capital GP Limited – appointed 27 November 2012, resigned 28 February 2014

**Neil Hackett – Independent Non-executive Director**
Mr Neil Hackett holds a Bachelor of Economics from the University of Western Australia, post-graduate qualifications in Applied Finance and Investment, and is a Graduate (Order of Merit) with the Australian Institute of Company Directors. Mr Hackett is an Affiliate of the Institute of Chartered Secretaries of Australia and a Fellow of the Financial Services Institute of Australia. He is currently Non-executive director of Australian Securities Exchange listed entity Ardiden Limited and company secretary of Modun Resources Limited and Thinksmart Limited. Mr Hackett is also chairman of Westcycle Inc. Mr Hackett's previous West African experience includes company secretary at Ampella Mining Limited, Sundance Resources Limited and work with the Australian Securities and Investment Commission.

*Other current Directorships*
Ardiden – appointed 5 June 2011
Westcycle Inc – appointed 1 April 2011

*Former Directorships in last 3 years*
Modun Resources Limited – appointed 31 January 2014, resigned 11 March 2015
African Chrome Fields Limited – appointed 9 June 2011, resigned 12 February 2015

**Meetings of Directors**

The following Directors' meetings were held during the twelve months and the number of meetings attended by each of the Directors during the period was:

| | | Meetings of committees | |
|---|---|---|---|
| | **Directors' meetings** | **Remuneration** | **Audit** |
| Number of meetings held | 8 | 3 | 2 |
| Number of meetings attended: | | | |
| A Bartlett | 7 | - | 2 |
| G Stoupnitzky | 8 | - | 1 |
| A Sinclair | 8 | 3 | 1 |
| N Hackett | 8 | 3 | 2 |
| R Shepherd | 8 | - | 2 |
| A Rose | 8 | - | 2 |

**Directors' interests in the shares and options of the Company**

As at the date of this report, the relevant interest of each Director in the shares, options and rights of Azonto Petroleum Limited were:

| Securities | A Bartlett | G Stoupnitzky | N Hackett | A Sinclair |
|---|---|---|---|---|
| Ordinary shares | | | | |
| - Direct | 2,136,667 | 2,333,333 | 706,667 | 1,963,333 |
| - Indirect | - | - | - | - |
| Performance rights | | | | |
| - Direct | 11,632,776 | 16,253,000 | 6,501,179 | 6,501,179 |
| - Indirect | - | - | - | - |
| Options | | | | |
| - Direct | - | - | - | - |
| - Indirect | - | - | - | - |

**Company Secretary**
Mr Neil Hackett is Company Secretary. His details are detailed in the Directors section above.

Mr Andrew Rose resigned as Joint Company Secretary on 15 January 2015.

**Significant changes in the state of affairs**
There were no changes in the state of affairs of the Group other than those referred to elsewhere in this report of the financial statements or notes thereto.

**Significant events after balance date**

- On the 20 January 2015, the Company announced that Rob Shepherd and Andrew Rose had resigned as Managing Director and Director and Chief Financial Officer respectively and Gregory Stoupnitzky was appointed as Managing Director.
- On the 11 March 2015, the Company announced that it was relinquishing its interest in the Offshore Accra Block in Ghana.
- On 30 March 2015, the Company announced that as the lump sum price for construction of the Gazelle project in the Côte d'Ivoire CI-202 block was higher than expected, the Board of Vioco Petroleum Limited has decided to retender the construction package. This will result in a delay in Gazelle Project sanction.

**Likely developments and expected results**
The company intends to continue to support the proposed development of the Gazelle field through its joint venture in Vioco. In addition it will continue to look selectively for new investment opportunities in the West Africa region.

**Environmental regulation and performance**
There are no particular and significant environmental regulations that have affected the performance of the Group's operations.

**Share options**
As at the date of this report, there were 35,310,150 unissued ordinary shares under options (35,310,150 at the reporting date).

Details of unissued ordinary shares at the date of this report are:

| Number | Expiry date | Exercise price |
|---|---|---|
| 2,900,000 | 28-Jun-15 | 0.40 |
| 900,000 | 28-Jun-15 | 0.60 |
| 9,900,000 | 21-Jul-15 | 0.25 |
| 166,666 | 01-Aug-15 | 0.80 |
| 666,667 | 15-Aug-15 | 0.60 |
| 7,963,409 | 04-Apr-16 | 0.50 |
| 7,963,408 | 18-Apr-16 | 0.50 |
| 750,000 | 01-May-16 | 0.80 |
| 900,000 | 28-Jun-16 | 0.40 |
| 900,000 | 28-Jun-16 | 0.60 |
| 500,000 | 21-Dec-16 | 0.43 |
| 900,000 | 28-Jun-17 | 0.40 |
| 900,000 | 28-Jun-17 | 0.60 |
| **35,310,150** | | |

There were no options issued or exercised and 3,166,668 options were forfeited during the financial year. No options have been issued since the end of the financial period to the date of the report. Option holders do not have any right by virtue of the options to participate in any issue of shares by the Company.

**Performance rights**
At the date of the report the Company has 137,254,030 performance rights. No performance rights have been converted to ordinary shares since the end of the financial period to the date of the report.

| Number of rights | Exercise price | Vesting date |
|---|---|---|
| 250,000 | - | 1-Jul-13 |
| 45,446,844 | - | 18-Dec-17 |
| 91,557,186 | - | 18-Dec-17 |
| **137,254,030** | | |

The rights vesting on 1 July 2013 had not been issued by the end of the financial period. The only vesting condition for these rights was continued employment at time of vesting.

The Performance Rights vesting on 18 December 2017, which were granted on 18 December 2013 and 13 June 2014, will vest subject to the satisfaction of certain performance criteria including continued employment throughout the vesting period. The Rights are split into two tranches, Tranche 1 (45,446,844 rights), and Tranche 2 (91,557,186 rights). Details of the vesting conditions attaching to these performance rights may be found in the Remuneration Report (see below).

**Performance shares**
At the date of the report the Company has 15,000,000 outstanding performance shares relating to the consideration for the acquisition of Azonto Petroleum Holdings Limited (formerly CLNR Holdings Limited) in July 2010. The performance shares convert into ordinary shares on the issue of an independent reserve report delineating mean reserves in excess of 40 million barrels of oil equivalent in Block CI-202.

**Officers' indemnities and insurance**
The Group has, during the financial period, entered into an agreement with the Directors and certain officers to indemnify these individuals against any claims and related expenses which arise as a result of work completed in their respective capabilities.

During the financial period, the Group has paid premiums in respect of a contract insuring all the Directors and Officers of Azonto Petroleum Limited against costs incurred in defending proceedings except for conduct involving:

(a) a wilful breach of duty; or
(b) a contravention of sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid in the year was $89,544 (6 months to 31 December 2013: $74,853).

**Indemnification of auditors**
To the extent permitted by law, the Group has agreed to indemnify its Auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## Remuneration report (Audited)

The Directors and key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration levels for Directors and key management personnel are competitively set to attract and retain appropriately qualified and experienced Directors and executives.

The Board is responsible for remuneration policies and practices. The Remuneration Committee assesses the appropriateness of the nature and amounts of remuneration of officers and employees on a periodic basis and makes recommendations to the Board. The Remuneration Committee, where appropriate, seeks independent advice on remuneration policies and practices, including remuneration packages and terms of employment. The Group's securities trading policy regulates dealings by Directors, officers and employees in securities issued by the Group. The policy imposes trading restrictions on all Directors, key management personnel and employees of the Group and their related companies who possess inside information.

The remuneration structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group.

The Group has in place the following incentive plans:

- A Short Term Incentive Plan providing for cash bonuses to be paid annually based on a combination of individual and corporate performance over the previous year.
- A Performance Rights Plan (the "ASIC Relief Plan") for Australian resident directors and employees,and
- A Performance Rights Plan (the "No ASIC Relief Plan") for directors and employees outside Australia.

A summary of these Plans is set out below. The Board is of the opinion that these incentive plans achieve the following outcomes:

- Alignment of the interests of the Group's employees with that of shareholders;
- Retention of staff and management to pursue the Group's strategy and goals;
- Fair and reasonable reward for past individual and Group performance; and
- Incentive to deliver future individual and Group performance.

**Performance Rights Plans**
The Plans, which are substantially identical in nature, are open to any Executive Director, full time or part time employee or contractor of the Group who is declared by the Board to be eligible to receive grants of Performance Rights under the Plans. In addition the No ASIC Relief Plan permits grants to be made to non-executive Directors. Subject to the satisfaction of the vesting conditions given to eligible participants, each Performance Right vests to one Share.

The Performance Rights are issued for nil cash consideration and no consideration will be payable upon the vesting of the Performance Rights. Vesting conditions, if any, are determined by the Board from time to time and set out in individual offers for the grant of Performance Rights. Shares issued upon vesting may be freely transferred subject to compliance with the Group's securities trading rules.

The vesting conditions applicable to all of the outstanding Rights are set out below:

<u>Tranche 1 (1/3 of Rights outstanding)</u>
The Tranche 1 Performance Rights will vest on achievement of three strategic milestones (the Tranche 1 Vesting Conditions), within four years of grant. The first milestone, namely the completion of the sale to Vitol of 65% of the Company's subsidiary in Cote d'Ivoire (now named Vioco), was achieved in 2013. The remaining strategic milestones are as follows:

(a) all government and partner approvals, offtake, supply and service contracts, financings and other necessary conditions for the Gazelle field development project to proceed having been obtained and agreed and Vioco Petroleum Ltd having taken the Final Investment Decision to proceed with the project; and

(b) the first delivery of gas from the Gazelle field to the Cote d'Ivoire state electricity company (or other agreed purchaser) having been made under stabilised flow rate conditions.

In the event that not all of the Tranche 1 Vesting Conditions are satisfied within four years of grant, the Board may resolve that a proportion of the Tranche 1 Performance Rights vest based on the degree of progress towards satisfaction of the Tranche 1 Vesting Conditions that has been achieved.

The three strategic milestones were chosen by the Board as they were considered to be the key milestones that the Company is currently working towards.

Tranche 2 (2/3 of Rights outstanding)
The Tranche 2 Performance Rights will vest on achievement of certain share price hurdles (to be calculated based on the VWAP over the 10 trading days prior to the date of issue) within four years of grant, subject to the Board being satisfied, at the end of the four year period, with the overall financial, strategic and HSE performance of the Company over that four year period.

The share price hurdles are as follows:

(a) 25% of the Tranche 2 Performance Rights will vest if the Company's Share price reaches $0.05 per share;
(b) a further 25% of the Tranche 2 Performance Rights will vest if the Company's Share price reaches $0.07 per share;
(c) the remaining 50% of the Tranche 2 Performance Rights will vest if the Company's Share price reaches $0.09 per share.

A series of share price hurdles was chosen as a performance condition for Tranche 2 as this was considered by the Board to be the best way of aligning management incentives with shareholder returns. The share price hurdles in question were selected so as to provide stretching targets for full vesting.

**Short Term Incentive Plan**
The Short Term Incentive Plan provides for the payment of discretionary cash bonuses to Executive Directors, full time or part time employees or contractors of the Group annually in respect of their performance and the overall performance of the Group during the previous financial year. The Plan establishes maximum bonus levels as a percentage of salary by grade of employee and a guideline framework for calibrating the actual bonus against the maximum according to certain parameters of individual and corporate performance. However all bonus payments are entirely at the discretion of the Board and there are no contractual bonus entitlements under the Plan.

**Non-executive Directors**
The fixed fees for the Non-executive Directors were last reviewed by PWC in late 2013. There are no termination or retirement benefits for non-executive Directors (other than statutory superannuation). The maximum available pool of fees is set by shareholders in general meeting and is currently $350,000 per annum.

**Fixed remuneration for executives**
Fixed remuneration for executives consists of base remuneration (which is calculated on a total cost basis and includes any Fringe Benefit Tax charges related to employee benefits), as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Board where applicable. The process consists of a review of Group and individual performance, length of service, relevant comparative remuneration internally and externally and market conditions.

**Service contracts**
Remuneration and other terms of employment for Executive Directors and other key management personnel are formalised in service agreements and letters of employment (conditions of employment). All parties continue to be employed until their employment is terminated. Employment contracts can be terminated by either party by providing 3 months' written notice. The Company may make payment in lieu of notice.

Key management personnel are entitled to receive, on termination of employment, statutory entitlements of vested annual and long service leave, together with post-employment benefits. Any options or rights awarded but not vested at the time of resignation will be cancelled unless the Board advises otherwise at its own discretion.

Employment contracts do not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year with consideration of employment market conditions, changes in the scope of the role performed by the employee and changes in remuneration policy set by the Remuneration Committee.

**Remuneration**
Details of the remuneration of the Directors of the Company and key management personnel are set out in the following tables.

The key management personnel of the Company include the following Directors and executive officers:

- Andrew Bartlett
- Gregory Stoupnitzky
- Andrew Sinclair
- Neil Hackett
- Rob Shepherd Resigned 20 January 2015
- Andrew Rose Resigned 20 January 2015
- Jeff Durkin
- Jay Smulders Appointed Technical Director 22 April 2014

The cash bonus and share-based payment rights detailed in the table below are performance related. Share-based payment options are related to ongoing service conditions with the Company. While options issued have no performance conditions, they were issued at an exercise price out of the money at grant date, which encourages employees to remain with the Company and work towards achieving share price growth. The value of options and rights shown in the tables below represent the vesting expense, measured in accordance with Australian Accounting Standards, for awards granted in the current or previous financial years.

The Corporations Act requires disclosure of the Company's remuneration policy to contain a discussion of the Company's earnings, performance and the effect of the Company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below provides a five year financial summary to 31 December 2014:

| | Dec-14<br>12 months | Dec-13<br>6 months | Jun-13<br>12 months | Jun-12<br>12 months | Jun-11<br>12 months |
|---|---|---|---|---|---|
| Net loss after tax | (19,601,654) | (6,148,466) | (170,626,492) | (10,163,601) | (7,979,680) |
| EPS (cents) Basic | (1.30) | (0.58) | (24.99) | (2.16) | (2.78) |
| EPS (cents) Diluted | (1.30) | (0.58) | (24.99) | (2.16) | (2.78) |
| Year-end share price | 0.01 | 0.03 | 0.03 | 0.21 | 0.44 |

Following is the table of remuneration for the year ended 31 December 2014:

| Name | Short-term benefits: Salary and fees $ | Short-term benefits: Cash bonus $ | Share-based payment (g): Rights $ | Total $ | Performance related % |
|---|---|---|---|---|---|
| ***Non- executive Directors*** | | | | | |
| A Bartlett | 115,000 | - | 55,014 | 170,014 | 32.4 |
| A Sinclair (a) | 118,765 | - | 30,745 | 149,510 | 20.6 |
| N Hackett (b) | 98,999 | - | 30,745 | 129,744 | 23.7 |
| ***Executive Directors*** | | | | | |
| G Stoupnitzky (c) | 341,972 | - | 58,414 | 400,386 | 14.6 |
| R Shepherd (d) | 484,628 | - | 102,485 | 587,113 | 17.5 |
| A Rose (e) | 365,757 | - | 28,617 | 394,374 | 7.3 |
| ***Executives*** | | | | | |
| J Durkin | 337,785 | - | 27,046 | 364,831 | 7.4 |
| J Smulders (f) | 233,143 | 171,433 | 25,175 | 429,751 | 5.9 |
| Total | 2,096,049 | 171,433 | 358,241 | 2,625,723 | |

(a) Mr Sinclair received $90,000 for Director's fees and $28,765 for consulting fees.
(b) Mr Hackett received $74,999 for Directors' fees and $24,000 for services as Company Secretary.
(c) Mr Stoupnitzky received $328,472 for salary and $13,500 for consulting fees.
(d) Mr Shepherd resigned as Managing Director on 20 January 2015.
(e) Mr Rose was appointed Director on 3 March 2014 and resigned on 20 January 2015.
(f) Mr Smulders was appointed Technical Director on 22 April 2014.
(g) Vesting expense for the fair value of share based payment awards determined at grant date in accordance with Australian Accounting Standards.

# Directors' report

Following is the table of remuneration for the six months ended 31 December 2013:

| Name | Short-term benefits | | Post-employment benefits | Share-based payment (f) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees $ | Cash bonus $ | Superannuation $ | Options $ | Rights $ | Total $ | Value of options as proportion of remuneration % | Performance related % |
| ***Non- executive Directors*** | | | | | | | | |
| A Bartlett (a) | 108,505 | - | - | 15,970 | 5,878 | 130,353 | 12.3 | 4.5 |
| G Stoupnitzky (b) | 101,500 | - | - | 15,970 | 5,072 | 122,542 | 13.0 | 4.1 |
| N Hackett (c) | 42,644 | - | 353 | 15,970 | 3,285 | 62,252 | 25.7 | 5.3 |
| A Sinclair | 30,000 | - | - | - | 3,285 | 33,285 | - | 9.9 |
| ***Executive Directors*** | | | | | | | | |
| R Shepherd | 227,626 | 95,238 | - | - | 10,950 | 333,814 | - | 31.8 |
| ***Executives*** | | | | | | | | |
| A Rose (d) | 175,230 | - | - | - | - | 175,230 | - | - |
| J.Durkin (e) | 108,771 | - | - | - | - | 108,771 | - | - |
| Total | 794,276 | 95,238 | 353 | 47,910 | 28,470 | 966,247 | | |

(a) Mr Bartlett received $40,000 for Chairman's fees and $68,505 for consulting fees
(b) Mr Stoupnitzky received $25,000 for Directors' fees and $76,500 for consulting fees
(c) Mr Hackett received $24,644 for Directors' fees, $6,000 for consulting fees and $12,000 for services as Company Secretary
(d) Mr Rose was appointed Interim Chief Financial Officer on 27 August 2013, Chief Financial Officer on 1 December 2013 and Director on 3 March 2014
(e) Mr Durkin was appointed General Counsel on 2 September 2013
(f) Vesting expense for the fair value of share based payment awards determined at grant date in accordance with Australian Accounting Standards.

***Bonuses***

In the year to 31 December 2014 Mr Smulders received a sign-on bonus of $171,433 (£94,339).

On 31 December 2013 Mr Shepherd was awarded a discretionary cash bonus of $95,238 (£53,000) in respect of the six months ended on that date, in recognition of the successful conclusion of the Vitol transaction and PSC renegotiation. The bonus was given under the Company's short term incentive plan and was paid on 27 January 2014.

***Employee share benefits plan***

At the end of the financial year the following share-based payment arrangements were in existence. Options and performance rights issued prior July 2013 do not have performance conditions: instead, options were issued at an exercise price out of the money at grant date, while the performance rights are issued subject to service conditions, both of which encourage employees to remain with the Company and work towards achieving share price growth.

The Performance Rights granted in the periods to 31 December 2013 and 31 December 2014 will vest subject to the satisfaction of certain performance criteria as disclosed above.

**Options**

The below table represents options issued still in existence at the end of the financial year:

| Reference number | Grant date | Expiry date | Grant date fair value | Exercise price | Vesting dates (i) |
|---|---|---|---|---|---|
| 1 | 30-Nov-10 | 28-Jun-15 | $0.548 | $0.40 | (ii) |
| 2 | 30-Nov-10 | 28-Jun-15 | $0.515 | $0.60 | Immediately |
| 3 | 30-Nov-10 | 28-Jun-16 | $0.572 | $0.40 | 28-Jun-2011 |
| 4 | 30-Nov-10 | 28-Jun-16 | $0.545 | $0.60 | 28-Jun-2011 |
| 5 | 30-Nov-10 | 28-Jun-17 | $0.569 | $0.60 | 28-Jun-2012 |
| 6 | 30-Nov-10 | 28-Jun-17 | $0.590 | $0.40 | 28-Jun-2012 |
| 7 | 15-Jul-11 | 01-Aug-15 | $0.256 | $0.80 | Immediately |
| 8 | 15-Jul-11 | 01-May-16 | $0.263 | $0.80 | (iii) |
| 9 | 29-Nov-11 | 15-Aug-15 | $0.154 | $0.60 | (iv) |
| 10 | 21-Dec-11 | 21-Dec-16 | $0.154 | $0.43 | (v) |

(i) Unless a single vesting date is provided, all other options vest one-third on each vesting date;
(ii) Vesting occurs as follows: Immediately on grant, 28 June 2011 and 28 June 2012;
(iii) Vesting occurs as follows: Immediately on grant, 1 May 2012 and 1 May 2013;
(iv) Vesting occurs as follows: Half immediately on grant and 7 December 2012;
(v) Vesting occurs as follows: 30% vesting two years and three years from grant date and 40% vesting four years from grant date;

**Performance rights**
The table below represents performance rights issued still in existence at the end of the financial year:

| Reference number | Grant date | Grant date fair value | Vesting dates |
|---|---|---|---|
| 11 | 29-Nov-11 | $0.28 | 1-Jul-2013 |
| 12 | 18-Dec-13 | $0.03 | 18-Dec-17 |
| 13 | 18-Dec-13 | $0.02 | 18-Dec-17 |
| 14 | 13-Jun-14 | $0.02 | 18-Dec-17 |
| 15 | 13-Jun-14 | $0.01 | 18-Dec-17 |

The following grants of share-based payment compensation, including options and performance rights to Directors and senior management, were awarded or vested during the current financial year:

| Name | Financial year granted | Granted ref number | No. granted during year | No. vested during year | No. vested to date | % vested during year | % vested to date |
|---|---|---|---|---|---|---|---|
| ***Executive Directors*** | | | | | | | |
| G Stoupnitzky | 2014 | 14,15 | 6,215,180 | - | - | - | - |
| A Rose | 2014 | 14,15 | 16,253,000 | - | - | - | - |
| ***Executives*** | | | | | | | |
| J Durkin | 2014 | 14,15 | 16,253,000 | - | - | - | - |
| J Smulders | 2014 | 14,15 | 15,128,529 | - | - | - | - |

The following table summarises the value of options granted, exercised or lapsed and the value of rights granted, issued or lapsed during the financial year:

| Name | Value of options & rights at grant date(i) | Value of options exercised at exercise date(ii) | Value of options lapsed at the date of lapse(iii) | Value of rights lapsed at the date of lapse(iii) |
|---|---|---|---|---|
| ***Executive Directors*** | | | | |
| G Stoupnitzky | 66,067 | | | |
| A Rose | 172,769 | - | - | - |
| ***Executives*** | | - | - | - |
| J Durkin | 172,679 | - | - | - |
| J Smulders | 160,816 | - | - | - |

(i) The value of options and rights granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards;
(ii) The value of options exercised is determined as intrinsic value at exercise or issue date;
(iii) The value of options and rights lapsing during the year due to the failure to satisfy a vesting condition is determined at lapse date based on the intrinsic value at lapse date;

Following is the table of rights holdings for the year ended 31 December 2014:

| 31 December 2014 | Balance 1 January 2014 (i) | Granted as remuneration | Exercised | Net change other | Balance 31 December 2014 | Vested at 31 December 2014 | Vested and Exercisable at 31 December 2014 | Vested and unexercisable at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| ***Direct interest*** | | | | | | | | |
| **Directors** | | | | | | | | |
| A Bartlett | 11,632,776 | - | - | - | 11,632,776 | - | - | - |
| G Stoupnitzky | 10,037,820 | 6,215,180 | - | - | 16,253,000 | - | - | - |
| A Sinclair | 6,501,179 | - | - | - | 6,501,179 | | | |
| N Hackett | 6,501,179 | - | - | - | 6,501,179 | - | - | - |
| R Shepherd | 21,670,596 | - | - | - | 21,670,596 | - | - | - |
| A Rose | - | 16,253,000 | - | - | 16,253,000 | - | - | - |
| **Executives** | | | | | | | | |
| J Durkin | - | 16,253,000 | - | - | 16,253,000 | - | - | - |
| J Smulders | - | 15,128,529 | - | - | 15,128,529 | - | - | - |
| | 56,343,550 | 53,849,709 | - | - | 110,193,259 | - | - | - |

(i) Appointments and resignations as follows:
  (a) J Smulders appointed 22 April 2014.

(ii) Key management personnel had no option holdings in 2014.

Following is the table of shareholdings for the period ended 31 December 2014:

| 31 December 2014 | Balance 1 January | Granted as remuneration | Options exercised | Rights issued | Net change other | Balance 31 December |
|---|---|---|---|---|---|---|
| ***Direct interest*** | | | | | | |
| **Directors** | | | | | | |
| A Bartlett | 2,136,667 | - | - | - | - | 2,136,667 |
| G Stoupnitzky | 1,333,333 | - | - | - | 1,000,000 | 2,333,333 |
| N Hackett | 706,667 | - | - | - | - | 706,667 |
| A Sinclair | 723,333 | - | - | - | 1,240,000 | 1,963,333 |
| R Shepherd | 7,502,945 | - | - | - | 2,400,000 | 9,902,945 |
| A Rose | 4,263,230 | - | - | - | 2,400,000 | 6,663,230 |
| **Executives (i)** | | | | | | |
| J Smulders | - | - | - | - | 4,000,000 | 4,000,000 |
| | 16,666,175 | - | - | - | 11,040,000 | 27,706,175 |
| ***Indirect interest(ii)*** | | | | | | |
| **Directors** | | | | | | |
| A Rose | 2,152,747 | - | - | - | - | 2,152,747 |
| | 2,152,747 | - | - | - | - | 2,152,747 |

(i) Appointments and resignations as follows:

(a) J Smulders appointed 22 April 2014.

(ii) Indirect interests are shareholdings that the director has a relevant interest in but is not the registered holder.

**Other related party transactions**
During the year the company paid Giant Capital Management Limited, a related party of Andrew Sinclair, $41,017 for additional consulting fees.

*End of audited remuneration report*

**Non-audit services**
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important. The Board of Directors are satisfied that the provision of the non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Details of the amount paid or payable to the auditor for audit services provided during the year are set out in Note 23. There were no non-audit services provided during the year.

**Rounding**
The amounts contained in this report and in the financial report have been rounded to the nearest $1,000,000 (where rounding is applicable) and where noted ($ millions) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which class order applies.

**Auditor's independence declaration**
A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

Signed in accordance with a resolution of the Directors.

**Andrew Bartlett**
**Chairman**
31 March 2015

Building a better working world

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# Auditor's Independence Declaration to the Directors of Azonto Petroleum Limited

In relation to our audit of the financial report of Azonto Petroleum Limited for the financial year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Russell Curtin
Partner
31 March 2015

# Consolidated statement of comprehensive income

For the year ended 31 December 2014

| | Notes | Consolidated 12 Month 31 December 2014 $ | Consolidated 6 Month 31 December 2013 $ |
|---|---|---|---|
| Interest revenue | | 12,030 | 24,635 |
| Other revenue | | 2,203,514 | 494,828 |
| | | 2,215,544 | 519,463 |
| Impairment of exploration asset | 8 | (12,785,055) | (96,980) |
| General and administrative expenses | 3 | (9,097,900) | (3,501,401) |
| Loss on disposal of subsidiary | 8 | (222,631) | (3,393,619) |
| Loss on sale of fixed assets | | - | (187,067) |
| Share of loss of a joint venture | 17 | (128,951) | (76,890) |
| Foreign exchange gain | | 463,743 | 687,911 |
| **Loss from continuing operations before income tax** | | (19,555,250) | (6,048,583) |
| Income tax expense | 4 | (46,404) | (99,883) |
| **Net loss for the year** | | (19,601,654) | (6,148,466) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit and loss:* | | | |
| Foreign currency translation: | | | |
| Arising during the year | | 525,573 | 454,319 |
| Recycled to the profit and loss on disposal of subsidiary | | - | 1,044,565 |
| Share of joint venture reserves | 17 | 2,725,227 | 2,084,407 |
| *Items that will not be reclassified subsequently to profit and loss:* | | | |
| Foreign currency translation attributable to non-controlling interests | | (19,911) | 1,336 |
| **Other comprehensive income for the year, net of tax** | | 3,230,889 | 3,584,627 |
| **Total comprehensive loss for the year** | | (16,370,765) | (2,563,839) |
| Loss for the period is attributable to: | | | |
| Non-controlling interest | | (4,595,167) | (19,447) |
| Owners of the parent | | (15,006,487) | (6,129,019) |
| | | (19,601,654) | (6,148,466) |
| Other comprehensive income/(loss) for the period is attributable | | | |
| Non-controlling interest | | (19,911) | 1,336 |
| Owners of the parent | | 3,250,800 | 3,583,291 |
| | | 3,230,889 | 3,584,627 |
| **Earnings per share** | | Cents per share | Cents per share |
| - basic loss per share attributable to owners of the parent | 14 | (1.30) | (0.58) |
| - diluted loss per share attributable to owners of the parent | 14 | (1.30) | (0.58) |

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements.

# Consolidated statement of financial position

As at 31 December 2014

| | | Consolidated | |
|---|---|---|---|
| | | 31 December 2014 | 31 December 2013 |
| | Notes | $ | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 7,020,698 | 9,430,190 |
| Trade and other receivables | 6 | 1,185,675 | 6,406,391 |
| Other current assets | 7 | 167,938 | 92,203 |
| **Total current assets** | | 8,374,311 | 15,928,784 |
| **Non-current assets** | | | |
| Exploration and evaluation | 8 | - | 12,106,932 |
| Property, plant and equipment | 9 | 379,228 | 316,633 |
| Investment in a joint venture | 17 | 33,785,687 | 30,821,480 |
| **Total non-current assets** | | 34,164,915 | 43,245,045 |
| **TOTAL ASSETS** | | 42,539,226 | 59,173,829 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 2,818,768 | 3,333,092 |
| UK income tax provisions | 11 | 60,453 | 273,069 |
| **Total current liabilities** | | 2,879,221 | 3,606,161 |
| **TOTAL LIABILITIES** | | 2,879,221 | 3,606,161 |
| **NET ASSETS** | | 39,660,005 | 55,567,668 |
| **EQUITY** | | | |
| Issued capital | 12 | 232,780,470 | 231,717,170 |
| Performance shares | 12 | 9,994,250 | 9,994,250 |
| Reserves | 13 (b) | 17,631,297 | 14,980,695 |
| Accumulated losses | 13 (a) | (220,746,012) | (205,739,525) |
| **Parent interests** | | 39,600,005 | 50,952,590 |
| **Non-controlling interest** | 13 (c) | - | 4,615,078 |
| **TOTAL EQUITY** | | 39,660,005 | 55,567,668 |

The statement of financial position should be read in conjunction with the notes to the financial statements.

# Consolidated statement of changes in equity

As at 31 December 2014

| | Share capital | Performance share | Employee equity benefits reserve | Equity reserve | Foreign currency translation reserve | Accumulated losses | Total owners of the parent | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **At 1 January 2014** | 231,717,170 | 9,994,250 | 14,190,779 | (2,427,566) | 3,217,482 | (205,739,525) | 50,952,590 | 4,615,078 | 55,567,668 |
| Loss for period | - | - | - | - | - | (15,006,487) | (15,006,487) | (4,595,167) | (19,601,654) |
| Other comprehensive income/(loss) | - | - | - | - | 3,250,800 | - | 3,250,800 | (19,911) | 3,230,889 |
| Total comprehensive loss for the year | - | - | - | - | 3,250,800 | (15,006,487) | (11,755,687) | (4,615,078) | (16,370,765) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Share based payments | - | - | 463,102 | - | - | - | 463,102 | - | 463,102 |
| Conversion of performance rights | 1,063,300 | - | (1,063,300) | - | - | - | - | - | - |
| At 31 December 2014 | 232,780,470 | 9,994,250 | 13,590,581 | (2,427,566) | 6,468,282 | (220,746,012) | 39,660,005 | - | 39,660,005 |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

## Consolidated statement of changes in equity

As at 31 December 2013

| | Share capital | Performance share | Employee equity benefits reserve | Equity reserve | Foreign currency translation reserve | Accumulated losses | Total owners of the parent | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **At 1 July 2013** | 218,472,640 | 9,994,250 | 14,134,051 | (4,941,683) | (365,809) | (199,610,506) | 37,682,943 | 1,320,504 | 39,003,447 |
| Loss for period | - | - | - | - | - | (6,129,019) | (6,129,019) | (19,447) | (6,148,466) |
| Other comprehensive income/(loss) | - | - | - | - | 3,583,291 | - | 3,583,291 | 1,336 | 3,584,627 |
| Total comprehensive loss for the year | - | - | - | - | 3,583,291 | (6,129,019) | (2,545,728) | (18,111) | (2,563,839) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Issue of share capital | 14,146,653 | - | - | - | - | - | 14,146,653 | - | 14,146,653 |
| Transaction costs of issuing shares | (902,123) | - | - | - | - | - | (902,123) | - | (902,123) |
| Share based payments | - | - | 56,728 | - | - | - | 56,728 | - | 56,728 |
| Share rights cash settled | - | - | - | - | - | - | - | - | - |
| Sale of 21.4% of Rialto Energy Ghana Limited | - | - | - | 2,514,117 | - | - | 2,514,117 | 3,312,685 | 5,826,802 |
| At 31 December 2013 | 231,717,170 | 9,994,250 | 14,190,779 | (2,427,566) | 3,217,482 | (205,739,525) | 50,952,590 | 4,615,078 | 55,567,668 |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements

# Consolidated statement of cash flows
As at 31 December 2014

| | Notes | Consolidated 12 months 31 December 2013 $ | Consolidated 6 months 31 December 2013 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 6,076,825 | - |
| Payments to suppliers and employees | | (11,693,785) | (4,535,323) |
| Payment for drilling rig cancellation | | - | (1,094,930) |
| Interest received | | 12,030 | 25,195 |
| Income tax paid | | (258,749) | - |
| **Net cash flows used in operating activities** | 18 | (5,863,679) | (5,605,058) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant & equipment | 9 | (284,591) | (6,360) |
| Proceeds from the sale of interest in Azonto Ghana | 13(c) | - | 5,833,731 |
| Proceeds from sale of interest in joint venture | 8 | 3,430,160 | - |
| Payments to joint venture | 17 | (367,931) | (521,532) |
| Receipt/(payment) for exploration expenditure | | 22,013 | (8,940,321) |
| **Net cash flows from/(used in) investing activities** | | 2,799,651 | (3,634,482) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 13,288,208 |
| Proceeds from the exercise of options | | - | - |
| Payments for capital raising | | - | (902,124) |
| Lease repayments | | - | - |
| **Net cash flows from financing activities** | | - | 12,386,084 |
| Net (decrease) increase in cash and cash equivalents | | (3,064,028) | 3,146,544 |
| Net foreign exchange differences | | 654,536 | 451,981 |
| Cash and cash equivalents at the beginning of the financial year | | 9,430,190 | 5,831,665 |
| **Cash and cash equivalents at end of the financial year** | 5 | 7,020,698 | 9,430,190 |

The statement of cash flows should be read in conjunction with the notes to the financial statements.

## 1. Corporate information

The consolidated financial report of Azonto Petroleum Limited for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 26 March 2015.

Azonto Petroleum Limited is a Company limited by shares incorporated in Australia by shares which are publicly traded on the Australian Securities Exchange and the Alternative Investment Market (AIM) on the London Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' report.

## 2. Summary of significant accounting polices

**Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncement of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except where stated.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed where appropriate.

For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

Excepted as disclosed the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and by all entities in the consolidated entity.

**a) Compliance statement**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

**b) Going concern and basis of accounting**

The consolidated financial statements have been prepared on a going concern basis as the Directors are of the opinion that the Group can meet its obligations as and when they fall due.

The Group is in the process of evaluating the future funding requirements of the Gazelle field development operated by Vioco. Depending on the final budget for the Gazelle project and the amount of loan finance which Vioco is able to raise for this purpose, it is possible that additional capital contributions to Vioco may be required from its shareholders. However, at the date of this report the Group has no firm commitments for this funding requirement. In addition, Vioco has an obligation under the terms of the CI-202 production sharing contract to drill an exploration well by November 2016 and in doing so to incur a minimum gross expenditure of US$35 million. However, in the event that no viable drilling target has been found, Vioco may elect to opt out of this obligation without financial obligation by giving notice prior to 7 October 2015. In addition the US$50 million loan capital to be invested by Vitol has been extended to include additional costs expected to be incurred in the next twelve months including pre-drilling exploration costs which reduces the Group's exposure to funding in the short term.

Given the above factors, and the range of new investment opportunities which the Group is currently evaluating, the Directors recognise that the Company will need to raise additional finance in the foreseeable future, to pursue projects that have expenditure commitments beyond twelve months from the date of the financial report.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern

**c) New accounting standards and interpretations**

The Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations effective from 1 January 2014, including:

(i) AASB 1053: Application of tiers of Australian Accounting Standards
(ii) AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
(iii) AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
(iv) AASB 2013-4: Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]
(v) AASB 1031: Materiality
(vi) AASB 2013-9: Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

None of these standards required a restatement of comparative information, and had no impact on the accounting policies of the Group.

**New accounting standards not yet effective**

The following accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 31 December 2014 and the Group has not yet determined the impact on the financial statements:

| **Summary** | **Application date for Group*** |
|---|---|
| **AASB 9 *Financial Instruments***<br>AASB 9 (December 2014) is a new Principal standard which replaces AASB 139**.** This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.<br>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.<br><br>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.<br><br>Amendments to AASB 9 (December 2009 & 2010 editions )(AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.<br><br>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.<br><br>The main changes are described below. | 1 January 2018 |

<table>
<tr><th>Summary</th><th>Application date for Group*</th></tr>
<tr><td>
a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.<br>
b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>
c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>
d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>
► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>
► The remaining change is presented in profit or loss<br>
AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognised in profit or loss.<br>
Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.<br>
AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.<br>
AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.
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AASB 2014-1 Part A -Annual Improvements to IFRSs 2010–2012 Cycle<br>
AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.<br>
Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:<br>
► AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.<br>
► AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.<br>
► AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.<br>
► AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.<br>
► AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.
</td><td>1 January 2015</td></tr>
<tr><td>
AASB 2014-1 Part A -Annual Improvements to IFRSs 2011–2013 Cycle<br>
Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:<br>
► AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.<br>
► AASB 140 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a
</td><td>1 January 2015</td></tr>
</table>

| **Summary** | **Application date for Group*** |
|---|---|
| business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3. | |
| **AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations**<br>**[AASB 1 & AASB 11]**<br><br>AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:<br>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and<br><br>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.<br><br>This Standard also makes an editorial correction to AASB 11 | 1 January 2016 |
| **AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)**<br>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.<br>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.<br>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. | 1 January 2016 |
| **AASB 15 Revenue from Contracts with Customers**<br><br>In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations (IFRIC *13 Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*). In December 2014 the AASB issued AASB 15.<br>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:<br>(a) Step 1: Identify the contract(s) with a customer<br>(b) Step 2: Identify the performance obligations in the contract<br>(c) Step 3: Determine the transaction price<br>(d) Step 4: Allocate the transaction price to the performance obligations in the contract<br>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation<br><br>Early application of this standard is permitted.<br><br>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. | 1 January 2017 |
| **AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements**<br><br>AASB 2014-9 amends AASB 127 *Separate Financial Statements*, and consequentially amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures*, to allow | 1 January 2016 |

| Summary | Application date for Group* |
|---|---|
| entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.<br><br>AASB 2014-9 also makes editorial corrections to AASB 127.<br><br>AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted. | |
| **AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**<br>AASB 2014-10 amends AASB 10 C*onsolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:<br><br>(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and<br><br>(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.<br><br>AASB 2014-10 also makes an editorial correction to AASB 10.<br><br>AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted. | 1 January 2016 |
| **AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative Amendments to AASB 101**<br>As part of the IASB's Disclosure Initiative projects, the IASB issued Amendments to IAS 1 in December 2014. In January 2015 the AASB issued AASB 2015-2 arising from the IASB's Disclosure Initiative Project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. | 1 January 2016 |
| **AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality**<br>The standard completes the AASB's project to remove Australian guidance on materiality from Accounting Standards. | 1 January 2016 |

An assessment of the impact of new standards and interpretations has not been completed; however those effective on 1 January 2015 are not expected to have a material impact.

### d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Azonto Petroleum Limited and its subsidiaries (as outlined in Note 22) (the Group) as at and for the period ended 31 December each year. The Company changed its financial year end to 31 December from 30 June during 2013. The period to 31 December 2013 is therefore 6 months.

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvements with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions have been eliminated in full.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

**e) Joint arrangements**

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement. To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Group recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method.

Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss and other comprehensive income (OCI) reflects the Group's share of the results of operations of the joint venture. Any change in OCI of that investee is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss and other comprehensive income. On loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss

**f) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the profit and loss component of the statement of comprehensive income as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

**g) Foreign currency translation**

*Functional and presentation currency*
Both the functional and presentation currency of Azonto Petroleum Limited is Australian dollars ($). The British Virgin Island (BVI) subsidiaries' and Ghana subsidiary functional currency is United States Dollars and the United Kingdom subsidiary's functional currency is Great British Pounds which are translated to the presentation currency.

*Transactions and balances*
Transactions in foreign currencies are initially recorded in the functional currency by applying the average exchange rate prevailing in the period of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*Translation of Group Companies' functional currency to presentation currency*
The results of the BVI, Ghana and United Kingdom subsidiaries are translated into Australian Dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity until the net investment is disposed, at which time, the cumulative amount is reclassified to the profit and loss.

**h) Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating result are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:
- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

**i) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

**j) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the difference between the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

**k) Exploration and evaluation expenditure**

Exploration and evaluation expenditure, including the costs of acquiring the licences/permits, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the profit and loss component of the statement of comprehensive income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (w)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of oil or gas in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas property and development assets within property, plant and equipment.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

**l) Investments and other financial assets**

The Group determines the classification of its financial instruments at initial recognition.

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Changes in fair value are either taken to profit and loss or Other Comprehensive Income.

Fair value is determined based on current bid prices for all quoted investments. If there is not an active market for a financial asset fair value is measured using established valuation techniques.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists the cumulative loss is removed from equity and recognised in the profit or loss.

**m) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

*Depreciation*
Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- Plant and equipment over 2 to 20 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

*Derecognition*
Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit and loss in the period the item is derecognised.

**n) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

**o) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**p) Provisions and employee benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave which are expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Termination benefits*
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognised termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

**q) Share-based payments**

The Group provides benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares. The fair value of equity instruments granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the equity instruments.

The fair value of the performance rights granted is measured using a Monte Carlo valuation model and the share options granted is measured using a Black Scholes valuation model. These models take into account the terms and conditions upon which the rights and options were granted and the probability of achieving each required milestone.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on straight-line basis from the grant date to the date on which the relevant employees become fully entitled to the award ("vesting date"). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding equity instruments is reflected as additional share dilution in the computation of earnings per share.

**r) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**s) Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

- Interest income is recognised as it accrues using the effective interest method.

**t) Income tax and other taxes**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Other taxes*
Revenues, expenses and assets are recognised net of the amount of Government Sales Tax (“GST”) except:

- Where the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivable and payable are stated with the amount of GST included

The net amount of GST recoverable from the taxation authority is included as part of the receivables in the statement of financial position. The amount of GST payable to the taxation authority is included as part of the payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

**u) Earnings per share**

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted Earnings Per Share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**v) Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

**w) Use of estimates and judgements**

The preparation of financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Significant accounting judgments*
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

*Foreign currency translation*
Under the Accounting Standards, each entity within the Group is required to determine its functional currency, which is the currency of the primary economic environment in which the entity operates. In arriving at this determination, management gives priority to the currency that influences the labour, materials and other costs of exploration activities as they consider this to be a primary indicator of the functional currency.

*Significant accounting estimates and assumptions*
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Exploration and evaluation assets*
The Group's accounting policy for exploration and evaluation expenditure is set out at Note 2(k). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the profit and loss.

*Impairment of assets*
In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates and the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

In the case of the Group's principal asset, being its investment in Vioco, the over-riding assumption is that the Gazelle project, reaches the point of development sanction. For this to occur the following matters, inter alia, need to be resolved:

- Firm commitments from banks for the provision of a loan facility to finance the balance of the project's capital expenditure need to be obtained.
- A gas sales agreement needs to be signed.
- Contracts need to be signed for the engineering, procurement, installation and commissioning of the offshore platform, pipeline to shore and onshore processing facilities, and for the drilling of development wells.

- CI-Energies' award of the Independent Power Producer (IPP) project with associated infrastructure.

Subject to the above the key estimates which have been made in determining the value-in-use for impairment testing purposes are as follows:

*Gas and Oil Sales prices*
The gas price has yet to be agreed but the estimated price is derived from a formula based on a fixed rate of return on investment the principles of which were agreed in writing between Vioco and the Cote d'Ivoire Ministry of Petroleum and Energy at the time of renegotiation of the Block CI-202 PSC in 2013. Gas accounts for some 90% of the estimated recoverable resource in the Gazelle field. Estimated gas condensate prices are in line with current market estimates

*Capital and Operating Costs*
Capital costs have been estimated based on detailed quotations received by Vioco from potential contractors. Operating costs have been estimated based on industry norms for similar projects. These costs are escalated at an estimated inflation rate

*Debt Finance Terms*
The amount and pricing of the bank loan facility have been estimated based on detailed discussions conducted by Vioco with potential lending banks

*Discount Rate*
The discount rate used is commensurate with the rate of return which would be expected by an equity investor in a project of this nature, following discussions with the Group's financial advisers

*Commitments – Exploration*
The Group has certain minimum exploration commitments to maintain its right of tenure to exploration permits. These commitments require estimates of the cost to perform exploration work required under these permits.

*Share based payments*
The Group measures the cost of equity-settled share based payments at fair value at the grant date considering the probability of achieving milestones for rights and using the Black-Scholes formula for options, taking into account the terms and conditions upon which the instruments were granted, refer to Note 21 for the inputs used.

| | Consolidated | |
|---|---|---|
| | 12 months 31 December 2014 | 6 months 31 December 2013 |
| **3. General and administrative expenses** | | |
| Employee benefit and Director compensation expense | 4,218,552 | 2,292,075 |
| Share based payments | 463,102 | 56,728 |
| | 4,681,654 | 2,348,803 |
| Depreciation of property, plant & equipment | 231,550 | 115,567 |
| Consultants expense | 4,982,733 | 633,770 |
| Corporate expense | 1,934,163 | 1,210,044 |
| Establishment expense | 1,395,936 | 881,103 |
| Other | 363,828 | 125,108 |
| Expenses capitalised to exploration expenditure or recovered from partners | (4,491,964) | (1,812,994) |
| | 9,097,900 | 3,501,401 |

## 4. Income tax expense

Major components of income tax expense for the periods ended 31 December 2014 and 2013:

| | 12 months 31 December 2014 | 6 months 31 December 2013 |
|---|---|---|
| **Statement of comprehensive income** | | |
| ***Current income tax*** | | |
| - Current income tax charge | 46,404 | 99,883 |
| - Adjustments in respect of current income tax of previous years | - | - |
| ***Deferred income tax*** | | |
| - Relating to origination and reversal of temporary differences | - | - |
| Income tax expense reported in statement of comprehensive income | 46,404 | 99,883 |
| **Reconciliation of income tax expense to prima facie tax:** | | |
| Accounting loss from continuing operations before income tax | (19,555,250) | (6,048,583) |
| At the statutory income tax rate of 30% (31 December 2013: 30%) | (5,866,575) | (1,814,575) |
| - Expenditure not allowable for income tax purposes | 4,297,488 | 1,194,315 |
| - Business related costs | - | (465,084) |
| - Share based payment expense | 138,931 | 17,018 |
| - Foreign tax rate adjustment | (18,349) | (9,101) |
| - Adjustments in respect of income tax in prior years | 905,690 | - |
| - Temporary differences not recognised as deferred tax asset | 43,118 | 83,013 |
| - Current year losses not recognised as deferred tax asset | 546,101 | 1,094,297 |
| Income tax reported in statement of comprehensive income | 46,404 | 99,883 |

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| **4. Income tax expense (continued)** | $ | $ |
| **Deferred income tax** | | |
| Recognised on the statement of financial position | | |
| Deferred income tax at 31 December relates to the following: | | |
| *Deferred income tax assets* | | |
| - Capitalised expenditure deductible for tax purposes | (61,404) | - |
| - Accrued expenditure | (43,071) | - |
| - Tax losses | (8,611,308) | (8,065,207) |
| - Deferred tax assets not recognised | 8,715,783 | 8,065,207 |
| | - | |
| *Net deferred tax asset/(liability)* | - | - |

The deductible temporary differences and the tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise benefits. The Group has unrecognised tax losses of $28,704,360 (31 December 2013: $26,884,024).

**Tax consolidation**

For the purposes of income taxation, the Group and its 100% controlled Australian entity have not elected to form a tax consolidated group.

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| **5. Cash and cash equivalents** | $ | $ |
| Cash at bank and on hand | 2,116,333 | 9,430,190 |
| Deposits at call | 4,904,365 | - |
| | 7,020,698 | 9,430,190 |
| The weighted average interest rate for the year was 0.19%. | | |
| **6. Trade and other receivables** | | |
| **Current** | | |
| GST/VAT receivable | 227,924 | 1,279,871 |
| Due from joint venture | 499,047 | 4,781,246 |
| Other | 458,704 | 345,274 |
| | 1,185,675 | 6,406,391 |

(i) Trade and other receivables are neither past due nor impaired. These are non-interest bearing and generally have repayments between 30-90 days. Their carrying values approximate their fair value.

## 7. Other current assets

| | | |
|---|---|---|
| Prepayments | 167,938 | 92,203 |
| | 167,938 | 92,203 |

## 8. Exploration and evaluation

| | | | |
|---|---|---|---|
| (a) | Opening balance at 1 January | 12,106,932 | 39,207,570 |
| | Exploration expenditure during the period | 125,131 | 4,185,928 |
| | Impairment | (12,785,055) | (96,980) |
| | Disposal of Block CI-202 PSC | - | (30,335,241) |
| | Effects of foreign currency on translation | 552,992 | (854,345) |
| | Closing balance at 31 December | - | 12,106,932 |
| | | | |
| | Block CI-202 (Note 17) | - | - |
| | Accra Block (Note 17) | - | 12,106,932 |
| | Closing balance at 31 December | - | 12,106,932 |

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation or, alternatively, sale.

In the period to 31 December 2014 the Group has included an impairment for the Accra Block of $12,785,055, as the Group relinquished the licence in early 2015.

During 2013 the Group completed the disposal of 65% of Vioco Petroleum Limited, which holds the Block CI-202 PSC, to Vitol. The transaction meant that the assets and liabilities of Vioco Petroleum Limited were required to be derecognised from the Group consolidation and accounted for as a joint venture using equity accounting. In the period to 31 December 2013 the Group incurred a loss of $3,393,619 on the disposal. In the period to 31 December 2014 the Company has recorded a loss of $222,631 on the disposal included in the prior period. Also in the current year the Group received cash of $3,430,161 from Vioco for the sale of inventory included as part of the disposal.

In the period to 31 December 2013 the Group has incurred an impairment for licence WA-399-P of $96,980, as the Group was in the process of relinquishing the licence.

## 9. Property, plant and equipment

| | Office Equipment | Computer Equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Cost** | | | |
| At 1 January 2014 | 86,645 | 601,014 | 687,659 |
| Additions | 147,672 | 136,919 | 284,591 |
| Foreign currency translation | 8,887 | 11,605 | 20,492 |
| At 31 December 2014 | 243,204 | 749,538 | 992,742 |
| | | | |
| **Accumulated Depreciation** | | | |
| At 1 January 2014 | (64,258) | (306,768) | (371,026) |
| Depreciation charge for the year | (52,250) | (179,300) | (231,550) |
| Foreign currency translation | (3,667) | (7,271) | (10,938) |
| At 31 December 2014 | (120,175) | (493,339) | (613,514) |
| | | | |
| **Net book value** | | | |
| At 31 December 2014 | 123,029 | 256,199 | 379,228 |
| At 31 December 2013 | 22,387 | 294,246 | 316,633 |

## 10. Trade and other payables

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Trade creditors and accruals (i) | 2,818,768 | 3,333,092 |
| | 2,818,768 | 3,333,092 |

(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms

## 11. Provisions

| | Consolidated | |
|---|---|---|
| | 31 December 2014 | 31 December 2013 |
| | $ | $ |
| **Current** | | |
| UK income tax | 60,453 | 273,069 |

## 12. Issued capital

| | Consolidated | |
|---|---|---|
| | Number | $ |
| **(a) Share capital** | | |
| Ordinary shares fully paid | 1,159,375,100 | 232,780,470 |
| | | |
| **(b) Movements in ordinary shares on issue** | | |
| Balance at 1 July 2013 | 684,209,991 | 218,472,640 |
| Issued on 1 July 2013 per share placement | 102,439,498 | 3,073,185 |
| Issued on 14 August 2013 per share placement | 369,115,611 | 11,073,468 |
| Costs incurred in capital raising | - | (902,123) |
| Balance at 31 December 2013 | 1,155,765,100 | 231,717,170 |
| Issued on 7 February 2014 on conversion of performance rights | 2,860,000 | 853,300 |
| Issued on 25 July 2014 on conversion of performance rights | 750,000 | 210,000 |
| Balance at 31 December 2014 | 1,159,375,100 | 232,780,470 |

**(c) Terms and conditions of issued capital**

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon on shares held.

| | Consolidated | |
|---|---|---|
| **(d) Movements in performance shares** | Number | $ |
| Balance 1 July 2013 | 15,000,000 | 9,994,250 |
| Balance at 31 December 2013 | 15,000,000 | 9,994,250 |
| Balance at 31 December 2014 | 15,000,000 | 9,994,250 |

(i) The performance shares are to be converted into ordinary shares on a one to one basis on the issue of an independent reserve report in accordance with Society of Petroleum Engineers standards delineating mean reserves in excess of 40 million barrels of oil equivalent for Block CI-202.

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| **(e) Movements in number of options in issue** | Number | Number |
| Balance 1 January (1 July 2013) | 38,476,818 | 47,976,823 |
| Expired/Forfeited/Cancelled | (3,166,668) | (9,500,005) |
| Balance at 31 December | 35,310,150 | 38,476,818 |
| | | |
| **(f) Movements in number of rights in issue** | | |
| Balance 1 January (1 July 2013) | 74,514,321 | 4,665,000 |
| Share-based remuneration granted | 66,349,709 | 70,654,321 |
| Issue of shares | (3,610,000) | - |
| Cash paid in lieu of conversion rights | - | (805,000) |
| Balance at 31 December | 137,254,030 | 74,514,321 |

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |

## 13. Accumulated losses and reserves

**(a) Movements in accumulated losses were as follows:**

| | 2014 $ | 2013 $ |
|---|---|---|
| Balance 1 January (1 July 2013) | 205,739,525 | 199,610,506 |
| Net loss attributable to members | 15,006,487 | 6,129,019 |
| Balance at 31 December | 220,746,012 | 205,739,525 |

**(b) Other reserves**

| | Employee equity benefits reserve | Equity reserve | Foreign currency translation | Non-controlling interest (NCI) | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| At 30 June 2013 | 14,134,051 | (4,941,683) | (365,809) | 1,320,504 | 10,147,063 |
| Foreign currency translation | - | - | 3,583,291 | 1,336 | 3,584,627 |
| Share based payments | 56,728 | - | - | - | 56,728 |
| Net loss attributable to NCI | - | - | - | (19,447) | (19,447) |
| Sale of 22.04% in Rialto Ghana | - | 2,514,117 | - | 3,312,685 | 5,826,802 |
| At 31 December 2013 | 14,190,779 | (2,427,566) | 3,217,482 | 4,615,078 | 19,595,773 |
| Foreign currency translation | - | - | 3,250,800 | (19,911) | 3,230,889 |
| Share based payments | 463,102 | - | - | - | 463,102 |
| Conversion of performance rights | (1,063,300) | - | - | - | (1,063,300) |
| Net loss attributable to NCI | - | - | - | (4,595,167) | (4,595,167) |
| At 31 December 2014 | 13,590,581 | (2,427,566) | 6,468,282 | - | 17,631,297 |

**(c) Nature and purpose of reserves**

*Employee equity benefits reserve*
The employee equity benefits reserve is used to record the value of share based payments provided to employees, as part of their remuneration.

*Equity reserve*
The equity reserve is used to record the excess value over the non-controlling interest that existed as at the date of either the acquisition of the controlling interests in the subsidiary companies or disposal of the non-controlling interests in subsidiary companies. In April 2013 Vitol acquired a 20% economic interest in Azonto Petroleum (Ghana) Limited ("Azonto Ghana") in exchange for providing a facility to cover Azonto's US $7.7 million obligation for the drilling of Starfish-1 exploration well in the Accra Block. If Azonto was to draw down on the facility, Vitol's economic interest in Azonto Ghana would increase up to a maximum of 51%. During the period to 31 December 2013 the Company drew down US $5.3 million (AUD $5.8 million) under the facility. At 31 December 2013 Azonto had drawn on the facility to the extent that Vitol at that date had a 43.44% economic interest in Azonto Ghana. The difference between the consideration received from Vitol and the net assets in Azonto Ghana disposed of, has been recognised in the equity reserve.

## 13. Accumulated losses and reserves (continued)

*Foreign currency translation*
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

*Non-controlling interest*
The non-controlling interest reserve is used to record the minority interest. The movement in 2014 is due to the impairment of the Accra Block, the only asset owned by Azonto Ghana, as the Group relinquished the licence in early 2015. The movement in the period to 31 December 2013 is a result of Vitol acquiring an additional 21.40% economic interest in Azonto Ghana as explained above.

## 14. Earnings per share

| | Consolidated | |
|---|---|---|
| | **12 months 31 December 2014 Cents per share** | **6 months 31 December 2013 Cents per share** |
| Basic earnings per share | (1.30) | (0.58) |
| Diluted earnings per share (i) | (1.30) | (0.58) |
| | **$** | **$** |
| Losses attributable to ordinary equity holders of the parent used in calculating basic and diluted earnings per share | (15,006,487) | (6,129,019) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 1,158,654,059 | 1,065,230,840 |

(i) Potential and contingently issued ordinary shares include 35,310,150 share options, 137,254,030 performance rights and 15,000,000 performance shares. As the Group is in a loss position, the share options and performance shares are not included in calculating diluted earnings per share as they are anti-dilutive.

## 15. Commitments

**Rental lease**
The Group has the following obligations in respect of non-cancellable operating rental lease commitments:
(i) Less than one year – $458,333 (£240,625)

**Accra Block**
The work programme for the twelve months to 23 March 2014 included drilling one well. The commitment was completed during the period. There are currently no further commitments for the block.

## 16. Segment reporting

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. In the case of the

## 16. Segment reporting (continued)

Group the CODM are the executive management team and all information reported to the CODM is based on the consolidated results of the Group as one operating segment, as the Group's activities relate to oil and gas exploration.

Accordingly, the Group has only one reportable segment and the results are the same as the Group results.

All material non-current assets for the Group are located in Cote d'Ivoire and all material interest revenue was earned in Australia and the United Kingdom.

## 17. Interests in joint arrangements

The Group has an interest in the following joint arrangements**:**

| Project | Activities | Equity interest | | Carrying value | |
|---|---|---|---|---|---|
| | | 31 December 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| | | % | % | $ | $ |
| Accra Block | Oil and gas exploration | 7.07 | 7.07 | - | 12,106,932 |
| Vioco Petroleum Limited | Oil and gas exploration | 35 | 35 | 33,785,687 | 30,821,480 |

The Group's aggregate interests in the assets and liabilities of the joint operation are reflected in the following asset categories in the financial statements. The commitments and contingent liabilities in respect thereto are referred to in Notes 15, 17 and 24 respectively.

| | Consolidated | |
|---|---|---|
| | 31 December 2014 | 31 December 2013 |
| **Non-current assets** | $ | $ |
| **Accra Block** | | |
| Exploration and evaluation | - | 12,106,932 |

The Group's 35% interest in Vioco Petroleum Limited ("Vioco") is accounted for as a joint venture using the equity method in the consolidated financial statements. Vioco is registered in the British Virgin Islands and has its principal place of business is the Cote d'Ivoire. The table on the following page summarises the financial information of the Group's investment in Vioco Petroleum Limited at 31 December 2014:

## 17. Interests in joint arrangements (continued)

| | Consolidated | |
|---|---|---|
| | **31 December 2014** | **31 December 2013** |
| | **$** | **$** |
| **Investment in joint venture – Vioco Petroleum Limited** | 33,785,687 | 30,821,480 |
| Reconciliation of movement in investments accounted for using the equity method: | | |
| Balance at 1 January 2014 (1 July 2013) | 30,821,480 | - |
| Fair value of retained interest | - | 28,292,431 |
| Investment in the period | 367,931 | 521,532 |
| Share of loss for the period | (128,951) | (76,890) |
| Share of foreign currency translation reserve movement | 2,725,227 | 2,084,407 |
| Balance at 31 December 2014 | 33,785,687 | 30,821,480 |
| **Summarised financial information of associate:** | | |
| **Financial position** | | |
| Cash and cash equivalents | 1,479,588 | 3,013,340 |
| Other current assets | 5,226,482 | 4,609,733 |
| Current assets | 6,706,070 | 7,623,073 |
| Non-current assets | 115,845,264 | 90,297,491 |
| Trade and other payables | (3,545,672) | (2,489,418) |
| Other current liabilities | (22,475,129) | (7,088,021) |
| Non-current liabilities | - | (281,753) |
| Net assets | 96,530,533 | 88,061,372 |
| Group's share of net assets | 33,785,687 | 30,821,480 |
| **Financial performance** | | |
| Total revenue | - | - |
| Depreciation | 42,725 | 7,214 |
| Interest income | 2,661 | 115 |
| Interest expense | - | - |
| Income tax payable | - | - |
| Total loss for the period | (368,432) | (219,686) |
| Other comprehensive income | 7,786,363 | 5,955,451 |
| Total comprehensive income | 7,417,931 | 5,735,765 |
| Group's share of total loss for the period | (128,951) | (76,890) |

The joint venture had no contingent liabilities at 31 December 2013.

Capital commitments

Under the new CI-202 PSC, Vioco's current minimum work obligations for the first three year exploration period is geological and geophysical studies plus one well or spend US $35 million and a commitment for $0.5 million of social expenditure (Azonto share 35%).

## 18. Reconciliation of cash flows from operating activities

| | Consolidated | |
|---|---|---|
| | 12 months 31 December 2014 $ | 6 months 31 December 2013 $ |
| **Cash flows from operating activities** | | |
| Loss for the period | (19,601,654) | (6,148,466) |
| *Adjustments for:* | | |
| Depreciation | 231,550 | 115,567 |
| Impairment of exploration asset | 12,785,055 | 96,980 |
| Share based remuneration | 463,102 | 56,728 |
| Loss on disposal of subsidiary | 222,631 | 3,393,619 |
| Loss on sale of fixed assets | - | 187,067 |
| Share of a loss of a joint venture | 128,951 | 76,890 |
| Net exchange differences | (694,860) | (1,376,978) |
| *Changes in assets and liabilities* | | |
| Decrease/(increase) in trade receivables | 1,793,805 | (1,080,241) |
| Decrease/(increase) in other assets | (75,737) | (33,322) |
| Increase/(decrease) in trade creditors and accruals | (903,907) | (1,013,811) |
| Increase/(decrease) in provisions | (212,615) | 120,909 |
| Net cash used in operating activities | (5,863,679) | (5,605,058) |

## 19. Financial risk management objectives and policies

**Overview**
The Group have exposure to the following risks from their use of financial instruments:
- Interest rate risk
- Credit risk
- Liquidity risk
- Foreign currency risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's principal financial instruments are cash, short-term deposits, receivables and payables.

## 19. Financial risk management objectives and policies (continued)

**Interest rate risk**
Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the Group uses.

Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

| Consolidated – 31 December 2014 | Weighted average effective interest rate | 1 Year or Less | Over 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **Financial assets** | | | | | |
| Non-interest bearing | | 1,185,675 | - | - | 1,185,675 |
| Variable interest rate | 0.19% | 7,020,698 | - | - | 7,020,698 |
| | | 8,206,373 | - | - | 8,206,373 |
| **Financial liabilities** | | | | | |
| Non-interest bearing | | 2,818,768 | - | - | 2,818,768 |

| Consolidated – 31 December 2013 | Weighted average effective interest rate | 1 Year or Less | Over 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **Financial assets** | | | | | |
| Non-interest bearing | | 6,406,391 | - | - | 6,406,391 |
| Variable interest rate | 0.11% | 9,430,190 | - | - | 9,430,190 |
| | | 15,836,581 | - | - | 15,836,581 |
| **Financial liabilities** | | | | | |
| Non-interest bearing | | 3,333,092 | - | - | 3,333,092 |

**Fair value sensitivity analysis for fixed rate instruments**
The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

## 19. Financial risk management objectives and policies (continued)

**Cash flow sensitivity analysis for variable rate instruments**

A change of 25 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown in the following.

| | | Profit or loss | |
|---|---|---|---|
| **Consolidated –31 December 2014** | **Carrying value at 31 December** | **25 bp increase** | **25 bp decrease** |
| | **$** | **$** | **$** |
| **Financial assets** | | | |
| Cash and cash equivalents | 7,020,698 | 7,285 | (7,285) |
| Cash flow sensitivity (net) | | 7,285 | (7,285) |

| | | Profit or loss | |
|---|---|---|---|
| **Consolidated – 31 December 2013** | **Carrying value at 31 December** | **25 bp increase** | **25 bp decrease** |
| | **$** | **$** | **$** |
| **Financial assets** | | | |
| Cash and cash equivalents | 9,430,190 | 5,872 | (5,872) |
| Cash flow sensitivity (net) | | 5,872 | (5,872) |

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents.

The Group trades only with recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure to credit risk is the carry value of the receivable, net of any allowance for doubtful debts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The Group does not place funds on terms longer than 120 days and has the facility to place the deposit funds with more than one bank.

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Cash and cash equivalents | 7,020,698 | 9,430,190 |
| Receivables | 1,185,675 | 6,406,391 |
| | 8,206,373 | 15,836,581 |

**Impairment losses**

None of the Group's receivables are past due. The Group's trade receivables are all current at the reporting date.

## 19. Financial risk management objectives and policies (continued)

**Liquidity risk**
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility.

The following are the contractual maturities of financial liabilities:

| Consolidated – 31 December 2014 | Carrying amount | Contractual cash flows | 6 months or less | 6 Months – 3 Years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Trade and other payables | 2,818,768 | 2,818,768 | 2,818,768 | - |
| | 2,818,768 | 2,818,768 | 2,818,768 | - |

| Consolidated – 31 December 2013 | Carrying amount | Contractual cash flows | 6 months or less | 6 Months – 3 Years |
|---|---|---|---|---|
| | | $ | $ | $ |
| Trade and other payables | 3,333,092 | 3,333,092 | 3,333,092 | - |
| | 3,333,092 | 3,333,092 | 3,333,092 | - |

**Capital risk management**
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from 31 December 2013.

The capital structure of the Group consists of net debt (trade payables and provisions detailed in Notes 10 and 11 offset by cash and bank balances detailed in Note 5) and equity of the Group (comprising issued capital, reserves, offset by retained losses detailed in Notes 12 and 13).

The Group is not subject to any externally imposed capital requirements.
The Group's Board of Directors reviews the capital structure on an ongoing basis. As part of this review the Board considers the cost of capital and the risks associated with each class of capital. In order to maintain the capital structure, the Group may issue fresh equity, return capital to shareholders or farm out part of its assets.

**Fair value of financial assets and liabilities**
The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Group approximate their carrying value.

A payment of $3.1m (US $2.5m), part of the consideration for a 25% acquisition in of Azonto Petroleum Limited in December 2010, which is payable on the achievement of the production milestone of 1MMstb of net crude oil production from Block CI-202 had nil carrying value and nil fair value at the balance date as there was no basis for making an informed judgement as to the probability and timing of this falling due.

**Foreign currency risk**
Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily

## 19. Financial risk management objectives and policies (continued)

to the Group's operating activities (when revenue or expenses is denominated in a different currency from the Group's presentation currency) and the Group's net investment in foreign subsidiaries.

As a result of significant operations denominated in US Dollars (US$), the Group's statement of financial position can be affected significantly by movements in the US$ / A$ exchange rates.

The Group had the following exposure to US$ foreign currency:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| **Financial assets** | **$** | **$** |
| Cash and cash equivalents | 5,365,889 | 1,212,939 |
| Trade and other receivables | - | - |
| | 5,365,889 | 1,212,939 |
| **Financial liabilities** | | |
| Trade and other payables | 1,328,995 | 17,290 |
| | 1,328,995 | 17,290 |

The Group is mainly exposed to US$. The following table details the Group's sensitivity to a 15% increase and decrease in the Australian dollar against the US$. Management continually monitor exchange rate forecasts and assess the impact of possible changes in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusted their translation at the period end of a 15% change in foreign currency rates. A positive number indicates a decrease in loss where the Australian dollar weakens against the US Dollar.

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Profit or loss: + 15% | (526,551) | (160,465) |
| Profit or loss: - 15% | 712,393 | 217,099 |

## 20. Key management personnel disclosures

(a) The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

**Directors**

| | | |
|---|---|---|
| A. Bartlett | Independent Non-executive Chairman | |
| G. Stoupnitzky | Managing Director | Appointed Business Development Director 14 January 2014 and Managing Director on 20 January 2015 |
| A. Sinclair | Senior Independent Non-executive Director and Deputy Chairman | Appointed Senior Independent Non-executive Director and Deputy Chairman 3 March 2014 |
| N. Hackett | Independent Non-executive Director | |
| R. Shepherd | Managing Director | Resigned 20 January 2015 |
| A. Rose | Director and Chief Financial Officer | Appointed Executive Director on 3 March 2014 and resigned 20 January 2015 |

**Executives**

| | | |
|---|---|---|
| J. Durkin | Chief Legal officer | |
| J. Smulders | Technical Director | Appointed 22 April 2014 |

**(b) Key management personnel compensation**

The key management personnel compensation included in employee benefit and Director compensation expenses are as follows:

| | Consolidated | |
|---|---|---|
| | 12 months to 31 December 2014 $ | 6 months to 31 December 2013 $ |
| Short-term employee benefits | 2,267,482 | 889,514 |
| Post-employment benefits | - | 353 |
| Equity compensation benefits | 358,241 | 76,380 |
| | 2,625,723 | 966,247 |

**Interests held by Key Management Personnel under the Performance Rights Plan**

Share rights held by key management personnel under the Performance Rights Plan to purchase ordinary shares have the following vesting dates and exercise prices:

| Issue date | Vesting dates | Exercise price | 2014 | 2013 |
|---|---|---|---|---|
| | | | Number | Number |
| 18-Dec-13 | 18-Dec-17 | - | 18,781,184 | 18,781,184 |
| 18-Dec-13 | 18-Dec-17 | - | 37,562,366 | 37,562,366 |
| 13-Jun-14 | 18-Dec-17 | - | 17,770,403 | - |
| 13-Jun-14 | 18-Dec-17 | - | 36,079,306 | - |
| | | | 110,193,259 | 56,343,550 |

## 20. Key management personnel disclosures (continued)

### (c) Other transactions with key management personnel and their related parties

Information regarding individual Directors and executives compensation is provided in the Remuneration Report section of the Directors' Report.

Fees paid in the ordinary course of business for the twelve months ended 31 December 2014 for company secretarial services totalling $24,000, excluding GST, were paid or payable to an associate company of Mr N. Hackett. Fees paid in the ordinary course of business for the twelve months ended 31 December 2014 for technical services totalling $56,083, excluding GST, were paid or payable to an associate company of Mr A. Sinclair. Fees paid in the ordinary course of business for the twelve months ended 31 December 2014 for legal and insurance services totalling $79,963, excluding GST, were paid or payable to an associate company of Mr J. Durkin.

Apart from details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there was no material contracts involving Directors' interests existing at year end.

## 21. Share based payment

### (a) Recognised share-based payment expenses

The expense recognised for employee services received during the period is shown in the table below:

| | Consolidated | |
|---|---|---|
| | 12 months 31 December 2014 $ | 6 months 31 December 2013 $ |
| Expense arising from equity-settled share-based payment transactions | 463,102 | 56,728 |
| Total expense arising from share-based payment transactions (Note 3) | 463,102 | 56,728 |

### (b) Types of share-based payment plans

Share based payments are provided to Directors, employees, consultants and other advisors. The issue to each individual Director, consultant or advisor is controlled by the Board and the ASX Listing Rules. Terms and conditions of the payments, including the grant date, vesting date, exercise price and expiry date are determined by the Board, subject to shareholder approval where required.

*Share option plan*
Each employee share option converts into one ordinary share of Azonto Petroleum Limited on exercise. No amounts are paid or are payable by the recipient on receipt of the option. The options carry neither rights of dividends nor voting rights.

*Performance rights plan*
Each performance right converts into one ordinary share of Azonto Petroleum Limited on vesting. No amounts are paid or are payable by the recipient on receipt of the performance right. The performance rights carry neither rights of dividends nor voting rights.

## 21. Share based payment (continued)

### (c) Summary of options granted under share option plan

The following table illustrates the number and weighted average exercise price (“WAEP”) of, and movements in, share options issued during the year:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Number | WAEP | Number | WAEP |
| Balance at beginning of the financial period | 12,650,001 | 0.52 | 22,150,006 | 0.56 |
| Forfeited during the period | (3,166,668) | 0.66 | (2,499,999) | 0.46 |
| Cancelled during the period | - | - | (6,500,006) | 0.60 |
| Expired during the period | - | - | (500,000) | 0.65 |
| Outstanding at the end of the year | 9,483,333 | 0.51 | 12,650,001 | 0.52 |
| | | | | |
| Exercisable at the end of the year | 9,283,333 | | 12,300,001 | |

The outstanding balance as at 31 December 2014 is represented by:

| Grant date | Expiry date | Grant date fair value | Exercise price | Number of options | Vesting dates (i) |
|---|---|---|---|---|---|
| 30-Nov-2010 | 28-Jun-2015 | $0.548 | $0.40 | 2,900,000 | (ii) |
| 30-Nov-2010 | 28-Jun-2015 | $0.515 | $0.60 | 900,000 | Immediately |
| 30-Nov-2010 | 28-Jun-2016 | $0.572 | $0.40 | 900,000 | 28-Jun-2011 |
| 30-Nov-2010 | 28-Jun-2016 | $0.545 | $0.60 | 900,000 | 28-Jun-2011 |
| 30-Nov-2010 | 28-Jun-2017 | $0.569 | $0.60 | 900,000 | 28-Jun-2012 |
| 30-Nov-2010 | 28-Jun-2017 | $0.590 | $0.40 | 900,000 | 28-Jun-2012 |
| 15-Jul-11 | 01-Aug-15 | $0.256 | $0.80 | 166,666 | Immediately |
| 15-Jul-11 | 01-May-16 | $0.263 | $0.80 | 750,000 | (iii) |
| 29-Nov-11 | 15-Aug-15 | $0.154 | $0.60 | 666,667 | (iv) |
| 21-Dec-11 | 21-Dec-16 | $0.154 | $0.43 | 500,000 | (v) |

(i) Unless a single vesting date is provided, all other options vest one-third on each vesting date;
(ii) Vesting occurs as follows: Immediately on grant, 28 June 2011 and 28 June 2012;
(iii) Vesting occurs as follows: Immediately on grant, 1 May 2012 and 1 May 2013;
(iv) Vesting occurs as follows: Half immediately on grant and 7 December 2012;
*(v)* Vesting occurs as follows: 30% vesting two years and three years from grant date and 40% vesting four years from grant date;

### (d) Weighted average remaining contractual life

The weighted average contractual life for the share options outstanding as at 31 December 2014 is 1.22 years (2013: 1.02 years).

## 21. Share based payment (continued)

### (e) Option pricing model

Options were priced using a Black Scholes option pricing model. The assessed fair values of the options were determined using a Black Scholes model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the option. Expected volatility was calculated based on the historic volatility of the Company over a period commensurate with the expected life of the awards.

### (f) Summary of performance rights granted under performance rights plan

The following table illustrates the number and WAEP of, and movements in, performance rights issued during the period:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Number | WAEP | Number | WAEP |
| Balance at beginning of the financial year | 74,514,321 | - | 4,665,000 | - |
| Granted during the period | 66,349,709 | - | 70,654,321 | - |
| Forfeited during the period | - | - | - | - |
| Issue of shares during the period | (3,610,000) | - | - | - |
| Performance rights cash settled | - | - | (805,000) | - |
| Outstanding at the end of the period | 137,254,030 | - | 74,514,321 | - |
| Vested at the end of the period | 250,000 | - | 3,860,000 | - |

The outstanding balance as at 31 December 2014 is either vested or vest 18 December 2017 and is represented by:

| Grant date | Grant date fair value | Exercise price | Number of rights |
|---|---|---|---|
| 29-Nov-11 | $0.28 | - | 250,000 |
| 18-Dec-13 | $0.27 | - | 23,551,441 |
| 18-Dec-13 | $0.15 | - | 47,102,880 |
| 13-Jun-14 | $0.018 | - | 21,895,403 |
| 13-Jun-14 | $0.007 | - | 44,454,306 |

### (g) Weighted average remaining contractual life

The weighted average contractual life for the performance rights outstanding as at 31 December 2014 is 2.96 years (2013: 3.76 years).

### (h) Weighted average fair value

The weighted average fair value of performance rights granted during the year was $0.011 (6 months 31 December 2013: $0.19).

### (i) Performance rights pricing model

The Performance Rights granted in the year to 31 December 2014 will vest subject to the satisfaction of certain performance criteria. The Rights are split into two tranches.

## 21. Share based payment (continued)

Tranche 1 will vest on the achievement of two strategic milestones:

(i) all government and partner approvals, offtake, supply and service contracts, financings and other necessary conditions for the Gazelle field development project to proceed having been obtained and agreed and Vioco Petroleum Ltd having taken the Final Investment Decision to proceed with the project; and

(ii) the first delivery of gas from the Gazelle field to the Cote d'Ivoire state electricity company (or other agreed purchaser) having been made under stabilised flow rate conditions (Tranche 1 Vesting Conditions).

In the event not all Tranche 1 Vesting Conditions are satisfied within four years of the Tranche 1 Performance Rights being granted, the Board may resolve that a proportion of the Tranche 1 Performance Rights vest based on the degree of progress towards satisfaction of the Tranche 1 Vesting Conditions has been achieved.

Tranche 2 will vest on the achievement of share price target and the Board being satisfied at the end of the four year period with overall financial, strategic and HSE performance of the Company (Final Performance Hurdle). The share price hurdles are as follows

(i) 25% of the Tranche 2 Performance Rights will vest (on satisfaction of the Final Performance Hurdle) if the Company's Share price reaches $0.05 per Share within four years;

(i) a further 25% of the Tranche 2 Performance Rights will vest (on satisfaction of the Final Performance Hurdle) if the Company's Share price reaches $0.07 per Share within four years. Achievement of this milestone will result in 50% of the Tranche 2 Performance Rights vesting on satisfaction of the Final Performance Hurdle;

(ii) the remaining 50% of the Tranche 2 Performance Rights will vest (on satisfaction of the Final Performance Hurdle) if the Company's Share price reaches $0.09 per Share within four years. Achievement of this milestone will result in 100% of the Tranche 2 Performance Rights vesting on satisfaction of the Final Performance Hurdle.

The Performance Rights granted in the period to 31 December 2013 will vest subject to the satisfaction of the same performance criteria as the Performance Rights granted in 2014 plus the following strategic milestone for Tranche 1.

(i) the execution of a sale and purchase agreement ("SPA") between the Company and Vitol SA concerning the sale to Vitol SA of 65% of the Company's subsidiary in Cote d'Ivoire, Vioco Petroleum Ltd, in return for US$50 million financing for the development of the Gazelle field, and the satisfaction of the conditions precedent to the SPA entering into full force and effect. The milestone was achieved in November 2013.

The performance rights were priced using a Monte Carlo valuation model. The assessed fair values of the rights were determined using a Monte Carlo valuation model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the rights. Expected volatility was calculated based on the historic volatility of a peer group of Companies over a period commensurate with the expected life of the awards. The inputs to the model for the period to 31 December 2014 and 2013 were:

| **Grant date** | **13-Jun-14 Tranche 1** | **13-Jun-14 Tranche 2** | **18-Dec-13 Tranche 1** | **18-Dec-13 Tranche 2** |
|---|---|---|---|---|
| Dividend yield (%) | - | - | - | - |
| Expected volatility (%) | 69.09% | 69.09% | 72.12% | 72.12% |
| Risk-free interest rate (%) | 2.95% | 2.95% | 2.85% | 2.85% |
| Expected life of options (yrs.) | 3.52 | 3.52 | 4.00 | 4.00 |
| Right’s exercise price ($) | - | - | - | - |
| Share price at grant date ($) | $0.018 | $0.018 | $0.03 | $0.03 |
| Fair value at grant date ($) | $0.018 | $0.007 | $0.03 | $0.02 |

## 22. Related party disclosures

### (a) Subsidiaries

| Name of entity | Country of incorporation | Equity interest | |
|---|---|---|---|
| | | 31 December 2014 | 31 December 2013 |
| | | % | % |
| **Parent entity** | | | |
| Azonto Petroleum Limited (i) | | | |
| **Subsidiaries** | | | |
| Azonto Petroleum (UK) Limited (ii) | United Kingdom | 100 | 100 |
| Rialto Energy (Ghana) Pty Ltd | Australia | 100 | 100 |
| Azonto Petroleum Holdings Limited (iii) | British Virgin Islands | 100 | 100 |
| Azonto Petroleum (Ghana) Limited (iv) | British Virgin Islands | 100 | 100 |
| Azonto Petroleum (Ghana) Limited (v) | Ghana | 56.56 | 56.56 |

(i) On 2 December 2013, Rialto Energy Limited changed its name to Azonto Petroleum Limited
(ii) On 16 December 2013, Rialto Energy (UK) Limited changed its name to Azonto Petroleum (UK) Limited
(iii) On 17 February 2014, CLNR Holdings Limited changed its name to Azonto Petroleum Holdings Limited
(iv) On 17 February 2014, Rialto Energy (Ghana) Limited BVI changed its name to Azonto Petroleum (Ghana) Limited
(v) On 20 January 2014, Rialto Energy (Ghana) Limited changed its name to Azonto Petroleum (Ghana) Limited

Related party transactions

| | | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|---|
| Joint venture: | | $ | $ | $ | $ |
| Vioco Petroleum Limited | 2014 | 6,051,286 | - | 499,047 | - |
| | 2013 | 407,685 | - | 4,781,246 | - |
| Key management personnel | | | | | |
| Giant Capital Management | 2014 | - | 56,283 | - | - |
| | 2013 | - | - | - | - |
| Boral Consulting Limited | 2014 | - | 79,963 | - | 2,448 |
| | 2013 | - | - | - | - |

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. The sales to Vioco are partly included in other revenue - $2,203,514 (2013: $407,685) and partly in general and administrative expenses as expenses recovered from partners - $3,847,772 (2013: nil). In 2013 sales to Vioco are only for the period from 7 November 2013 when the Vitol transaction was completed and the company became a joint venture.

Non-controlling interests

The proportion of ownership interests held by the non-controlling interest in Azonto Petroleum (Ghana) Limited is 43.44%. The non-controlling interest share of loss for the period disclosed in the statement of comprehensive income

## 22. Related party disclosures (continued)

relates only to the non-controlling interest in Azonto Petroleum (Ghana) Limited. The Accra Block exploration and evaluation asset in note 8 relates to Azonto Petroleum (Ghana) Limited. There are no other material balances for this entity.

**(b) Ultimate parent**

Azonto Petroleum Limited is the ultimate Australian parent entity and ultimate parent entity of the Group.

**(c) Key management personnel**

Details relating to key management personnel, including remuneration paid are included in the Directors' Report and Note 20.

## 23. Auditor's remuneration

**Current auditors:** Ernst & Young

| | Consolidated | |
|---|---|---|
| | **12 months 31 December 2014 $** | **6 months 31 December 2013 $** |
| *Amounts received or due and receivable by Ernst & Young (Australia) for:* | | |
| An audit or review of the financial report of the Group | 111,817 | 91,613 |
| Sub-total | 111,817 | 91,613 |
| *Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:* | | |
| An audit or review of the financial report of subsidiaries and audit related services | 34,760 | 27,355 |
| Sub-total | 34,760 | 27,355 |
| Total remuneration | 146,577 | 118,968 |

## 24. Contingent assets and liabilities

There are no material contingent assets or liabilities as at 31 December 2014.

## 25. Events after the balance sheet date

- On the 20 January 2015, the Company announced that Rob Shepherd and Andrew Rose had resigned as Managing Director and Director and Chief Financial Officer respectively and Gregory Stoupnitzky was appointed as Managing Director.
- On the 11 March 2015, the Company announced that it was relinquishing its interest in the Offshore Accra Block in Ghana.
- On 30 March 2015, the Company announced that as the lump sum price for construction of the Gazelle project in the Côte d'Ivoire CI-202 block was higher than expected, the Board of Vioco Petroleum Limited has decided to retender the construction package. This will result in a delay in Gazelle Project sanction.

Since the end of the financial year, the Directors are not aware of any other matters or circumstances that have significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial years.

## 26. Parent disclosure

| | 12 months 31 December 2014 | 6 months 31 December 2013 |
|---|---|---|
| | $ | $ |
| Loss for the year | (12,771,334) | (3,010,598) |
| Other comprehensive income | - | - |
| Total comprehensive loss | (12,771,334) | (3,010,598) |
| | | |
| Current assets | 6,623,543 | 10,613,858 |
| Total assets | 36,088,927 | 49,558,364 |
| Current liabilities | 1,575,201 | 2,736,306 |
| Total liabilities | 1,575,201 | 2,736,406 |
| Net assets | 34,513,726 | 46,821,958 |
| | | |
| Issued capital | 232,780,470 | 231,717,170 |
| Performance shares | 9,994,250 | 9,994,250 |
| Reserves | 13,791,519 | 14,391,717 |
| Accumulated losses | (222,052,513) | (209,281,179) |
| Total shareholders’ equity | 34,513,726 | 46,821,958 |

### Contingent liabilities of the parent entity
Refer to Note 24.

### Commitments of the parent entity
Refer to Note 15.

# Directors' declaration

The Directors of Azonto Petroleum Limited declare that:

(a) in the Directors' opinion the financial statements and notes and the Remuneration report in the Directors report set out on pages 9 to 18, are in accordance with the Corporations Act 2001, including :

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of their performance, for the financial period ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

(c) subject to the matter set out in Note 2(b) 'Going concern and basis of accounting' there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the chief executive officer and chief financial officer for the financial period ended 31 December 2014.

Signed in accordance with a resolution of the Directors.

ADBartlett

**Andrew Bartlett**
**Chairman**

31 March 2015

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# Independent auditor's report to the members of Azonto Petroleum Limited

## Report on the financial report

We have audited the accompanying financial report of Azonto Petroleum Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the directors’ report.

## Opinion

In our opinion:

a. the financial report of Azonto Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2(b) 'Going concern and basis of accounting' in the financial report. The matters, as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Azonto Petroleum Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Russell Curtin
Partner
Perth
31 March 2015

# Shareholders information

As at 25 March 2015

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 25 March 2015.

## 1. Distribution of equity securities

Analysis of number of equity security holders by size of holding:

| | Shares |
|---|---|
| 1 - 1,000 | 137 |
| 1,001 - 5,000 | 154 |
| 5,001 - 10,000 | 167 |
| 10,001 - 100,000 | 769 |
| 100,001 and above | 594 |
| Total | 1,821 |

The number of holders of less than a marketable parcel of ordinary fully paid shares is 0.

## 2. Substantial shareholders

Substantial shareholders (i.e. shareholders who hold 5% or more of the issued capital):

| | Number of shares | Percentage held |
|---|---|---|
| 6466 Investment PTY Ltd | 76,198,981 | 6.57% |
| Genesis Asset Managers LLP | 70,138,995 | 6.05% |
| Mr Stephen John Dobson | 64,247,719 | 5.54% |
| International Finance Corporation | 63,707,267 | 5.49% |

## 3. Voting rights

(a) Ordinary Shares
Each shareholder is entitled to receive notice of and attend and vote at general meetings of the Company. At a general meeting, every shareholder present in person or by proxy, representative of attorney will have one vote on a show of hands and on a poll, one vote for each share held.

(b) Options & contractual rights
No voting rights.

## 4. Quoted securities on issue

The number of quoted shares and options issued by the Company are set out below:

| | Number |
|---|---|
| Ordinary fully paid shares | 1,159,375,100 |
| Performance Shares | 15,000,000 |
| Unlisted Options (exercisable at $0.25 - $0.80) | 35,310,150 |

## 5. On-market buy back

There is no current on-market buy back.

## 6. Unquoted equity securities and holders of >20% of each class noted, if applicable

| | Number on issue | Number of holders |
|---|---|---|
| Performance Shares to be issued to G Whiddon as ordinary shares pursuant to the Share Purchase Agreement | 8,999,099 | 1 |
| Performance Shares to be issued to Med Alpha S.A as ordinary shares pursuant to the Share Purchase Agreement | 6,000,901 | 1 |

### 7. Top 20 Quoted shareholders

| | Number of shares | Percentage held |
|---|---|---|
| HSBC Custody Nominees (Australia) | 124,835,519 | 10.77% |
| 6466 Investments Pty Limited | 76,198,981 | 6.57% |
| Mr Stephen John Dobson | 64,247,719 | 5.54% |
| Deutsche Bank AG | 53,300,000 | 4.60% |
| Mr Glenn Whiddon | 33,954,486 | 2.93% |
| International Finance Corporation | 31,853,634 | 2.75% |
| IFC African Latin American and Caribbean LP | 31,853,633 | 2.75% |
| National Nominees Limited | 31,530,568 | 2.72% |
| J P Morgan Nominees Australia Limited | 20,751,325 | 1.79% |
| Navigator Australia LTD | 17,101,906 | 1.48% |
| Platform Securities Nominees Limited | 16,552,945 | 1.43% |
| Floteck Consultants Limited | 15,921,369 | 1.37% |
| Vidacos Nominees Ltd | 14,012,173 | 1.21% |
| Citicorp Nominees PTY Limited | 12,353,521 | 1.07% |
| Zero Nominees PTY Ltd | 11,699,951 | 1.01% |
| Alexander Holdings (WA) Pty Ltd | 11,500,000 | 0.99% |
| HSBC Global Custody Nominee (UK) Limited | 11,000,000 | 0.95% |
| ACC Holdings International Limited | 10,670,100 | 0.92% |
| Mr Marcus James Taylor | 10,139,000 | 0.87% |
| Mr James David Taylor and Mrs Marion Amy Taylor | 10,082,000 | 0.87% |
| | 609,558,830 | 52.59% |