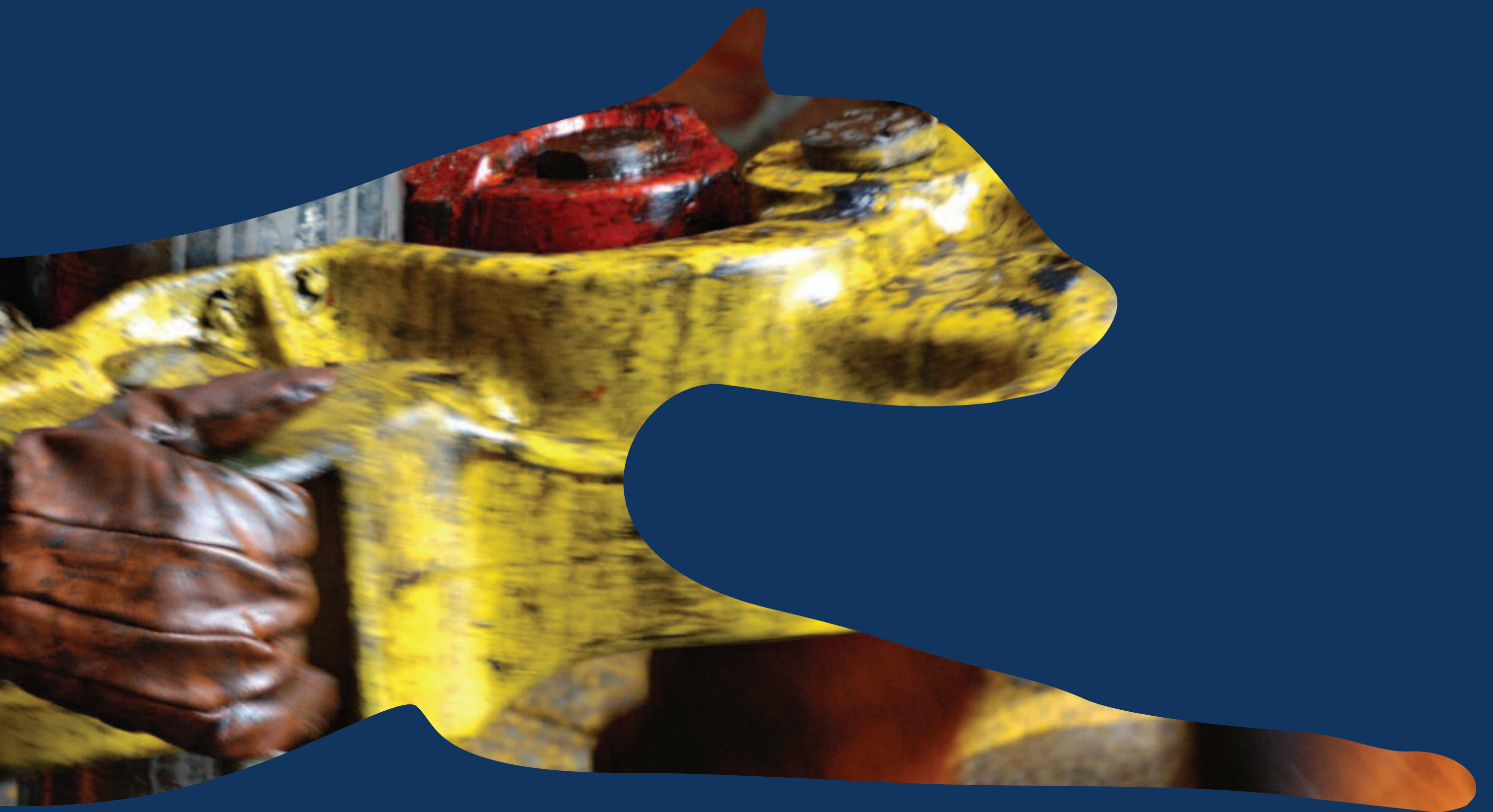
LEKOIL



Shaping the future of oil exploration in Africa

Annual Report and Accounts 2013

Lekoil is an African 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

US$170m
raised by placing of Ordinary Shares

US$67m
strong cash position that will allow us to further develop our OPL 310 asset towards first oil as well as assess other opportunities

US$370m
approximate market capitalisation at date of publication of these accounts

- On 17 May 2013 Lekoil successfully listed on the AIM market of the London Stock Exchange with a US$50 million fundraising.
- Results of the significant discovery at the Ogo-1 well and subsequent sidetrack suggest potential net recoverable resources of 232 mmboe (P50) and 354 mmboe (P10) to Lekoil Nigeria with additional upside potential expected in the synrift play.
- Post IPO, Lekoil announced further fundraisings with gross proceeds of approximately US$120 million to fund the drilling completion and testing of the Ogo-1 well and the Ogo-1 sidetrack.
- A 3D seismic programme, designed by the partners in OPL 310 – Lekoil, Afren Plc and Optimum Petroleum Development Ltd – commenced on 20 March 2014 to cover the remaining 80% of the block.
- Announced on 19 May 2014: the acquisition of a 40% interest in the Otakikpo Marginal Field, in OML 11 in Nigeria, adjacent to the shoreline, with estimated 2C reserves net to Lekoil Nigeria of 14.4 mmbbl of oil and 12.4 Bcf of gas; potential to commence production in 12-18 months.

"The past twelve months have been transformative for Lekoil. Our listing in London, followed by a significant discovery at Ogo-1 and subsequent fundraisings have provided Lekoil with a strong foundation from which we will continue to drive the business."

Lekan Akinyanmi, CEO

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Our 2013 Annual Report is available in both printed form and on the Investors section of the LEKOIL plc website at:
www.lekoil.com

Lekoil Chief Executive, Lekan Akinyanmi, with the Lord Mayor of the City of London, Sir Roger Gifford at the London Stock Exchange on 17 May 2013.

"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 will seek to achieve our goals through the acquisition of promising undeveloped and unfunded assets, supplemented by longer term exploration interests in overlooked oil basins.

232-354 mmboe
estimated gross recoverable P50 to P10 assets attributable to Lekoil Nigeria from the Ogo discovery

10,518ft
total measured depth of Ogo-1 well

17,987ft
total measured depth of Ogo-1 well side track

Our life as a publicly traded company began in May 2013 with our IPO on the London Stock Exchange's AIM market raising $50 million, a record for an E&P company listing on AIM that year. We welcome our new shareholders to Lekoil and thank them for the support they have given us.

The funds raised in the IPO allowed us to execute a farm in for an ultimate 30% economic interest in OPL 310, offshore Nigeria in the Dahomey-Benin Basin. OPL 310 contained the Ogo prospect in addition to what we believed to be a new play for the area. The first well in which we participated in June turned the Ogo prospect into a significant discovery and in November, on completion of the side track, proved up the new play.

Strategy

Lekoil's strategy is to build an exploration and production group, diversified across lower risk production assets and appraisal projects and higher risk exploration assets, in both known exploration basins and newly discovered basins. Our business will be in Africa, focused initially on West Africa in general and Nigeria in particular. Lekoil is structured such that its shareholders are able to participate in the acquisition and development of Nigerian oil and gas assets under the Nigerian Government's indigenisation process. We continue to believe that our competitive advantage in Nigeria can act as the springboard that will allow us to execute our broader strategy of becoming a multi asset exploration, development and production business in Africa.

We will seek to achieve our goals through the acquisition of promising undeveloped and unfunded assets, supplemented by longer term exploration interests in overlooked oil basins. We will also look at assets and participation in marginal fields licensing rounds as well as interests being divested by International Oil Companies and National Oil Companies. Our ability to acquire, or farm in, to such interests is underpinned by our in-house technical expertise and the experience our management team has gained with major International Oil Companies, service providers and in the global finance industry as well as tested relationships that provide access to capital.

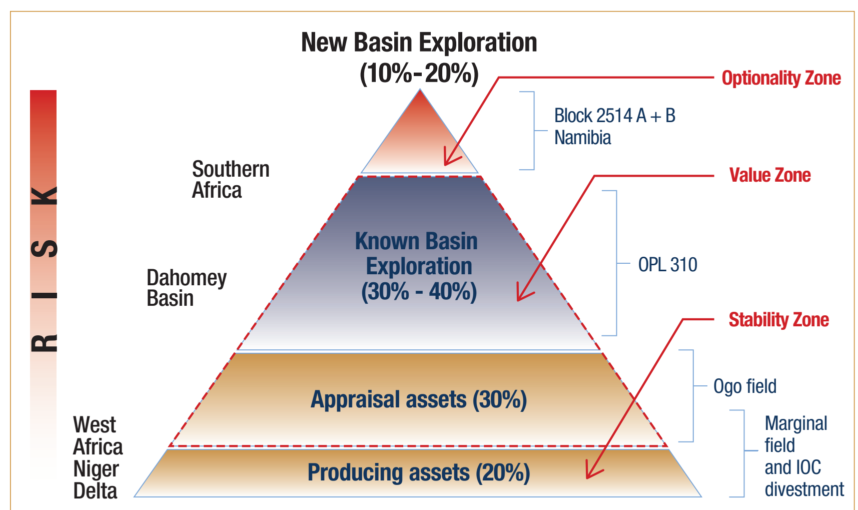
Lekoil has prepared for the Nigeria's Petroleum Industry Bill ("PIB") by running economic sensitivity analysis on its Nigerian projects on a pre-PIB basis as well as on a post-PIB basis. The Company anticipates that the PIB will lead to more advantageous terms for indigenous companies, such as Lekoil.

Financial

The results for the year to 31 December 2013, effectively only cover the second half of the year as a listed entity and there are no directly comparable figures for prior periods. The results include one-off costs of $5.4 million relating to finalising our corporate structure, the IPO process and the farm-in to OPL 310. They also include an amount of $7.1 million, relating to the terminated acquisition of an interest in OML 113, offshore Nigeria. The loss attributable to shareholders was $18.1 million, loss per share was 21 cents and cashflow from operations was $5.5million, before the one-off costs described above. At this stage of our development, the Directors will not be recommending a dividend in respect of the current year.

Cash balances at the year end were $66.6 million, reflecting both our share of costs incurred to date in drilling and testing the Ogo-1 well and sidetrack to assure value creation/retention and the monies raised at the IPO and subsequently. We raised an additional $20 million in July, post the

Corporate strategy: Target portfolio, exploiting the value zone



announcement of the Ogo-1 well discovery, in order to partially fund our share of the planned side track. In November, we raised an additional $100 million, part of which was used to fund the completion of operations on Ogo-1 and its side track and to repay in full the debt financing received from partner Afren. The new money is also being used to pursue additional opportunities. It is pleasing to be able to record that this second follow-on fundraising was supported by both existing and new institutional shareholders and was priced at a significantly higher level than the IPO.

The Ogo discovery

The outstanding highlight of 2013 for Lekoil was the success of the Ogo-1 well and Ogo-1 side track (Ogo-1 ST). When we studied the Dahomey basin and the opportunities available to us in Nigeria, OPL 310 stood out. We took the decision to farm in to a 30.0% economic interest (17.14% equity interest) in the block ahead of the drilling campaign.

The first well was Ogo-1, an exploration well targeting a four-way dip-closed structure in the Turonian to Albian sandstone reservoirs, which are proven in the play fairway. This vertical well was targeting 78 mmboe of gross P50 prospective resources. The drilling programme also included a higher risk side-track well, Ogo-1 ST, testing a new play of stratigraphically trapped sediments that pinch-out onto the basement high. This well was targeting 124 mmboe of gross P50 prospective resources, giving a total of 202 mmboe of gross P50 prospective resources.

The Ogo-1 well was drilled to a total measured depth of 10,518ft and encountered a gross hydrocarbon section of 524ft, with 216ft of net stacked pay. Ogo-1 ST reached a total measured depth of 17,987ft encountered hydrocarbon intervals in the same Turonian, Cenomanian and Albian reservoirs that were successfully drilled and logged at the Ogo-1 well. In addition, the synrift section encountered a 280ft true vertical thickness gross hydrocarbon interval. Pressure-Volume-Temperature (PVT) analysis confirmed excellent reservoir fluid properties with a 40 degree API, 600 GOR, 0.42 cp viscosity oil in the Turonian, a 39 degree API, 870 GOR, 0.40 cp viscosity oil in the Cenomanian and a condensate rich gas in the Albian of up to 115 bbls/mmscf.

The synrift is expected to contain a light oil or a condensate rich gas.

This was a very positive result for Lekoil and confirmed, with upside, the technical analysis which had preceded our decision to farm in to OPL 310. Based on data from the vertical and side track wells, the partners in the block produced revised estimates for the P50 gross recoverable resources that were significantly ahead of pre-drill expectations at 774 mmboe (compared to the pre-drill estimate of 202 mmboe) across the Ogo prospect four-way dip closed and synrift structures. This suggests potential net recoverable resources to Lekoil Nigeria of 232 mmboe, rising to 354 mmboe on a P10 basis with additional upside potential expected in the synrift play.

Board and management

As a young business, we have had to manage our financial resources carefully. This means that we ask a lot of our staff and management team. They have certainly risen to the challenges and on behalf of the Board, and shareholders, we thank them for their intense hard work during this period of rapid growth for the Company.

Outlook

Although Ogo has provided us with a very good start, we are still committed to our strategy of building a substantial, Africa focused E&P business, diversified by risk, maturity of assets and geography. Our immediate shorter term priority is to appraise the Ogo discovery and evaluate the rest of OPL 310. In parallel with this, we will continue to evaluate opportunities to grow our asset portfolio.

Longer term, we will look to acquire other assets similar to our interest in OPL 310. These could be offshore Nigeria or in other areas we understand and like along the West African Transform Margin. We will continue to build a portfolio of assets in line with our strategy (20% of NAV represented by producing assets, 30% by appraisal assets, 40% by exploration assets in known basins and the remaining 10% by new, frontier basin exploration).

With respect to the farm-in agreement in OPL 310 for which ministerial approval is yet to be obtained, the Board of Directors, on the basis of steps taken as of 19 May 2014, is of the view that the ministerial consent will be obtained and oil and gas exploration activities will proceed as planned in the farm-in agreement leading to the Company obtaining an economic interest of 30% in the OPL.

Where ministerial consent is not received, the Group through Mayfair Assets and Trust Limited (Mayfair) will have only an ultimate 30% economic interest pursuant to a risk and financial sharing agreement with Afren.

Subsequent to the year end, the Group has entered into an agreement with Green Energy International Limited (GEIL) effective 17 May 2014 to acquire 40% participating interest In Otakikpo Marginal Field in Nigeria in OML 11. The completion of the acquisition is subject to GEIL obtaining the Head-Farmor and Ministerial consents of GEIL's assignment and transfer of interest to Lekoil. For further information on the Otakikpo acquisition, please see the announcements section of the Company's website.

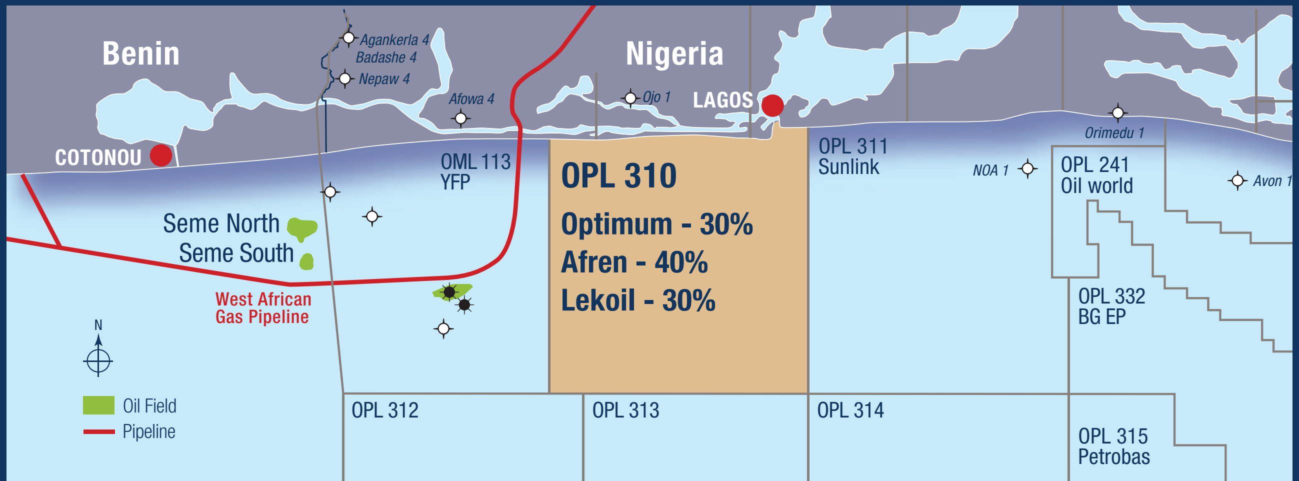
2014 will see the next phase of appraisal and exploration commence on OPL 310 with the acquisition of additional 3D seismic to enhance our understanding of the Ogo discovery and the adjacent area. Together with the data derived from Ogo-1 and Ogo-1 ST, this will enable the partners to determine drilling locations.

Samuel Adegboyega
Chairman

Lekan Akinyanmi
Chief Executive Officer

16 May 2014

Our assets



Nigeria, OPL 310

$1{,}900km^2$

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)

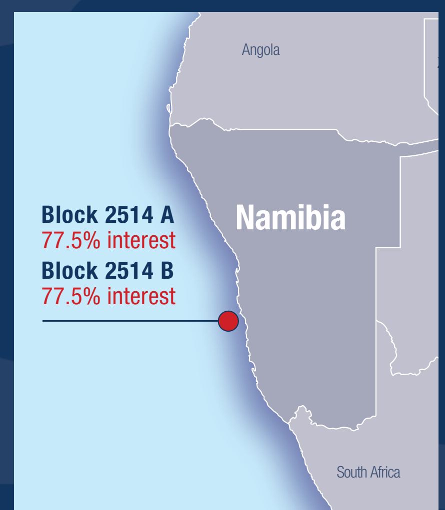
$1{,}500km^2$

Additional 3D seismic being acquired in OPL 310

Namibia blocks 2514 A&B

$1{,}160km^2$

Luderitz basin blocks off Namibia



Financial review

In the twelve months ended 31 December 2013, the Company recorded an operating loss of $17.48 million and exited the period with cash and short-term investments of $66.6 million. The Company is currently shooting 3D seismic over the OPL 310 block and plans to drill an appraisal well in Q4 2014. These activities will be funded from existing cash resources.

US$330m
approximate market capitalisation

US$170m
raised by placing of Ordinary Shares at IPO and subsequently

US$67m
strong cash position that will allow us to further develop our OPL 310 asset towards first oil

Full year results

The Company recorded a total comprehensive loss of $18.1 million for the twelve months ended 31 December 2013 compared to a loss of $3.8 million recorded for the same period in 2012. No dividends were paid or declared during the period.

Administrative expenses

Administrative expenses were $17.56 million compared to $3.8million for the same period in 2012. The increase is primarily a result of the Company undertaking our AIM listing in May 2013 ($5.4 million associated costs) and the write-off of the investment in OML 113 ($7.1 million) coupled with the growth in employees over the 2013 period.

Operating loss

The Company reported an operating loss of $17.5 million for the twelve months ended 31 December 2013 compared with a loss of $3.8 million for the same period in 2012. The increase is primarily a result of the Company undertaking our AIM listing in May 2013 ($5.4 million associated costs) and the write-off of the investment in OML 113 ($7.1 million).

Taxation

No tax was payable for the twelve months ended 31 December 2013.

Capital expenditure

The Group's capital expenditure during the twelve months ended 31 December 2013 amounted to $101.5million compared to $0.1 million incurred for the same period in 2012. Capital expenditure was primarily associated with funding of the Farm-in Agreement entered into with Afren to acquire part of Afren's interest in OPL 310 licence.

Cash and short-term investments

The Company had cash and short-term investments of $66.6 million as at 31 December 2013 compared to $0.8 million at 31 December 2012.

Total comprehensive loss

The Company recorded a total comprehensive loss of $17.5 million for the twelve months ended 31 December 2013 compared to a total comprehensive loss of $3.8 million for the same period in 2012.

Summary statement of financial position

The Company's non-current assets increased from $1.3 million at 31 December 2012 to $103.0 million at 31 December 2013. Current assets represent the Group's cash resources and other receivables which increased from $1 million as at 31 December 2012 to $66.9 million as at 31 December 2013. Current liabilities are principally trade and other accounts payable which increased from $1.5 million to $22.6 million as at 31 December 2013, mainly as a result of a cash call not due for payment as at the balance sheet date.

Dividend

No dividend has been recommended by the Directors.

Accounting policies

The Company's significant accounting policies and details of the significant judgements and critical accounting estimates are disclosed within the notes to the financial statements. The Company has not made any material changes to its accounting policies in the twelve months ended 31 December 2013.

Liquidity risk management and going concern

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including changes in timing of developments and cost overruns of exploration activity. At 31 December 2013, the Company had liquid resources of approximately $66.6million, in the form of cash and short-term investments, which are available to meet ongoing capital, operating and administrative expenditure. The Company's forecasts, taking into account reasonably possible changes as described above, show that the Company will have sufficient financial resources for the 12 months from the date of approval of the 2013 Financial Statements. At the present time, the Company does not have any debt.

David Robinson
Chief Financial Officer

16 May 2014

Core values... LEKOIL aims to achieve quick turnaround times from concept to business sustainability without compromising our core values.

Innovation

We define innovation in two ways: doing things differently and looking at things differently. We bring this to bear to achieve excellent, durable and the most cost-effective results.

Integrity

We believe in dealing honestly and fairly with all stakeholders, whilst maintaining the highest standards of ethical conduct at all times.

Teamwork

We believe that by working together everyone achieves a great deal more. We aim to be the best, work with the best and work together to achieve the best result.

Transparency

LEKOIL's principals have spent significant parts of their careers in the financial industry. In previous roles they have undertaken Foreign Corrupt Practices Act (FCPA) training and remain committed to maintaining the highest ethical standards in their business practices.

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'), has over 20 years' experience in the oil and gas industry, most recently with AllianceBernstein L.P. in New York where he spent six years as a research analyst and portfolio manager covering Energy and Materials worldwide.

Lekan has held senior positions at UBS Investment Research, 3Fold Ventures and Encabler Inc, a Californian headquartered technology company specialising in interactive television software, which he founded in June 2000, as well as successfully negotiating and raising the first round of equity capital for the Company's operations.

Prior to founding Encabler Inc, Lekan worked as lead engineer for Schlumberger Limited, where he advanced High Pressure High Temperature wireline operations for Texaco's North Sea oil prospects. Lekan's work at Schlumberger took him to a number of different petroleum jurisdictions including Scotland, Oman, Pakistan, Egypt and Nigeria.

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, has over 20 years' experience in global financial markets and most recently worked as 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 HSBC Securities, Credit Suisse First Boston 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. David is also a Chartered Financial Analyst.

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

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, most recently, his appointment to the board of Hurricane Energy Plc.

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2013.

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2013 and at 31 December 2012, were as follows:

	At 31 December 2013 Number	At 31 December 2012 Number
Sam Adegboyega	**1,160,000***	13,500
Olalekan Akinyanmi	**39,138,601***	3,000,000
David Robinson	**7,787,004***	133,333
Greg Eckersley (and Family)	**2,753,050***	50,000
Atedo Peterside	**256,250***	
Aisha Oyebode	**256,250***	
John van der Welle		

* Some of the Director's stock options were converted to shares effective on 4 April 2013.
The Company executed a 10 for 1 equity split effective on 17 May 2013.
These are the holdings of the Directors of the Company effective 17 May 2013.

Substantial shareholders

At 15 May 2014 the following held 3% or more of the nominal value of the Company's shares carrying voting rights:

	Number of ordinary shares	% of share capital
Blackrock	34,417,200	10.43%
Senator Investment Group	27,250,000	8.26%
The Capital Group Companies	26,372,000	7.99%
Jennison Associates.	23,189,665	7.03%
Heritage Bank	14,568,943	4.42%
Fidelity WorldWide	13,692,204	4.15%

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 oil and gas.

Results and dividends

The Group statement of comprehensive income is set out on page 17 and shows the result for the year. The Directors do not recommend the payment of a dividend (2012: $nil).

Review of business and future developments

A review on the operations of the Group is contained in the Chairman & CEO statements on pages 3 and 4 and Financial review on page 6.

Principal risks and uncertainties and financial risk management

The Group's risks and uncertainties are outlined on pages 37 and 38.

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 Financial review.

Charitable and political donations
There were no political or charitable contributions made by the Company or the Group during the year (2012: $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 convictions in relation to 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.

The amounts owed to the Company and Group's trade creditors at the year end represented 4 days (2012: 2 days) as a proportion of the total amounts invoiced by suppliers during the year.

Financial instruments
Details of the use of financial instruments by the Company and its subsidiary undertaking are contained in note 20 of the financial statements.

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Law (2013 Revision) Cayman Islands. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Number of board meetings during the year

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

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 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

16 May 2014

Remuneration Committee report

Directors' remuneration and service contracts
Key management personnel compensation comprised the following:

In US Dollars	**2013**	2012
Short-term benefits	**1,825,724**	1,465,220
Share-based payments	**1,381,383**	442,637
	3,207,107	1,907,857

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

	2013		
In US Dollars	Short-term benefits	Share-based payments	Total
Samuel Adegboyega	**50,000**	**35,785**	**85,785**
Lekan Akinyanmi	**874,731**	**709,593**	**1,584,324**
David Robinson	**686,410**	**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 (Retired)	**44,242**	**44,242**	
John Van der Welle	**37,500**	**24,576**	**62,076**
	1,825,724	**1,381,383**	**3,207,107**

Greg Eckersley
Director

16 May 2014

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union (EU) and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU. The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company. The Companies Law (2013 Revision) Cayman Islands, provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Law (2013 Revision) Cayman Islands.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Lekoil Limited website.

Gloria Iroegbunam
Company Secretary

16 May 2014

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 2013, the consolidated statement 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 12 to 39.

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 and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 misstatement.

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 2013, and of the Company's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Senior Auditor
Chibuzor Anyanechi
KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
Lagos
Nigeria

16 May 2014

Consolidated statement of financial position

As at 31 December

In US Dollars	Notes	2013	2012
ASSETS			
Property, plant and equipment	8	**212,230**	126,108
Exploration and evaluation assets	9	**102,558,594**	1,172,160
Total non-current assets		**102,770,824**	1,298,268
Trade and other receivables	10	**92,494**	81,190
Prepayments		**217,340**	136,016
Cash and cash equivalents		**66,632,020**	813,794
Total current assets		**66,941,854**	1,031,000
Total assets		**169,712,678**	2,329,268
EQUITY			
Share capital	11(a)	**15,386**	3,816
Share premium		**169,925,610**	7,141,349
Retained losses		**(16,989,844)**	(5,976,991)
Share based payment reserve		**3,142,519**	1,719,902
Other reserves	11(b)	**104,183**	–
Equity attributable to owners of the Company		**156,197,854**	2,888,076
Non controlling interests	12	**(9,108,348)**	(2,038,644)
Total equity		**147,089,506**	849,432
LIABILITIES			
Trade and other payables	13	**22,623,172**	1,479,836
Current and total liabilities		**22,623,172**	1,479,836
Total equity and liabilities		**169,712,678**	2,329,268

Approved by the Board of Directors on 16 May 2014.

Olalekan Akinyanmi
Director

David Robinson
Director

The notes on pages 20 to 39 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	2013	2012
Revenue	14	–	–
Cost of sales		–	–
Gross profit		–	–
Other income		80,936	–
General and administrative expenses	15	(17,560,971)	(3,842,934)
Loss from operating activities		(17,480,035)	(3,842,934)
Finance income		64	6,918
Finance cost	16	(632,228)	(3,177)
Net finance (cost)/income		(632,164)	3,741
Loss before income tax		(18,112,199)	(3,839,193)
Income tax expense	19	–	–
Loss for the year		(18,112,199)	(3,839,193)
Other comprehensive income for the period, net of income tax		–	–
Total comprehensive income for the year		(18,112,199)	(3,839,193)
Loss attributable to:			
Owners of the Company		(11,012,853)	(3,022,236)
Non-controlling interests		(7,099,346)	(816,957)
		(18,112,199)	(3,839,193)
Total comprehensive income attributable to:			
Owners of the Company		(11,012,853)	(3,022,236)
Non-controlling interests		(7,099,346)	(816,957)
		(18,112,199)	(3,839,193)
Loss per share:			
Basic loss per share ($)	18	(0.10)	(0.05)
Diluted loss per share ($)	18	(0.10)	(0.05)

The notes on pages 20 to 39 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 2012	3,666	6,019,999	(2,954,755)	–	1,241,935	4,310,845	(1,221,690)	3,089,155
Total comprehensive income for the year								
Loss for the year	–	–	(3,022,236)	–	–	(3,022,236)	(816,957)	(3,839,193)
Total comprehensive income for the year	–	–	(3,022,236)	–	–	(3,022,236)	(816,957)	(3,839,193)
Transactions with owners of the Company								
Issue of ordinary shares	150	1,121,350	–	–	–	1,121,500	–	1,121,500
Share-based payment transactions	–	–	–	–	477,967	477,967	–	477,967
Total contributions	150	1,121,350	–	–	477,967	1,599,467	–	1,599,467
Changes in ownership interests in subsidiaries								
Share issue by subsidiary	–	–	–	–	–	–	3	3
Balance at 31 December 2012	3,816	7,141,349	(5,976,991)	–	1,719,902	2,888,076	(2,038,644)	849,432
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)	(18,112,198)
Total comprehensive income for the year	–	–	(11,012,853)	–	–	(11,012,853)	(7,099,346)	(18,112,198)
Transactions with owners of the Company								
Issue of ordinary shares	11,570	162,784,261	–	104,183	–	162,900,014	–	162,900,014
Share-based payment transactions	–	–	–	–	1,422,617	1,422,617	–	1,422,617
Changes in ownership interests in subsidiaries								
Share issue by subsidiary	–	–	–	–	–	–	29,642	29,642
Balance at 31 December 2013	**15,386**	**169,925,610**	**(16,989,844)**	**104,183**	**3,142,519**	**156,197,854**	**(9,108,348)**	**147,089,506**

The notes on pages 20 to 39 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

In US Dollars	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before tax		**(18,112,199)**	(3,839,193)
Adjustment for:			
Equity-settled share-based payment		**1,422,617**	477,967
Interest received		**(64)**	(208)
Interest expense		**632,228**	–
Unrealised foreign currency (gain)/loss		**–**	(96)
Depreciation		**41,914**	30,334
		(16,015,504)	(3,331,196)
Changes in:			
– Trade and other payables		**21,247,519**	1,006,799
– Prepayments		**(81,324)**	(4,060)
– Trade and other receivables		**18,338**	(2,680)
Net cash used in operating activities		**5,169,029**	(2,331,137)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	8	**(128,036)**	(42,173)
Acquisition of exploration and evaluation asset	9	**(101,386,434)**	(69,660)
Net cash used in investing activities		**(101,514,470)**	(111,833)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**162,795,831**	1,123,000
Interest received		**64**	208
Interest paid		**(632,228)**	–
Net cash from financing activities		**162,163,667**	1,123,208
Net increase/(decrease) in cash and cash equivalents		**65,818,226**	(1,319,762)
Cash and cash equivalents at 1 January		**813,794**	2,133,556
Cash and cash equivalents at 31 December		**66,632,020**	813,794

The notes on pages 20 to 39 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Reporting entity

Lekoil Limited (the "Company") is a company domiciled in the Cayman Islands. The address of the Company's registered office is Intertrust Corporate Services (Cayman) Limited, 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 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) issued by the International Accounting Standards Board ("IASB"). The financial statements were authorised for issue by the Board of Directors on 16 May 2014.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, 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 2014 are set out in note 5.

(b) Going concern basis of accounting

These consolidated financial statements are prepared on a going concern basis, which the Directors believe to be appropriate.

The Group incurred a total comprehensive loss of $18.1million for the year ended 31 December 2013. The Group continues to incur losses. The ability of the Group to continue to operate as a going concern is dependent on the availability of funding necessary to meet its financial commitments. The Group has sufficient cash resources available to meet its commitments as they fall due over the next 12 months from the date of this report.

(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.

(e) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Subsidiaries

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:

- Note 9 – Exploration and Evaluation assets: where on the basis that ministerial consent will be obtained, the Group has accounted for expenditures incurred on OPL 310 as Exploration and Evaluation assets as against loans and receivables.

(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 2013 is included in the following:

- Note 19(b) – Unrecognised deferred tax assets: availability of future taxable profit against which carry forward losses can be utilised and estimation of deferred tax assets; and
- Note 20 – Financial Commitments and Contingencies: key assumptions about the likelihood and magnitude of an outflow of economic resources.

2. Basis of preparation continued

(iii) Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Information about the assumptions made in measuring fair values is included in the following:

- Note 17 – Share based payments

3. Significant accounting policies

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

(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 asset 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 payable is measured at fair value at the 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 employee (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.

(ii) Non-controlling interests

Non-controlling interests 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.

3. Significant accounting policies continued

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to 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 retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in profit or loss.

(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 and accumulated in translation reserve except to the extent that the translation reserve is allocated to non-controlling Interests.

(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

(i) Non-derivative financial assets

The Group initially recognizes trade and other receivables and cash and cash equivalents on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

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.

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.

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.

3. Significant accounting policies continued

(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.

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 on a net basis or to realise the asset and settle the liability simultaneously.

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.

(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 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
- Computer and household equipment 4 years

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) License acquisition costs: License acquisition costs are capitalized 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 license 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 unless they form part of the acquisition process of the license.

(ii) Exploration expenditure: All exploration and appraisal costs are initially capitalized 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 phases 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 intangible 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 if 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.

3. Significant accounting policies continued

(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 units-of-production method.

(h) 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, the 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 Group entity'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 Group entity's contribution is 7.5% each of each employee's gross salary.

(i) 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.

(j) 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, which in the case of quoted securities is normally the ex-dividend date.

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.

3. Significant accounting policies continued

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.

(k) 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.

(l) 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 reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's office), head office expenses, and income tax assets and liabilities.

(m) 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.

(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 value, both for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. When applicable, further information about the assumptions made in measuring fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of the future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes. For short-term receivables, no disclosure of fair value is presented when the carrying amount is a reasonable approximation of fair value.

(b) Other non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Term payables with no stated interest rate are measured at the original invoice amount if the impact of discounting is not material.

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 for the financial year commencing 1 January 2014

- IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRIC 21 Levies
- Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

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 remaining Standards and Interpretations will be as follows:

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities.This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The impact of this amendment to IAS 32 has not yet been estimated. The Group will assess the impact once the standard becomes effective.

IFRIC 21 – Levies

Levies have become more common in recent years, with governments in a number of jurisdictions introducing levies to raise additional income. Current practice on how to account for these levies is mixed. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37 Provisions, Contingent Liabilities and Assets. The Interpretation is effective for annual periods commencing on or after 1 January 2014 with retrospective application.

The impact of the adoption of IFRIC 21 has not yet been estimated. The Group will assess the impact once the standard becomes effective.

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 2014 with early adoption permitted. The Group will adopt the amendments for the year ending 31 December 2014.

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 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.

5. New standards and interpretations not yet adopted continued

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 operates predominantly in the oil and gas industry only. As at the year end, the Group had operational activities in only 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	2013	2012
All foreign countries		
Nigeria	**102,701,164**	1,228,608
Namibia	**69,660**	69,660
	102,770,824	1,298,268

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

7. Capital management

The Board'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 Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company is not subject to externally imposed capital requirements.

8. Property, plant and equipment

The movement on this account was as follows:

In US Dollars	Motor vehicles	Furniture & fittings	Computer & household equipment	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**
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**
Carrying amounts:				
At 31 December 2012	61,167	34,742	30,199	126,108
At 31 December 2013	**71,446**	**44,645**	**96,139**	**212,230**

9. Exploration and Evaluation (E&E) asset

E & E asset represents the Group's oil mineral rights acquisition costs.

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

In US Dollar	2013	2012
Balance at 1 January 2013	**1,172,160**	1,102,500
Additions (see (b) below)	**101,386,434**	69,660
Balance at 31 December 2013	**102,558,594**	1,172,160

(b) On 1 February 2013, the Group entered into a Farm-in agreement with Afren Investment Oil & Gas (Nigeria) Limited ("Afren") relating to part of Afren's interest in OPL 310 in Nigeria. OPL 310 is a license granted Optimum Petroleum Development Limited (Optimum) by the Nigerian Government on 3 February 1992 for an initial term of five years. The initial term of the OPL 310 license expired in 1997 and there was a lag between the expiration of the initial term and the revalidation. 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 license will therefore expire on 10 February 2019.

The Farm-in agreement provides for Afren to transfer a 17.14% participating interest in OPL 310, subject to satisfaction of a number of conditions, including approval of the Minister of Petroleum Resources before the Group can exercise such right, power and interest in OPL 310. In addition to transferring a part of Afren's participating interest in OPL 310, the farm-in agreement also seeks to transfer an ultimate 30% economic interest in OPL 310 to the Group. The Group's right to participating interest and economic interest in OPL 310 is conditional upon the Group meeting the Funds conditions.

Where ministerial consent is not received, any consideration paid by the Group to Afren will not be refunded and the Group will have only an ultimate 30% economic interest pursuant to the Risk & Financial Sharing Agreement.

The Group is to acquire its ultimate 30% economic interest and share of costs associated with OPL 310 as follows:

(i) 100% of capital expenditure in respect of costs associated with the first exploration well on OPL 310 amounting to $50 million.

(ii) 42.86% of capital expenditure and 42.86% of operating expenditure in respect of all other costs incurred on OPL 310 as of 31 December 2013 amounting to $48.7 million and $2.6 million respectively.

OPL 310 is a license granted Optimum Petroleum Development Limited (Optimum) by the Nigerian Government on 3 February 1992 for an initial term of five years. The initial term of the OPL 310 license expired in 1997 and there was a lag between the expiration of the initial term and the revalidation. 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 license will therefore expire on 10 February 2019.

The Company's right to the Participatory 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 as Exploration and Evaluation assets instead of loans and advances is appropriate.

Where ministerial consent is not received, any consideration paid by the Company to Afren will not be refunded, however, the Company will have a right under an agreement (yet to be finalised) to interests in OPL 310 reserves and production. Total farm-in costs incurred as at 31 December 2013 and expected to be recovered in oil amounted to $101,371,567.

10. Trade and other receivables

(a) Receivables recoverable within 12 months

In US Dollars	2013	2012
Other receivables	**11,468**	–
Called-up share capital unpaid	**28,511**	16,103
Payroll advances	**2,688**	12,772
Employee loans	**49,827**	52,315
	92,494	81,190

11. Share capital and reserves

(a) Share capital

In US Dollars	2013	2012
Authorised	**50,000**	50,000
Issued, called up and fully paid	**15,386**	3,816
Total Issued and called up share capital	**15,386**	3,816

	Ordinary shares	
Share capital	2013	2012
In issue at 1 January	**3,816**	3,666
Issued for cash	**11,357**	150
Exercise of share options	**201**	–
Equity settled payments	**12**	–
In issue at 31 December – fully paid	**15,386**	3,816
Authorised – par value $0.00005 (2012: $0.0005)	**1,000,000,000**	100,000,000

The share options are not dilutive as the exercise price of the options during the year of $0.75 exceeded the average market price of $0.59.

(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
329,906,237	**171,435,907**	**16,497**	**171,419,409**

* The Board of Directors passed a resolution to increase the authorised share capital to 1,000,000,000 ordinary shares (2012: 100,000,000) and consequently, the par value decreased to $0.00005 per share (2012: $0.0005 per share).

(c) Other reserves

Other reserves represent non-reciprocal contributions from shareholders.

12. Non-controlling interest

In US Dollars	2013	2012
Lekoil Nigeria	**9,069,689**	2,026,152
Lekoil Namibia	**38,659**	12,492
	9,108,348	2,038,644

13. Trade and other payables

In US Dollars	2013	2012
Accrued expenses	**75,500**	1,309,561
Accounts payable	**527,180**	170,275
Due to Afren	**22,005,379**	–
Loan from shareholder	**62**	–
Payroll liabilities	**10,361**	–
Due to related party	**4,690**	–
	22,623,172	1,479,836

14. Revenue

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

15. Administrative expenses

In US Dollars	2013	2012
Legal and statutory fees	**417,294**	262,808
Consultancy and technical fees	**1,053,072**	290,395
Directors' fees	**264,583**	110,000
Bank charges	**27,754**	5,671
Travel expenses	**740,558**	558,386
Listing expenses	**3,271,204**	–
Other expenses	**593,841**	623,027
Loss on investments (see (a) below)	**7,162,500**	–
Personnel expenses (see (b) below)	**3,988,251**	1,962,313
Depreciation	**41,914**	30,334
	17,560,971	3,842,934

(a) Loss on investments

On 17 June 2013, the Group entered into a binding conditional Sale & Purchase Agreement (SPA) with Pan Petroleum Aje Limited, Pan Petroleum Nigeria Holding BV and Pan Petroleum (Holding) Cyprus Limited (together, "the Parties") according to which it proposed to acquire an interest in OML 113.

The agreement conferred on the Parties a right to call a $3 million bid bond entered into as part of the SPA or receive an equivalent cash payment in lieu of the bid bond which the Group will finance out of its current cash reserve. This cost was in addition to the $4 million paid to the parties as part of the consideration (inclusive of cash calls) under the SPA.

On 7 November 2013, the Group, in a bid to fully focus on developing the discovery in OPL 310 which had produced results significantly ahead of initial estimates, terminated the SPA as a result of an inability to agree final terms with the parties. The Group therefore incurred a loss of $7,162,500 representing the total amounts invested in OML 113 as at the SPA termination date.

(b) Personnel expenses

In US Dollars	2013	2012
Wages and salaries	**2,600,734**	1,496,042
Equity settled share-based payment	**1,387,517**	466,271
	3,988,251	1,962,313

16. Finance cost

In US Dollars	2013	2012
Interest on borrowings (see (a) below)	**632,228**	–
Realised exchange loss	**–**	3,177
	632,228	3,177

Interest on borrowings
During the year, the Group entered into a loan agreement with Afren Plc. Afren granted a Group entity a term loan of $15 million tenured for 24 months with interest at a rate of 11.5% per annum compounded every three months. The purpose of the loan was to enable the Group meet certain obligations under the OPL 310 farm-in agreement with Afren Plc. The loan accrued total interest of $632,228 during the year. The loan balance together with the accrued interest was liquidated during the year.

17. Share-based payment arrangements

At 31 December 2013, 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. 3 December 2010. The grant dates for awards were 3 December 2010, 1 June 2011, 1 November 2011, 3 June 2012, 19 February 2013, 5 April 2013 and 17 May 2013 based upon a shared understanding of the terms of the awards at that time.

Terms and conditions of share option scheme
The terms and conditions related to the share option scheme are as follows:

		Number of option shares per vesting period and exercise price		
Vesting periods	Cumulative vested	$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 number and weighted average exercise prices of share options is as follows:

	2013		2012	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at 1 January	**2.55**	**4,521,000**	2.45	4,381,000
Granted during the year	**0.29**	**562,500**	5.63	140,000
Exercised during the year	**0.58**	**350,000**	–	–
Outstanding at 31 December	**0.56**	**4,733,500**	2.55	4,521,000
Exercisable at 31 December	**0.75**	**4,476,657**	2.49	3,422,438

The options outstanding at 31 December 2013 have an exercise price of $0.75 and a weighted average contractual life of 1.5 years.

17. Share-based payment arrangements continued

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:

	2013	2012	2011
Fair value of share options and assumptions			
Weighted average fair value at grant date	**$1.04**	$1.7216	$0.6674
Share price at grant date	**$1.04**	$3.75	$1.00-$3.75
Exercise price	**$0.75**	$1.00-$7.50	$1.00-$7.50
Option life (expected weighted average life in years)	**5.0**	5.0	5.0
Expected volatility	**65%**	65%	65%
Risk-free Interest rate	**0.68%**	0.68%	0.9%/1.6%
Expected dividends	**na**	na	na

The Group issued options with 3 different exercise prices $1,00, $3.75, and $7.50. 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.

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

Employee expenses

In US Dollars	**2013**	2012
Share options granted in 2012	**–**	466,271
Share options granted in 2013	**1,387,517**	–
Total expense recognised as employee costs	**1,387,517**	466,271
Total expense recognised as other expenses	**35,100**	11,696
Total amount recognised directly in equity	**1,422,617**	477,967

18. Basic loss per share

The calculation of basic and diluted loss per share at 31 December was based on loss attributable to ordinary shareholders of the Group of $11,012,853 (2012: $3,022,236) and on 329,906,233 (2012: 76,309,233 (as adjusted for the share split during the year)) weighted average number of ordinary shares in issue during the year. There are 4,733,500 potentially dilutive instruments, being share options. Basic and diluted loss per share are equal as all options are anti-dilutive.

19. 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

In accordance with the Petroleum Profit Tax Act of Nigeria (PPTA), allowable pre-production costs are tax deductible and recoverable over a minimum period of 5 years.

The Group is yet to commence development and production activities and therefore earned no revenue during the year. As a result, the deferred tax asset in respect of costs incurred on exploration and evaluation activities, amounting to $3,685,461 (2012: $1,919,597) is not recognised as in the opinion of the Directors, the availability of future taxable profit against which the deferred tax asset can be used is uncertain.

20. Financial commitments and contingencies

(i) 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, 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.

(ii) 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 asset is at the appraisal phase and historical seismic and well data are currently under review. Seismic acquisitions are expected to commence in 2016. The amount of $69,660 paid is included in exploration and evaluation assets.

(iii) Mayfair Assets and Trust Limited is bound to an agreement for the acquisition of a 17.14% participating interest in OPL 310. The initial capital expenditure, to the limit of $50 million, in respect of the first exploratory well will be borne 100% by Mayfair Assets and Trust Limited and operating expenditure 42.86%. Any subsequent expenditure will be borne 42.86% by Mayfair Assets and Trust Limited.

(iv) The Group is yet to commence development and production activities. As a result, no provision has been recognised for assets retirement obligation arising from the Group's oil & gas activities as the Directors cannot reliably estimate the future abandonment costs.

21. 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, including any Director of the Company.

Loans to key management personnel

Unsecured loans to Directors issued during the year amounted to $49,900 (2012: $49,900). No interest is payable by the key management personnel, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2013, the balance outstanding was $49,900 (2012: $49,900) and is included in 'trade and other receivables' (see note 10).

Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to key management personnel, in form of share based payments.

Key management personnel compensation comprised the following:

In US Dollars	2013	2012
Short-term benefits	**1,825,724**	1,465,220
Share-based payments	**1,381,383**	442,637
	3,207,107	1,907,857

21. Related party transactions continued

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

In US Dollars	2013
Samuel Adegboyega	**85,786**
Lekan Akinyanmi	**1,584,324**
David Robinson	**1,137,232**
Aisha Muhammed-Oyebode	**70,099**
Atedo Peterside	**112,460**
Greg Eckersley	**110,889**
Festus Marinho (Retired)	**44,241**
John Van der Welle	**62,076**
	3,207,107

Key management personnel and Director transactions
Directors of the Company control 15.6% (2012: 45.77%) of the voting shares of the Company.

An amount of $62 representing payment made on behalf of the Company by a Director remained outstanding as at 31 December 2013. This amount is included in accounts payable and accruals (Note 13). Also included in accounts payable and accruals is $75,500 (2012: $1,301,252.79) representing key management personnel's accrued salaries.

Lekoil Nigeria Limited has a one year lease running until 14 April 2014 with ANAP Holdings Limited, a company controlled by Mr. Atedo Peterside (a Director) for a residential property located at 1, Walter Carrington Crescent, Victoria Island, Lagos, Nigeria. Total rent expense charged to profit or loss in 2013 was $77,625 (2012: $76,781).

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.

22. Group entities significant subsidiaries

(a) Significant subsidiaries

		Ownership interest	
	Country of incorporation	2013	2012
Lekoil Limited, Nigeria	Nigeria	**40%**	–
Lekoil Exploration and Production (Pty) Limited	Namibia	**80%**	80%
Lekoil Management Corporation	USA	**100%**	100%
Lekoil Limited SARL	Benin	**100%**	–

Although the Company holds less than 50% ownership interests in Lekoil Nigeria Limited, it has control over the financial and operating policies of the entity and it is entitled to substantially all of the benefits related to its operations and net assets based on terms of agreements under which the entity was established. Consequently, the Company consolidates Lekoil Nigeria Limited.

22. Group entities significant subsidiaries continued

(a) Non-controlling interests ("NCI")

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

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)	–		
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 (decrease) in cash and cash equivalents	229,509	32,136		

31 December 2012

In US Dollars	Lekoil Nigeria Limited Group	Lekoil Exploration and Production Pty (Limited	Intra-group eliminations	**Total**
NCI percentage	100%	20%		
Non-current assets	1,228,608	69,660		
Current assets	217,932	78,311		
Non-current liabilities	(2,439,925)	–		
Net assets	(1,121,862)	(62,460)		
Carrying amount of NCI	(1,121,862)	(12,492)	(904,290)	**(2,038,644)**
Revenue	–	–		
Loss	(1,007,781)	(62,471)		
Other comprehensive income ("OCI")	–	–		
Total comprehensive income	(1,007,781)	(62,471)		
Loss allocated to NCI	(1,007,781)	(12,494)	203,318	**(816,957)**
OCI allocated to NCI	–	–	–	–
Cash flows from operating activities	(631,293)	95,706		
Cash flows from investment activities	(41,998)	(69,660)		
Cash flows from financing activities	664,631	–		
Net increase (decrease) in cash and cash equivalents	(8,660)	26,046		

23. 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.

24. 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 customers and other 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 amount	
In US Dollars	**2013**	2012
Trade and other receivables	**92,494**	81,190
Cash and cash equivalents	**66,632,020**	813,794
	66,724,514	894,984

The Group's exposure to credit risk is minimised as the Group is still in the exploratory phase. The Group's cash and cash equivalents which account for over 90% of the Group's credit exposure are held by reputable financial institutions with very good credit ratings.

24. 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:

In US Dollars	Notes	Carrying amount	Contractual cash flows	6 months or less
Non-derivative financial liabilities:				
31 December 2013				
Trade and other payables	12	**22,623,172**	**22,623,172**	**22,623,172**
31 December 2012				
Trade and other payables	12	1,479,836	1,479,836	1,479,836

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. The Group has not provided any guarantees as at year end.

(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 programmes. 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 other tax liabilities denominated in Nigerian Naira.

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

	Carrying amounts	
In US Dollars	**2013**	2012
Trade and other receivables	**43,977**	31,290
Cash and cash equivalents	**64,573**	22,023
Trade and other payables	**(216,376)**	(41,531)
Net exposure	**(107,826)**	11,782

24. Financial risk management and financial instruments continued

Sensitivity analysis

A 10 percent strengthening of the 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.

		Foreign exchange rate risk			
		10%		-10%	
In US Dollars	Carrying amount	Profit	Other movements in Equity	Profit	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 Group's 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.

(d) Fair values

The fair value information for financial assets and financial liabilities not measured at fair value has not been disclosed as the carrying amounts of the financial assets and liabilities reasonably approximate their fair values.

25. Litigation and claims

There are no litigation or claims involving the Group as at 31 December 2013 (2012: nil).

Company information

Financial calendar

Annual General Meeting

The Annual General Meeting will be held on Friday, the 20th June at 10am at the offices of:

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

Announcements

- Half-year results for 2014 are expected in September 2014.
- Full year results for 2014 are expected in April 2015.

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*
Atedo Peterside *Non-Executive Director*
Aisha Oyebode *Non-Executive Director*
John Van Der Welle *Non-Executive Director*

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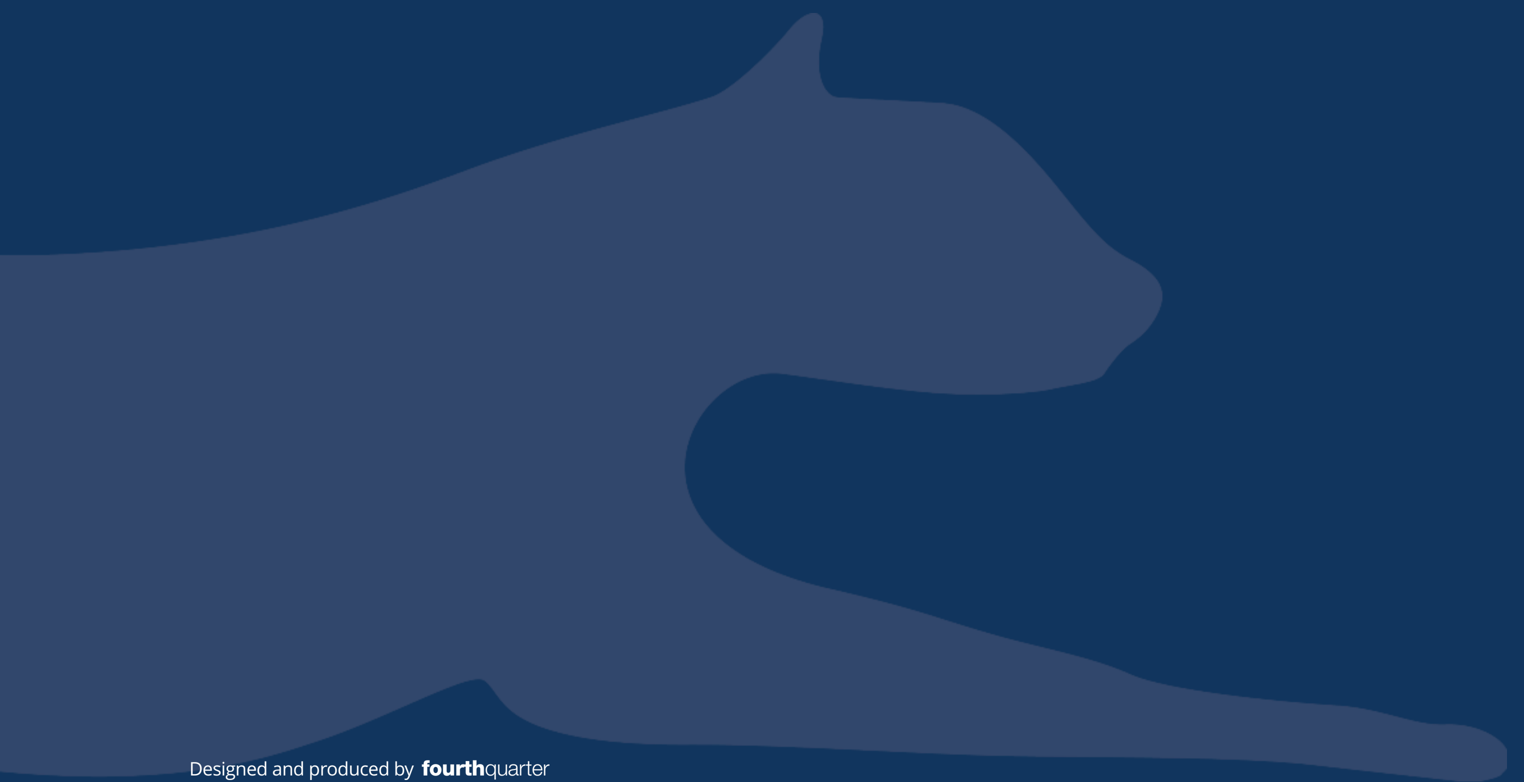

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