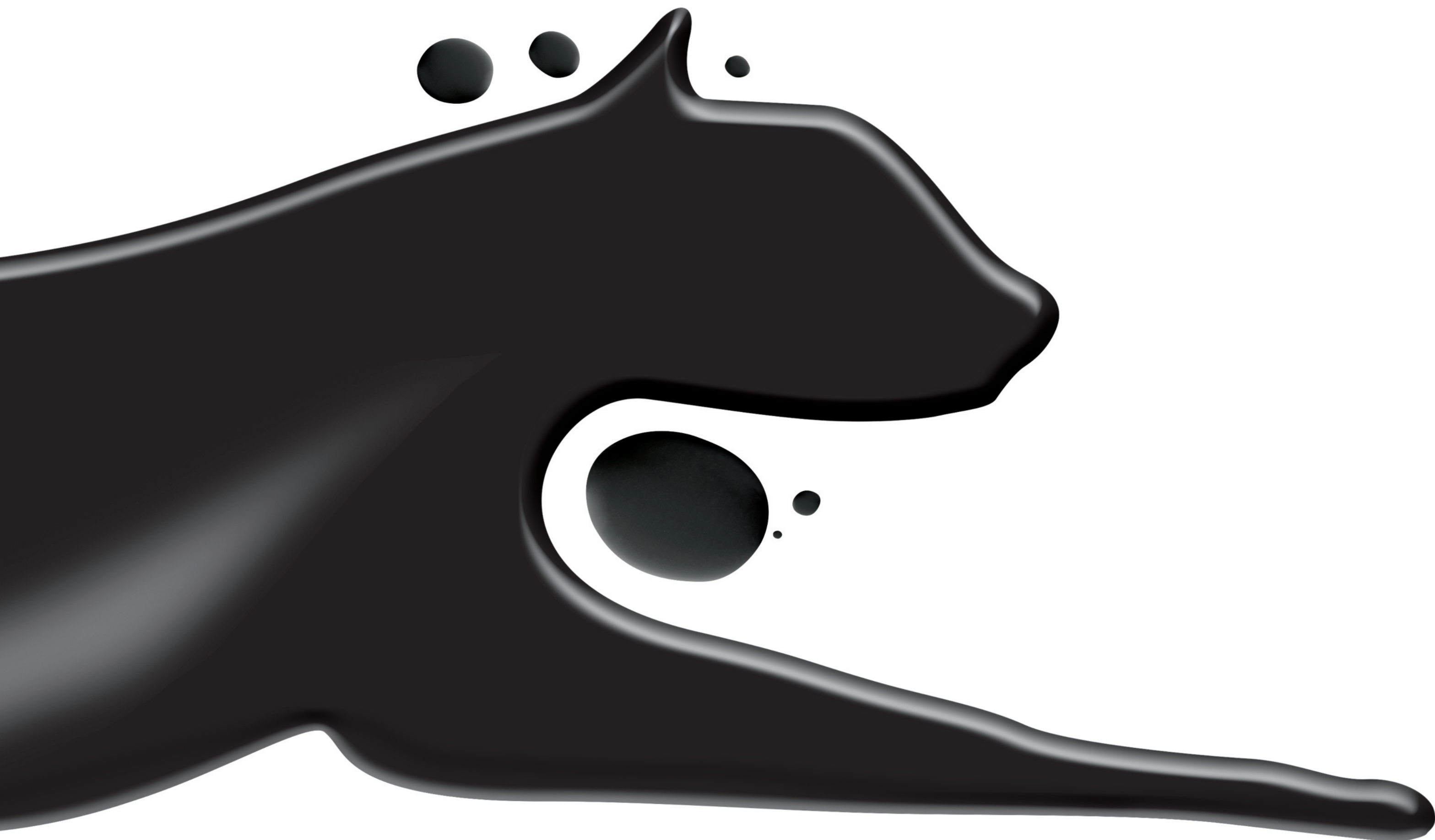
LEKOIL

Shaping the future of oil exploration and production in Africa

Annual Report and Accounts 2014



Lekoil is an Africa focused oil and gas exploration and production company with interests in Nigeria and Namibia. The Company was founded in 2010 by a group of leading professionals with extensive experience in the international upstream oil and gas industry as well as in global fund management and investment banking.

Highlights

$36.5m

raised in May 2014 to fund the completion of the acquisition and part of the development of Otakikpo

$49.2m

strong cash position that will allow us to develop our Otakikpo asset and further appraise and de-risk OPL 310

OPL 310

1,505 square kilometre 3D seismic acquisition programme completed in May 2014. Early fast tracked results are encouraging, and final results are expected later in 2015

Highlights during the period:

- Acquisition of a 40 per cent. participating and economic interest in the Otakikpo Marginal Field in oil mining lease (OML) 11 in May 2014.
- 1,505 square kilometre 3D seismic acquisition programme completed in May 2014 in OPL 310 which contains the Ogo discovery; early fast tracked results are encouraging, and final results are expected later in 2015.

Highlights post the period end on Otakikpo:

- January 2015 CPR update on Otakikpo converted resources into reserves – Proved and Probable Reserves (2P) of 14.99 mmbbls with Phase II unrisked gross Contingent Resources (2C) of 41.61 mmbbls, making a total of 56.6 mmbbls (20.38 mmbbls net to Lekoil).
- Economic evaluations, in respect of the Otakikpo estimated net 2P reserves and 2C contingent resources indicated that the Phase I and II development of Otakikpo is a robust project with a NPV (10%) of $169.1 million net to Lekoil Limited under a $60 oil price scenario on Marginal Field Terms, increasing to $224.2 million if Provisional Pioneer Status is obtained.
- Execution of a $10 million 12-month bridge facility from FBN Capital to part fund initial development costs.
- Production from Otakikpo is due to commence by mid-year 2015.

All amounts are in US$ unless otherwise stated

Contents

1 Highlights
3 Chairman's and CEO's statement
11 Financial review
12 Board of Directors
14 Directors' report
18 Remuneration report
20 Statement of Directors' responsibilities
21 Independent Auditor's report
22 Consolidated statement of financial position
23 Consolidated statement of profit or loss and other comprehensive income
24 Consolidated statement of changes in equity
25 Consolidated statement of cash flows
26 Notes to the financial statements
53 Notice of Annual General Meeting
IBC Company information

"Given the current low oil price environment and capital constraints for many smaller E&P companies, we expect to see many more opportunities over the course of the next 12 months. However, our main focus during 2015 will be on enhancing shareholder value through the development and monetisation of Otakikpo together with the continued appraisal work to further de-risk the Ogo discovery."

Lekan Akinyanmi, CEO

Our 2014 Annual Report is available in both printed form and on the Investors section of the LEKOIL plc website at:
www.lekoil.com

About us

"Lekoil is proud to be part of a group of indigenous Nigerian E&P focused companies playing an important role in developing the country's resources. With a strong and experienced management team, the Company looks forward to pursuing the exciting opportunities that we see." **Samuel Adegboyega, Chairman**

Lekoil's strengths

Capital market access

Experience, relationships and partnerships that connect Africa and international capital markets.

Technical and field competence

Experienced management team with deep international industry and local knowledge.

Focus on innovative technological solutions.

Indigenous profile

Experienced management team and board that understand the operational, regulatory, environmental and security issues that drive successful operations in Nigeria and more widely across Africa.

Well placed to take advantage of proposed advantageous fiscal terms for local indigenous companies.

Extensive government and industry relationships.

Enabling technical partnerships

Local and international partners with domain-specific experience.

We are sincerely grateful for the support shown by our investors, the Nigerian Government, the local communities we operate in, and our entire workforce who are allowing us to turn our vision into a reality.

$30/bbl
Otakikpo project achieves breakeven at oil prices below $30 on Lekoil's analysis

80%
percentage of the acreage within OPL 310, containing the Ogo discovery, over which new 3D seismic was acquired

5
number of local communities surrounding Otakikpo covered by MOUs agreed with Lekoil

Introduction and strategy

We are pleased to introduce Lekoil's second annual report and review progress made over the course of 2014 which has seen the Company build upon its strong foundations and enjoy continued operational momentum following our listing on the London Stock Exchange's AIM Market in May 2013.

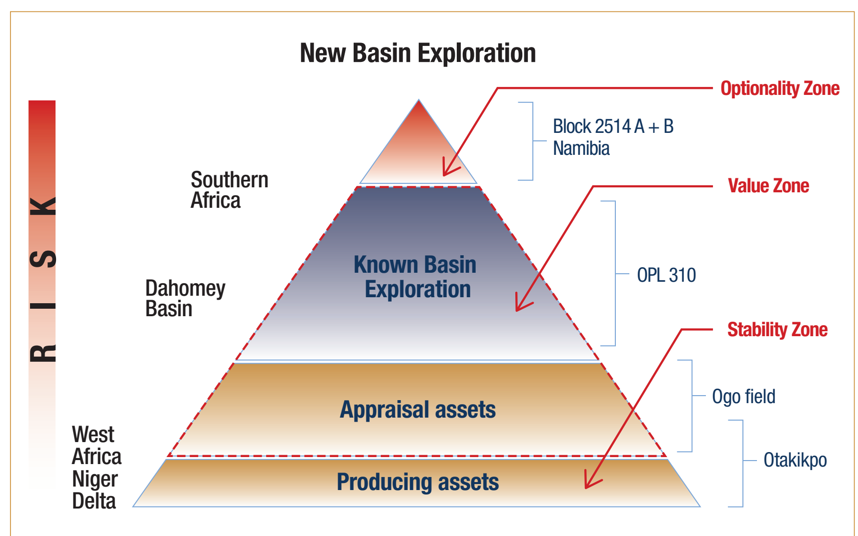
Our strategy remains clear: to continue building, through partnerships and strategic acquisitions, an indigenous Africa-focused exploration and production group, diversified across lower risk production assets and appraisal projects, and exploration assets in both known and newly discovered exploration basins. Our target portfolio composition is illustrated in figure 1 below. In 2013 our focus was on the 'value zone' of the portfolio pyramid with our farm-in to OPL 310, where the subsequent successful exploration well and side-track resulted in the Ogo discovery. The goal for 2014 was about drawing upon the extensive Africa experience of our management team to dedicate time and resources towards identifying and securing the right asset within the 'stability zone' to mitigate some of the risks associated with owning only exploration and appraisal assets.

Our close relationships with International Oil Companies (IOCs), indigenous companies, and governments across West Africa, backed by our strong technical team, meant that the Company could compile a shortlist of attractive, appropriately sized assets within the lower risk production zone. The $37.8 million funds raised in May 2014 allowed us to complete a farm-in to acquire a 40 per cent. participating and economic interest in the Otakikpo Marginal Field held in oil mining lease (OML) 11 from Green Energy International Limited.

Since then, we have set about forging agreements with the local communities surrounding the project area. A considerable amount has been achieved since May 2014, including a number of medical outreach programmes to the local communities, which has generated tremendous goodwill for the Company and its operations in the area. We have also successfully negotiated MOUs with the communities, which provide a clear engagement and interaction framework and should help us to build sustained local support and freedom to operate in the area. The operational progress seen at Otakikpo since the farm-in has been extremely pleasing and the operations will play a very important role in the Company's future growth as it will underpin future cash flow and demonstrate Lekoil's operational expertise.

We aim to continue the development of Lekoil's portfolio through further acquisitions of assets divested by both international and national oil companies, or by farm-ins to under-producing assets from indigenous owners. Geologically and technically, we remain attracted to the Atlantic Transform Margin offshore Africa's west coast and commercially we are attracted by the opportunities we believe will continue to emerge from Nigeria's policy to indigenise its oil and gas industry. Given the low oil price environment and capital constraints for many smaller E&P companies, we expect to see many more opportunities over the course of the next 12 months. However, our main focus during 2015 will be on enhancing shareholder value through the development and monetisation of Otakikpo together with the continued appraisal work to further de-risk the Ogo discovery.

Figure 1: Target portfolio, exploiting the value zone



Operations

Otakikpo Marginal Field
Near Term Producing Asset

40%
Lekoil entered into a farm-in agreement with Green Energy to acquire a 40% participating interest and economic interest in Otakikpo

56.6 mmbbls
gross estimated 2P and 2C reserves

$169.1m
net to Lekoil under a $60 oil price scenario on Marginal Field Terms

In line with our strategy of building a diversified exploration and production group, acquiring the 40 per cent. participating and economic interest in the Otakikpo Marginal Field was the standout corporate event of 2014. We believe that this transaction made good sense strategically, economically and operationally, given our size, current stage of development and the subsequent lower oil price environment.

Otakikpo allows us to showcase the technical ability within the Company and offers exposure to very near term production and cash flow to fund activity on this and other Company assets. Three wells had been drilled in the field prior to our farm-in, and hydrocarbons were encountered at multiple intervals in two of them. In addition, Otakikpo offers additional upside potential that we believe can be proved up from further 3D seismic survey/analysis and appraisal drilling.

The Otakikpo Marginal Field is sited in a coastal swamp location in OML 11, adjacent to the shoreline in the south-eastern part of the Niger Delta. OML 11 is held by the Shell Petroleum Development Company Joint Venture (SPDCJV) which includes the Nigerian National Petroleum Corporation, the Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited and Nigerian Agip Oil Company Limited. Otakikpo was awarded to Green Energy International Limited (Green Energy) by the Department of Petroleum Resources in 2011.

In May 2014, Lekoil entered into a farm-in agreement with Green Energy to acquire a 40 per cent. participating interest and economic interest in Otakikpo for a signature bonus of $7 million and, contingent on production and ministerial consent, a production bonus of $4 million.

After executing the agreement with Green Energy, and as the Technical and Financial partner, we began designing a comprehensive field development plan to prioritise production by re-entry of two existing wells, use of an early production facility and barge evacuation of crude. In parallel with this, we instructed AGR TRACS International Ltd (AGR TRACS) to carry out a comprehensive review of the surface and subsurface data and began working with our host communities.

Following the review of surface and subsurface data, AGR TRACS reported in September 2014 that the gross unrisked Contingent Resources (2C) for Otakikpo were estimated to be 56.74 mmbbls. This compared favourably to the 36 mmbbls of gross unrisked Contingent Resources (2C) assumed by Lekoil at the time of our acquisition of the interest in Otakikpo earlier in the year. AGR TRACS also reviewed four exploration prospects within the onshore part of Otakikpo and estimated these hold potential gross aggregate Oil in Place volumes of 162.8 mmbbls on a P50 unrisked basis.

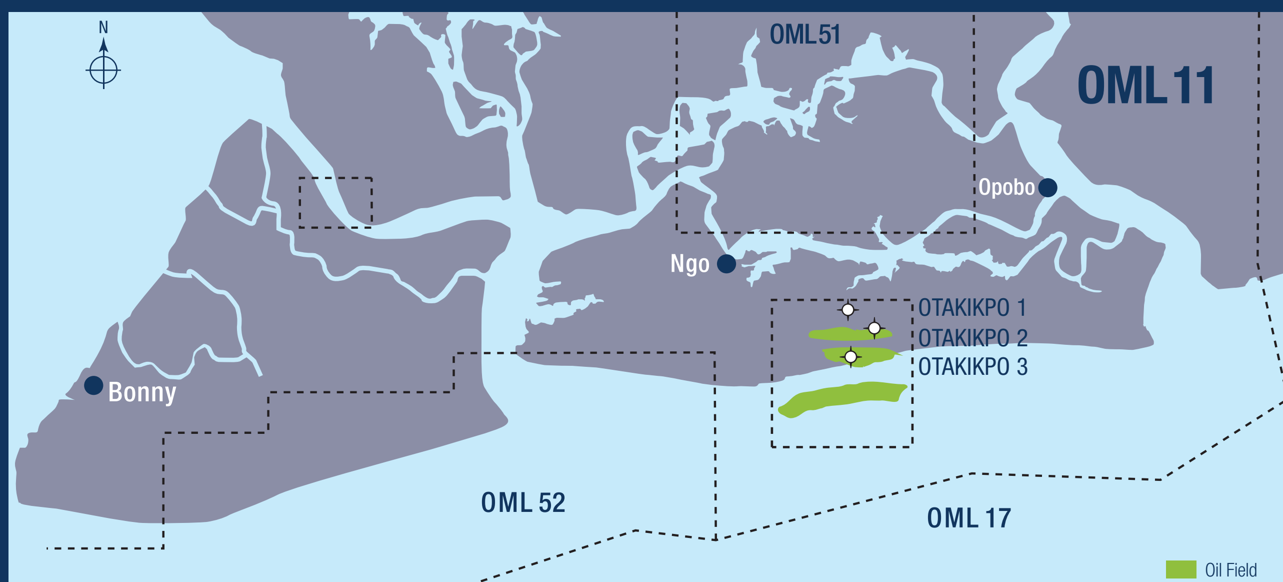
In December 2014, we released a further progress report on Otakikpo that confirmed Lekoil and Green Energy had secured the necessary approvals for the well re-entry plan and that the partners expected to begin production in the first half of 2015, a full six months ahead of the previously announced timetable. Using internal analysis and assumptions, which included CPR data from AGR TRACS, we were able to give an indication of the indicative costs and details of expected rig mobilisation. Our expected breakeven cost per barrel of oil is below $30 per barrel and this does not include the potential positive effect of Pioneer Tax Status which has been applied for by the Company.

Post period end in January 2015, we announced an update to the September 2014 CPR on Otakikpo by AGR TRACS, which converted Resources into Reserves. The updated CPR by AGR TRACS reported that gross Proved Reserves (1P) for Otakikpo are 8.43 mmbbls (3.03 mmbbls attributable to Lekoil) and gross Proved and Probable Reserves (2P) are 14.99 mmbbls (5.40 mmbbls attributable to Lekoil). Phase II unrisked gross Contingent Resources (2C) are 41.61 mmbbls (14.98 mmbbls attributable to Lekoil), which together with Phase 1 2P Reserves makes a total of 56.6 mmbbls.

In the January 2015 announcement, we also reported that AGR TRACS had carried out economic evaluations, in respect of our estimated net 2P and 2C reserves and contingent resources, which indicated that the phase 1 and 2 development of Otakikpo is a robust project with a NPV (10%) of $77.2 million net to Lekoil Limited under a $40 oil price scenario on Marginal Field Terms, increasing to $85.2 million under Provisional Pioneer Status and $260.8 million (Marginal Field Terms) rising to $365.3 million (Provisional Pioneer Status) under a $80 oil price scenario. These evaluations are summarised in the tables opposite.

We have applied for Pioneer Tax status for Otakikpo and have submitted our application for approval. As the Nigerian Government is currently in care-taking mode given the recent election results and impending change of Government, we do not expect to receive notification of our application before 1 June 2015.

Otakikpo Marginal Field



Marginal field terms

Otakikpo Phase 1 & Phase 2 Cases		Reserves / Unrisked Contingent Resources @ $60/bbl (MMbbls) 100%	Lekoil Ltd. Net	NPV(10%) $mln PV 1.1.2015 – Marginal Field Terms (Net to Lekoil Limited) $40	$60	$80	$100
LOW (P90)	1P+1C	47.00	16.92	56.1	137.4	218.6	298.7
MID (P50)	2P+2C	56.60	20.38	77.2	169.1	260.8	351.3
HIGH (P10)	3P+3C	66.20	23.83	93.0	194.8	296.1	396.5

Provisional pioneer status

Otakikpo Phase 1 & Phase 2 Cases		Reserves / Unrisked Contingent Resources @ $60/bbl (MMbbls) 100%	Lekoil Ltd. Net	NPV(10%) $mln PV 1.1.2015 – Marginal Field Terms (Net to Lekoil Limited) $40	$60	$80	$100
LOW (P90)	1P+1C	47.00	16.92	63.1	188.8	318.6	447.3
MID (P50)	2P+2C	56.60	20.38	85.2	224.2	365.3	505.1
HIGH (P10)	3P+3C	66.20	23.83	103.6	253.9	406.0	556.7

Development timeline

Q2 2014

Lekoil entered into a farm-in agreement with Green Energy to acquire a 40 per cent. participating interest and economic interest in the Otakikpo Marginal Field.

Q3 2014

AGR TRACS reported in September 2014 that the gross unrisked Contingent Resources (2C) for Otakikpo were estimated to be 56.74 mmbbls.

Field Development Plan approved by the Nigerian Ministry of Petroleum.

Q1 2015

Lekoil announced an update to the September 2014 CPR on Otakikpo by AGR TRACS, which converted Resources into Reserves.

Q2 2015

Lekoil anticipates the completion of Phase I of the FDP, the re-entry of the 002 and 003 wells and the implementation of an Early Production Facility and export facilities.

A host of regulatory changes in Nigeria has paved the way for a wider participation of indigenous oil and gas companies in the Nigerian oil and gas sector.

Countries like Nigeria offer indigenous companies the opportunity to develop its own reserves and resources, nurture its skills and talent, and work more closely with its local communities for the benefit of all.

Lekoil is creating a new model to share the benefits of resource extraction with local communities.

We understand the Pioneer Tax programme remains part of the Government's agenda and look forward to seeing our application finalised.

In addition, we provided details of the Field Development Plan (FDP) following approval, in December 2014, by the Nigerian Ministry of Petroleum of the planned re-entry of the 002 and 003 wells. In Phase I the 002 and 003 wells will be recompleted with the implementation of an Early Production Facility and export facilities.

Community relations

In December 2014 we concluded Memoranda of Understanding with the leaders of the host community, Ikuru and the other host communities of Ugama Ekede, Ayama Ekede, ASUK Ama and Asuk Oyet, in Andoni Local Government Area of Rivers State surrounding Otakikpo. These agreements followed our engagement with local communities since we acquired the interest in Otakikpo and began our consultation process, at the same time as commencing medical outreach services.

Our agreements with the local communities provide for us leasing land for an operating base for the Otakikpo development for a period of 25 years with an option to renew (after negotiation of terms).

In addition, the communities shall receive royalties based on LPG revenue and a capital sum per annum for sustainable community development through an incorporated community trust fund which will have a board of advisors with representation from the communities and Lekoil and its partner.

We will also provide training and employment to members of the communities during both construction and post construction phases. We will engage a community liaison officer from within the communities as well as reserving a proportion of non- and semi-skilled positions for local people.

Also covered in the agreements are measures to ensure that our operations are carried out in an ecological and environmentally friendly manner so that we shall not pollute the leased land. In the event of any pollution, we have undertaken to fully comply with Nigerian laws regarding immediate notification to the local communities, joint inspection of pollution and containment/cleaning of spilled substances as well as prompt assessment.

Communities shall receive royalties based on LPG revenue and a capital sum per annum for sustainable community development through an incorporated community trust fund.

Financing

We have executed a financing agreement for a $10 million 12-month bridge facility from FBN Capital. FBN Capital continues to work on arranging a larger $50 million syndicated facility for fast-track development of Otakikpo if the Pioneer Tax status is secured. The $50 million facility will also provide us with the flexibility to explore opportunities arising from the current oil price environment – should it be put in place. For bringing Otakikpo into initial production, we remain fully funded from our own cash resources.

Otakikpo summary

Overall, progress since May 2014 has been very rapid and Otakikpo is shaping up to be the model project for our operational, technical and community liaison teams to demonstrate their capability in bringing this lower risk asset into production.

Ogo Discovery and OPL 310 – appraisal asset

The 2013 Ogo discovery was described by a leading oil and gas research consultancy as one of the most significant exploration finds in Africa in recent times, and it certainly gave us a flying start to life as a publicly traded company. Given the size of the block and early stage nature, the partners in OPL 310 agreed the next phase of work would be to conduct a 3D seismic programme to acquire sufficient data to high grade and de-risk prospects surrounding the Ogo discovery. In May 2014, we and our partners completed a 1,505 square kilometre 3D acquisition programme, which represented approximately 80 per cent. of the acreage within OPL 310.

Processing and interpretation of the acquired 3D seismic data continued throughout the rest of 2014. Early fast tracked results from the seismic processing are encouraging, and final results are expected later in 2015. The Company has a good working relationship with Afren and looks forward to engaging with Afren's new management team. We are closely monitoring progress being made by Afren with its capital restructuring to address its immediate and longer term funding issues. The partners will make a strategic decision or appraise the asset further following the completion of the 3D seismic processing and interpretation.

Financial

The results for the year to 31 December 2014 showed a total loss of $11.9 million, as compared to $18.1 million for the same period in 2013. Cash balances at the year-end totalled $49.2 million.

We raised an additional $36.5 million in May 2014 to fund the completion of the acquisition and part of the development of Otakikpo.

Outlook

After the major exploration success at Ogo in 2013, we were committed throughout the early part of 2014 on securing the right asset to diversify the Group's portfolio, and one which could be quickly developed to generate cash flow. Having secured Otakikpo, largely thanks to the support of our shareholders who provided the necessary funding to complete the acquisition, our focus has been on reaching out to the nearby communities to the asset, accumulating the operational talent to develop the field and tendering for key equipment and services.

Our immediate priority looking forward is to re-enter the Otakikpo 2 well to start followed by Otakikpo 3 well and then grow initial production in order to generate the cash required to support the further development of the field (with the balance intended to be provided through debt financing as referred to above) and to fund ongoing activities on our portfolio. Otakikpo also offers us the chance to demonstrate to the market and our stakeholders our technical ability to take an asset from development into production.

Given that Lekoil's Nigerian subsidiaries are classed as indigenous companies in Nigeria, another of our shorter term objectives is to look to secure Ministerial Consent to the farm-ins, and Pioneer Tax Status which, if granted, will have significant fiscal benefits for the Company as we grow production.

Longer term, we plan to acquire onshore 3D seismic over Otakikpo. We also plan to appraise the shallow water opportunities in the offshore part of field which is already covered by 3D seismic.

The fall in oil prices from mid-2014 has resulted in us lowering our short to mid-term oil price assumptions in our development plans to levels at or below those prevailing today. For Otakikpo, our analysis reveals that the breakeven price for the project is below $30 per barrel in our base case. This breakeven number can be lowered further if we are successful in our application for Pioneer Tax Status for Otakikpo.

For OPL 310 and the Ogo field, the partners are still in the early stage of the E&P lifecycle where we are still confirming size, mix and other hydrocarbon qualities of the asset. Subsequently, we expect to review several strategic options with regards to long-term development of the asset. Our preliminary analysis and review of development options anticipates that the Ogo field and other prospects in OPL 310 should yield an economically robust project under our base case oil price forecasts.

For other new projects, our lowered base case oil price assumptions mean that we are even more rigorous in testing potential projects under price scenarios that are considerably lower than today's oil price levels.

The Board looks forward to a successful year ahead as Lekoil enters production and looks to generate and grow cash-flow which then can be reinvested back into the business. In parallel with this, we will continue to evaluate other opportunities to grow our asset portfolio further.

We are sincerely grateful for the support shown by our investors, the Nigerian Government, the local communities we operate in, and our entire workforce who are allowing us to turn our vision into a reality.

Samuel Adegboyega
Chairman

Lekan Akinyanmi
Chief Executive Officer

11 May 2015

Our exploration and appraisal assets

Nigeria, OPL 310

$1{,}900\text{km}^2$

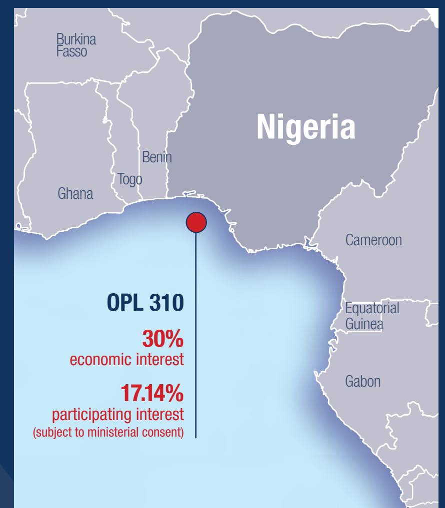
Dahomey basin block, identified as a key target by a regional basin study

>232 mmboe

Lekoil Nigeria net recoverable resources from Ogo field estimated to be 232 mmboe (P50)

$1{,}505\text{km}^2$

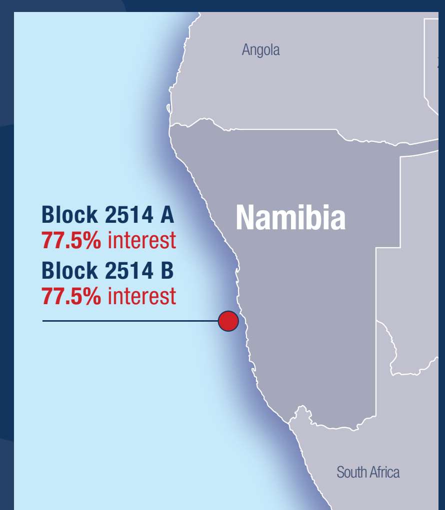
3D seismic acquisition programme completed in May 2014. Early fast tracked results are encouraging



Namibia blocks 2514 A&B

$1{,}160\text{km}^2$

Luderitz basin blocks off Namibia



Our vision, mission and core values

Vision	Mission	Core values
To be the world's leading Exploration & Production company focused on Africa	To maximise value for our stakeholders in a sustainable manner, by operating with integrity and leveraging local resources	Integrity Professionalism Respect Innovation and creativity Drive Team-work and collaboration

Core values	Elements
Integrity	• We act responsibly and are accountable as individuals and as a company • We adhere to the highest moral standards in dealing with our stakeholders • We operate with ethics and fairness and comply with all required rules and regulations • We do what we say and say what we do
Professionalism	• We apply the best standards in our conduct and service delivery • Our people are competent and hardworking • We adhere to the highest standards of our profession and adopt best practices • We recognise and celebrate achievements
Respect	• We have respect for all our people regardless of age, designation, and gender • We work in an environment that fosters effective communication and deal courteously with all our stakeholders • We respect the custom and rules of the countries in which we operate
Innovation and creativity	• We have a strong desire for improving performance and are constantly looking for ways to do so • We think outside the box • We think differently and strive to apply innovative thinking and creativity to everything we do
Drive	• Our people are result oriented and pay the utmost attention to quality and detail
Team-work and collaboration	• We work together towards a shared vision and recognise that we can achieve more through collaboration • We leverage individual strengths and diversity to be more productive

Financial review

In the twelve months ended 31 December 2014, the Group recorded an operating loss of $11.8 million and exited the period with cash and cash equivalents of $49.2 million. The Group is currently part-funding interpretation and appraisal of the extensive 3D seismic programme over the OPL 310 block and also acquired a 40 per cent. interest in Otakikpo Marginal Field, situated in oil mining lease ("OML") 11. The Group is currently in discussions with a number of banks regarding the provision of debt facilities for the Otakikpo Marginal Field development.

Financial overview

In US Dollars	2014	2013
Loss for the year	(11,932,438)	(18,112,199)
Retained loss	(18,815,402)	(16,989,844)
Loss per share	(0.01)	(0.10)
Net assets	173,766,062	147,089,506
Net assets per share	0.48	0.46
Cash and cash equivalents	49,225,726	66,632,020

Full year results

The Group recorded a total comprehensive loss of $11.9 million for the twelve months ended 31 December 2014 compared to loss of $18.1 million recorded for same period in 2013. No dividends were paid or declared during the period.

Administrative expenses and operating loss

Administrative expenses were $11.8 million compared to $17.6 million for the same period in 2013. The reduction in administrative expenses is due to the one-off costs associated with the admission of the Group to trading on AIM and the write-off of investment in OML 113 during the corresponding period, albeit this was partly offset by an expected growth in expenses within the business as we continue to develop our existing assets and acquire new assets.

The Group reported an operating loss of $11.8 million for the twelve months ended 31 December 2014 compared with a loss of $17.5 million for the same period in 2013.

Taxation

No tax was payable for the twelve months ended 31 December 2014 (2013: Nil).

Capital expenditure

The Group's capital expenditure during the twelve months ended 31 December 2014 amounted to $18.5 million compared to $101.5 million incurred for the same period in 2013. Capital expenditure during the year was primarily associated with OPL 310 and acquisition of the Group's 40% interest in Otakikpo Marginal Field.

Cash and cash equivalents

The Group had cash and cash equivalents of $49.2 million at 31 December 2014, compared to $66.6 million at 31 December 2013.

Summary statement of financial position

The Group's non-current assets increased from $102.8 million at 31 December 2013 to $122.4 million at 31 December 2014, reflecting expenditures on seismic acquisition on OPL 310 and acquisition of Otakikpo Marginal field. Current assets represent the Group's cash resources and other receivables, which decreased from $66.9 million as at 31 December 2013 to $54.1 million as at 31 December 2014, reflecting increased capital and other expenditures offset by the $37.8 million equity funds raised in May 2014.

Current liabilities are principally trade and other accounts payable which decreased from $22.6 million as at 31 December 2013 to $2.6 million as at 31 December 2014, mainly as a result of settling cash a call obligation on OPL 310 that was outstanding as at the end of 2013.

Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2014.

Accounting policies

The Group's significant accounting policies and details of the significant judgements and critical accounting estimates are disclosed within the notes to the financial statements. The Group has not made any material changes to its accounting policies in the twelve months ended 31 December 2014.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including changes in timing of developments, cost overruns of exploration and development activities, and different oil price scenarios. At 31 December 2014, the Group had liquid resources of approximately $49.2 million, in the form of cash and short-term investments, which are available to meet ongoing capital, operating and administrative expenditure. The Group's forecasts, taking into account reasonably possible changes as described above, show that the Group expects to have sufficient financial resources for the 12 months from the date of approval of the 2014 Financial Statements.

David Robinson
Chief Financial Officer

11 May 2015

Board of Directors

Samuel Adegboyega, Non-Executive Chairman

Samuel, has over 30 years' experience in the oil and gas industry, and is currently Managing Director of SOWSCO Well Services (Nig.) Ltd., in Port Harcourt, Nigeria. Samuel is a member of the Board of Trustees Ile-Oluji Economic Summit Group, a traditional local community leadership organisation as well as being a founding member of S.T. Adegboyega & Co., a Nigerian law firm.

Samuel is a founding member and current Executive of the Petroleum Technology Association of Nigeria, an association formed to bring together Nigerian oil and gas entrepreneurs. Samuel graduated from the University of Ibadan with a degree in Petroleum Engineering.

Olalekan Akinyanmi, Chief Executive Officer

Olalekan ("Lekan") is the founder and Chief Executive Officer of LEKOIL Limited. Since inception, he has led the company through an IPO and subsequent fundraises of over $200 million on the London Stock Exchange's AIM market.

Lekan has over 20 years' experience in the oil and gas industry and was the International Energy Sector Head at AllianceBernstein L.P. in New York (Global asset manager with over $400 Billion under management) with direct responsibility for a $1Billion Energy and Natural Resource Portfolio.

Prior to that he was a member of the #1 institutional investor-ranked team of analysts covering the oilfield services industry as an Associate Director at UBS Investment Research. Lekan has held Engineering and operational roles within Schlumberger in a career that spanned Nigeria, Egypt, Pakistan, Oman and Scotland.

Lekan graduated from the Obafemi Awolowo University in Nigeria with a Bachelor of Science Degree in Electronic and Electrical Engineering and also holds an MBA from Massachusetts Institute of Technology (MIT) Sloan School of Management. He is also a Member of the Society of Petroleum Engineers.

David Robinson, Chief Financial Officer

David, a Chartered Financial Analyst Charterholder, is the Chief Financial Officer of Lekoil Limited. He has been instrumental in raising both private and public capital for the Company and played a key role in Lekoil's 2013 IPO and subsequent capital raisings. Prior to joining Lekoil as a founding Board member in 2011, David worked as a Senior Vice President and Global Sector Head for Energy and Natural Resources at AllianceBernstein L.P., where he managed multi-billion dollar equity portfolios for institutional and mutual fund clients.

David has extensive experience in corporate analysis and research, and prior to working for AllianceBernstein L.P., he worked for Credit Suisse First Boston, HSBC Securities, and Westpac Investment Management.

David graduated from the University of Western Sydney with a Bachelors degree in Commerce, majoring in Accounting and later attained a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Gregory Eckersley, Non-Executive Director

Gregory ('Greg'), has 25 years' experience in international financial markets. He is the global head of the Abu Dhabi Investment Authority's internal equities department, where he oversees portfolios, risk management and the due diligence process.

Prior to joining the Abu Dhabi Investment Authority, Greg worked for AllianceBernstein L.P. in New York, where he acted as Senior Portfolio Manager, leading a team responsible for the construction, management and risk control of multiple global and international growth equity portfolios. Prior to this appointment he was with AllianceBernstein in South Africa as Chief Executive of its regional offices, Draycott Partners, Century Asset Management and Cigma International Investment Advisors in London.

Greg graduated from Oxford University in 1987 with a degree in Philosophy, Politics and Economics (PPE), where he also received a Rhodes scholarship. He then undertook a programme in Investment Management and Modern Portfolio Theory at the London Business School.

Atedo Peterside, Non-Executive Director (resigned 28 June 2014)

Atedo, has over 30 years' banking and financial experience, most recently as the Chairman of Stanbic IBTC Holdings PLC, the holding company for a group of financial services companies in South Africa, Nigeria and more generally Sub-Saharan Africa, and, prior to that, as Chief Executive Officer of IBTC Chartered Bank Plc ("IBTC"). During his time with IBTC Atedo led the bank's growth campaign and capital markets assignments leading up to the merger with Stanbic in 2007.

Atedo is the Founder and President of the ANAP Foundation, a non-profit organisation committed to promoting good governance at national, state and local government levels. He currently holds several additional directorships in Nigeria, including Chairman for Cadbury Nigeria Plc, Director of Unilever Nigeria Plc and Director of Nigerian Breweries Plc.

Atedo graduated from City University, London, with a degree in Economics, following which he obtained a post graduate degree in Economics from the London School of Economics and Political Science.

Aisha Oyebode, Non-Executive Director

Mrs. Aisha Oyebode is the CEO of the Murtala Muhammed Foundation and Group Chief Executive Officer, Asset Management Group (AMG) Limited. Prior to becoming CEO, Aisha was the Executive Director of AMG from October 1991-June 1993. Aisha is a legal practitioner with an LL.M (Public International Law) from Kings College, University of London and a Masters in Business Administration (MBA) with a distinction in Finance from Imperial College, University of London.

Mrs. Oyebode has several years of practical experience in corporate and litigation matters having worked in the prestigious law firm of Ajumogobia, Okeke, Aluko and Oyebode. She was called to the Nigerian Bar in 1989. She has completed several attachments with global financial institutions which include Caisse Privee Banque, Brussels; Banque Rivaud, Paris; and Banque Privee, Geneva. Aisha also serves as a member of various boards.

John Van Der Welle, Non-Executive Director

John, has over 25 years' oil industry experience, having qualified as a chartered accountant with Arthur Andersen in 1981. He is a member of the Association of Corporate Treasurers and the Institute of Taxation.

After 11 years at Enterprise Oil where he was Business Development Manager and subsequently Group Treasurer, John has been Finance Director of a number of listed E&P companies, including Premier Oil between 1999 and 2005.

He was Managing Director and Head of Oil and Gas at the Royal Bank of Scotland in 2007-2008 and, since 2010 has worked as a consultant to, and non-executive director of, a number of listed and private E&P companies including Hurricane Energy Plc.

Directors' report

For the year ended 31 December 2014

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2014 and at 31 December 2013, were as follows:

	At 31 December 2014 Number	At 31 December 2013 Number
Sam Adegboyega	**1,160,000**	1,160,000
Olalekan Akinyanmi	**39,138,601**	39,138,601
David Robinson	**7,787,004**	7,787,004
Greg Eckersley (and Family)	**2,762,593**	2,753,050
Aisha Oyebode	**256,250**	256,250
John van der Welle	**–**	–
Atedo Peterside*	**350,000**	256,250

* on 17 July 2014 Atedo Peterside exercised an option to buy 93,750 shares. Atedo Peterside resigned as a Director effective 28 June 2014.

Substantial shareholders

As at 8 April 2015 the following Shareholders held 3% or more of the nominal value of the Company's shares carrying voting rights:

	Number of ordinary shares	% of share capital
Olalekan Akinyanmi	39,138,601	10.8%
Capital Group	35,922,000	9.9%
Blackrock	30,086,832	8.3%
Jennison Associates.	28,475,162	7.8%
Senator Investment Group	27,250,000	7.5%
Fidelity Worldwide Investments	21,566,477	5.9%
Blakeney Management	16,390,502	4.5%
Heritage Bank, Geneva	13,718,943	3.7%
Credit Suisse Stocklending Account	13,281,000	3.7%

Domicile

The Parent Company of the Group, Lekoil Limited (Cayman), is a public limited company and is registered in the Cayman Islands.

Principal activity

The principal activity of the Group is the exploration for, and production of oil and gas.

Results and dividends

The Group's consolidated statement of profit or loss and other comprehensive income is set out on page 23 and shows the results for the year. The Directors do not recommend the payment of a dividend (2013: $nil).

Review of business and future developments

A review on the operations of the Group is contained in the Chairman's & CEO statements on pages 3 to 8 and Financial review on page 11.

Financial risk management

The Group's risks to financial instruments are outlined on pages 50 and 53.

Key performance indicators

The Company's key performance indicators were focused on the safe fulfilment of the exploration programme and finding commercial hydrocarbons.

Post-reporting date events
All events that have occurred since the year end which require reporting have been disclosed in the consolidated financial statements and financial review.

Charitable and political donations
There were no political or charitable contributions made by the Company or the Group during the year (2013: $nil).

Health, safety and environment
The Group has an overriding commitment to health, safety and environmental responsibility. The Group works closely with host governments and communities in the country in which it operates, together with its contractors and partners, to ensure internationally recognised standards are implemented and maintained along with compliance to local legislation.

The Group's exploration activities are subject to the relevant environmental protection Acts. The Group closely monitors its activities to ensure to the best of its knowledge there is no potential for the breach of such regulations. There have been no breaches of these Acts recorded against the Group during the reporting period.

Creditor payment policy
It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Financial instruments
Details of the use of financial instruments by the Company and its subsidiary undertaking are contained in note 30 of the consolidated financial statements.

Directors' responsibilities
The Directors are responsible for preparing the Director's report and the consolidated financial statements in accordance with applicable law and regulations.

Under the AIM Rules the Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Directors will not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. The Directors are also required to prepare the consolidated financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Groups transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with IFRS . They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Number of board meetings during the year

Attendance	Board	Remuneration Committee	Audit Committee
Sam Adegboyega	6	2	1
Olalekan Akinyanmi	6		
David Robinson	6		3
Greg Eckersley	4	3	3
Aisha Oyebode	5		
John van der Welle	6	3	3
Atedo Peterside*	1		

* Atedo Peterside resigned as a Director effective 28 June 2014.

Governance

There is no applicable regime of corporate governance to which Directors of a Cayman Islands company must adhere over and above the general fiduciary duties of care, diligence and skill imposed on such directors under Cayman Islands law. The Directors recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its Shareholders.

The Directors recognise the value of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (QCA Code). While under the AIM rules full compliance with the QCA Code is not required, the Directors seek to apply the recommendations of the QCA Code in so far as is appropriate having regard to the size, current stage of development and resources of the Company.

In order to provide guidance on Corporate Governance issues, the Company approved and implemented the following internal policies and practices which are reviewed periodically to ensure continued relevance:

- Related Party Transactions Policy
- Disclosure and Insider Trading Policy
- Share Dealing Code
- Whistleblowing Policy
- Anti-Bribery Policy
- Code of Ethics
- Safety, Health, Environment and Security Policy

Related Party Transaction policy

The Related Party Policy outlines the procedure for identifying related parties and interests and regulates the disclosure and approval requirements for transactions with such parties ("Related Party Transactions") within the Company, its associates and affiliates. The Related Party Policy provides guidelines and procedures on dealing with Related Party transactions and compels all employees and Directors of the Company to fully understand, and adhere to their responsibilities and obligations in respect of such transactions.

Disclosure and insider trading policy

As a company admitted to the AIM Market of the London Stock Exchange, the Company is required to comply with the AIM rules relating to the disclosure and control of inside information. The purpose of the Disclosure Policy is to help the Company comply with these rules on an ongoing basis by ensuring both timely and orderly communication of key information concerning the Company to shareholders, the stock market as a whole and to the press.

The Disclosure Policy provides varying authority levels and consultation requirements for information released to the public including shareholders, the press, brokers or others, as well as authority levels to issue communications in relation to the Company's affairs generally, including in particular major announcements such as the preliminary and half-year results and any announcements concerning major business developments.

In addition to disclosure regulations by the Company the Insider Trading Policy places an overriding obligation on the Company and its Directors to manage "inside information" as stated in the policy both internally and externally, in order to prevent market abuse, insider dealing and similar offences by persons in possession of inside information.

Share Dealing Code

The Share Dealing Code applies to all employees, Directors, and persons "associated" with employees and Directors of the Company and sets out the rules governing the dealing in its shares and related securities of by those persons. The Share Dealing Code is intended to serve as a guide to its employees in the various legal requirements relating to dealing in the Company's shares and related securities.

The fundamental principle is that as a matter of law no person should deal in the shares or securities of the Company at any time when they are or may be regarded as privy to inside information.

Whistleblowing policy

The objective of this policy is to support the Company's values by encouraging all employees of the Company to report the occurrence of any misconduct (irrespective of location) by employees, Directors or associates of the Company that affects the business of the Company; without fear of risk to themselves or any inhibition or victimisation.

Anti-bribery policy

The purpose of this policy is to reinforce the Company's reputation for integrity and responsibility and its business principle of zero tolerance to bribery and corruption by providing a framework to guard and promote the Company's position in this regard.

This Policy applies not only to Directors, employees of the Company and its subsidiaries, but also to agents, intermediaries, consultants, joint venture or other business partners and any other persons, organisations or bodies doing business with the Company or any of its subsidiaries and employees.

Code of ethics

The Company is committed to the highest standards of ethical and professional conduct. The Code of Ethics (the "Code") provides basic guidelines for business practices, professional and personal conduct which each Director and employee is expected to adopt and uphold.

The Code also serves as the Company's creed to ensure transparency, accountability and openness in all its dealings and activities conducted to promote public trust and confidence in the Company amongst its staff and/or Directors.

Safety, Health, Environment and Security (SHES) policy

The Company is committed to understanding, managing and reducing the environmental impact of its activities and implements internationally recognised environmental management systems to achieve this goal. The SHES Policy assists the Company in enforcing the health, safety and welfare of its employees in the work place as well as ensuring the protection of its business partners and surrounding community at its sites of operations.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

KPMG Professional Services have expressed their willingness to continue in office and a Resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

Gloria Iroegbunam
Company Secretary

11 May 2015

Remuneration report

For the year ended 31 December 2014

The Remuneration Committee ("the Committee") comprises of Gregory Eckersley (the Chairman), Aisha Oyebode (who replaced Samuel Adegboyega as a member of the Committee on 22 October 2014) and John van der Welle. The members are all independent Non-Executive Directors of the Company. The Committee is responsible for determining and reviewing the terms and conditions of service (including remuneration) and termination of employment of executive Directors and senior employees and the administration of the Company's share option and share award schemes. It is responsible for determining individual remuneration packages including, where appropriate, bonuses, incentives and share options.

The Remuneration Committee is permitted to appoint independent advisers to assist in the determination of the remuneration for the Executive Directors.

Remuneration policy

The Committee, in forming its policy on remuneration has given due consideration to the needs of the Company, Shareholders and the provisions of the 2014 UK Corporate Governance Code. The ongoing policy of the Committee is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality employees capable of achieving the Group's objectives and to incentivise them effectively, so as to deliver long-term shareholder value.

It is the aim of the Committee to reward key employees on a basis which is aligned to the performance of the Company. Also, the remuneration is subject to the broader principle that their remuneration should be competitive with that received by professionals of comparable companies.

At IPO in May 2013, it was agreed that the salaries of the two executive Directors would be fixed and paid in shares into a trust for an eighteen month period following the IPO. The salary of the CEO was US$750,000 per annum and the salary of the CFO was fixed at US$600,000 per annum to be paid in shares at the IPO price of 40p per share.

The Committee appointed independent remuneration consultants – H2Glenfern Remuneration Advisory – to advise the Company on remuneration levels and policy following this eighteen month period. The Committee has implemented recommendations made from November 2014.

There are four main elements of the remuneration package:

- Base Salary
- Employee Benefits
- Performance-related cash bonus
- Performance share plan

The Company currently does not have a pension scheme for the Directors.

Base salary

The policy is to pay a fair and reasonable base salary, taking into account comparable salaries for similar roles in similar companies. The base salary is reviewed annually by the Committee having regard to the performance of the Company, individual performance, market data, levels of increases applicable to other employees of the Company and economic conditions. Base salaries for the Executive Directors remain at the level set at IPO and are now payable in cash.

Employee benefits

The Company's Directors and Officers are covered under a third party indemnity insurance. It also provides Healthcare and Pension Plan arrangements for all its employees.

Performance-related cash bonus

The Group bonus performance measurement for Executive Directors and staff is based upon Group performance achieving operational targets and personal performance. The key operational targets relate to progress at the Company's licence areas, building the Company's reserve base, acquiring further licence interests, fundraising and performance against budget. The Group monitors key metrics on share price performance versus its peer group companies and key indices such as the AIM 50, and AIM E&P Indices.

In respect of performance during 2013, the Remuneration Committee determined to award Lekan Akinyanmi and David Robinson performance related bonuses of $750,000 and $450,000, respectively. This reflected the considerable progress the Company made in 2013 including the operational progress at the Company's OPL 310 licence area and the successful IPO equity fundraising carried out in May 2013. These bonuses were paid in two tranches. In 2013, an interim bonus of $375,000 and $300,000 was approved for Lekan Akinyanmi and David Robinson respectively while in 2014, an additional amount of $375,000 and $150,000 was approved as final bonus for 2013 financial year.

In respect of performance during 2014, the Committee considered the progress which the Company made during the year which included the acquisition of an interest in the Otakikpo Marginal field, the equity fundraising carried out in May 2014 and further operational progress at the Company's OPL 310 licence area.

Whilst the Remuneration Committee considered the progress made during the year to have been strong, the Committee was mindful of how conditions in the industry changed during the second half of the year and the impact this had on the Company's share price. The Committee determined that annual bonus payments for 2014 should take account of shareholder experience and the need to act prudently in the light of industry conditions. As such the Remuneration Committee determined to make annual bonus payments to the CEO at 20% of his base salary and to the CFO at 10% of his base salary.

Performance Share Plan

Share awards may be granted to the Company's employees and Executive Directors by the Board, upon recommendation by the Remuneration Committee.

In line with the Executive Stock Incentive Plan, the Board on 26 March 2014 approved the grant of 5,280,000 options to Senior Management of the Company. Details of the options awarded to employees is set out in Note 23 of the Financial Statements.

On 19 November 2014 the Board approved the Company's Long Term Incentive Plan (the 'Share Plan') designed to provide incentives to executives and employees to act in the long-term best interests of the Group and its shareholders. The Committee anticipates making awards under the new plan during 2015.

The total remuneration to Directors in 2014 results in the following position as at 31 December 2014 (audited):

	Basic salary or fees		General benefit	Unused vacation	Performance related bonus	**Total emoluments 2014**	Total emoluments 2013
	Cash $000	Shares $000	$000	$000	$000	**$000**	$000
Lekan Akinyanmi	122.40	687.50	131.25	43.10	525.00	**1,509.25**	1,584.32
David Robinson	97.92	550.00	105.00	53.08	210.00	**1,015.99**	1,137.23
Samuel Adegboyega	120.00	–				**120.00**	85.79
Aisha Muhammed-Oyebode	80.00	12.46				**92.46**	70.10
Atedo Peterside[1]	50.00	6.23				**56.23**	112.46
Greg Eckersley	80.00	–				**80.00**	110.89
John van der Welle	80.00	14.73				**94.73**	62.08
Festus Marinho[2]	–	–				**–**	44.24
	630.31	1,270.92	236.25	96.18	735.00	**2,968.66**	3,207.11

1 Resigned in June 2014
2 Retired Non-Executive Director

The interests of the Directors, who were in office at the end of the financial year, in options over the shares of the Parent Company at 31 December 2014 and 31 December 2013 were:

	Outstanding as at 31 Dec 2013 number	Granted in the year number	Exercised in the year number	Forfeited in the year number	Expired in the year number	Issued in the year number	Outstanding as at 31 Dec 2014 number	Exercise Price* (£)	Lapse date
Lekan Akinyanmi	5,480,000	–	–	–	–	–	5,480,000	0.49	03-Dec-20
David Robinson	1,600,000	–	–	–	–	–	1,600,000	0.49	03-Dec-20
Greg Eckersley	1,257,986	–	–	–	–	–	1,257,986	0.49	03-Dec-20
Sam Adegboyega	750,000	–	–	–	–	–	750,000	0.49	03-Dec-20
Atedo Peterside	187,500	–	(93,750)	(93,750)	–	–	–	0.49	19-Feb-23
Aisha Oyebode	187,500	–	–	–	–	–	187,500	0.49	19-Feb-23
John van Der Welle	187,500	–	–	–	–	–	187,500	0.49	04-Apr-23

* The Group issued options with 3 different exercise prices $1, $3.75, and $7.50 in 2012. The share price was estimated based on recent arm's length share issues. On 17 May 2013, the issued options with exercise prices of $1.00 & $3.75 were cancelled and the issued options with exercise price of $7.50 were subdivided by a factor of ten in line with the Company's capital reorganisation which resulted in a share split of 10:1. The exercise price of the outstanding options was also subdivided by a factor of ten resulting in a reduction in exercise price from $7.50 to $0.75 and an increase in total number of option shares from 6,000,000 to 19,000,000. Effective 26 March 2014, the exercise price of the outstanding stock options was changed from US$0.75 to GB£0.49 using a conversion rate of US$1.53 to GB£1.00 and the existing stock option agreements have been amended to reflect the exercise price in GB£. During the year, 93,750 units (2013: nil) of share options were exercised by the Directors.

Statement of Directors' responsibilities in relation to the consolidated financial statements for the year ended 31 December 2014

The Directors accept responsibility for the preparation of the consolidated financial statements set out on pages 22 to 53 that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

The Directors further accept responsibility for maintaining adequate accounting records and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

Signed on behalf of the Board of Directors by:

Olalekan Akinyanmi
Chief Executive Officer

11 May 2015

David Robinson
Chief Financial Officer

11 May 2015

Independent Auditor's report

To the members of Lekoil Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of Lekoil Limited ("the Company"), which comprise the consolidated statements of financial position at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, summary of significant accounting policies and other explanatory information, as set out on pages 22 to 53.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements that give a true and fair view 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements give a true and fair view of the consolidated financial position of Lekoil Limited ("the Company") as at 31 December 2014, and of the Company's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Signed:

Chibuzor N. Anyanechi, FCA
FRC/2013/ICAN/00000000789
For: KPMG Professional Services
Chartered Accountants

11 May 2015

Lagos, Nigeria

Consolidated statement of financial position

As at 31 December

In US Dollars	Notes	2014	2013
ASSETS			
Property, plant and equipment	8	**1,373,904**	212,230
Intangible assets	10	**8,266,103**	–
Exploration and evaluation assets	9	**111,136,232**	102,558,594
Other receivables	12	**1,503,667**	–
Long term prepayments	13	**121,643**	–
Non-current assets		**122,401,549**	102,770,824
Inventory	11	**166,337**	–
Other receivables	12	**176,753**	92,494
Prepayments	13	**4,553,882**	217,340
Cash and cash equivalents		**49,225,726**	66,632,020
Current assets		**54,122,698**	66,941,854
Total assets		**176,524,247**	169,712,678
EQUITY			
Share capital	14(a)	**18,152**	16,497
Share premium	14(b)	**207,947,439**	171,419,410
Retained losses		**(18,815,402)**	(16,989,844)
Share based payment reserve		**3,726,918**	1,647,608
Other reserves		**–**	104,183
Equity attributable to owners of the Company		**192,877,107**	156,197,854
Non-controlling interests	15	**(19,111,045)**	(9,108,348)
Total equity		**173,766,062**	147,089,506
LIABILITIES			
Trade and other payables	16	**2,553,925**	22,623,172
Deferred income	18	**204,260**	–
Current liabilities		**2,758,185**	22,623,172
Total liabilities		**2,758,185**	22,623,172
Total equity and liabilities		**176,524,247**	169,712,678

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In US Dollars	Notes	2014	2013
Revenue	19	–	–
Cost of sales		–	–
Gross profit		–	–
Other income		–	80,936
General and administrative expenses	20	(11,820,164)	(17,560,971)
Loss from operating activities		(11,820,164)	(17,480,035)
Finance income	22	79,949	64
Finance cost	22	(192,223)	(632,228)
Net finance cost		(112,274)	(632,164)
Loss before income tax		(11,932,438)	(18,112,199)
Income tax expense	25	–	–
Loss for the year		(11,932,438)	(18,112,199)
Total comprehensive income for the year		(11,932,438)	(18,112,199)
Loss attributable to:			
Owners of the Company		(1,929,741)	(11,012,853)
Non-controlling interests	28(b)	(10,002,697)	(7,099,346)
		(11,932,438)	(18,112,199)
Total comprehensive income attributable to:			
Owners of the Company		(1,929,741)	(11,012,853)
Non-controlling interests	28(b)	(10,002,697)	(7,099,346)
		(11,932,438)	(18,112,199)
Loss per share:			
Basic loss per share ($)	24	(0.01)	(0.10)
Diluted loss per share ($)	24	(0.01)	(0.10)

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

In US Dollars	Share capital	Share premium	Retained losses	Other reserves	Share-based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2013	3,816	7,141,349	(5,976,991)	–	1,719,902	2,888,076	(2,038,644)	849,432
Total comprehensive income for the year								
Loss for the year	–		(11,012,853)	–	–	(11,012,853)	(7,099,346)	(18,112,199)
Total comprehensive income for the year	–	–	(11,012,853)	–	–	(11,012,853)	(7,099,346)	(18,112,199)
Transactions with owners of the Company								
Issue of ordinary shares	11,506	162,784,325	–	–	–	162,795,831	–	162,795,831
Non-reciprocal contributions	–	–	–	104,183	–	104,183	–	104,183
Share-based payment – personnel expenses	–	–	–	–	1,387,517	1,387,517	–	1,387,517
Share-based payment – other expenses	–	–	–	–	35,100	35,100	–	35,100
Effect of share options conversion	1,175	1,493,736	–	–	(1,494,911)	–	–	–
Total contributions	12,681	164,278,061	–	104,183	(72,294)	164,322,631	–	164,322,631
Changes in ownership interests in subsidiaries								
Share issue by subsidiary	–	–	–	–	–	–	29,642	29,642
Total transactions with owners of the Company	12,681	164,278,061	–	104,183	(72,294)	164,322,631	29,642	164,352,273
Balance at 31 December 2013	16,497	171,419,410	(16,989,844)	104,183	1,647,608	156,197,854	(9,108,348)	147,089,506
Balance at 1 January 2014	16,497	171,419,410	(16,989,844)	104,183	1,647,608	156,197,854	(9,108,348)	147,089,506
Total comprehensive income for the year								
Loss for the year	–	–	(1,929,741)	–	–	(1,929,741)	(10,002,697)	(11,932,438)
Total comprehensive income for the year	–	–	(1,929,741)	–	–	(1,929,741)	(10,002,697)	(11,932,438)
Transactions with owners of the Company								
Issue of ordinary shares	1,650	36,485,363	–	–	–	36,487,013	–	36,487,013
Share based payment settlement	–	–	–	–	(20,000)	(20,000)		(20,000)
Transfer	–	–	104,183	(104,183)	–	–	–	–
Share-based payment – personnel expenses	–	–	–	–	2,141,981	2,141,981	–	2,141,981
Effect of share options conversion	5	42,666	–	–	(42,671)	–	–	–
Total contributions	1,655	36,528,029	104,183	(104,183)	2,079,310	38,613,668	–	38,608,994
Changes in ownership interests in subsidiaries								
Non-reciprocal contribution / Share issue by subsidiary	–	–	–	–	–	–	–	–
Total transactions with owners of the Company	1,655	36,528,029	104,183	(104,183)	2,079,310	38,613,668	–	38,608,994
Balance at 31 December 2014	**18,152**	**207,947,439**	**(18,815,402)**	**–**	**3,726,918**	**192,877,107**	**(19,111,045)**	**173,766,062**

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

In US Dollars	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before tax		**(11,932,438)**	(18,112,199)
Adjustment for:			
Equity-settled share-based payment		**2,141,981**	1,422,617
Finance income	22	**(3,667)**	(64)
Finance cost	22	**192,223**	632,228
Unrealised foreign currency gain		**(146,073)**	(905)
Depreciation and amortisation		**443,935**	41,914
		(9,304,039)	(16,016,409)
Changes in:			
– Inventory	11	**(166,337)**	–
– Trade and other payables		**(20,048,134)**	(757,860)
– Prepayments		**(4,458,185)**	(81,324)
– Other receivables		**(1,776,482)**	18,338
– Deferred income		**204,260**	–
Net cash used in operating activities		**(35,548,917)**	(16,837,255)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	8	**(1,456,550)**	(128,036)
Proceeds from sale of fixed assets		**48,271**	–
Acquisition of intangible assets	10	**(8,463,433)**	–
Acquisition of exploration and evaluation assets	9	**(8,577,638)**	(79,381,055)
Net cash used in investing activities		**(18,449,350)**	(79,509,091)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**36,487,013**	162,795,831
Interest received		**–**	64
Share based payment settlement		**(20,000)**	–
Interest paid		**–**	(632,228)
Net cash from financing activities		**36,467,013**	162,163,667
Net (decrease)/increase in cash and cash equivalents		**(17,531,254)**	65,817,321
Cash and cash equivalents at 1 January		**66,632,020**	813,794
Effect of movements in exchange rates on cash held		**124,960**	905
Cash and cash equivalents at 31 December		**49,225,726**	66,632,020

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Reporting entity

Lekoil Limited (the "Company" or "Lekoil") is a company domiciled in the Cayman Islands. The address of the Company's registered office is Intertrust Group, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands. These consolidated financial statements comprise the Company and all subsidiaries over which the Company exercises control (together referred to as the "Group" and individually as "Group entities"). The Group's principal activity is exploration for and production of oil and gas.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements were authorised for issue by the Board of Directors on 9 May 2015.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2015 are set out in note 5.

(b) Going concern basis of accounting

The Group incurred a total comprehensive loss of $11.9 million for the year ended 31 December 2014 (2013: $18.1 million). The ability of the Group to continue to operate as a going concern is dependent on:

(i) Exploration and Evaluation activities continuing on OPL 310.

(ii) Ongoing development activities on Otakikpo continuing as planned.

(iii) The availability of sufficient cash resources to fund ongoing operations.

The Directors, having evaluated these factors, believe the use of the going concern assumption to be the appropriate basis for the preparation of the 2014 financial statements, for the following reasons:

The Company and its partner on Otakikpo are working on an agreed plan to achieve first oil by mid 2015. On OPL 310 the parties are working on a 2015 provisional plan, which includes completion of interpretation of 3D seismic data and drilling of an appraisal well.

The Directors are of the view that the current cash balance, together with the cash inflow from Otakikpo production, will be sufficient to fund the development and production activities on Otakikpo and the completion of the interpretation of the 3D seismic data on OPL 310. On completion of the interpretation of the seismic data the Directors expect the partners to either make a strategic decision regarding the asset, potentially including in respect of the allocation of financial responsibilities and interests between the parties, or to conduct further appraisal of OPL 310. The Directors expect the Company will be able to meet any attendant financial obligations through a combination of internal and external sources. Furthermore the Directors have evaluated the rights and responsibilities of the Company under the current farm in agreement and are satisfied that there is no material threat to the Company's continued interest in OPL 310.

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for share based payments which are measured at fair values.

(d) Functional and presentation currency

These consolidated financial statements are presented in US Dollars which is the Company's functional currency. All amounts have been rounded to the nearest unit, unless otherwise indicated.

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, 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 estimates are revised and in any future periods affected.

2. Basis of preparation continued

(i) Judgements

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 2(b) – Going Concern. The Directors' opinion that the activities to be carried out on OPL 310 in the 2015 financial year will be the completion of the 3D seismic processing and interpretation.
- Note 8 – Property, Plant and Equipment. On the basis that Ministerial consent will be obtained, for the Group's participatory and economic interests of 40% as per the farm-in agreement with Green Energy International Limited (GEIL), the Group has accounted for expenditures incurred on OML 11 (Otakikpo) as oil and gas assets rather than loans and receivables.
- Note 9 – Exploration and Evaluation assets. On the basis that Ministerial consent will be obtained, for the Group's participatory and economic interests of 17.14% and 30% respectively as per the farm-in agreement with Afren, the Group has accounted for expenditures incurred on OPL 310 as Exploration and Evaluation assets rather than loans and receivables.
- Note 9 – Exploration and Evaluation assets. The Directors believe on the basis of independent legal advice that the Group's economic interest in OPL310 will not be significantly impacted from the ongoing discussions on participating and economic interests between Optimum and Afren.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

- Note 2(b) – Going Concern. Key assumption made by the Directors in preparing the Group's cash forecast on activities to be carried out by the partners on OPL310 in 2015 financial year.
- Note 9(c) – Carrying value of Exploration and Evaluation assets. Basis for the conclusion that the carrying value of E&E assets exceed their recoverable amount.
- Note 17 – Asset Retirement Obligation. Key assumptions underlying the obligation as at year end.
- Note 23 – Share Based Payment Arrangements. Key assumptions made in measuring fair values.
- Note 25(b) – Unrecognised deferred tax assets. Availability of future taxable profit against which carry forward losses can be used.
- Note 26 – Financial Commitments and Contingencies. Key assumptions about the likelihood and magnitude of an outflow of economic resources.

3. Significant accounting policies

The accounting policies set out below have been applied by the Group consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payments awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's award and the extent to which the replacement awards relates to pre-combination service.

3. Significant accounting policies continued

(ii) Non-controlling interests
Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(iv) Interests in Joint Arrangements
A joint arrangement is an arrangement in which the Group has joint control i.e. either rights to the net assets of the arrangement (joint venture), or rights to the assets and obligations for the liabilities of the arrangement (joint operation).

Interests in joint arrangements relate to joint operations and are recognised by incorporating the Group's share of each of the assets, liabilities, income and expenses line items into the Group's profit or loss and financial position on a line-by-line basis.

(v) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(ii) Foreign operations
The assets and liabilities of foreign operations are translated into US Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in Other Comprehensive Income (OCI) and accumulated in the translation reserve except to the extent that the translation difference is allocated to NCI.

(c) Share capital
(i) Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Financial instruments
The Group classifies non-derivative financial assets into loans and receivables and non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets
The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and cash and cash equivalents.

3. Significant accounting policies continued

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Short term loans and receivables that do not attract interest rate are measured at their original invoice amount where the effect of discounting is not material.

Financial assets classified as loans and other receivables comprise cash and cash equivalents, trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities
All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group has the following non-derivative financial liabilities: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Short term payables that do not attract interest are measured at original invoice amount where the effect of discounting is not material.

(iii) Impairment
Non-derivative financial assets
A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset and can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

Non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Property, plant and equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

3. Significant accounting policies continued

(ii) Depreciation
Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Motor vehicles	5 years
• Furniture and fittings	5 years
• Leasehold improvement	2 years
• Computer and household equipment	4 years
• Leasehold property	25 years
• Oil and gas assets	unit of production method based on estimated proved developed reserves

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Exploration and Evaluation (E&E) expenditures
(i) Licence acquisition costs: Licence acquisition costs are capitalised as intangible E&E assets. These costs are reviewed on a continual basis by management to confirm that drilling activity is planned and that the asset is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Capitalised licence acquisition costs are measured at cost less accumulated amortisation and impairment losses. Costs incurred prior to having obtained the legal rights to explore an area are expensed directly as they are incurred.

(ii) Exploration expenditure: All exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate pending future exploration work programmes and pending determination. All expenditure incurred during the various exploration and appraisal phase is capitalised until the determination process has been completed or until such point as commercial reserves have been established. Payments to acquire technical services and studies, seismic acquisition, exploratory drilling and testing, abandonment costs, directly attributable administrative expenses are all capitalised as exploration and evaluation assets. Capitalised exploration expenditure is measured at cost less accumulated amortisation and impairment losses.

Treatment of E&E assets at conclusion of exploratory and appraisal activities
Exploration and evaluation assets are carried forward until the existence, or otherwise, of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment or intangible assets. If however, commercial reserves have not been found, the capitalised costs are charged to expense after the conclusion of the exploratory and appraisal activities. Exploration and evaluation costs are carried as assets and are not amortised prior to the conclusion of exploratory and appraisal activities.

An E&E asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such circumstances include the point at which a determination is made as to whether or not commercial reserves exist. Where the E&E asset concerned falls within the scope of an established full cost pool, the E&E asset is tested for impairment together with any other E&E assets and all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E&E asset to be tested falls outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E asset concerned will be written off in full.

(g) Development expenditure
Once the technical feasibility and commercial viability of extracting oil and gas resources are demonstrable, expenditure related to the development of oil and gas resources which are not tangible in nature are classified as intangible development expenditure. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses. Amortisation of development assets attributable to the participating interest is recognised in profit or loss using the unit-of-production method.

3. Significant accounting policies continued

(h) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Inventories

Inventories comprise crude oil and consumable materials.

Crude oil inventories are valued at lower of cost and net realisable value. Crude oil entitlement underlifts are included in inventory at the lower of cost and net realisable value, while overlifts are valued at year-end spot prices and included in creditors. The profit or loss impact of overlift is recorded in revenue.

Consumable materials are valued at the lower of cost and net realisable value. Cost of consumable materials is determined using the weighted average method and includes expenditures incurred in acquiring the stocks, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory values are adjusted for obsolete, slow-moving or defective items where appropriate.

(j) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The Group expends resources or incurs liabilities on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes on systems, licences, intellectual property, market knowledge and trademarks.

The Group recognises an intangible asset if, and only if;

(a) economic benefits that are attributable to the asset will flow to the entity; and

(b) the costs of the asset can be measured reliably.

The Group assesses the probability of future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Intangible assets are measured initially at cost.

3. Significant accounting policies continued

Amortisation is calculated to write off the cost of the intangible asset less its estimated residual value using the straight-line basis over the estimated useful lives or using the units of production basis from the date that they are available for use. The estimated useful life and methods of amortisation of intangible assets for current and comparative years are as follows:

Type of asset	Basis
Mineral rights acquisition costs (signature bonus)	Unit of production method based on estimated proved reserves.
Accounting software (Sunsystem licence)	Amortised over a useful life of three years.
Geological and geophysical software	Amortised over a useful life of five years.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees and others providing similar services is recognised as an employee expense and other general and administrative expense respectively, with a corresponding increase in equity, over the vesting period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(iii) Post-employment benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

In line with the provisions of the Pension Reform Act 2004, a subsidiary domiciled in Nigeria has instituted a defined contribution pension scheme for its permanent staff. Staff contributions to the scheme are funded through payroll deductions while the subsidiary's contribution is recognised in profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employees contribute 7.5% each of their gross salary to the fund on a monthly basis. The subsidiary's contribution is 7.5% each of each employee's gross salary.

With effect from 1 July 2014, the Group's contribution to the pension fund is 10% of each employee's basic salary, transport and housing allowances in line with the provisions of the Pension Reform Act 2014. Also, employees contribute 8% of each of their basic salary, transport and housing allowances to the fund on a monthly basis.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

The Group's asset retirement obligation ("ARO") primarily represents the estimated present value of the amount the Group will incur to plug, abandon and remediate its areas of operation at the end of their productive lives, in accordance with applicable legislations. The Group determines the ARO on its oil and gas properties by calculating the present value of estimated cash flows related to the liability when the related facilities are installed or acquired.

3. Significant accounting policies continued

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognised as liabilities in the statement of financial position. If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

(m) Finance income and finance costs

Finance income comprises, where applicable, interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise, where applicable, interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted to employees. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO include items attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's head office expenses) and income tax assets and liabilities.

(p) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

3. Significant accounting policies continued

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporal differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation expert that has responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation expert regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation expert assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit Committee.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 23 – share-based payment arrangements

Note 30 – financial risk management and financial instruments

5. New standards and interpretations not yet adopted

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements.

Effective 1 July 2014
- IAS 19 Defined Benefit Plans: Employee Contributions

Effective for the financial year commencing 1 January 2015
- Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

Effective for the financial year commencing 1 January 2016
- IFRS 14 Regulatory Deferral Accounts
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Effective for the financial year commencing 1 January 2017
- IFRS 15 Revenue from contracts with customers

Effective for the financial year commencing 1 January 2018
- IFRS 9 Financial Instruments

The Directors are of the opinion that the impact of the application of the Standards and Interpretations will be as follows:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
The Group does not have a defined benefit pension plan.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group will adopt the amendments for the year ending 31 December 2015.

The impact of this amendment to IAS 36 has not yet been estimated. The Group will assess the impact once the standard becomes effective.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 provides guidance on the accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/ or approval by an authorised body. This amendment is not applicable to the Group.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
The amendments require business combination accounting to be applied to acquisitions of interest in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interest in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured. As a consequence of these amendments, the Group will amend its accounting policy with effect from 1 July 2016 for acquisitions of interest in a joint operation.

The amendments apply prospectively.

5. New standards and interpretations not yet adopted continued

Amendments to IAS 16 and 36 Clarification of Acceptable Methods Depreciation and Amortisation

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible assets are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The Group uses the straight line method to depreciate items of PPE. For Oil and Gas assets, the Group's policy is to use the unit of production method.

IFRS 15 Revenue from Contracts with Customers

The standard replaces IAS 11 Contraction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue- Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 31 December 2015.

The Group will adopt the amendments for the year ending 31 December 2017.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date of IFRS 9 was 1 January 2015. The effective date has been postponed to 1 January 2018. The Group will adopt the standard in the first annual period beginning on or after the mandatory effective date (once specified). The impact of the adoption of IFRS 9 has not yet been estimated as the standard is still being revised and impairment and macro-hedge accounting guidance is still outstanding.

The Group will assess the impact once the standard has been finalised and becomes effective.

6. Operating segments

The Group has a single class of business which is international exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Group as operating segments in accordance with IFRS 8 – Operating Segments. As at the year end, the Group had operational activities mainly in one geographical segment, Nigeria.

Geographical information

In presenting information on the basis of geographical segments, segment assets are based on the geographical location of the assets.

Non-current assets

In US Dollars	2014	2013
All foreign countries		
Nigeria	**120,708,703**	102,701,164
Namibia	**100,415**	69,660
	120,809,118	102,770,824

Non-current assets presented consist of property, plant & equipment, intangible assets, long term prepayment and E&E assets.

7. Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings and obligations under finance leases, less cash and cash equivalents.

The Group's net debt to equity ratio at the end of the reporting year was as follows:

In US Dollars	2014	2013
Total liabilities	**(2,758,185)**	(22,623,172)
Less: cash and cash equivalents	**49,225,726**	66,632,020
Net debt	**46,467,541**	44,008,848
Total equity	**(192,877,107)**	(156,197,854)
Net debt to equity ratio	**(0.24)**	(0.28)

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

8. Property, plant and equipment

The movement on this account was as follows:

In US Dollars	Oil and Gas Assets*	Motor Vehicles	Furniture & Fittings	Computer & Household Equipment	Leasehold Improvements	Total
Cost:						
Balance at 1 January 2013	–	85,350	43,428	40,087	–	168,865
Additions	–	27,813	19,851	80,372	–	128,036
Balance at 31 December 2013	–	113,163	63,279	120,459	–	296,901
Balance at 1 January 2014	–	113,163	63,279	120,459	–	296,901
Additions	311,510	61,051	193,892	130,794	759,303	1,456,550
Disposals	–	–	(41,204)	(28,820)	–	(70,024)
Balance at 31 December 2014	**311,510**	**174,214**	**215,967**	**222,433**	**759,303**	**1,683,427**
Accumulated depreciation and impairment losses:						
Balance at 1 January 2013	–	24,183	8,686	9,888	–	42,757
Charge for the year	–	17,534	9,948	14,432	–	41,914
Balance at 31 December 2013	–	41,717	18,634	24,320	–	84,671
Balance at 1 January 2014	–	41,717	18,634	24,320	–	84,671
Charge for the year	–	24,668	28,746	37,755	155,436	246,605
Release on Disposals	–	–	(11,005)	(10,748)	–	(21,753)
Balance at 31 December 2014	**–**	**66,385**	**36,375**	**51,327**	**155,436**	**309,523**
Carrying amounts:						
At 31 December 2014	**311,510**	**107,829**	**179,592**	**171,106**	**603,867**	**1,373,904**
At 31 December 2013	–	71,446	44,645	96,139	–	212,230

*Oil and gas assets represent the Group's assets in the Otakikpo marginal field which is currently undergoing development activities towards first oil by mid-year 2015. Depreciation, Depletion and Amortisation (DD&A) will commence when production activities commence on the field.

8. Property, plant and equipment continued

In May 2014, the Group entered into a farm-in agreement with Green Energy International Limited ("GEIL") for a 40% Participating interest in the Otakikpo marginal field, located within OML 11 (Otakikpo). Under the terms of the farm-in agreement, the Company undertook to fund all costs relating to the joint operation until the completion of the initial work program. The oil and gas asset consists of 40% of development capital expenditure incurred in 2014 on Otakikpo project.

The Otakikpo marginal field was awarded to GEIL in February 2011. This followed the declaration of part of OML 11 as marginal field and subsequent farm-in agreement between Joint Venture partners to OML 11 and GEIL. The unexpired lease term is approximately 4 years from the date of the announcement. The Directors believe that the lease term will be renewed for another 10 years upon expiration of the current lease term. The Directors are further satisfied that based on the workplan for the 2015 financial year, the risks presented by the decline of crude oil prices do not pose a material risk to the future financing of the assets and that the carrying value of the Oil and Gas assets do not exceed their recoverable amounts.

9. Exploration and Evaluation (E&E) asset

E&E assets represent the Group's expenditure incurred on exploration activities.

(a) The movement on the E&E asset account was as follows:

In US Dollars	2014	2013
Balance at 1 January	**102,558,594**	1,172,160
Additions during the year (see (b) below)	**8,577,638**	101,386,434
Balance at 31 December	**111,136,232**	102,558,594

(b) Additions during the year mainly consist of the Group's share of expenditure on OPL 310 amounting to $8,561,749. Total expenditure incurred on OPL 310 from farm-in to 31 December 2014 and expected to be recovered in oil amounted to $109,933,317.

OPL 310 is a licence granted to Optimum Petroleum Development Limited (Optimum) by the Nigerian Government on 3 February 1992 for an initial term of five years. On 19 February 2009, the Department of Petroleum Resources in Nigeria, acting on behalf of the Minister for Petroleum Resources confirmed the re-allocation of OPL 310 to Optimum with effect from 11 February 2009 for a period of ten years. The holders of OPL310 may apply for the conversion of the OPL to an Oil Mining Lease (OML) for a duration of twenty years with effect from the end of the OPL.

In January 2009 Afren Investments Oil and Gas (Nigeria) Limited "Afren" signed a farm – out agreement with Optimum to acquire a 40% participating interest in OPL 310 and received ministerial consent in May 2009. Afren, the technical partner on OPL 310 further signed a Participating Agreement and Production and Revenue Sharing Agreement (PRSA) with Optimum which entitled them to 70% economic interest in the asset.

In February 2013 Mayfair Assets and Trust Limited ("Mayfair"), a wholly owned subsidiary of Lekoil Nigeria Limited, farmed into Afren's interest in OPL 310. Under the terms of the farm-in agreement with Afren, Mayfair is entitled to 17.14% participatory interest and 30% economic Interest. The funding arrangement under the farm-in agreement with Afren provides for Mayfair and Afren to fund 42.86% and 57.14% of capital and operating expenditures respectively.

At the instance of the licence holder the Company and its partners are in discussions regarding options for the further appraisal of OPL 310 and the allocation of financial responsibilities and interests between the partners. The Board of Directors have considered the probable effect of aligning the partners economic interest according to their respective participating interest after the appropriate level of cost recovery and based on independent legal advice expect the matter to be resolved without significantly impacting the Company's economic benefits in the asset.

The unexpired lease term on OPL 310 is 4 years after which the licence will be converted to an OML. The Board of Directors expect the conversion to happen within the current OPL tenure and a subsequent Oil Mining/ Production Licence to be granted for up to twenty years.

The Group's right to the participating interest of 17.14% is subject to ministerial consent to the farm-in agreement. The Board of Directors, on the basis that the ministerial consent will be obtained, is of the opinion that the classification of the farm-in costs, its share of capital expenditure and operating expenditure as Exploration and Evaluation assets instead of loans and advances is appropriate.

9. Exploration and Evaluation (E&E) asset continued

Where ministerial consent is not received, any consideration paid by the Group to Afren will not be refunded, however, the Company has rights under a Risk and Financial Services Agreement with Afren, to interests in OPL 310 reserves and production and the expenditures to date will be classified as loans and advances.

Based on the resource update on OPL 310 and the Competent Person's Report ("CPR") on Otatikpo, the Directors are satisfied of the commercial viability of the resources and reserves. The Directors are further satisfied that based on the workplan for the 2015 financial year that, the risks presented by the decline of crude oil prices and the present financial condition of Afren do not pose a material risk to the future financing of the assets and that the carrying value of the E&E assets do not exceed their recoverable amounts.

10. Intangible assets

The movement on the Intangible assets account was as follows:

In US Dollars	Mineral rights acquisition costs	Geological and geophysical software	Accounting software	Total
Cost				
Balance at 1 January 2014	–	–	–	–
Additions	7,000,000	1,406,308	57,125	8,463,433
Balance at 31 December 2014	**7,000,000**	**1,406,308**	**57,125**	**8,463,433**
Accumulated amortisation				
Balance at 1 January 2014	–	–	–	–
Charge for the year	–	188,547	8,783	197,330
Balance at 31 December 2014	**–**	**188,547**	**8,783**	**197,330**
Carrying amounts				
At 31 December 2014	**7,000,000**	**1,217,761**	**48,342**	**8,266,103**

Mineral rights acquisition costs consist of the signature bonus for Otakikpo marginal field ($7,000,000).

11. Inventories

Inventories consist of consumable materials used in the Group's operation on the OPL 310 asset (2013: Nil).

12. Other receivables

Other receivables comprise:

In US Dollars	**2014**	2013
Called-up share capital unpaid	**–**	28,511
Payroll advances	**–**	2,688
Directors loan (See Note 27)	**1,503,667**	–
Employee loans	**51,183**	49,827
Other receivables	**125,570**	11,468
	1,680,420	92,494
Non-current (See Note 27)	**1,503,667**	–
Current	**176,753**	92,494
	1,680,420	92,494

13. Prepayments

Prepayments comprise:

In US Dollars	2014	2013
Prepaid development costs (a)	**3,705,797**	–
Insurance	**118,045**	132,789
Rent	**753,633**	84,551
Others	**98,050**	–
	4,675,525	217,340
Non-current	**121,643**	–
Current	**4,553,882**	217,340
	4,675,525	217,340

(a) Prepaid development costs represents Green Energy International Limited (GEIL) share of costs (60% of joint operations' costs) in Otakikpo Marginal Field. Under the terms of the farm-in agreement, Lekoil Oil and Gas Investment Limited undertakes to fund GEIL participating interest share of all costs relating to the joint operation on Otakikpo Marginal Field, until the completion of the Initial Work Program. The Group will recover costs at a rate of LIBOR plus a margin of 10% through crude oil lifting when the field commences production. However, for expenditure above $70 million, the recovery rate increases to LIBOR plus a margin of 13%. The interest on carried cost has been included as part of the prepaid development costs.

14. Capital and reserves

(a) Share capital

In US Dollars	2014	2013
Authorised	**50,000**	50,000
Issued, called up and fully paid	**18,152**	16,497
Total issued and called up share capital	**18,152**	16,497

	Ordinary shares	
	2014	2013
In issue at 1 January	**16,497**	3,816
Issued for cash	**1,650**	11,493
Exercise of share options	**5**	1,175
Equity settled payments	**–**	13
In issue at 31 December – fully paid	**18,152**	16,497
Authorised – par value $0.00005 (2013: $0.0005)	**1,000,000,000**	1,000,000,000

14. Capital and reserves continued

(b) Share premium

Share premium represents the excess of amount received over the nominal value of the total issued share capital as at the reporting date. The analysis of this account is as follows:

Number of shares @ $0.00005* each	Amount paid ($)	Nominal value ($)	Premium ($)
43,318,430	6,022,165	2,166	6,019,999
30,000,000	1,500	1,500	–
2,990,660	1,121,500	150	1,121,350
3,500,000	203,000	175	202,825
512,500	98,250	26	98,224
19,470,570	1,396,661	974	1,395,687
82,732,073	46,100,445	4,137	46,096,308
147,382,000	116,492,386	7,369	116,485,017
33,000,000	36,416,700	1,650	36,415,050
93,750	112,984	5	112,979
362,999,983	**207,965,591**	**18,152**	**207,947,439**

The movement in share premium during the year was as follows:

In US Dollars	2014	2013
Balance at 1 January	**171,419,410**	7,141,349
Additions	**36,528,029**	164,278,061
Balance at 31 December	**207,947,439**	171,419,410

The increase of $36,528,029 relates mostly to the placement of new ordinary shares issued in May 2014. The Company raised capital by issuing 33,000,000 new ordinary shares at a placing price of $1.14 (67.75 pence). Total consideration for the exercise of 93,750 options by a former Director, Atedo Peterside who resigned on the 28 June 2014, was $112,984.

15. Non-controlling interest

In US Dollars	2014	2013
Lekoil Nigeria Limited	**19,033,565**	9,069,689
Lekoil Exploration and Production (Pty) Limited (Namibia)	**77,480**	38,659
	19,111,045	9,108,348

16. Trade and other payables

In US Dollars	2014	2013
Accrued expenses	**–**	75,500
Accounts payable	**2,318,692**	527,180
Due to Afren	**–**	22,005,379
Loan from shareholder	**–**	62
Payroll liabilities	**235,233**	10,361
Due to related party	**–**	4,690
	2,553,925	22,623,172

17. Asset retirement obligation

The asset retirement obligation ("ARO") primarily represents the estimated present value of the amount the Group will incur to plug, abandon and remediate its areas of operation at the end of their productive lives, in accordance with applicable legislations. The Group determines the ARO on its oil and gas properties by calculating the present value of estimated cash flows related to the liability when the related facilities are installed or acquired.

The Group has not recognised any provision for ARO in these consolidated financial statements as restoration activities on Ogo field (in OPL 310) were completed and Ogo-1 and side track well were plugged and abandoned as of 31 December 2014, and the existing wells on Otakikpo marginal field were also plugged and abandoned. Well re-entry operations had not commenced as at year end.

18. Deferred income

Deferred income relates to interest on the prepaid development costs.

19. Revenue

No revenue is reported in these consolidated financial statements as the Group is yet to commence production of oil and gas.

20. General and administrative expenses

Expenses by nature

In US Dollars	2014	2013
Legals, consultancy and technical fees	**658,315**	1,470,366
Directors' fees	**410,000**	264,583
Rent expenses (Note 20 (a))	**566,179**	236,068
Loss on investments	**–**	7,162,500
Personnel expenses (Note 20 (b))	**5,561,252**	3,988,251
Depreciation and Amortisation (Notes 8 and 10)	**443,935**	41,914
Other expenses	**4,180,483**	4,397,289
	11,820,164	17,560,971

(a) Operating leases

The Group leases office and residential facilities under cancellable operating leases. Lease payments are made upfront covering the lease period with no additional obligations.

(b) Personnel expenses

In US Dollars	2014	2013
Wages and salaries	**3,238,920**	2,567,620
Defined contribution pension expense	**180,351**	33,114
Equity settled share-based payment (Note 23)	**2,141,981**	1,387,517
	5,561,252	3,988,251

21. Impairment loss on investments

In US Dollars	2014	2013
Impairment loss on investments	**192,223**	–

During the year, the Company wrote off its investment in Lekoil 113, which is currently undergoing liquidation procedure.

22. Finance income and costs

In US Dollars	2014	2013
Finance income		
Interest income	**3,667**	64
Foreign exchange gains	**76,282**	
Total finance income	**79,949**	64
Finance costs		
Foreign exchange loss	**–**	(632,228)
Impairment loss on investments (Note 21)	**(192,223)**	–
Total finance costs	**(192,223)**	(632,228)
Net finance costs	**(112,274)**	(632,164)

23. Share-based payment arrangements

At 31 December 2014, the Group has the following share-based payment arrangements:

Share option scheme (equity-settled)
The Group established a share option scheme that entitles employees, key management personnel and consultants providing employment-type services to purchase shares in the Company. In accordance with the scheme, holders of vested options are entitled to purchase shares at established prices of the shares at the date of grant during a period expiring on the tenth anniversary of the effective date i.e. grant date. The grant dates for awards were 3 December 2010, 1 June 2011, 1 November 2011, 3 June 2012, 19 February 2013, 5 April 2013, 17 May 2013 and 26 March 2014 based upon a shared understanding of the terms of the awards at that time.

Terms and conditions of the share options
At the inception of the share option scheme, the terms and conditions related to the scheme are as follows:

		Number of option shares per vesting period and exercise price		
Vesting periods	Cumulative vested percentage	$1	$3.75	$7.50
Less than 12 months from the effective date	25%	550,000	475,000	475,000
12 months from the effective date	50%	550,000	475,000	475,000
24 months from the effective date	75%	550,000	475,000	475,000
36 months from the effective date	100%	550,000	475,000	475,000
		2,200,000	1,900,000	1,900,000

The Group issued options with 3 different exercise prices $1,00, $3.75, and $7.50 in 2012. The share price was estimated based on recent arm's length share issues. On 17 May 2013, the issued options with exercise prices of $1.00 & $3.75 were cancelled and the affected employees were awarded shares at par value in consideration for the cancellation of the vested options. The issued options with exercise price of $7.50 were subdivided by a factor of ten in line with the Company's capital reorganisation which resulted in a share split of 10:1. The exercise price of the outstanding options was also subdivided by a factor of ten resulting in a reduction in exercise price from $7.50 to $0.75 and an increase in total number of option shares from 6,000,000 to 19,000,000.

Effective 26 March 2014, the exercise price of the outstanding stock options was changed from $0.75 to GB£0.49 using a conversion rate of US$1.53 to GB£1.00 and the existing stock option agreements have been amended to reflect the exercise price in GB£. During the year, 93,750 units (2013: Nil) of share options were exercised by a Director of the Company.

Volatility was estimated with reference to empirical data for proxy companies with listed equity.

23. Share-based payment arrangements continued

The number and weighted average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	**0.56**	**12,370,486**	2.55	4,521,000
Effect of share split	**–**	**–**	0.75	11,610,000
Granted during the year	**0.75**	**5,280,000**	0.75	562,500
Forfeited during the year	**0.75**	**(93,750)**	0.57	(4,323,014)
Exercised during the year	**0.75**	**(93,750)**	–	–
Outstanding at 31 December	**0.58**	**17,462,986**	0.75	12,370,486
Exercisable at 31 December	**0.75**	**15,249,410**	0.75	6,797,995

The options outstanding at 31 December 2014 have an exercise price of $0.75 and a weighted average contractual life of 7.05 years (2013: 7.13 years).

Inputs for measurement of grant date fair values

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model for plain vanilla European call options with the following inputs:

	2014	2013	2012
Fair value of share options and assumptions			
Weighted average fair value at grant date	**$0.54**	$1.04	$1.7216
Share price at grant date	**$0.91**	$1.04	$3.75
Exercise price	**$0.75**	$0.75	$1.00-$7.50
Option life (expected weighted average life in years)	**5.0**	5.0	5.0
Expected volatility	**60%**	65%	65%
Risk-free Interest rate	**1.70%**	0.68%	0.68%
Expected dividends	**na**	na	na

Employee benefit expenses

In US Dollars	2014	2013
Share options granted in 2013	**–**	1,387,517
Share options granted in 2014	**2,141,981**	–
Total expense recognised as employee costs	**2,141,981**	1,387,517
Total expense recognised as other expenses	**–**	35,100
Total amount recognised directly in equity	**2,141,981**	1,422,617

24. Loss per share

(a) The calculation of basic loss per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

(i) Loss attributable to ordinary shareholders (basic)

In US Dollars	2014	2013
Loss for the year attributable to owners of the Company	**(1,929,741)**	(11,012,853)

(ii) Weighted-average number of ordinary shares (basic)

	2014	2013
Issued ordinary shares at I January	**329,002,380**	76,309,090
Effect of shares issued in May 2014	**20,252,055**	–
Effect of shares issued in May 2013	**–**	48,505,928
Effect of shares issued in July 2013	**–**	15,601,918
Effect of shares issued in November 2013	**–**	16,567,890
Effect of share options	**42,894**	17,436,931
Weighted average number of ordinary shares at 31 December	**349,297,329**	174,421,757

(b) The calculation of diluted loss per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(i) Loss attributable to ordinary shareholders (basic)

In US Dollars	2014	2013
Loss for the year attributable to owners of the Company	**(1,929,741)**	(11,012,853)

(ii) Weighted-average number of ordinary shares (basic)

	2014	2013
Weighted-average number of ordinary shares (basic)	**349,297,329**	174,421,757
Effect of share options exercised	**7,386,791**	–
Weighted average number of ordinary shares (diluted) at 31 December	**356,684,120**	174,421,757

25. Taxes

(a) Income tax

The Group with its principal assets and operations in Nigeria is subject to the Petroleum Profit Tax Act of Nigeria (PPTA). However, the Group is yet to commence production and therefore earned no revenue during the year. As a result, no Petroleum Profit Tax (PPT) was charged during the year.

(b) Unrecognised deferred tax assets

Deferred tax assets will arise from unrelieved losses as well as the tax base of assets. These have not been recognised because it is not probable that future taxable profit will be available against which the Company can use the benefits thereon.

In US Dollars	2014	2013
Unrelieved losses	**(22,141,689)**	(4,846,381)
Unrecognised deferred tax assets	**14,469,566**	3,186,496

25. Taxes continued

(c) Reconciliation of effective tax rates

The tax on the Company's loss before tax differs from the theoretical amount as follows:

In US Dollars	2014	2013
Loss before tax	**(11,932,438)**	(18,112,199)
Tax at Cayman corporate tax rate of 0%	**–**	–
Effects of tax rate applicable in foreign jurisdictions:		
– Nigeria	**(11,196,655)**	(2,839,450)
– Namibia	**(69,217)**	(45,795)
– US	**(10,781)**	–
– Singapore	**(6,379)**	–
– Benin	**(39)**	–
Current year deferred tax asset which is not recognised	**11,283,071**	2,885,245
Total tax charge	**–**	–

26. Financial commitments and contingencies

(a) On 17 October 2011, Lekoil Nigeria Limited signed the prepayment agreement relating to a proposed acquisition by Lekoil Nigeria Limited of an interest in another Nigerian field, OPL241 from Oilworld Limited ("Oilworld"). It was proposed that Lekoil Nigeria Limited acquire a 10% participating interest in OPL241 subject to negotiation of a commercial transaction and suitable documentation being agreed (the "OPL241 Acquisition") and certain payments being made by Lekoil Nigeria Limited to Oilworld. Lekoil Nigeria Limited paid a deposit of $1,000,000 on the understanding that this would be held by Oilworld as a deposit and applied by Oilworld towards any subsequent acquisition by Lekoil Nigeria Limited of a 1% participating interest in OPL241. Ministerial consent would be needed for the transfer of the interests although the OPL241 acquisition has not been completed and Oilworld is still holding the sum of $1,000,000 as a deposit on the above basis. The Prepayment Agreement also states that, if the OPL241 acquisition did not complete, Lekoil Nigeria Limited would have a right of first refusal over the 10% participating interest in OPL241 held by Oilworld (including the 1% interest to which the $1,000,000 deposit above refers). Oilworld commenced sole risk 3D seismic acquisition in 2013. The amount of $1,000,000 paid is included in exploration and evaluation assets.

(b) Lekoil Limited, Namibia is bound to an agreement for the acquisition of a 77.5% participating interest in the Production Sharing Agreement (PSA) and operatorship in respect of Namibia Blocks 2514A and 2514B with Hallie Investments (Namibia) for the sum of $2.75million, out of which an initial deposit of $69,660 was made. The amount of $69,660 paid is included in exploration and evaluation assets.

(c) Mayfair Assets and Trust Limited is bound to an agreement for the acquisition of a 17.14% participating interest in OPL 310 and 30% economic interest. All capital and operating expenditure on OPL 310 will be borne 42.86% by Mayfair Assets and Trust Limited, until cost recovery is complete and then capital expenditure paying interest reverts to 30%.

(d) Lekoil Oil and Gas Investment Limited is bound to the terms under a farm-in agreement with respect to Otakikpo marginal field. For a 40% economic and participating interest, the Company will fund all costs relating to the joint operation until the completion of the initial work programme.

In accordance with the farm-in agreement with Green Energy International Limted (GEIL), the Company will pay GEIL, contingent on production and receipt of ministerial consent, a production bonus of US$4 million.

(e) On 5 December 2014, Lekoil Oil and Gas Investment Limited ("LOG") signed a Memorandum of Understanding (MoU) with its host community, Ikuru with respect to the Otakikpo Marginal Field area. The key items of the MoU include the following:

- LOG will allocate 3% of its revenue from the Liquefied Petroluem Gas (LPG) produced from the field to Ikuru Community in each financial year;
- LOG will allocate the sum of NGN 90million ($534,791) annually for sustainable community development activities.

(f) Subsequent to the year end, the Company provided a corporate guarantee in favour of a financial institution in Nigeria for loan notes issued by Lekoil Oil and Gas Investment Limited, a sub-subsidiary of the Company.

27. Related party transactions

The Company had related party transactions during the year with the following related parties:

(a) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. These are the Directors of the Group.

(i) Loans to key management personnel

Unsecured loan granted to a Director during the year amounted to $1,500,000 (2013: $49,900). The loan has a three year term and bears interest at a rate of four per cent per annum. Repayment is due at the end of the term. At 31 December 2014, the balance outstanding was $1,503,667 (2013: $49,900) and is included in 'trade and other receivables' (See Note 11).

(ii) Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to key management personnel, in the form of share based payments. The Company did not make any pension contributions for the Directors.

Key management personnel compensation comprised the following:

In US Dollars	2014	2013
Short-term employee benefits	**1,697,749**	1,825,724
Share-based payments	**1,270,918**	1,381,383
	2,968,667	3,207,107

Short-term employee benefits comprised the following:

In US Dollars	2014	2013
Salaries	**962,749**	1,150,724
Bonus	**735,000**	675,000
	1,697,749	1,825,724

Included in share based payments is a portion of executive Directors' salaries amounting to $1,237,500 (2013: $787,500) which was paid via issue of ordinary shares of the Company.

The Board of Directors approved payment of cash bonuses of $210,000 to the Company's executive Directors for the financial year ended 31 December 2014.

In 2013, interim cash bonus of $675,000 was approved and paid in 2013 for the executive Directors. During the year, additional cash bonus of $525,000 was approved and paid in 2014 as final cash bonus for 2013 for the executive Directors. No accruals were made for final cash bonus for 2013 in the financial statements as at 31 December, 2013.

Details of Directors' remuneration (including fair value of share based payments) earned by each Director of the Company during the year are as follows:

	2014			
In US Dollars	Salaries	Bonus	Share-based payments	Total
Samuel Adegboyega	120,000	–	–	120,000
Lekan Akinyanmi	296,755	525,000	687,500	1,509,255
David Robinson	255,994	210,000	550,000	1,015,994
Aisha Muhammed-Oyebode	80,000	–	12,461	92,461
Atedo Peterside	50,000	–	6,230	56,230
Greg Eckersley	80,000	–	–	80,000
John van der Welle	80,000	–	14,727	94,727
	962,749	735,000	1,270,918	2,968,667

27. Related party transactions continued

In US Dollars	2013 Salaries	Bonus	Share-based payments	Total
Samuel Adegboyega	50,000	–	35,785	85,785
Lekan Akinyanmi	499,731	375,000	709,593	1,584,324
David Robinson	386,410	300,000	450,822	1,137,232
Aisha Muhammed-Oyebode	42,361	–	27,738	70,099
Atedo Peterside	84,722	–	27,738	112,460
Greg Eckersley	50,000	–	60,889	110,889
Festus Marinho	–	–	44,242	44,242
John van der Welle	37,500	–	24,576	62,076
	1,150,724	675,000	1,381,383	3,207,107

(iii) Key management personnel and Director transactions

Directors of the Company control 14.2% (2013: 15.6%) of the voting shares of the Company.

An amount of $136,323 representing salary to the CFO, David Robinson remained outstanding as at 31 December 2014. This amount is included in accounts payable and accruals.

(b) Lekoil Limited, Cayman Islands has a Management & Technical Services Agreement with Lekoil Management Corporation (LMC) under the terms of which LMC was appointed to provide management, corporate support and technical services. The remuneration to LMC includes reimbursement for charges and operating costs incurred by LMC.

(c) Loans to related party

The Company has provided loans totaling $123,706,154.46 (2013: $85,229,192) to Lekoil Nigeria, Mayfair Assets and Trust Limited and Lekoil Oil and Gas Investments. These loans are unsecured and do not have fixed repayment terms and attract interest at 8%, 9% and 9% for Lekoil Nigeria, Mayfair Assets and Trust Limited and Lekoil Oil and Gas Investments respectively. The loans to subsidiaries have been eliminated in these consolidated financial statements.

28. Group entities

(a) Significant subsidiaries:

	Country of incorporation	Ownership interest 2014	2013
Lekoil Nigeria Limited (See (a)(i))	Nigeria	**40%**	40%
Lekoil Exploration and Production (Pty) Limited	Namibia	**80%**	80%
Lekoil Management Corporation	USA	**100%**	100%
Lekoil Singapore	Singapore	**100%**	–
Lekoil Limited SARL	Benin	**100%**	100%

(i) Although the Company holds less than 50% ownership interests in Lekoil Nigeria Limited, it has control over the entity based on terms of agreements under which the entity was established and is entitled to 90% of the benefits related to its operations and net assets.

Lekoil Nigeria Limited has 3 wholly owned subsidiaries, namely: Mayfair Assets and Trust Limited, Lekoil Oil & Gas Investments Limited and Lekoil Exploration and Production Nigeria Limited. The results of these subsidiaries have been included in the consolidated financial results of Lekoil Nigeria Limited.

28. Group entities continued

(b) Non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries, before any intra-group eliminations:

31 December 2014

In US Dollars	Lekoil Nigeria Limited Group	Lekoil Exploration and Production (Pty) Limited	Intra-group eliminations	**Total**
NCI Percentage	60%	20%		
Non-current assets	120,708,703	100,415		
Current assets	7,870,147	141,616		
Non-current liabilities	(145,996,146)	(624,263)		
Current liabilities	(2,213,780)	(5,167)		
Net assets	(19,631,076)	(387,399)		
Carrying amount of NCI	(11,778,646)	(77,480)	(7,254,919)	**(19,111,045)**
Revenue	–	–		
Loss	(16,739,128)	(147,957)		
Net finance income/(cost)	133,886	(49,805)		
Total comprehensive income	(16,605,242)	(197,762)		
Loss allocated to NCI	(9,963,145)	(39,552)	–	**(10,002,697)**
OCI allocated to NCI	–	–	–	**–**
Cash flows from operating activities	(40,142,525)	(261,194)		
Cash flows from investment activities	(18,033,174)	–		
Cash flows from financing activities	59,068,613	367,037		
Net increase in cash and cash equivalents	892,914	105,843		

31 December 2013

In US Dollars	Lekoil Nigeria Limited Group	Lekoil Exploration and Production (Pty) Limited	Intra-group eliminations	Total
NCI Percentage	60%	20%		
Non-current assets	102,675,529	84,527		
Current assets	517,362	84,261		
Non-current liabilities	(86,927,533)	–		
Current liabilities	(22,188,962)	(358,423)		
Net assets	(5,923,604)	(189,635)		
Carrying amount of NCI	(3,554,162)	(37,927)	(5,516,259)	(9,108,348)
Revenue	–	–		
Loss	(12,875,834)	(149,834)		
Other comprehensive income (OCI)	–	–		
Total comprehensive income	(12,875,834)	(149,834)		
Loss allocated to NCI	(7,725,500)	(29,967)	656,121	(7,099,346)
OCI allocated to NCI	–	–	–	–
Cash flows from operating activities	12,330,089	46,993		
Cash flows from investment activities	(101,487,964)	(14,867)		
Cash flows from financing activities	89,387,384	10		
Net increase in cash and cash equivalents	229,509	32,136		

29. Events after the reporting date

There have been no events between the reporting date and the date of authorising these financial statements that have not been adjusted for or require disclosure in these financial statements, except for the full and unconditional guarantee for the payment of all principal and interest due on the notes issued (in the amount of $10 million) by Lekoil Oil & Gas Investment Limited ("issuer" a 100% subsidiary of Lekoil Nigeria Limited) to the noteholder in the event of default by the issuer.

30. Financial risk management and financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

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

The Group's risk management policies are established to identify and analyse 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 the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) 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 employees and related parties.

Exposure to credit risk

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

	Carrying amounts	
In US Dollars	**2014**	2013
Other receivables	**1,680,420**	92,494

The Group's exposure to credit risk is minimised as the Group is still in the exploratory phase. Trade and other receivables represent employee receivables and loan to Director which management has assessed as unimpaired.

Cash and cash equivalents

The Group held cash and cash equivalents of $49.2 million (2013: $66.6 million) held by reputable financial institutions with very good credit ratings.

30. Financial risk management and financial instruments continued

(b) 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 following are the contractual maturities of financial liabilities, and excluding the impact of netting agreement:

	Notes	Carrying amount	Contractual cash flows	6 months or less
Non-derivative financial liabilities				
31 December 2014				
Trade and other payables	16	**2,553,925**	**2,553,925**	**2,553,925**
31 December 2013				
Trade and other payables	16	22,623,172	22,623,172	22,623,172

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. At 31 December 2014, the Group has issued guarantee to a financial institution in respect of credit facility granted to a subsidiary, Lekoil Oil and Gas Investments Limited.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group manages market risks by keeping costs low through various cost optimisation programs. Moreover, market developments are monitored and discussed regularly, and mitigating actions are taken where necessary.

Currency risk

The Group is exposed to currency risk on bank balances, employee receivables and trade and other payables denominated in Nigerian Naira.

The summary quantitative data about the Group's exposure to currency risks are as follows:

	Carrying amounts	
In Nigerian Naira	**2014**	2013
Trade and other receivables	**276**	43,977
Cash and cash equivalents	**182,254**	64,573
Trade and other payables	**(107,429)**	(216,376)
Net exposure	**75,101**	(107,826)

30. Financial risk management and financial instruments continued

Sensitivity analysis

A 10 percent strengthening of the US Dollar against the following currencies at 31 December would have increased (decreased) equity and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2014 In US Dollars	Carrying amount	Foreign exchange rate risk 10% Profit	10% Other movements in Equity	-10% Profit	-10% Other movements in Equity
Financial asset:					
Naira					
Cash and cash equivalents	182,254	18,225	–	(18,225)	–
Other assets	276	25	–	(25)	–
Impact on financial assets		18,250	–	(18,250)	–
Financial liabilities:					
Naira					
Accounts payable	(107,429)	(10,055)	–	10,055	–
Other liabilities	–	–	–	–	–
Impact on financial liabilities	–	(10,055)	–	10,055	–
Total increase/(decrease)	–	8,195	–	(8,195)	–

31 December 2013 In US Dollars	Carrying amount	Foreign exchange rate risk 10% Profit	10% Other movements in Equity	-10% Profit	-10% Other movements in Equity
Financial asset:					
Naira					
Cash and cash equivalents	64,573	4,335	–	(4,335)	–
Other assets	43,977	3,976	–	(3,976)	–
Impact on financial assets		8,311	–	(8,311)	–
Financial liabilities:					
Naira					
Accounts payable	(216,376)	(44,589)	–	44,589	–
Other liabilities	–	–	–	–	–
Impact on financial liabilities	–	(44,589)	–	44,589	–
Total increase/(decrease)	–	(36,278)	–	36,278	–

The amounts shown represent the impact of foreign currency risk on the groups consolidated profit or loss. The foreign exchange movements have been calculated on a symmetric basis. This method assumes that an increase or decrease in foreign exchange movement would result in the same amount and further assumes the currency is used as a stable denominator.

30. Financial risk management and financial instruments continued

(d) Fair values

Fair values vs carrying amounts

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2014 In US Dollars	Note	Carrying amounts Loans and receivables	Other financial liabilities	Total
Financial assets not measured at fair value				
Other receivables	12	**1,680,420**	**–**	**1,680,420**
Cash and cash equivalents		**49,225,726**	**–**	**49,225,726**
		50,906,146	**–**	**50,906,146**
Financial liabilities not measured at fair value				
Trade and other payables	16	**–**	**2,553,925**	**2,553,925**
		–	**2,553,925**	**2,553,925**

31 December 2013 In US Dollars	Note	Carrying amounts Loans and receivables	Other financial liabilities	Total
Financial assets not measured at fair value				
Other receivables	12	89,806	–	89,806
Cash and cash equivalents		66,632,020	–	66,632,020
		66,721,826	–	66,721,826
Financial liabilities not measured at fair value				
Trade and other payables	16	–	22,623,172	22,623,172
		–	22,623,172	22,623,172

31. Litigation and claims

There are no litigation or claims involving the Group as at 31 December 2014 (2013: Nil).

Notice of Annual General Meeting

Formal notice convening an Annual General Meeting of the Company to be held at 11.00 a.m. on 26 June 2015 at Churchgate Tower 1, 9th Floor, PC 30, Churchgate Street, Victoria Island, and Lagos, Nigeria is set out on page 55. Shareholders will also find enclosed a Form of Proxy/Instruction.

The action to be taken by shareholders is set out below. To be valid, the Form of Proxy must be completed, signed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars, Computershare Investor Services (Cayman) Ltd., as soon as possible but in any event not later than 11.00 a.m. on 24 June 2015. To be valid, the Form of Instruction must be completed, signed and returned in accordance with the instructions printed thereon so as to be received by the Depositary, Computershare Investor Services Plc, as soon as possible but in any event not later than 11.00 a.m. on 23 June 2015. This deadline also applies to Depository Interest holders who choose to utilise the CREST voting service. The completion and return of a Form of Proxy/Instruction will not preclude Shareholders from attending and voting in person at the Annual General Meeting should they subsequently wish to do so.

*All times are GMT+1

The AGM will be held at 11.00 a.m. on 26 June 2015 at Churchgate Tower 1, 9th Floor, PC 30, Churchgate Street, Victoria Island, Lagos, Nigeria. The formal notice of the AGM and the resolutions to be proposed are set out on page 55.

Ordinary business

Annual report and accounts (Resolution 1)

The Directors are required to present to shareholders at the AGM the Annual Report and Accounts for the year ended 31 December 2014, together with the Directors' and Auditors' reports on the Annual Report and Accounts.

Auditors (Resolutions 2 and 3)

The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. KPMG LLP have indicated their willingness to continue in office. Accordingly, Resolution 2 reappoints KPMG LLP as auditors to the Company and Resolution 3 authorises the Directors to fix their remuneration.

Special business

Authority of Directors to allot shares (Resolution 4)

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting. Upon the passing of Resolution 4, the Directors will have authority to allot shares or grant rights to subscribe for or to convert any security into shares in the Company pursuant to Article 18 of the Company's Articles of Association (Articles) up to an aggregate number of 120,000,000 new ordinary shares which is approximately 33 per cent of the Company's current issued ordinary share capital as at 14 May 2015, being the latest practicable date prior to the publication of this Notice. This authority will expire immediately following the AGM in 2016.

The Directors intend to seek renewal of this authority at each AGM, in accordance with current best practice.

Disapplication of pre-emption rights (Resolution 5)

If the Directors wish to exercise the authority under Resolution 4 to issue shares for cash, unless shareholders have given specific authority for the waiver of their statutory pre-emption rights under Article 27 of the Articles, the new shares must be offered first to existing shareholders in proportion to their existing holdings. In certain circumstances, it may be in the best interests of the Company to allot new shares (or to grant rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 5 would authorise the Directors to allot shares or grant rights free of the pre-emption rights contained in Article 27 of the Articles (i) pursuant to the terms of any share option scheme adopted by the Company and (ii) (in addition to (i)) up to an aggregate number of 37,000,000 new ordinary shares which is approximately 10 per cent. of the Company's current issued ordinary share capital as at 14 May 2015, being the latest practicable date prior to the publication of this Notice.

If given, the authority will expire at the conclusion of the AGM in 2016. The Directors intend to seek renewal of such power at successive AGMs.

Action to be taken

Shareholders will find enclosed with this document a Form of Proxy/Instruction for use in connection with the AGM. Whether or not you propose to attend the AGM in person, you are requested to complete, sign and return the Form of Proxy/Instruction in accordance with the instructions printed thereon. To be valid, completed Forms of Proxy must be received by the Company's registrars, Computershare Investor Services (Cayman) Ltd, c/o The Pavillions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible but in any event not later than 11.00a.m. on 24 June 2015 or 48 hours prior to any adjourned meeting. To be valid, completed Forms of Instruction must be received by the Depositary, Computershare Investor Services Ltd, c/o The Pavillions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible but in any event not later than 11.00 a.m. on 23 June 2015 or 72 hours prior to any adjourned meeting. If your shares are held in uncertificated form through depositary interests, you will also be able to appoint a proxy using CREST.

If you complete and return a Form of Proxy/Instruction, you may still attend and vote at the AGM in person should you subsequently decide to do so.

Please read the notes to the notice of AGM and the accompanying Form of Proxy/Instruction for detailed instructions. The attention of Shareholders is also drawn to the voting intentions of the Directors set out below.

Recommendation

Your Directors consider that all the Resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommend shareholders to vote in favour of all the Resolutions, as they intend to do in respect of their own beneficial holdings amounting in aggregate to 51,139,905 Ordinary Shares, representing approximately 14.1% per cent of the Company's issued share capital as at 14 May 2015, being the last practicable date prior to the publication of this Notice.

LEKOIL LIMITED (Company)
(Incorporated and registered in the Cayman Islands with company number WK-248859)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company (Meeting) will be held at Churchgate Tower 1, 9th Floor, PC 30, Churchgate Street, Victoria Island, Lagos, Nigeria. at 11.00 a.m. on 26 June 2015 for the transaction of the following business:

Ordinary business

1. To receive the report of the Directors and the financial statements of the Company for the year ended 31 December 2014 together with the report of the Auditors on those financial statements.

2. To re-appoint KPMG Professional Services as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the meeting.

3. To authorise the Directors to fix the remuneration of the Auditors.

Special business

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

4. THAT, in substitution for all subsisting authorities to the extent unused the Directors be and they are hereby generally and unconditionally authorised pursuant to and for the purposes of Article 18 of the Company's articles of association (the Articles) to exercise all the powers of the Company to allot Relevant Securities (as defined in the Articles) up to an aggregate number of 120,000,000 Relevant Securities which shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the Company's annual general meeting to be held in 2016 save that the Company may make an offer or enter into an agreement before the expiry of this authority which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities pursuant thereto as if the authority conferred hereby had not expired.

To consider and, if thought fit, to pass the following resolution as a special resolution:

5. THAT:
   - (a) pursuant to Article 30 of the Articles, the Directors be given the general power to allot securities wholly for cash, pursuant to the authority conferred by resolution 4 above granting authority to allot Relevant Securities, as if Article 27 of the Articles did not apply to such allotment, provided that this power shall be limited to the allotment of securities:
     - (i) pursuant to the terms of any share option scheme adopted by the Company; and
     - (ii) otherwise than pursuant to sub-paragraph (i) above up to an aggregate number of 37,000,000 new ordinary shares which is equal to approximately 10 per cent of the Company's total issued shares as at 14 May 2015 (being the latest practicable date before the publication of this Notice); and
   - (b) the power granted by this resolution will expire at the conclusion of the Company's annual general meeting to be held in 2016 (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry, make offers or agreements which would or might require securities to be allotted after such expiry and the Directors may allot securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

By order of the board

Samuel Adegboyega
Non-Executive Chairman

11 May 2015

Registered office:
Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
KY1– 9005 Cayman Islands

Notes to the Notice of Annual General Meeting

Entitlement to attend, speak and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company has specified that only those members entered on the register of members at 6.00 p.m. on 24 June 2015 (or in the event that this meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting) shall be entitled to attend, speak and vote at the Meeting in respect of the number of ordinary shares in the capital of the Company held in their name at that time. Changes to the register after 6.00 p.m. on 24 June 2015 shall be disregarded in determining the rights of any person to attend, speak and vote at the Meeting.

Appointment of proxies

2. Members are entitled to appoint a proxy or proxies to exercise all or any of their rights to attend and vote at the Meeting. A proxy need not be a shareholder of the Company. A shareholder holding two or more shares may appoint more than one proxy in relation to the Meeting. Please contact the Registrar if you wish to appoint multiple proxies.

3. A Form of Proxy is enclosed for use by shareholders holding shares in certificated form. A Form of Instruction is enclosed for use by holders of Depository Interests. The completion and return of a Form of Proxy/ Instruction whether in hard copy form or in CREST will not preclude a member from attending in person at the meeting and voting should he or she wish to do so.

4. To be valid, the Form of Proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the offices of the Company's registrars, Computershare Investor Services (Cayman) Ltd, c/o The Pavillions, Bridgwater Road, Bristol BS99 6ZY, by hand, or sent by post, so as to be received not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be). To be valid, the Form of Instruction and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the offices of the Depositary, Computershare Investor Services Ltd, c/o The Pavillions, Bridgwater Road, Bristol BS99 6ZY, by hand, or sent by post, so as to be received not less than 72 hours before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be).

CREST Voting Instructions for Depository Interest Holders

5. Holders of Depository Interests in CREST may transmit voting instructions by utilising the CREST voting service in accordance with the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take appropriate action on their behalf. In order for instructions made using the CREST voting service to be valid, the appropriate CREST message (a "CREST Voting Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST).

6. To be effective, the CREST Voting Instruction must be transmitted so as to be received by the Company's agent (3RA50) no later than 11.00a.m. on 23 June 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the Company's agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST. Holders of Depository Interests in CREST and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the Depository Interest holder concerned to take (or, if the Depository Interest holder is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST voting service by any particular time. In this connection, Depository Interest holders and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Issued shares and total voting rights

7. As at 6.00 p.m. on 14 May 2015 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital comprised 362,999,983 ordinary shares of US$0.00005 each fully paid. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 14 May 2015 are 362,999,983. The Company does not hold any shares in treasury.

Service agreements and letters of appointment

8. Copies of the service agreements and letters of appointment between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Bank Holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 11.00 a.m.

Company information

Financial calendar

Annual General Meeting

The Annual General Meeting will be held on Friday, the 26 June at 11am at the offices of:

Lekoil Limied
9th Floor
Churchgate Tower 1
PC30 Churchgate Street
Victoria Island, Lagos, Nigeria

Announcements

- Half-year results for 2015 are expected in September 2015.
- Full year results for 2015 are expected in April 2016.

Dates are correct at the time of printing, but are subject to change.

Directors

Samuel Adegboyega *Non-Executive Chairman*
Olalekan Akinyanmi *Chief Executive Officer*
David Robinson *Chief Financial Officer*
Gregory Eckersley *Non-Executive Director*
Aisha Oyebode *Non-Executive Director*
John Van Der Welle *Non-Executive Director*
Atedo Peterside* *Non-Executive Director*

*Resigned on 28 June 2014

Registered office

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

Principal place of business and address of the Directors

9th Floor
Churchgate Tower 1
PC30 Churchgate Street
Victoria Island, Lagos, Nigeria

www.lekoil.com

Advisers

Financial and Nominated Adviser

Strand Hanson Limited
26 Mount Row
Mayfair
London W1K 3SQ
United Kingdom

Joint Brokers

MIRABAUD Securities LLP
33, Grosvenor Place
London SW1X 7HY
United Kingdom

BMO Capital Markets
95 Queen Victoria Street
London EC4V 4HG
United Kingdom

Solicitors to the Company as to English law

Norton Rose Fulbright LLP
3 More London Riverside
London SE1 2AQ
United Kingdom

Solicitors to the Company as to Nigerian law

Banwo & Ighodalo
98 Awolowo Road
South West Ikoyi
Lagos
Nigeria

Solicitors to the Company as to Namibian law

Ellis Shilengudwa Inc
24 Orban Street
PO Box 3300
Windhoek
Namibia

Solicitors to the Company as to Cayman law

Walkers
190 Elgin Avenue
George Town
Grand Cayman KY1-9001
Cayman Islands

Solicitors to the Company as to US law

Fulbright & Jaworski LLP
(Norton Rose Fulbright)
666 Fifth Avenue
New York, NY 10103-3198

Auditors

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
Lagos
Nigeria

Competent person

Netherland, Sewell & Associates Inc
4500 Thanksgiving Tower
1601 Elm Street
Suite 4500
Dallas
Texas 75201

Financial PR

Tavistock Communications
131 Finsbury Pavement
London EC2A 1NT
United Kingdom

Registrars

Computershare Investor Services (Cayman Islands) Ltd.
The R&H Trust Co Ltd
Winward 1
Regatta Office Park
West Bay road
Grand Cayman KY-1103
Cayman Islands

Depositary

Computershare Investor Services PLC
The Pavilions
Bridgewater Road
Bristol BS99 6ZZ
United Kingdom

Designed and produced by **fourth**quarter

Our offices

Nigeria
9th Floor
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PC30 Churchgate Street
Victoria Island, Lagos

USA
136 Main Street
Suite 301
Princeton, NJ 08540