



Rialto Energy Limited  
Level 1, 34 Colin Street  
West Perth 6005  
Western Australia

ACN 117 227 086

# REPORT for Quarter ended 30 June 2012



## Recent Highlights

- Gazelle-P3 ST1 and ST2 successfully drilled in Block CI-202, Côte d'Ivoire, with:
  - ST2 flow testing of both oil and gas from the Gazelle UC-1 reservoir at rates of 760bopd and 19.5mmscfd ;
  - an extension of the Gazelle LC-2 gas reservoir by 200m;
  - the penetration and de-risking of the 750bcf Condor gas prospect; and
  - encountering of a new 75m prospective sand interval below the Condor prospect.
- The granting of an Exclusive Exploitation Area over the Gazelle Field, providing tenure to facilitate development and production for a period of 25 years.
- Commencement of FEED for the development of the Gazelle Field.
- Continued processing and interpretation of 3D seismic acquired over the whole of Block CI-202, including the Gazelle Field and four existing discoveries.
- Rig contract signed for 2<sup>nd</sup> phase exploration and appraisal drilling programme to commence in early 2014.
- Completion of the US\$20 million equity investment by the International Finance Corporation, a member of the World Bank Group, and its related parties.
- Rialto successfully listed on the London AIM market in April 2012.

## A message from the Managing Director – Jeff Schrull

It gives me pleasure as Managing Director of Rialto to provide an update of the Company's recent activities.

Much has been achieved in this very active and challenging quarter, including:

- The drilling of Rialto's first operated well in Block CI-202 (Rialto 85% WI), which concluded in a successful oil and gas test from the Gazelle-P3 ST2 development well, which has now be suspended for future use as part of the development of the Gazelle Field.
- Continued exploration success with the Gazelle-P3 ST1 discovery of a new tight gas exploration objective and significant de-risking of the trap associated with the Condor prospect (15mmbbls and 750bcf mean gross prospective resource).
- The granting of an Exclusive Exploitation Area over the Gazelle Field, providing Rialto with tenure to Gazelle Field area and associated resource for a period of 25 years.
- The awarding of the contract for Front-end Engineering and Design (FEED) work for the development of the Gazelle Field.
- The continuation of processing on the December 2011 Block-wide 3D seismic survey, this high quality data set along with the historical data already reviewed by the Company, will provide Rialto with an enhanced understanding of the oil and gas prospectivity across the whole of Block CI-202 in time for our second exploration and appraisal drilling campaign.
- The signing of a contract for the Vantage Sapphire rig to begin drilling in the 1<sup>st</sup> Quarter of 2013 targeting high impact exploration and appraisal prospects.
- Listing of the Company on the Alternative Investment Market (AIM) of the London Stock Exchange.
- The finalisation of a US\$20 million investment by International Finance Corporation.



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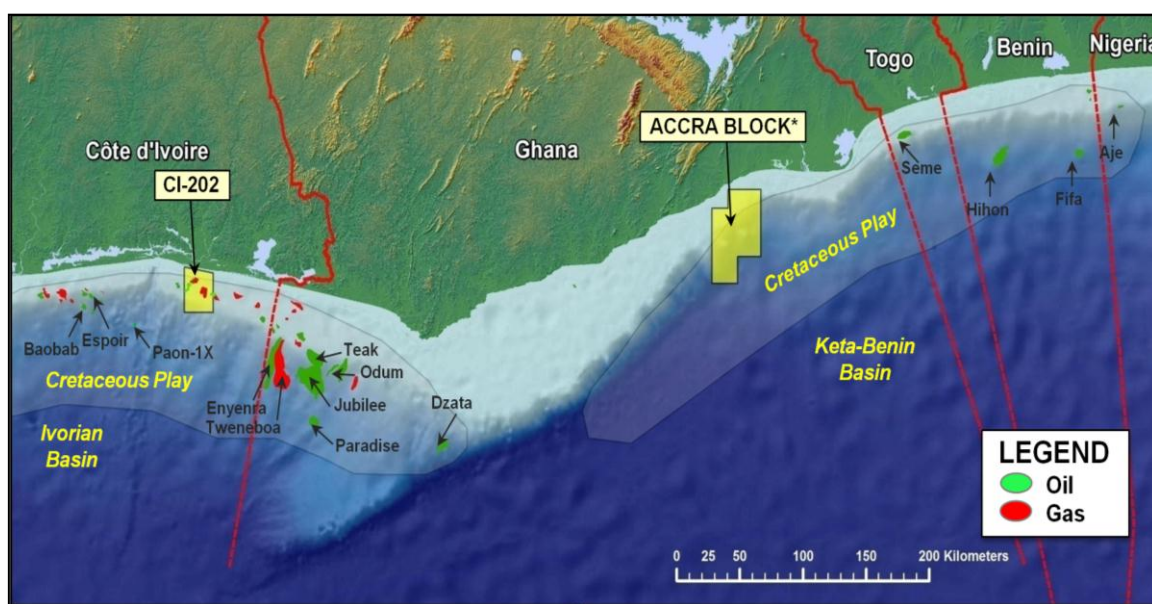
Rialto has made significant progress towards achieving its goal of first production by early 2014. We have recently installed our 6-slot well template at the Gazelle Field and on 25 July 2012 spudded the Gazelle-P4 development well. Gazelle-P4 is testing the oil potential of the UC-2 and UC-4 oil reservoirs as well as the gas potential of the UC-3, UC-5, LC-1 and LC-2 gas reservoirs discovered by the IVCO-12 and IVCO-21 wells.

This coming 3<sup>rd</sup> Quarter of 2012 will be a busy and productive time for Rialto as we continue our drilling operations in CI-202, progress Gazelle FEED, integrate new 3D seismic data, and begin to plan for our next phase of exploration and appraisal drilling in 2013. We will continue to work closely with our joint venture partner Petroci, and the DGH, to ensure our development and exploration activities benefit both the shareholders of our Company and also the people of Côte d'Ivoire.

A handwritten signature in black ink, appearing to read "Jeff Schroll", is positioned above the printed name.

**Jeff Schroll**

## Operations Summary



## West African Transform Margin

### CI-202 – Côte d'Ivoire (Rialto: 85% Working Interest)

Block CI-202, offshore Côte d'Ivoire comprises an area of 675km<sup>2</sup> and contains four significant under appraised oil and gas discoveries; Gazelle, Hippo 1, Bubale, and Addax, all located in water depths of 50 to 100 metres. These discoveries are assessed to have gross mean contingent resources totalling 50mmbbls of liquids and 396bcf of gas. The first stage of development of the Gazelle Field commenced in March 2012, with the spudding of the Gazelle-P3 development well. In addition to the development opportunities associated with the existing oil and gas discoveries, the Company has identified an exciting inventory of exploration prospects and leads which will be the subject of future drilling. This inventory currently contains an independently verified gross mean prospective resource of 511mmbbls of liquids and 1.8tcf of gas.<sup>1</sup>

<sup>1</sup> Hydrocarbon volumes as per the Competent Person's Report completed on 5 April 2012 by RPS Energy Services Limited

## Drilling

### First Phase Drilling Programme (2012)

#### Gazelle-P3 ST1

The first of the Gazelle Development wells, Gazelle-P3 was spudded on 12 March 2012. Mechanical issues with mud pumps and other rig equipment resulted in the drilling pipe being stuck on 26 March 2012. The rig issues were rectified and the well sidetracked. The well (Gazelle-P3 ST1) was drilled to TD on 22 May 2012, with results showing a 200 metre extension to the Lower Cenomanian (LC-2) gas reservoir, one of the primary Gazelle Field gas reservoirs, and probable communication of the reservoir with penetrations in the up-dip Gazelle-2 well (which tested at 32.5mmscfd and 996bcpd in 1997) on the northern side of the fault and IVCO-21 well (which tested at 10.3mmscfd and 40bcpd in 1981) on the southern side of the fault.

The LC-2 result should have a positive bearing on the interpreted areal extent of the LC-2 reservoir by extending the assumed gas water contact some ways down-dip relative to the predrill assumptions. The LC-2 has now been penetrated by three wells and will also be targeted by the Gazelle-P4 well.

Gazelle-P3 ST1 also observed good gas shows in respect of the Condor exploration target (750bcf Gross Mean Prospective Resource) and considerably de-risked the trap associated with the greater Condor prospect LC-5 sand. A follow up well to fully evaluate Condor at a better location where the LC-5 sand is greatly expanded is anticipated to form part of the next drilling campaign in early-mid 2013.

Gazelle-ST1 also encountered a new 75 metre gross sand interval, located below the LC-5 sand, and which is a potentially excellent reservoir unit. This drilling result, combined with the recently acquired block-wide 3D seismic data, could open up new high impact exploration prospects in the Gazelle/Condor Area, and further grow the Company's robust Block CI-202 exploration portfolio.

#### Gazelle-P3 ST2

Following down-hole sampling, the Gazelle-P3 ST1 well was then sidetracked (Gazelle-P3 ST2) to optimise the location for development of the UC-1 oil and gas bearing reservoir. The Gazelle-P3 ST2 well reached TD on 19 June 2012 and, following delays in delivery of testing equipment, drill stem testing of the UC-1 reservoir was successfully completed on 17 July 2012. Gazelle-P3 ST2 has now been suspended for future use.

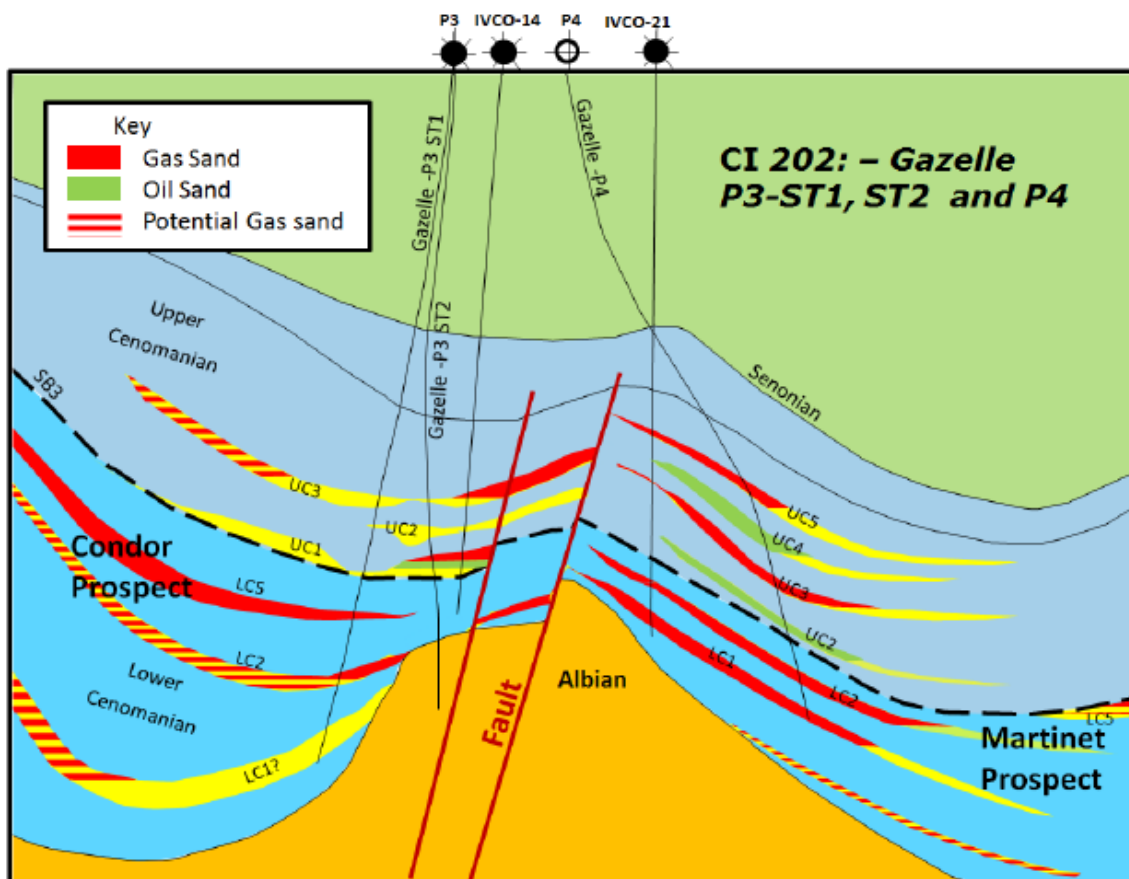
The results of the UC-1 testing programme confirmed the productivity of the UC-1 reservoir sands and established continuity of the gross sand interval with the IVCO-14 well.

The UC-1 gas sand interval tested a maximum gas flow rate of 19.5mmscfd and 133bcpd. The Company believes that reservoir deliverability could be increased to around 33mmscfd under production conditions.

In addition, a second drill stem test of the oil leg of the UC-1 reservoir recovered 40 API oil at an unstabilised rate of 760bopd before channelling gas prevented further flow.

#### Gazelle-P4

After the end of the quarter, the Company spudded the Gazelle-P4 well on 25 July 2012. Gazelle-P4 is testing the oil potential of the UC-2 and UC-4 oil reservoirs as well as the gas potential of the UC-3, UC-5, LC-1 and LC-2 gas reservoirs encountered by the IVCO-21, Gazelle-2 and Gazelle-P3 ST1 wells.



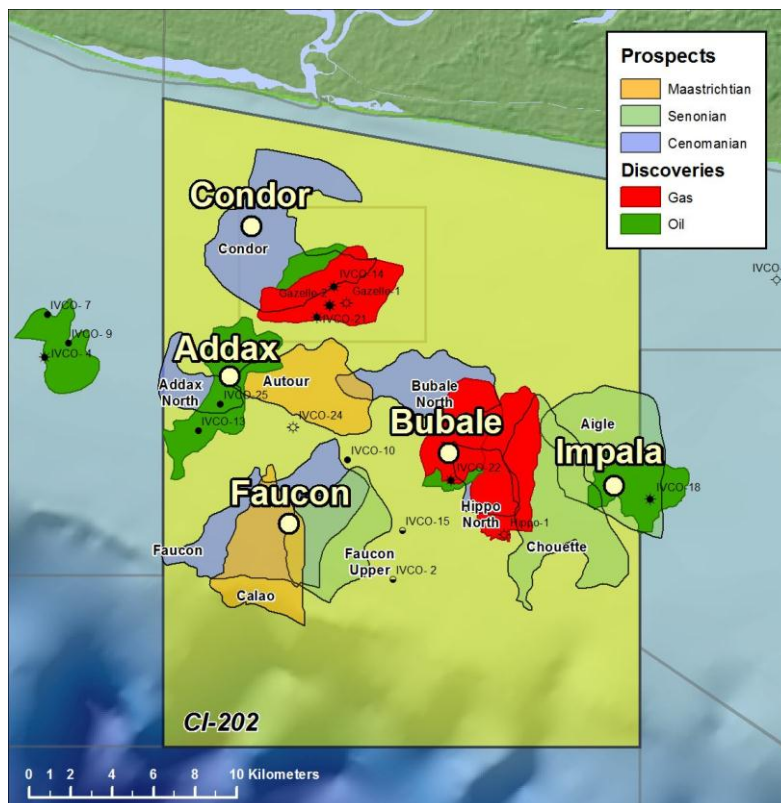
Gazelle-P4 Cross Section Highlighting Reservoir Targets

## Second Phase Drilling Programme (2013)

During the quarter Rialto executed a contract to use the Vantage Sapphire jack-up drilling rig for a three firm well and two well option exploration and appraisal drilling programme, scheduled to commence during the 1<sup>st</sup> Quarter of 2013. This rig is currently operating in Côte d'Ivoire, has an excellent operating record and is suitable to drill a number of the Company's emerging exploration prospects, including those that are too deep for the current drill rig under contract.

The Company has a number of exciting and high impact exploration and appraisal targets that can underpin this drilling programme. Outside of the Gazelle Field, these targets total 36.2mmbbls and 130bcf of contingent resources, and 501mmbbls and 1,780bcf of prospective resources.

The appraisal and exploration prospectivity of the Block CI-202 will be up-graded on the back of the Gazelle P3-ST1 Condor discovery and recently acquired block-wide 3D Seismic Survey. The Company is also further encouraged by continued regional exploration successes.



CI-202 discovered resources







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## **Gazelle Field and Greater CI-202 Development and Gas Sales MOU**

The formal decree for the award of the 25 year Exploitation Area over Gazelle Field was issued during April 2012.

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 drilling of two development wells (Gazelle P-3 now complete, and Gazelle P-4 underway) marked the commencement of the development activities at Gazelle. Phase one production from the Gazelle Field is planned for the 1<sup>st</sup> Quarter 2014. During the Quarter, Front End Engineering Design (FEED) was awarded to Petrofac and this is expected to be completed by October 2012. As part of the FEED process, Rialto is currently reviewing development options in order to provide reduced upfront capital expenditure as well as gas production to market in an optimised timeframe.

To facilitate commercialisation of Gazelle's gas resources, in December 2011 the Company executed a Gas Sales MOU with 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 100mmscfd. Negotiation on the terms of the final gas sales agreement is underway and finalisation is expected to be executed ahead of FID for the Gazelle Field in the 3<sup>rd</sup> Quarter of 2012.

In addition to development activities at the Gazelle Field, a Field Development Plan was submitted for the Hippo and Bubale discoveries within Block CI-202 on 11 July 2012. Once received, such approval will provide Rialto with tenure for 25 years to Hippo and Bubale's combined gross contingent resources of 15.2mmbbls of liquids and 119bcf of gas and combined gross prospective resources of 5.4mmbbls of liquids and 231bcf of gas.



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## **Operational LTI's**

Rialto's goal is to complete all operations it undertakes with a total recordable injury frequency rate of zero. As of 30 July 2012, the operation to date was 156 LTI free days; a pleasing result for Rialto's first drilling operations.

## **Seismic Acquisition and Reprocessing**

A block-wide, 891km<sup>2</sup> 3D seismic acquisition was completed by Polarcus in mid-January. Processing and interpretation of the newly acquired data has commenced. Initial fast track volumes are very encouraging. This data will provide greater understanding of existing discoveries in CI-202 and help firm up potential high impact exploration targets which will be the subject of drilling in both the near and long-term.

## **Licence Management**

The Company submitted formal notification to the DGH of its intention to enter into the next exploration period in CI-202. Given the timing of the commencement of Rialto's initial drilling programme and the expiry of the first period on 10 May 2012, the Ministry has granted approval for Rialto to drill two exploration wells as part of the second exploration period work commitment. These wells are now both required to be drilled by the end of October 2013. Additionally, given the recent 3D seismic acquisition, the Ministry have given Rialto leave to delay the 25% relinquishment required at the end of the first exploration period. This 25% relinquishment is now required by the end of October 2012, and will take place at the completion of interpretation of the new 3D seismic data.

## **Community, Social and Cultural Activities**

Following the review of formal consultations that took place in Grand Bassam, Adiake and Tiapoum during February 2012, requests made by the communities were for new socio-economic infrastructure (health centres, schools, markets and other similar projects)

In order to design a programme to benefit all of the population in these communities, Rialto has requested that the respective Mayors of each village submit their priority needs. Rialto, in conjunction with the Ivorian authorities is currently reviewing the requests made to confirm the programme for the remainder of 2012 and beyond.

## OFFSHORE ACCRA CONTRACT AREA – GHANA

Pursuant to its agreements with 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 and the joint venture 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. However, joint venture participants are currently undertaking a farmout process in respect of the Accra Block. Rialto is hopeful that once this farmout process is finalised, its participation will be able to be approved concurrently with any farmout approvals that may be required.

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 depth ranging from less than 50 metres to greater than 2,500 metres. The Ministry of Energy has recently granted a 12 month extension to the Initial Exploration Period, with a commitment well to be drilled before end September 2013. The Operator of the block, Tap Oil Limited has shot and processed new 3D seismic data over the deepwater portion of the block and from this excellent quality data has identified a number of large prospects within the pre and post rift Cretaceous section. These prospects are very similar in geological age and play type to the 1.2 billion barrel Jubilee discovery of 2007. The combined unrisks prospective resource of these prospects is greater than three billion barrels. The Operator is currently selecting a drilling candidate from these prospects with a view to drilling the commitment well in the first half of 2013. It is expected that the commitment well will likely target a large, deep-water, Jubilee lookalike trap with prospective resources in the range of 500 million barrels.

Subsequent to the quarter end, Tullow Oil discovered oil and gas condensate with its Wawa-1 exploration well in the deep water Tano block, offshore Ghana. Wawa-1 discovered 13 net metres of oil pay and 20 net metres of gas-condensate pay. The discovery continues the high rate of exploration success offshore Ghana.



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## WA-399-P

Since the last quarterly report the final 3D seismic data has been delivered and a preliminary interpretation performed by the operator. Initial mapping has resulted in maturing the Gazelle prospect, originally mapped on 2D seismic data and reducing the risk profile of that prospect. In addition other Cretaceous and Jurassic age prospects have been identified. The 3D seismic data is of good quality and neighbouring permits have prospects of similar geological age and trapping style, with well commitments also due. The Joint venture is currently considering the best and most cost effective way to evaluate the full potential of the permit.

## Business Development/New Ventures

Rialto continues to evaluate international exploration, production and field development opportunities in its key focus area of West Africa, including possible strategic partnerships and alliances which could enhance our ability to expand our portfolio.

## Financial

### Equity Issues

During the quarter Rialto made the following equity issues:

- 31,853,634 Ordinary Shares were issued to the International Finance Corporation (IFC) at 30 cents per share raising \$9,556,090 and allotted on 4 April 2012 pursuant to the Equity and Option Subscription Agreement dated 26 March 2012
- 31,853,633 Ordinary Shares were issued to the IFC African, Latin American and Caribbean Fund (ALAC) at 30 cents per share raising \$9,556,090 and allotted on 18 April 2012 pursuant to the Equity and Option Subscription Agreement dated 26 March 2012
- 15,926,817 Options were issued to the IFC and ALAC pursuant to the Equity and Option Subscription Agreement dated 26 March 2012
- 1,570,000 Performance Rights and 1,000,000 Options were issued to new employees of the Company pursuant to the Rialto Energy Limited Performance Rights Plan and the Rialto Energy Limited Directors, Employees and Consultants Option Plan.

### Capital Structure at 30 June 2012

	Number
Shares	682,017,492
Performance Shares	15,000,000
Unlisted Options	53,751,816



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## Cash

Cash on hand at 30 June 2012 was \$74.0 million.

## Significant Shareholders – as at 31 July 2012

	Number	Percentage
International Finance Corporation (IFC)	63,707,267	9.34%
Commonwealth Bank of Australia	53,578,985	7.86%
JP Morgan Chase & Co and its affiliates	51,930,979	7.61%
Glenn Ross Whiddon	46,842,822	6.87%
BlackRock Investment Management (Australia) Limited and associated entities (Blackrock Group)	41,599,932	6.10%
Med Alpha	30,748,383	4.51%
Colonial First State – Global Resources	29,151,760	4.27%
Chaim Lebovits	24,146,523	3.54%

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