



**ABN 17 117 227 086**

**Half-Year Financial Report  
31 December 2011**

# RIALTO ENERGY LIMITED – HALF YEAR REPORT

## Corporate Directory

### Directors

Bruce Burrows	Non-Executive Chairman
Jeffrey Schrull	Managing Director
Charles Nieto	Chief Operating Officer
Glenn Whiddon	Non-Executive Director
Chaim Lebovits	Non-Executive Director
Vance Querio	Non-Executive Director

### Company Secretary

Matthew Worner  
Neil Hackett

### Registered Office

Level 1, 34 Colin Street  
West Perth, WA 6005  
Australia

Telephone: (08) 9211 5000  
Facsimile: (08) 9211 5001  
Email: [admin@rialtoenergy.com](mailto:admin@rialtoenergy.com)  
Web: [www.rialtoenergy.com](http://www.rialtoenergy.com)

### London Office

22 Long Acre  
Covent Garden  
London, WC2E 9LY  
Telephone: + 44 20 7042 8500  
Facsimile: + 44 20 7042 8501

### Abidjan Office

Avenue Botreau Russel  
Immeuble Le Mans 8me étage  
Abidjan Plateau  
01 B.P. 13158 Abidjan 01  
Telephone: + 225 20 31 27 55  
Facsimile: + 225 20 32 70 58

### Auditors

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

### Bankers

National Australia Bank  
226 Main Street  
Osborne Park WA 6017

# **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

## **Corporate Directory (continued)**

### **Corporate Brokers**

Euroz Securities Limited  
Level 18, Alluvion  
58 Mounts Bay Road  
Perth WA 6000

RBC Capital Markets  
Level 46, 2 Park Street  
Sydney NSW 2000

### **Share Registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross WA 6153  
Telephone: (08) 9315 2333  
Facsimile: (08) 9315 2233

### **Securities Exchange Listing**

Rialto Energy Limited (“the Company”) is listed on the Australian Securities Exchange (“ASX”)  
Home Exchange: Perth, Western Australia

ASX Code: **RIA**

# RIALTO ENERGY LIMITED – HALF YEAR REPORT

## Table of Contents

DIRECTORS' REPORT .....	1
AUDITORS' INDEPENDENCE DECLARATION .....	6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	8
CONSOLIDATED STATEMENT OF CASH FLOWS .....	9
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	10
1. CORPORATE INFORMATION.....	12
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	12
3. FINANCIAL RISK MANAGEMENT .....	12
4. EXPENSES FROM CONTINUING OPERATIONS.....	13
5. INCOME TAX EXPENSE .....	13
6. CASH AND CASH EQUIVALENTS .....	14
7. EXPLORATION AND EVALUATION .....	14
8. COMMITMENTS AND CONTINGENCIES .....	15
9. CONTRIBUTED EQUITY.....	16
10. SHARE BASED PAYMENTS .....	17
11. SEGMENT REPORTING .....	20
12. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE.....	22
DIRECTORS' DECLARATION.....	23
INDEPENDENT AUDITOR'S REVIEW REPORT .....	24

# **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

## **Directors' Report**

Your directors submit their report for the half-year ended 31 December 2011.

### **Directors**

The names of Rialto Energy Limited's ("Rialto" or "Company") directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Glenn Whiddon  
Jeffrey Schrull  
Charles Nieto  
Chaim Lebovits  
Vance Querio  
Bruce Burrows  
Brett Woods (resigned 7 July 2011)

## **Review and Results of Operations**

### **Results**

The gross loss for the half year ended 31 December 2011 was \$3,348,636 (2010: \$3,914,385).

### **Operations**

#### **CI-202 Cote d'Ivoire (Rialto 85%)**

During the half-year, the Company undertook the following activities on CI-202:

#### **Contingent and prospective resources**

In September 2011, RPS Energy Ltd (RPS) prepared an independent Competent Person's Report (CPR) in respect of CI-202.

Through the CPR, RPS has estimated a revised Mean Contingent Resource of 50 MMbbls of liquids and 400 Bcf for the Gazelle, Hippo, Bubale, and Addax discoveries. The upside Contingent Resource is 142 MMbbls, and 700 Bcf of liquids and gas respectively.

Further, the Prospective Mean Resource for CI-202 identified in the CPR is 500 MMbbls of liquids and 1.8 Tcf of gas from all prospects including Chouette, Aigle, Faucon, and Condor. The 3C Prospective Resource on block is 1.3 billion bbls and 4 Tcf.

#### **Gazelle Field Development Plan (FDP) and Gas Sales Memorandum of Understanding (MOU)**

In November the Company submitted the Gazelle Field FDP with our partner in CI-202, Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire (Petroci), to the Director General of Hydrocarbons (DGH) and the Ministry of Energy. Approval of the FDP was granted on 15 December 2011. The Gazelle Field is located in shallow water depths which lie in close proximity to existing on-shore production infrastructure where production will be processed and transported to shore via bundled pipelines. The development will commence in the 1st Quarter 2012. Phase 1 production from the Gazelle Field is planned for the 4th Quarter 2013 at 8,000 bpd of liquids and 100 mmcf/d for gas.

To facilitate commercialisation of Gazelle's gas resources, the Company executed, in December 2011, a Gas Sales MOU with Petroci and the Government of the Republic of Côte d'Ivoire. The Gas Sales MOU contains the essential terms for a final, binding gas sales agreement for deliveries of gas of up to 100 mmcf/d. A final gas sales agreement is planned to be executed ahead of the final investment decision for the Gazelle Field in mid-2012.

### **Drill Planning**

During the six month period the Company continued with preparations for a three well drilling programme commencing in the 1st Quarter 2012 including the two Gazelle field development wells and an exploration well.

## **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

In July 2011 a rig contract was executed with Transocean for the GSF Monitor jack-up rig, and long lead items have been acquired. Site surveys and an Environmental Impact Assessment have been completed and the drilling team has assembled in the Company's Abidjan office. The rig arrived in early March 2012 and the first appraisal well at Gazelle was spudded on 12 March 2012.

Rialto is planning a second phase of drilling in CI-202 for 1st Quarter 2013.

### **Prospect /Drilling Inventory**

The Company's exploration team has completed detailed seismic interpretation work resulting in several low risk prospects being generated which are analogous to proven play types already identified in existing discoveries on the block. The CPR has allocated over 1.8 Tcf and 500 MMbbls of the Mean Prospective Resource for these prospects. Prospect examples include the Faucon (oil), Chouette (oil) and Condor (gas) which all exist in water depths of less than 100 metres.

It is the intention that the third well of the 1st Quarter 2012 drilling programme will test one of these prospects.

### **Seismic Acquisition and Reprocessing**

In December 2011 the Company started a block-wide, 891km<sup>2</sup> 3D seismic acquisition survey which was completed by Polarcus in mid-January 2012. Processing and interpretation of the newly acquired data will commence shortly and will provide Rialto with a full suite of 3D data over the entirety of Block CI-202. This will allow Rialto to further refine existing interpretation and mapping of the exploration potential within the Block through better definition and mapping of the multiple prospects and leads already identified. Further, this work will provide an even greater understanding of the five existing discoveries and culminate in better definition of current resources and ultimately reserves.

### **Meeting with Authorities**

During the half year the Company attended meetings with senior Ivorian Government officials including the newly appointed Energy Minister Dr. Adama Toungara and the new head of the DGH, Dr. Diaby. All these meetings have been very positive and the authorities supported Rialto's dynamic attitude and 2012 drilling programme.

### **Offshore Accra Contract Area - Ghana**

Pursuant to its agreements with Challenger Minerals Inc, (CMI), the Company has the right to acquire an 18% equity interest in the Offshore Accra Contract Area (Accra Block). This acquisition is subject to obtaining the approval of GNPC, the Ministry of Energy of the Republic of Ghana and the joint venture participants in the Accra Block. Joint venture participant approval has been granted and Rialto is currently working with CMI to obtain the requisite Government approvals necessary for entry. This process has taken considerably longer than anticipated. It should be noted that there is no certainty of approvals being granted and the assignment occurring, and the Government is under no obligation to grant such approvals.

The Accra Block covers an area of 2,000km<sup>2</sup> and is located to the southeast of Accra, the capital of the Republic of Ghana, in water depths ranging from less than 50 metres to greater than 2,500 metres. The Operator of the block, Tap Oil Limited, has identified several structures on the existing 3D seismic data in shallow to moderate water depths, each of which speculatively could have potential to contain in excess of 100 million barrels of prospective resource.

Deep-water leads similar to the recent Jubilee discovery will be the subject of the interpretation of the recently acquired 3D seismic survey to confirm and mature them into prospects for drilling.

### **WA-399-P (Rialto 12%)**

During the half-year, the operator Apache Northwest Pty Ltd was continuing with seismic processing of the Gazelle 3D which is due for delivery mid April 2012. On 7 September 2011, the permit commenced with the Secondary Work Programme and is currently in Year 4. The Year 4 committed work programme requires geotechnical studies only.

## **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

Following the processing and interpretation of the seismic, Rialto will have a funding election to continue on with the drilling campaign.

### **Financial Summary**

Interest income for the half year ended 31 December 2011 was \$379,818 (2010: \$327,526) and other income was \$43,027 (2010: \$86,783). The company's total income for the half year was \$422,845 (2010: \$414,309).

General and administrative expenses for the half year ended 31 December 2011 were \$5,090,982 (2010: \$3,768,455) an increase of \$1,322,527. The increase is principally due to higher employee and director compensation expense of \$2,196,375 (2010: \$1,200,246), higher other costs of \$2,134,109 (2010: \$1,309,319) and corporate advisory costs of \$644,552 (2010: nil). The increases are partially offset by lower share based expense of \$2,090,991 (2010: \$3,058,401) and increased capitalised costs \$2,030,124 (2010: \$1,819,314). The increases in employee and director compensation expense and other costs are a direct result of the increase in operational activities resulting from the acquisition of CI-202 in Cote d'Ivoire in July 2010 and the Company acquiring experienced staff and opening a London office, where the majority of senior management are now located. The lower share based expense is due to the timing of share option awards to new employees and the introduction of the Company's Performance Rights and Option Plans at the end of December 2011. The capitalised costs, including time spent by employees on exploration and production interests, are charged to the applicable exploration and production interests.

The foreign currency gain for the six months ended 31 December 2011 was \$1,351,419 (2010: loss \$560,239). The increase in foreign currency gains is due to the weakening of the Australian dollar during the period affecting the cash balances held in US dollars.

The net loss before tax was \$3,316,718 (2010: \$3,914,385) and the net loss after tax was \$3,348,636 (2010: \$3,914,385).

Cash and cash equivalents at 31 December 2011 were \$44,367,172 (2010: \$19,873,692). Net cash used in operations was \$2,570,369 (2010: \$511,099) and cash used for exploration (investing) activities was \$12,689,654 (2010: \$13,378,145).

### **Corporate**

#### **Senior Management Appointments**

In July 2011 the Company appointed Dr. Simon Barkham as Technical Vice President, based in the London Office.

Dr. Barkham is an industry professional with 23 years oil and gas experience. From 2002, Dr. Barkham worked at Petro Canada, where he held positions including Exploration Manager and Technical Manager. Prior to this he spent 12 years with Enterprise Oil as a Geologist. Dr. Barkham holds Bachelor Degrees in Geology and Zoology from University College London, a Masters Degree from the University of Wales and a Doctorate from the University of London.

#### **Equity Issues**

The Company converted 15,000,000 contractual rights to equity shares in July 2011 relating to the achievement of securing funding for the Company's operations in Cote d'Ivoire as part of the acquisition of the assets in July 2010.

## **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

### **Changes in State of Affairs**

During the half year ended 31 December 2011 there was no significant change in the entity's state of affairs other than that referred to in this Directors' report, the half year financial statements or notes thereto.

### **Events Subsequent to Reporting Date**

#### **Equity Raising**

On 16 January 2012, the Company announced that it had reached in principle agreement with the International Finance Corporation (IFC), for a proposed investment of approximately US \$20,000,000, via a non-brokered private placement. The investment by the IFC, which involves the issue of up to 63,707,267 ordinary shares at A\$0.30 per share and up to 15,926,817 options with an exercise price of \$0.50 per share and is subject to final approval by the Board of IFC at the completion of a required 60 day public disclosure period, the execution of a final subscription agreement and approval of Rialto Shareholders. The Rialto shareholder meeting was held on 6 March 2012 and approved the transaction. The IFC board meeting is due on the 22 March 2012. The proposed issue of warrants to IFC is in recognition of what is expected to be the long term nature of the investment by IFC, coupled with strategic and financial relationships IFC brings within Cote d'Ivoire.

On 27 January 2012, the Company announced the issue via a two tranche placement of approximately 200 million ordinary shares to institutional and sophisticated investors as follows:

- Tranche I: 55,250,000 ordinary shares at A\$0.30 per share raising A\$16,575,000 (excluding fees). The shares were issued on 2 February 2012; and
- Tranche II: 144,750,000 ordinary shares at A\$0.30 per share raising A\$43,425,000 (excluding fees). The shares were issued on 7 March 2012.

In addition to the placement, Rialto also announced it would be making an offer to existing shareholders to participate in a share purchase plan. Applications totalling approximately \$7.3 million have been accepted and 24,303,960 fully paid shares were allotted and issued on 22 February 2012.

#### **CI-202 Drilling Program**

The Transocean GSF Monitor drilling rig arrived on location in early March and the first appraisal well at Gazelle was spudded on 12 March 2012.

#### **Appointment of Senior Non-Executive Chairman**

On 7 March 2012 Mr Bruce Burrows was appointed as Non-Executive Chairman of the Company. Mr Glenn Whiddon, the former Chairman, has become a Non-Executive Director.

Otherwise, no matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations or the state of affairs of the consolidated entity in the future financial years.



**Auditor's Independence Declaration**

We have obtained an independence declaration from our auditor's, Ernst & Young, which is included on page 6.

Signed in accordance with a resolution of the directors.

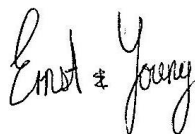
A handwritten signature in cursive script, appearing to read "Jeff Schrull".

**Jeff Schrull**  
**Director**

13 March 2012

## Auditor's Independence Declaration to the Directors of Rialto Energy Ltd

In relation to our review of the consolidated financial report of Rialto Energy Ltd and its controlled entities for the half-year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin', written over a faint, illegible background.

R J Curtin  
Partner  
Perth  
13 March 2012

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### Consolidated Statement of Comprehensive Income For the half-year ended 31 December 2011

	Notes	For the half year ended 31 December 2011 \$	For the half year ended 31 December 2010 \$
<b>Continuing operations</b>			
Interest revenue		379,818	327,526
Other income		43,027	86,783
		422,845	414,309
General and administrative expenses	4	(5,090,982)	(3,768,455)
Foreign exchange gain/(loss)		1,351,419	(560,239)
<b>Loss from continuing operations before income tax</b>		<b>(3,316,718)</b>	<b>(3,914,385)</b>
Income tax expense	5	(31,918)	-
<b>Net loss for the year</b>		<b>(3,348,636)</b>	<b>(3,914,385)</b>
<b>Other comprehensive income/(loss)</b>			
Foreign currency translation		2,266,918	(9,053,381)
<b>Other comprehensive loss for the year, net of tax</b>		<b>2,266,918</b>	<b>(9,053,381)</b>
<b>Total comprehensive loss for the year</b>		<b>(1,081,718)</b>	<b>(12,967,766)</b>
Loss for the period is attributable to:			
Non-controlling interest		-	(285)
Owners of the parent		(3,348,636)	(3,914,100)
		<b>(3,348,636)</b>	<b>(3,914,385)</b>
Other comprehensive loss for the period is attributable to:			
Non-controlling interest		-	(2,144,068)
Owners of the parent		(1,081,718)	(10,823,698)
		<b>(1,081,718)</b>	<b>(12,967,766)</b>
		<b>Cents per share</b>	<b>Cents per share</b>
<b>Earnings per share</b>			
- basic loss per share		(0.90)	(1.65)
- diluted loss per share		(0.90)	(1.65)

# RIALTO ENERGY LIMITED – HALF YEAR REPORT

## Consolidated Statement of Financial Position As at 31 December 2011

	Notes	31 December 2011 \$	30 June 2011 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	44,367,172	59,096,713
Trade and other receivables		2,044,285	211,780
Other current assets		674,033	105,425
<b>Total current assets</b>		<b>47,085,490</b>	<b>59,413,918</b>
<b>Non-current assets</b>			
Exploration and evaluation	7	84,647,497	64,138,745
Property, plant and equipment		797,664	550,566
<b>Total non-current assets</b>		<b>85,445,161</b>	<b>64,689,311</b>
<b>TOTAL ASSETS</b>		<b>132,530,651</b>	<b>124,103,229</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		9,485,268	2,305,395
UK tax payable		42,301	11,188
Provisions		36,864	79,080
<b>Total current liabilities</b>		<b>9,564,433</b>	<b>2,395,663</b>
<b>Non-current liabilities</b>			
Provisions		2,929	14,963
Interest bearing loans & borrowings		10,115	12,412
<b>Total non-current liabilities</b>		<b>13,044</b>	<b>27,375</b>
<b>TOTAL LIABILITIES</b>		<b>9,577,477</b>	<b>2,423,038</b>
<b>NET ASSETS</b>		<b>122,953,174</b>	<b>121,680,191</b>
<b>EQUITY</b>			
Issued capital	9	135,402,285	135,138,575
Performance shares	9	9,994,250	9,994,250
Reserves		(269,644)	(4,627,553)
Accumulated losses		(22,173,717)	(18,825,081)
<b>TOTAL EQUITY</b>		<b>122,953,174</b>	<b>121,680,191</b>

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### Consolidated Statement of Cash Flows For the half year ended 31 December 2011

	For the half year ended 31 December 2011	For the half year ended 31 December 2010
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(2,943,161)	(883,600)
Interest received	372,792	332,959
Interest paid	-	(1,033)
Other income	-	40,575
<b>Net cash flows from/(used in) operating activities</b>	<b>(2,570,369)</b>	<b>(511,099)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment	(297,620)	(214,373)
Proceeds from the sale of WA-399-P	-	57,200
Payment for the acquisition of CLNR Holdings Ltd	-	(10,351,953)
Payments to C&LNR Ltd vendors (Holdback)	(74,421)	(257,518)
Payment for exploration & evaluation expenditure	(12,317,613)	(2,611,501)
<b>Net cash flows from/(used in) investing activities</b>	<b>(12,689,654)</b>	<b>(13,378,145)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	33,376,972
Proceeds from the exercise of options	-	1,084,168
Payments for capital raising	(21,360)	(1,852,482)
<b>Net cash flows from/(used in) financing activities</b>	<b>(21,360)</b>	<b>32,608,658</b>
Net increase in cash and cash equivalents	(15,281,383)	18,719,414
<b>Cash and cash equivalents at beginning of period</b>	<b>59,096,713</b>	<b>1,680,552</b>
Effects of exchange rate changes on cash	551,842	(526,274)
<b>Cash and cash equivalents at end of period</b>	<b>44,367,172</b>	<b>19,873,692</b>

6

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### Consolidated Statement of Changes in Equity For the half-year ended 31 December 2011

	Share capital	Performance share	Employee equity benefits reserve	Equity reserve	Foreign currency translation reserve	Accumulated losses	Owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2011</b>	<b>135,138,575</b>	<b>9,994,250</b>	<b>8,388,169</b>	<b>(4,136,533)</b>	<b>(8,879,189)</b>	<b>(18,825,081)</b>	<b>121,680,191</b>	-	<b>121,680,191</b>
Loss for period	-	-	-	-	-	(3,348,636)	(3,348,636)	-	(3,348,636)
Other comprehensive income	-	-	-	-	2,266,918	-	2,266,918	-	2,266,918
Total comprehensive loss for the year	-	-	-	-	2,266,918	(3,348,636)	(1,081,718)	-	(1,081,718)
<b>Transactions with owners in their capacity as owners</b>									
GST claim on financial acquisitions	287,206	-	-	-	-	-	287,206	-	287,206
Transaction costs of issuing shares	(23,496)	-	-	-	-	-	(23,496)	-	(23,496)
Share based payments	-	-	2,090,991	-	-	-	2,090,991	-	2,090,991
<b>At 31 December 2011</b>	<b>135,402,285</b>	<b>9,994,250</b>	<b>10,479,160</b>	<b>(4,136,533)</b>	<b>(6,612,271)</b>	<b>(22,173,717)</b>	<b>122,953,174</b>	-	<b>122,953,174</b>

**RIALTO ENERGY LIMITED – HALF YEAR REPORT**

**Consolidated Statement of Changes in Equity (continued)  
For the half-year ended 31 December 2010**

	Share capital	Performance share	Options reserve	Foreign currency translation reserve	Accumulated losses	Owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2010</b>	<b>12,593,449</b>	-	<b>1,443,531</b>	-	<b>(10,845,668)</b>	<b>3,191,312</b>	-	<b>3,191,312</b>
Loss for period					(3,914,100)	(3,914,100)	(285)	(3,914,385)
Other comprehensive loss				(6,909,598)		(6,909,598)	(2,143,783)	(9,053,381)
Total comprehensive loss for the half-year	-	-	-	(6,909,598)	(3,914,100)	(10,823,698)	(2,144,068)	(12,967,766)
<b>Transactions with owners in their capacity as owners</b>								
Issue of share capital	66,735,509					66,735,509		66,735,509
Acquisition of CLNR Holdings Ltd		3,449,250	2,504,671			5,953,921	16,453,865	22,407,786
Transaction costs of issuing shares	(1,852,482)					(1,852,482)		(1,852,482)
Conversion of options			(692,359)			(692,359)		(692,359)
Share based payments			3,058,401			3,058,401		3,058,401
<b>At 31 December 2010</b>	<b>77,476,476</b>	<b>3,449,250</b>	<b>6,314,244</b>	<b>(6,909,598)</b>	<b>(14,759,768)</b>	<b>65,570,604</b>	<b>14,309,797</b>	<b>79,880,401</b>

# **RIALTO ENERGY LIMITED – HALF YEAR REPORT**

## **1. Corporate Information**

Rialto Energy Limited is a company incorporated and domiciled in Australia and listed on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in note 10.

## **2. Summary of Significant Accounting Policies**

### **(a) Basis of Preparation**

This financial report for the half-year ended 31 December 2011 is a general purpose condensed financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2011 and considered together with any public announcements made by Rialto Energy Limited during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

### **(b) Significant accounting policies**

The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2011. The adoption of new and amended standards and interpretations had no impact on the financial position or performance of the Company.

### **(c) Basis of consolidation**

The half-year consolidated financial statements comprise the financial statements of Rialto Energy Limited and its controlled subsidiaries ('the Group').

## **3. Financial Risk Management**

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2011.



## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 4. Expenses from Continuing Operations

	For the half year ended 31 December 2011 \$	For the half year ended 31 December 2010 \$
<b>General and administrative expenses</b>		
Employee benefit and director compensation expense	2,196,375	1,200,246
Share based payments	2,090,991	3,058,401
	4,287,366	4,258,647
Depreciation of property, plant & equipment	55,079	19,803
General and administrative expenses	2,134,109	1,309,319
Corporate advisory costs	644,552	-
Exploration expenditure capitalised	(2,030,124)	(1,819,314)
	5,090,982	3,768,455

### 5. Income Tax Expense

Statement of comprehensive income		
Current income	-	-
Current income tax charge	31,918	-
Deferred income tax	-	-
Income tax expense reported in statement of comprehensive income	31,918	-

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 6. Cash and Cash Equivalents

For the purposes of the half-year statement of cash flow, cash and cash equivalents are comprised of the following:

	31 December 2011	31 December 2010
	\$	\$
<b>Cash and cash equivalents</b>		
Cash at bank and on hand	5,988,712	19,828,332
Deposits at call	38,378,460	45,360
	<u>44,367,172</u>	<u>19,873,692</u>

### 7. Exploration and Evaluation

	31 December 2011	30 June 2011
	\$	\$
<b>Exploration and evaluation</b>		
Opening balance at 1 July	64,138,745	108,552
Exploration expenditure during the period	17,582,106	9,220,960
Farm-out of JV interest WA-399-P	-	(108,552)
Acquisition of CI-202 Permit	-	66,730,402
Effects of foreign currency on translation	2,926,646	(11,812,617)
<b>Closing balance</b>	<u>84,647,497</u>	<u>64,138,745</u>
<b>Exploration and evaluation</b>		
Cote D'Ivoire	84,647,497	64,138,745
WA-399-P	-	-
<b>Closing balance</b>	<u>84,647,497</u>	<u>64,138,745</u>

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

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 8. Commitments and Contingencies

The Company has the following commitments:

#### CI-202 Permit

In order to maintain current rights of tenure to its Cote d'Ivoire permit, the consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations.

The minimum work obligation under the PSC for the first exploration period, as extended, through to 10 May 2012 requires a minimum of one well to be drilled and reprocessing and inversion of existing 3D seismic data. The cost of this program is approximately US\$30 million.

Purchase obligations less than one year is US\$19.3m, which consists of:

- Seismic acquisition - US\$8.5m
- Rig hire - US\$8.8m
- Other associated costs - US\$2.0m

#### Accra Block

Pursuant to its agreements with Challenger Minerals Inc (CMI), Rialto has the right to acquire an 18% equity interest in the Accra PSC. This acquisition is subject to obtaining the approval of the Ghana National Petroleum Company, the Ministry of Energy of the Republic of Ghana and the Joint Venture participants in the Accra Block. Joint venture participant approval has been granted and Rialto is currently working with CMI to obtain requisite government approval necessary for entry. It should be noted that there is no certainty of approvals being granted and assignment occurring.

In the event that Rialto is successful in its endeavours to acquire an 18% equity interest in the Accra PSC, Rialto will be required to fund its share of the associated work programme and associated guarantees through to 23 September 2012 in the amount of US\$12.3 million.

#### WA-399-P

Rialto currently holds a 12% working interest in the permit. On 7 September 2011, the permit commenced with the Secondary Work Programme and is currently in year 4. The year 4 committed work programme requires geotechnical studies only. The cost of the work programme is approximately \$0.4 million gross. If Rialto elects to enter the year 5 work programme a commitment well is required. The well is expected to cost \$6 million gross. Rialto has to make the decision to proceed with the year 5 commitments by 6 September 2012.

The Company has the following committed obligations in respect of its 12% working interest share of the WA-399-P joint venture:

- Less than one year – A\$49,428;
- Later than one year but not later than five years – Nil

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 9. Contributed Equity

	31 December 2011	30 June 2011
	\$	\$
<b>(a) Share capital</b>		
Ordinary shares fully paid	135,402,285	135,138,575
	<b>Number</b>	<b>\$</b>
<b>(b) Movements in ordinary shares on issue</b>		
Balance at 30 June 2011	360,006,264	135,138,575
Conversion of Tranche 2 contractual rights (i)	15,000,000	-
Costs incurred in capital raising (iii)	-	263,710
<b>Balance at 31 December 2011</b>	<b>375,006,264</b>	<b>135,402,285</b>
<b>(c) Movements in performance shares on issue</b>		
Balance at 1 July 2011	47,500,000	9,994,250
Conversion of Tranche 2 contractual rights (i)	(15,000,000)	-
<b>Balance at 31 December 2011 (ii)</b>	<b>32,500,000</b>	<b>9,994,250</b>

- (i) The contractual rights of the performance shares are broken into two tranches with milestones for conversion into ordinary shares on a one to one basis as summarised below:
- (a) Tranche 1: 15,000,000 contractual rights – The issue of an independent reserve report in accordance with Society of Petroleum Engineers standards delineating mean reserves in excess of 40 million barrels of oil equivalent;
  - (b) Tranche 2: 15,000,000 contractual rights – The achievement of the first of Rialto securing funding for the drilling of its first well either through farm-out or raising equity, the Production Sharing Contract (“PSC”) is sold after a well is declared commercial or there is a change of control of Rialto.
- On the 18 July 2011, Tranche 2 contractual rights were converted to ordinary shares.
- (ii) 17,500,000 contractual rights will be issued as ordinary shares payable at First Investment Decision for the Phase 1 Development Program or no later than commencement of the first well in CI-202.
- (iii) As a result of a detailed review of GST on financial acquisitions, the Company is in a position to claim additional input tax credits not previously claimed in prior years, this has been offset against capital raising costs

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### d) Movement in options on issue

	<b>31 December 2011 Number</b>
Opening balance	43,868,334
Share based remuneration	10,583,332
Issued pursuant to acquisition of CLNR Holdings Ltd	-
Exercised	-
Expired	(13,441,667)
Forfeited	(875,000)
<b>Closing balance</b>	<b>40,134,999</b>

## 10. Share Based Payments

During the period the following options were granted to directors and employees:

Grant date	Expiry date	Grant date fair value	Exercise price	Number issued	Vesting date
15-Jul-2011	01-Jan-2014	0.228	0.60	600,000	(i)
15-Jul-2011	01-Jan-2016	0.254	0.80	600,000	(i)
15-Jul-2011	01-May-2014	0.242	0.60	750,000	(ii)
15-Jul-2011	01-May-2016	0.263	0.80	750,000	(ii)
15-Jul-2011	01-Aug-2013	0.179	0.60	166,666	Immediate
15-Jul-2011	01-Aug-2015	0.256	0.80	166,666	Immediate
29-Nov-2011	15-Aug-2015	0.154	0.60	1,000,000	(iii)
29-Nov-2011	07-Dec-2014	0.135	0.60	1,250,000	(iii)
29-Nov-2011	07-Dec-2014	0.118	0.80	1,250,000	(iii)
21-Dec-2011	21-Dec-2016	0.154	0.43	4,050,000	(iv)

- (i) Vesting dates: One third each vesting immediately on grant, 1 January 2012, 1 January 2013
- (ii) Vesting dates: One third each vesting immediately on grant, 1 May 2012 and 1 May 2013
- (iii) Vesting dates: One third each vesting immediately on grant, 7 December 2012 and 7 December 2013
- (iv) Vesting dates: One third each vesting 21 December 2013, 2014 and 2015

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 10. Share Based Payments (continued)

The assessed fair values of the options were determined using a Black Scholes model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the option. The inputs to the model for options granted on 15 July 2011 were:

Expiry	01-Jan-2014	01-Jan-2016	01-May-2014	01-May-2016	01-Aug-2013	01-Aug-2015
Dividend yield (%)	-	-	-	-	-	-
Expected volatility (%)	113.26%	100.00%	113.26%	100.00%	99.51%	106.70%
Risk-free interest rate (%)	4.34%	4.52%	4.34%	4.52%	4.33%	4.34%
Expected life of options (yrs)	2.47	4.47	2.80	4.80	2.05	4.05
Option exercise price (\$)	0.60	0.80	0.60	0.80	0.60	0.80
Share price at grant date (\$)	0.228	0.254	0.242	0.263	0.179	0.256

The inputs to the model for options granted on 29 November 2011 and 21 December 2011 were:

Expiry	15-Aug-2015	07-Dec-2014	07-Dec-2014	21-Dec-2016
Dividend yield (%)	-	-	-	-
Expected volatility (%)	100.00%	100.00%	100.00%	100.00%
Risk-free interest rate (%)	3.15%	3.15%	3.15%	3.32%
Expected life of options (yrs)	3.71	3.02	3.02	5.01
Option exercise price (\$)	0.60	0.60	0.80	0.43
Share price at grant date (\$)	0.154	0.135	0.118	0.154

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 10. Share Based Payments (continued)

In September 2011, 500,000 contractual rights were issued pursuant to the terms of employment agreements. Each employee performance right converts to one ordinary share of Rialto Energy Ltd. The contractual rights were converted to ordinary shares on 2 February 2012. The fair value of the performance rights have been determined by taking into account the underlying share price at grant date and the probability of achieving each service requirement. The inputs to the model used were:

Grant date share price:	\$0.39
Probability factor	100.00%

In November 2011, the Performance Rights Plan (PRP) was implemented and 9,645,000 performance rights were issued in accordance with the plan. Each employee performance right converts to one ordinary share of Rialto Energy Ltd on satisfying the vesting criteria. Such rights vest 50% after 12 months service and 50% after 24 months service. The fair value of the performance rights have been determined by taking into account the underlying share price at grant date and the probability of achieving each service requirement. The inputs to the model used were:

Grant date share price:	\$0.28
Probability factor	100.00%

No performance rights were granted during the half year ended 31 December 2010.

#### e) Movement in performance rights on issue

	<b>31 December 2011 Number</b>
Opening balance	1,000,000
Share based remuneration	10,145,000
Converted	-
Expired or forfeited	-
<b>Closing balance</b>	<b>11,145,000</b>

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### 11. Segment Reporting

The Group has identified its operating segments based on the internal reports that are used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

For reporting purposes, the Group has identified two reportable segments being geographical areas, Cote D'Ivoire and Australia.

Corporate costs, finance costs, interest revenue and foreign currency gains and losses are not allocated to segments as they are not considered part of the core operations of the segments and are managed on a Group basis.

Consolidated	Oil & Gas – Exploration Cote D'Ivoire \$	Oil & Gas – Exploration Australia \$	Total \$
<b>31 December 2011</b>			
<b>Segment revenue</b>	-	-	-
Unallocated items:			
Interest revenue			379,818
<b>Total revenue and other income</b>			<b>379,818</b>
<b>Segment result</b>	-	-	-
Unallocated items:			
Revenue			379,818
Unallocated other income			43,027
Foreign exchange gains			1,351,419
Administrative and other costs			(5,122,900)
<b>Loss after tax as per the statement of comprehensive income</b>			<b>(3,348,636)</b>
<b>Segment assets</b>	86,742,613	-	86,742,613
Unallocated items:			
Cash			44,367,172
Other corporate assets			1,420,866
<b>Total assets</b>			<b>132,530,651</b>



# RIALTO ENERGY LIMITED – HALF YEAR REPORT

## 11. Segment Reporting (continued)

Consolidated	Oil & Gas – Exploration Ivory Coast \$	Oil & Gas – Exploration Australia \$	Total \$
<b>31 December 2010</b>			
<b>Segment revenue</b>	-	-	-
Unallocated items:			
Interest revenue			327,526
<b>Total revenue</b>			<b>327,526</b>
<b>Segment result</b>	(1,142)	(188,883)	(190,025)
Unallocated items:			
Unallocated revenue and other income			2,146,840
Administrative and other costs			(5,871,200)
<b>Loss after tax as per the statement of comprehensive income</b>			<b>(3,914,385)</b>
<b>Segment assets</b>	60,903,789	-	60,903,789
Unallocated items:			
Cash			19,873,692
Other corporate assets			373,836
<b>Total assets</b>			<b>81,151,317</b>

### **12. Events After the Statement of Financial Position Date**

On 16 January 2012, the Company announced that it had reached in principle agreement with the International Finance Corporation (IFC), for a proposed investment of approximately US \$20,000,000, via a non-brokered private placement. The investment by the IFC, which involves the issue of up to 63,707,267 ordinary shares at A\$0.30 per share and up to 15,926,817 options with an exercise price of \$0.50 per share and is subject to final approval by the Board of IFC at the completion of a required 60 day public disclosure period, the execution of a final subscription agreement and approval of Rialto Shareholders. The Rialto shareholder meeting was held on 6 March 2012 and approved the transaction. The IFC board meeting is due on the 22 March 2012. The proposed issue of warrants to IFC is in recognition of what is expected to be the long term nature of the investment by IFC, coupled with strategic and financial relationships IFC brings within Cote d'Ivoire.

On 27 January 2012, the Company announced the issue via a two tranche placement of approximately 200 million ordinary shares to institutional and sophisticated investors as follows:

- Tranche I: 55,250,000 ordinary shares at A\$0.30 per share raising A\$16,575,000 (excluding fees). The shares were issued on 2 February 2012; and
- Tranche II: 144,750,000 ordinary shares at A\$0.30 per share raising A\$43,425,000 (excluding fees). The shares were issued on 7 March 2012.

In addition to the placement, Rialto also announced it would be making an offer to existing shareholders to participate in a share purchase plan. Applications totalling approximately \$7.3 million have been accepted and 24,303,960 fully paid shares were allotted and issued on 22 February 2012.

#### **CI-202 Drilling Program**

The Transocean GSF Monitor drilling rig arrived on location in early March and the first appraisal well at Gazelle was spudded on 12 March 2012.

#### **Appointment of Senior Non-Executive Chairman**

On 7 March 2012 Mr Bruce Burrows was appointed as Non-Executive Chairman of the Company. Mr Glenn Whiddon, the former Chairman, has become a Non-Executive Director.

Otherwise, no matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations or the state of affairs of the consolidated entity in the future financial years.

## RIALTO ENERGY LIMITED – HALF YEAR REPORT

### Directors' Declaration

In accordance with a resolution of the directors of Rialto Energy Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the financial position as at 31 December 2011 and the performance for the half-year ended on that date of the consolidated entity; and
  - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Bruce Burrows**  
Chairman

13 March 2012

To the members of Rialto Energy Ltd

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Rialto Energy Ltd, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rialto Energy Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

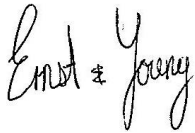
### Independence

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

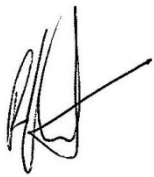
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Rialto Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature of the Ernst & Young logo, written in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin'.

R J Curtin  
Partner  
Perth  
13 March 2012