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Azonto Quarterly Activities Report

Recent Highlights

1. Conditional agreement for sale of Azonto's 35% interest in Vioco Petroleum Limited and CI-202 wellhead drilling equipment to Vitol E&P Limited.
2. Further cost-cutting measures resulting in additional reductions of staff and some senior management.

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A message from the Managing Director – Grégory Stoupnitzky

Your management team has pursued various alternatives to effect a merger or sale of the company and or its assets during the 2nd Quarter of 2015, as disclosed in the press release of July 7th and subsequently explained on July 17th within the Notice of Meeting (“NoM”) scheduled for August 17th 2015. There is little in terms of operational news as the Vioco JV began the process of discussing a possible cluster development project with its local partner, Petroci and with the Direction Generale des Hydrocarbures (“DGH”). Both Azonto and Vioco personnel numbers were reduced during the period to reflect a slowdown in activity.

Subsequent to the reporting period, the Company announced that the Company's subsidiary, Azonto Petroleum Holdings Limited (the Vendor), had entered into a conditional sale and purchase agreement (the Agreement) for the sale of the Vendor's entire shareholding in Vioco Petroleum Limited (Vioco) and certain wellhead drilling equipment in Côte d'Ivoire to Vitol E&P Ltd (the Purchaser) (the sale of the shares in Vioco and the drilling equipment, together “the Disposal”). Since this date your Management team has continued to progress the steps necessary to comply with various conditions outlined in the Vitol Share Purchase Agreement (“SPA”) and as described in the NoM. Vioco management has communicated with the DGH setting out its view that due to current economics of the project, development of the Gazelle field should be deferred and folded into an integrated development plan the next stage of which will be a commitment to undertake exploration drilling of the Hippo North prospect. The DGH has responded to

Vioco acknowledging receipt of these proposals. At this stage the relevant Ivorian authorities have indicated that they are encouraging Vioco to proceed with the integrated development plan.

The outstanding assets and liabilities schedule is being managed and monitored daily to take account of receipts and credits from both Petroci, a number of suppliers, and disputed amounts in relation to past JV partner audits. Management has been able to negotiate and settle a number of liabilities.

Vitol, and Azonto personnel, assisted by Counsel and tax advisors, are actively engaged in discussions with the Ivorian tax authorities to negotiate final settlement for disputed historic withholding of tax liabilities. Management believes it has strong merit in its defense and that together with Vitol, a settlement of the penalties will be achieved within the estimates agreed as part of the SPA.

Net asset projections contained within this Report take full account of all potential Ivorian tax liabilities.



Grégory Stoupnitzky
Managing Director

CI-202 – Côte d'Ivoire

Azonto holds a 35% ownership interest in Vioco Petroleum Ltd, which holds an 87% operating working interest in offshore Block CI-202. Vioco's working interest will be reduced to 71% if Petroci exercises its 16% back-in right, which will be decided Q2 2015. Vitol E&P Ltd holds the remaining 65% of Vioco.

On 7th July 2015 Azonto signed a conditional agreement with Vitol E&P Limited for sale of its 35% interest in Vioco Petroleum Limited and certain associated wellhead drilling equipment. Assuming shareholder approval is granted and all sale conditions precedent are satisfied, the disposal will close on or about 24th August 2015.

Disposal of Vioco

The Directors continue to believe that following an assessment of the advantages and disadvantages discussed below, the Disposal is in the best interests of the Company and shareholders should vote to approve the disposal of Vioco:

Advantages

The Directors believe that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the proposed Disposal:

- (a) the Disposal will allow the Company to realise value for its interest in Block CI-202 following a challenging period of cost overruns, delays to approvals and financing arrangements and the wider context of an oil and gas market which has experienced significant deterioration over the past year;
- (b) the Disposal will allow the Company to exit its ongoing expenditure obligations under the PSC, which would otherwise require the Company to spend substantial funds on exploration drilling over the next 18 months. These obligations, which would need to be committed to from October 2015, constitute expenditure which the Company currently does not have the funds to

meet and which the Board feels there is a very high risk the Company will not be able to obtain before October 2015; and

- (c) the Disposal will enable the Company to consider alternative asset acquisitions that the Directors believe will add value to Shareholders.

Disadvantages

The Directors believe that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the proposed Disposal:

- (a) the Company will not be able to participate in or derive any future benefit or profits from Block CI-202, if any, should any asset within Block CI-202 be developed to production other than the potential contingent payments referred to in sections 1.2(b)(ii) and 1.2(c) of the Explanatory Statement accompanying the NoM;
- (b) the Disposal involves the Company selling its principal asset which comprises substantially all of the Company's value. This may not be consistent with the investment objectives of all Shareholders; and
- (c) there is a risk that the Company may not be able to locate and complete the acquisition of other suitable investment opportunities within a reasonable time.

Future activities and direction of the Company upon completion of the Disposal

Should shareholders approve the Disposal, and the conditions precedent be satisfied, which include inter alia approval by the Company's shareholders to the Disposal, the Company's assets following completion of the Disposal will comprise cash of approximately AUS\$8.0 million and receivables of approximately AUS\$1.6 million. Current liabilities will be approximately AUS\$1.85 million, resulting in a net asset position of approximately AUS\$8.1 million as per the pro-forma balance sheet for 31 May 2015 referred to in the NoM.

After completion of the Disposal, the directors will consider other potential investment opportunities that have potential to generate attractive shareholder returns. The investment opportunities may not be within the resources sector.

The Company is highly likely, as a condition of any future investment, to be required by the ASX to obtain shareholder approval for any new investment following the disposal of its main undertaking. The ASX may also exercise its discretion to require the company to re-comply with ASX listing requirements. The ASX will generally allow a company to remain as a cash box for up to 6 months after disposing of its main undertaking to give it time to identify, and make an announcement of its intention to acquire, another business, failing which ASX usually suspends the Company until such time as an announcement is made.

Given the above, the Company's expectation is that it will, within 6 months of the Disposal, identify and enter into an agreement to acquire a new business and have to obtain shareholder approval to complete the acquisition.

Management Changes

As highlighted above, a number of personnel reductions have taken place consistent with the decreased activity associated with the CI-202 Block pending new plans for an integrated development plan for Hippo North and Gazelle. Jay Smulders, our Technical Director will leave the company effective August 10. This will leave Gregory Stoupnitzky, Managing Director, Jeff Durkin, General Counsel and Ron Nelmes, Group Financial Manager. Following the shareholder meeting on 17 August, it is expected that further management changes will occur. In the event that the Disposal is implemented, the Company will no longer have any active operations and the priority then will be to maintain the Company's cash position pending consideration of a recommendation by the Directors for a new investment opportunity.

Treatment of Management Performance Rights

In response to challenging conditions in the oil and gas sector, including low and volatile oil prices and weak equity market conditions, the Board of Azonto

announced in January 2015 the implementation of austerity measures including accepting the resignations of the former CEO and CFO, and the commencement of company-wide redundancies. In addition to save cash, the Company implemented salary reduction deferrals across all executive management positions. At the same time, all non-executive director fees were deferred pending an improvement in market conditions or completion of a merger or asset sale.

In order to minimise the cash impact of resignations and redundancies the Board of Azonto agreed in March 2015 to exercise its discretion as provided for under the Company's Performance Rights Plan to enable all departing personnel (including executive management and directors) to be deemed as "good leavers", which results in all eligible participants to continue to hold their Performance Rights upon conclusion of employment or office, subject to the same strategic and share price related vesting conditions associated with the original grants of the Performance Rights and to enable vesting in the event of a change of control under the Corporations Act.

In the event of shareholder approval to the Disposal at the General Meeting on 17 August 2015, and subsequently completion of the Disposal, all Performance Rights currently on issue at that time (being approximately 148 million Performance Rights, inclusive of the 10.4 million Performance Rights to be granted to CEO Gregory Stoupnitzky if these are approved by shareholders at the General Meeting) will remain on issue subject to the existing strategic and share price related vesting conditions as outlined in Azonto's 2014 Annual Report. For the avoidance of doubt, the successful disposal of Azonto's main business undertaking will not constitute a change of control event under the Corporations Act and accordingly will not give rise to the vesting of those Performance Rights.

Financial

Equity Issues

There were no equity issues in the quarter.

Capital Structure at 30 June 2015

	Number
Shares	1,159,375,100
Unlisted options	35,310,150

Cash

Cash on hand at 30 June 2015 was A\$3.6 million (unaudited).

Significant Shareholders at 30 June 2015

	Number	%
Genesis Asset Managers LLP	70,138,995	6.05%
International Finance Corporation (IFC)	63,707,267	5.49%