African Petroleum Corporation Limited

(ABN 87 125 419 730)

Annual Financial Report for the Period Ended 31 December 2010

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CORPORATE DIRECTORY

DIRECTORS

Frank Timis - Chairman
Antony Sage – Deputy Chairman
Karl Thompson – Chief Executive Officer
Mark Ashurst – Chief Financial Officer
Gibril Bangura
Jeffrey Couch
James Smith
Timothy Turner
Alan Watling
Anthony Wilson

COMPANY SECRETARY

Claire Tolcon

PRINCIPAL & REGISTERED OFFICE

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LEEDERVILLE WA 6007
Telephone: (08) 9388 0744
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AUDITORS

Ernst & Young
11 Mounts Bay Road
Perth WA 6000
Telephone: (08) 9429 2222
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SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
PERTH WA 6000
Telephone: (08) 9332 2000
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STOCK EXCHANGE LISTING

National Stock Exchange
Code: AOQ

Your Directors present their report on African Petroleum Corporation Limited ("African Petroleum" or the "Company") for the period ended 31 December 2010.

OFFICERS

Directors
The names of Directors in office during the whole of the period and up to the date of this report:

Mr Frank Timis - Non-Executive Chairman
Mr Antony Sage - Non-Executive Deputy Chairman
Mr Karl Thompson - Executive Director and Chief Executive Officer
Mr Mark Ashurst - Executive Director and Chief Financial Officer
Mr Gibril Bangura - Non-Executive Director
Mr Jeffrey Couch - Non-Executive Director (appointed 23 September 2010)
Mr James Smith - Non-Executive Director (appointed 25 November 2010)
Mr Timothy Turner - Non-Executive Director
Mr Alan Watling - Non-Executive Director
Mr Anthony Wilson - Non-Executive Director

Company Secretary
Ms Claire Tolcon (appointed 1 December 2010)
Ms Eloise von Puttkammer (resigned 1 December 2010)

PRINCIPAL ACTIVITIES

The Company's principal activity is oil and gas exploration.

REVIEW OF OPERATIONS

Corporate
During the current period, the Company de-listed its securities from trading on ASX and was removed from ASX's official list on 3 September 2010. All of the Company's ordinary shares are now quoted on NSX under the code AOQ.

The Board of Directors resolved to change the Company's year-end to 31 December and have elected to report the Company's financial information in US$.

On 14 July 2010, 3,000,000 fully paid ordinary shares were issued pursuant to the exercise of options, generating US$525,901 cash for the Company.

On 2 August 2010, 9,500,000 fully paid ordinary shares were issued pursuant to the exercise of options, generating $1,717,126 cash for the Company.

On 23 September 2010, Mr Jeffrey Couch was appointed as an Independent, Non-Executive Director.
Mr Couch is a Senior Executive at Eurasian Natural Resources Corporation PLC and is a qualified Canadian lawyer. He has 15 years of investment banking and capital markets experience having worked for Kleinwort Benson, Citigroup (Salomon Brothers) and most recently Credit Suisse. He has extensive experience in the natural resources sector having advised and raised capital for clients globally, with a particular focus in emerging markets and Africa.

In October 2010, the Company established a sale facility for unmarketable parcels of shares (being parcels of shares valued at less than A$500 as at the close of trade on 21 October 2010). As at 21 October 2010, the Company had 3,519 shareholders holding less than a marketable parcel of shares, totalling 545,324 shares. After following the prescribed notice periods and provision of notices to those relevant shareholders, the Company completed the sale process in January 2011 and 506,883 shares were sold on market on behalf of the shareholders of unmarketable parcels of shares.

Mr Karl Thompson, who joined the Board of Directors on 30 June 2010, was appointed Chief Executive Officer of the Company on 4 October 2010. Mr Thompson is an accomplished petroleum explorationist with 27 years of technical, operational and managerial experience in the exploration and development of hydrocarbons with major multinational and independent energy companies. He has established a track record as a successful 'oil finder' and has significant experience in commercial acquisitions of new venture oil and gas assets as well as corporate takeovers. He spent 18 years with Chevron Corporation where he was Exploration and Production Director as well as Strategic Planning Manager involved in a number of successful oil discoveries and developments as well as new venture acquisitions. Following a successful career with Chevron he started his petroleum consultancy working with companies in West Africa assisting with further hydrocarbon discoveries and new venture acquisitions. He has extensive experience in Europe, Africa and the Middle East working with major multinational companies and new start up AIM exploration companies as well National Oil companies. He holds an MSc in Geophysics from Imperial College London and BSc in Geology from University College London.

On 25 November 2010, Mr James Smith was appointed as Independent, Non-Executive Director.
Mr Smith is a senior oil and gas executive with a strong earth science background and has over 20 years experience in the oil and gas industry, predominantly in Africa and Middle East exploration. He is currently Vice President Exploration of Orca Exploration Inc., an international oil and gas company listed on the TSX venture exchange. He previously served as New Venture and Project Leader for Chevron Corporation in Africa and the Middle East and more recently was Vice President Exploration of Pan-Ocean Energy Corporation Limited. At Pan-Ocean, he was instrumental in the rapid development of the company's portfolio of onshore and offshore oil assets in Gabon that were sold in 2006. He was a Non-Executive Director of Canoro Resources until 2 July 2010.

On 26 November 2010, Mr Frank Timis, with the approval of the National Stock Exchange of Australia (**NSX**), was appointed as the Non-Executive Chairman of the Company. Mr Tony Sage became Non-Executive Deputy Chairman and will continue to chair the Company's Continuous Disclosure Committee and will remain responsible for approving all announcements released by the Company.

Mr Timis' appointment as Non-Executive Chairman follows the Company successfully completing a A$222 million (US$ 190 million) capital raising in June 2010, which was well supported by a number of blue chip financial institutions. This level of support was largely due to strong investor confidence in Mr Frank Timis' ability to create significant shareholder value.

Mr Timis' appointment as Non-Executive Chairman was subject to the following conditions required by NSX:

a) the quarterly declaration certificates required to be issued by the Company stating that the Board of Directors has reviewed the Company's operations and declares that, in its opinion, there are no issues that require additional disclosure and that the market remains fully informed about the Company's prospects and activities must be signed not only by the Company's Chairman and Chief Executive but also by the chairman of the Company's Continuous Disclosure Committee; and

b) for the time Frank Timis is Chairman of the Company, he must retire and offer himself for re-election to the Board of Directors at each annual general meeting of the Company, in the same manner as if retiring by rotation.

On 1 December 2010, Ms Claire Tolcon was appointed as Company Secretary and in house legal counsel.
Ms Tolcon has over 12 years experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company. Ms Tolcon holds a Bachelor of Laws and Bachelor of Commerce (Accounting) degree and is a member of FINSIA.

Mr Adrian Robinson was appointed to the role of Director of Exploration on 1 December 2010. Mr Robinson is a highly skilled geologist and interpreter with a diverse range of technical skills gained from 20 years of industry experience working with Chevron, Hunt Oil, Energy Equity Resources and latterly, as Vice President of Exploration and Technical Director of Pan Petroleum and Panoro Energy. Mr Robinson has a BSc in Geology from the University of Bristol and a Masters in Petroleum Geology from the University of Aberdeen. He is also a fellow of the Geological Society of London and an active member of the Petroleum Exploration Society of Great Britain.

Liberian Project
The Liberian project comprises Blocks LB-08 and LB-09, located offshore Liberia ("Liberian Project" or "Blocks LB-08 and LB-09")., The Mercury and Venus discoveries offshore Sierra Leone, are located to the north west of the Liberian Project and the Jubilee Field, to the south east in Ghana. The Jubilee Field has a reported resource potential of 3 billion barrels recoverable from the Cretaceous submarine fans in the deep water, offshore Ghana. In Liberia, previous exploration drilling during the 1970's and 1980's included six wells with oil shows on the shallow water shelf area. To date, there have been no deepwater wells offshore Liberia targeting the Cretaceous sands found in the Mercury, Venus and Jubilee discoveries.

African Petroleum has completed the acquisition and interpretation of 5,100 sq km of 3D seismic survey over Blocks LB-08 and LB-09, which targeted the Cretaceous submarine fan system previously identified from the 2D seismic survey data. An extensive submarine fan system similar to those containing the Mercury, Venus and Jubilee discoveries has been identified on Blocks LB-08 and LB-09.

The evaluation of the 3D seismic data has identified more than 40 prospects and leads in the Upper Cretaceous section, some of which are similar to the recent Anadarko Petroleum Corporation discoveries at Mercury and Venus, immediately to the north west of the Liberian Project.

The Company has contracted Maersk Drilling for a two well programme at Blocks LB-08 and LB-09, with the option to test both wells. The two well programme will be completed using the ultra deepwater semi-submersible, Maersk Deliverer drilling rig. The Maersk Deliverer is the third in a series of three state-of-the-art newbuild ultra deepwater development semi-submersibles in Maersk Drilling's fleet and is capable of drilling in water depths of up to 3,000 meters. Due to Maersk's earlier contractual drilling commitments taking longer than initially planned, and assuming no slippage in its current drill usage programme, the Company expects to take delivery of the rig from Maersk in May 2011 and commence drilling the first well.

Gambian Project
On 23 August 2010, African Petroleum's wholly owned subsidiary, African Petroleum Gambia Limited ("African Petroleum Gambia"), entered into an agreement with Buried Hill Gambia BV (''Buried Hill'') to acquire (via farm-in) a 60% equity interest in two off-shore Gambian exploration licences, Alhamdulilah Licence Block A1 and Licence Block A4 ("Licence Blocks") ("Agreement").

Under the Agreement, African Petroleum Gambia has assumed the operatorship of the Licence Blocks, which cover a combined total area of 2,668km^2 off-shore Gambia and is required to pay 80% of the forward costs incurred on the two blocks from execution of the Agreement to the end of the initial exploration period. In addition, to earn the 60% legal and beneficial interest in the Licence Blocks, African Petroleum Gambia has:

- assumed responsibility for all of Buried Hill's corporate licence guarantees, amounting to US$8,000,000; and
- paid Buried Hill's data fees payable to the Government of The Republic of the Gambia, amounting to US$750,000.

The Government of The Republic of the Gambia approved the Agreement and the extension of the initial exploration period for each of the Licence Blocks by a further two years to 31 December 2013.

In the event that the exploration period is mutually extended beyond 31 December 2013 on either of the Licence Blocks, African Petroleum Gambia is required to pay 60% of Buried Hill's past costs, which amount to approximately US$22.9 million.

Senergy (GB) Limited ("Senergy''), an independent oil and gas consultant engaged by the Company, has reviewed the exploration potential of the Licence Blocks and based on its assessment, the directors believe that there is substantial exploration potential with more than 20 prospects identified on the Licence Blocks in five independent play settings, primarily in the lower cretaceous. Oil seep studies and basin modelling indicate that hydrocarbon generation has taken place.

The Alhamdulilah Structure within the Licence Blocks is a four-way dip-closed structure with five stacked reservoir units. The structure covers an area of approximately 24km^2 over five mapped reservoirs with a gross thickness of 1,000m and a potential resource range of 560-1,000 million barrels ("MMbbls")[1]. Other play types in the Licence Blocks include stratigraphically-trapped fans and slope channel complexes of Turonian-Campanianage, Upper Jurassic and lower Cretaceouskarstified reef build-ups and four-way closures and eroded shelf clastics on lapping the shelf edge.

Senergy has indicated that, combined, these provide a total unrisked, mean recoverable potential for both Licence Blocks in excess of 4,600 MMbbls.

The Company has completed the acquisition of 2,500 sq km of 3D data in relation to the Licence Blocks and is currently processing the new 3D data and analysing the existing seismic dataset.

Sierra Leone Project

Subsequent to 31 December 2010, the Company's award of block SL-03, offshore Sierra Leone was ratified by the Sierra Leonean Parliament. Block SL-03 was awarded to the Company (subject to formal ratification) on 23 April 2010 and is a 3,135 sq km area located offshore Sierra Leone. It is situated approximately 150 km from Anadarko's recent Mercury-1 discovery at block SL-07B-10 and 85 km from the 2009 Venus discovery, both offshore Sierra Leone. Anadarko announced on 15 November 2010 that it had encountered approximately 135 net feet of oil pay in two Cretaceous-age fan systems in the Mercury discovery. African Petroleum is actively exploring for the Cretaceous-age fan systems in SL-03 similar to those found in Venus and Mercury and has identified a number of promising Cretaceous fan leads on the 2D seismic data. An extensive 3D seismic survey is planned for the block to firm up potential exploration prospects similar to the Mercury and Venus discoveries nearby.

Result

African Petroleum reported a loss after income tax of US$14,524,092 for the period ended 31 December 2010 (30 June 2010: loss of US$22,117,578).

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Refer to the Review of Operations which outlines the significant changes in the state of affairs.

SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING PERIOD

In February 2011, the Sierra Leonean Parliament ratified the Company's award of block SL-03. Block SL-03 is a 3,135 sq km area located offshore Sierra Leone.

On 9 March 2011, 6,500,000 ordinary shares were issued to African Oil Investing SARL ("African Oil") in consideration for the evaluation of a series of new exploration ventures in West Africa including securing the farm-in by the Company of Gambian exploration licences in accordance with the terms of an agreement between the Company and African Oil. The shares are subject to a voluntary escrow restriction of 6 months from the date of issue.

No other event has arisen between 31 December 2010 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

[1] It should be noted that the potential resources are all seismic features, which have not been penetrated by any wells. It should be clearly understood that the potential resources are undiscovered and the project is an exploration play. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, may not be economically viable or technically feasible to produce from any discovered resources.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to meet its obligations with respect to its interests in the Liberian Project and Gambian Project.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with the relevant environmental regulations when carrying out any exploration work.

INFORMATION ON DIRECTORS

Frank Timis	*Non-Executive Chairman*
Experience	Mr Timis is a successful resource entrepreneur. He has interests in numerous resource companies listed in London, Australia and Toronto and in assets worldwide. Mr Timis has raised approximately US$2 billion on the financial markets worldwide and is Executive Chairman of African Minerals Limited, an AIM listed mineral exploration company with significant interests in Sierra Leone. Mr Timis is also a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	At the date of this report, Mr Timis has an interest in 630,816,987 fully paid ordinary shares which are subject to a 24 month escrow restriction ending on 28 June 2012.
Antony Sage	*Non-Executive Deputy Chairman*
Qualifications	B.Com, FCPA, CA, FTIA
Experience	Mr Sage has in excess of 24 years experience in the fields of corporate advisory services, funds management and capital raising. Mr Sage is based in Western Australia and has been involved in the management and financing of listed mining companies for the last 15 years. Mr Sage is also Executive Chairman of ASX listed entities Cape Lambert Resources Limited and Cauldron Energy Limited and is Non-Executive Chairman of ASX listed International Goldfields Limited, FE Limited and NSX listed International Petroleum Limited
Interest in Shares and Options	Mr Sage has an interest in 10,509,325 fully paid ordinary shares at the date of this report. 2,218,500 of these shares are subject to a 24 month escrow restriction which comes to an end on 28 June 2012. Mr Sage holds 2,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.

INFORMATION ON DIRECTORS (continued)

Karl Thompson	Executive Director and Chief Executive Officer
Qualifications	BSC Geology, MSC Geophysics
Experience	Mr Thompson is an accomplished petroleum explorationist with 27 years of technical, operational and managerial experience in the exploration and development of hydrocarbons with major multinational and independent energy companies. He has established a track record as a successful 'oil finder' and commercial acquisitions of new venture oil and gas assets as well as corporate takeovers. He spent 18 years with Chevron Corporation where he was Exploration and Production Director as well as Strategic Planning Manager involved in a number of successful oil discoveries and developments as well as new venture acquisitions. Following a successful career with Chevron he started his petroleum consultancy working with companies in West Africa assisting with further hydrocarbon discoveries and new venture acquisitions. He has extensive experience in Europe, Africa and the Middle East working with major multinational companies and new start up AIM exploration companies as well National Oil companies.
Interest in Shares and Options	Mr Thompson holds 1,500,000 options with an an exercise price of $A0.55 and an expiry date of 31 July 2013.
Mark Ashurst	*Executive Director and Chief Financial Officer*
Qualifications	BA (Hons) Law; Barrister; Fellow of the Institute of Chartered Accountants in England and Wales
Experience	Mr Ashurst graduated from Sheffield University with a degree in law and is a qualified Barrister and Chartered Accountant. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr Ashurst has been employed as a senior investment banker with a broad range of corporate finance and broking skills gained from over 20 years in the City of London. Institutions Mr Ashurst has worked for include BZW, Hoare Govett and, more recently, Canaccord Adams. He has advised both UK and overseas listed companies and has significant expertise in Initial Public Offerings, fund raising and mergers and acquisitions. Mr Ashurst is also Non-Executive Director of AIM listed African Minerals Limited and is a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	Mr Ashurst holds 1,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.

INFORMATION ON DIRECTORS (continued)

Gibril Bangura	Non - Executive Director
Qualifications	Arts and Business Management, Junior College Atlanta
Experience	Mr Bangura is an Executive Director of African Minerals Limited and the General Manager of all of African Mineral Limited's Sierra Leone subsidiaries. He is the former Financial Controller of Regent Star International, and Deputy General Manager and director of Bond Tak Mining Company.
Interest in Shares and Options	Mr Bangura holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.
Jeffrey Couch	Non - Executive Director
Qualifications	Bachelor of Law
Experience	Mr Jeffrey Couch is a Senior Executive at Eurasian Natural Resources Corporation PLC. Mr Couch is a qualified Canadian lawyer, and attended the University of Western Ontario Business School and Osgoode Hall Law School in Canada. He has 15 years of investment banking and capital markets experience having worked for Kleinwort Benson, Citigroup (Salomon Brothers) and most recently Credit Suisse. He has extensive experience in the natural resources sector having advised and raised capital for clients globally, with a particular focus in emerging markets and Africa.
Interest in Shares and Options	At the date of this report, Mr Couch has an interest in 443,700 fully paid ordinary shares which are subject to escrow restrictions ending on 30 June 2011. Mr Couch holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.
James Smith	Non - Executive Director
Qualifications	MSc in Petroleum Geology (Geophysics option), BSc (Hons) in Geological Geophysics, Fellow of Geological Society
Experience	Mr James Smith is a senior oil and gas executive with a strong earth science background. Mr Smith has over 20 years of experience in the oil and gas industry, predominantly in Africa and Middle East exploration. He is currently Vice President Exploration of Orca Exploration Inc., an international oil and gas company listed on the TSX venture exchange. He previously served as New Venture and Project Leader for Chevron Corporation in Africa and the Middle East and more recently was Vice President Exploration of Pan-Ocean Energy Corporation Limited. At Pan-Ocean, he was instrumental in the rapid development of the company's portfolio of onshore and offshore oil assets in Gabon that were sold in 2006. He was a Non-Executive Director of Canoro Resources until 2 July 2010.
Interest in Shares and Options	Mr Smith holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.

INFORMATION ON DIRECTORS (continued)

Timothy Turner	*Non-Executive Director*
Qualifications	B.Bus, FCPA, FTIA, Registered Company Auditor
Experience	Mr Turner is senior partner with accounting firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner also has in excess of 21 years experience in new ventures, capital raisings and general business consultancy. Mr Turner has a Bachelor of Business (Accounting and Business Administration), is a Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia. Mr Turner is also a Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and NSX listed International Petroleum Limited.
Interest in Shares and Options	Mr Turner has an interest in 271,993 fully paid ordinary shares at the date of this report. Mr Turner holds 500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.
Alan Watling	Non - Executive Director
Experience	Mr Watling has nearly 30 years of experience in the iron ore industry and has held senior positions in multinational companies with focuses on heavy haul rail, port and mine operations, including Rio Tinto and Fortescue Metals. At Fortescue Metals he was Chief Operating Officer and is now Chief Executive Officer of African Minerals Limited.
Interest in Shares and Options	Mr Watling holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.
Anthony Wilson	Non - Executive Director
Qualifications	Fellow of the Institute of Chartered Accountants in England and Wales, and Fellow of the Chartered Institute for Securities and Investment.
Experience	Mr Wilson has had a long career in a number of senior financial positions. Having qualified as a Chartered Accountant, he initially became a partner in general practice before moving into the investment banking sector initially with Wedd Durlacher Mordaunt & Co, the stockjobber, and then with BZW, the investment banking division of Barclays. He was Finance Director for BZW Securities and BZW Asset Management over a period of 10 years. Following BZW, Mr Wilson held various senior management roles as a director for DAKS Simpson Group plc and Panceltica Holdings plc. He is currently the Non-Executive Chairman of New Hill Management Limited, an unlisted investment fund manager.
Interest in Shares and Options	Mr Wilson holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.

COMPANY SECRETARY

Claire Tolcon has over 12 years of experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company and has a Bachelor of Laws and Bachelor of Commerce (Accounting) degree and is a member of FINSIA.

REMUNERATION REPORT (audited)

This report details the nature and amount of remuneration for key management personnel of African Petroleum Corporation Limited.

Remuneration policy
Details of directors and key management personnel

(i) Directors

Frank Timis	Non-Executive Chairman	
Antony Sage	Non-Executive Deputy Chairman	
Karl Thompson	Executive Director and Chief Executive Officer	
Mark Ashurst	Executive Director and Chief Financial Officer	
Gibril Bangura	Non-Executive Director	
Mr Jeffrey Couch	Non-Executive Director	(appointed 23 September 2010)
Mr James Smith	Non-Executive Director	(appointed 25 November 2010)
Timothy Turner	Non-Executive Director	
Alan Watling	Non-Executive Director	
Anthony Wilson	Non-Executive Director	

(ii) Other Key Management Personnel

Claire Tolcon	Company Secretary (appointed 1 December 2010)
Eloise von Puttkammer	Company Secretary (resigned 1 December 2010)
Adrian Robinson	Director of Exploration (appointed 1 December 2010)

There are no other specified executives of the company.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the Directors, was approved by the Board as a whole. The Board has established a separate remuneration committee during the period.

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. The remuneration may consist of a salary, bonuses, or any other element but must not be a commission on, or percentage of, operating revenue.

All remuneration paid to Directors is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board as a whole determine payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of cash fees that can be paid to Non-Executive Directors is US$660,502 (A$650,000) or such other amount approved by shareholders. Fees for Non-Executive Directors are not linked to the performance of the Company.

The Board exercises its discretion in determining remuneration linked to performance of key management personnel. In the current period, Non-Executive Directors, Executive Directors and key management personnel who were involved in the Company's successful listing on the National Stock Exchange of Australia ("NSX") on 30 June 2010, were awarded options. The options contained no vesting conditions given that they were awarded to recognise services performed. Subsequent issues of options to key management personnel contain vesting conditions. Given the early stage of the Company's key exploration projects, these vesting conditions are related to the expansion of the Company's exploration asset portfolio and the discovery of hydrocarbons.

Company Performance and Shareholder Wealth and Directors' and Executives' Remuneration
The Board exercises its discretion in determining remuneration linked to performance of executives. As set out above, Executive Directors and key management personnel who were involved in the Company's successful listing on NSX on 30 June 2010 were awarded options containing no vesting conditions given that they were awarded in recognition of services performed. Subsequent issues of options to Executive Directors and key management personnel contain vesting conditions which are related to the expansion of the Company's exploration asset portfolio and the discovery of hydrocarbons.

Details of remuneration of directors and key management personnel of the Company for the period 1 July 2010 to 31 December 2010
The table below sets out the remuneration paid to the directors and key management personnel of African Petroleum for the period 1 July 2010 to 31 December 2010.

	Short Term Benefits			Post Employment Benefits[1]	Share-based payments		Performance Related
	Salary and fees US$	Non-cash Benefits US$	Cash Bonus US$	US$	Options US$	Total US$	%
Directors							
F Timis	100,443	-	-	-	-	100,443	-
A Sage	58,858	-	-	-	1,216,091	1,274,949	-
K Thompson	237,278	-	-	23,201	912,068	1,172,547	-
M Ashurst	118,964	-	225,609	18,322	912,068	1,274,963	-
G Bangura	22,602	-	-	-	608,045	630,647	-
J Couch[5]	22,602	-	-	-	608,045	630,647	-
J Smith[4]	3,767	-	-	-	608,045	611,812	-
T Turner	22,602	-	-	-	304,022	326,624	-
A Watling[6]	-	-	-	-	608,045	608,045	-
A Wilson	22,602	-	-	-	608,045	630,647	-
Key management							
E von Puttkammer [2]	11,301	-	-	-	121,720	133,021	-
C Tolcon[3]	9,625	-	-	-	121,720	131345	-
A Robinson[3]	30,867	-	59,673	6,215	67,914	164,669	41%
Total	**661,511**	**-**	**285,282**	**47,738**	**6,695,828**	**7,690,359**	**0.8%**

1 Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2 Resigned on 1 December 2010
3 Appointed on 1 December 2010
4 Appointed on 25 November 2010
5 Appointed on 23 September 2010
6 Mr Watling has elected for his fees to be paid to a charity of his choice.

Details of remuneration of directors and key management personnel of the Company for the period 1 January 2010 to 30 June 2010

The reverse acquisition of African Petroleum by European Hydrocarbons Limited ("EHL") was completed on 28 June 2010. The table below sets out the remuneration paid to the directors and key management personnel of African Petroleum for the period 1 January 2010 to 30 June 2010 and comprises:

- payments made by African Petroleum for the period 28 June 2010 to 30 June 2010; and
- payments made by the EHL Group for the period 1 January 2010 (date of last audited accounts) to 30 June 2010.

	Short Term Benefits			Post Employment Benefits[1]			At Risk	
	Salary and fees	Non-cash Benefits	Cash Bonus		Total	Fixed	Short term incentive	Long term incentive
	US$	US$	US$	US$	US$	%	%	%
Directors								
F Timis	386,558	-	-	-	386,558	100%	-	-
A Sage	-	-	-	-	-	-	-	-
K Thompson	133,567	-	-	13,356	146,923	100%	-	-
M Ashurst	76,324	-	-	5,724	82,048	100%	-	-
G Bangura	-	-	-	-	-	-	-	-
R Catena	-	-	-	-	-	-	-	-
M Gwynne	-	-	-	-	-	-	-	-
T Turner	-	-	-	-	-	-	-	-
A Watling	-	-	-	-	-	-	-	-
A Wilson	-	-	-	-	-	-	-	-
Key Management								
E von Puttkammer	-	-	-	-	-	-	-	-
F Taylor	-	-	-	-	-	-	-	-
Total	**596,449**	**-**	**-**	**19,080**	**615,529**	**100%**	**-**	**-**

No share based payments were awarded to the directors and key management personnel in the 6 months ended 30 June 2010.

[1] Post-employment benefits consist of superannuation and pension contributions made by the Company.

Options Issued as Part of Remuneration for the period ended 31 December 2010

13,375,000 options were issued as part of remuneration of key management personnel during the period ended 31 December 2010 (30 June 2010: Nil). 12,375,000 options vested on issue. 1,000,000 options are subject to vesting conditions and will be recognised over their vesting period.

Terms and Conditions for each Grant during the period								Options vested during the period	
	Options awarded during the period	Award date	Fair value per option at award date A$	Exercise price A$	Expiry date	First exercise date	Last exercise date	No.	%
Executive directors									
M Ashurst	1,500,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,500,000	100
K Thompson	1,500,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,500,000	100
Non-executive directors									
G Bangura	1,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,000,000	100
J Couch[4]	1,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,000,000	100
A Sage	2,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	2,000,000	100
J Smith[3]	1,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,000,000	100
T Turner	500,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	500,000	100
A Watling	1,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,000,000	100
A Wilson	1,000,000	25 Nov 2010	0.61[5]	0.55[8]	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,000,000	100
Other key management personnel									
E von Puttkammer[1]	200,000	13 Oct 2010	0.62[6]	0.55[8]	31 Jul 2013	13 Oct 2010	31 Jul 2013	200,000	100
C Tolcon[2]	200,000	13 Oct 2010	0.62[6]	0.55[8]	31 Jul 2013	13 Oct 2010	31 Jul 2013	200,000	100
A Robinson[2]	1,000,000	1 Dec 2010	0.73[7]	0.55[8]	1 Dec 2015	1 Dec 2010	1 Dec 2015	-	-

For details on the valuation of the options, including models and assumptions used, please refer to note 20.

There have been no alterations to the terms and conditions of options awarded as remuneration since their award date.

[1] Resigned on 1 December 2010

[2] Appointed on 1 December 2010

[3] Appointed on 25 November 2010

[4] Appointed on 23 September 2010

[5] The US$ equivalent fair value per option at award date is equal to US$0.60

[6] The US$ equivalent fair value per option at award date is equal to US$0.61

[7] The US$ equivalent fair value per option at award date is equal to US$0.70

[8] The US$ equivalent exercise price is equal to US$0.54

Value of options awarded, exercised and lapsed during the year

	Value of options granted during the year US$	**Value of options exercised during the year US$**	**Value of options lapsed during the year US$**	**Remuneration consisting of options for the year %**
M Ashurst	901,575	-	-	72
K Thompson	901,575	-	-	78
G Bangura	601,050	-	-	96
J Couch	601,050	-	-	96
A Sage	1,202,100	538,944	-	95
J Smith	601,050	-	-	99
T Turner	300,525	21,053	-	93
A Watling	601,050	-	-	100
A Wilson	601,050	-	-	96
E von Puttkammer	121,720	25,263	-	91
C Tolcon	121,720	-	-	98
A Robinson	697,703	-	-	41

Service Agreements

Mr Antony Sage – Non-Executive Deputy Chairman

Prior to the completion of the acquisition of Cayman Islands incorporated African Petroleum Corporation Limited on 28 June 2010, Mr Sage held the position of Executive Chairman of the Company. Mr Sage's role as Executive Chairman was governed by an Executive Chairman consultancy agreement between the Company, Okewood Pty Ltd and Mr Sage. With effect from 28 June 2010, Mr Sage's role became that of Non-Executive Chairman and fees payable under the consultancy agreement were amended with effect from 1 September 2010. On 26 November 2010, Mr Sage became Non-Executive Deputy Chairman.

The agreement stipulates the following terms and conditions:

(a) Rate: a consultancy fee of US$355,655 (A$350,000) per annum to be payable to Okewood Pty Ltd and reviewed bi-annually by the Board. In addition, Mr Sage is to be reimbursed for all reasonable expenses incurred in the performance of his duties. On 1 September 2010, the rate was reduced to US$101,616 (A$100,000) per annum;

(b) Termination: this agreement may be terminated by the Company in a number of circumstances including:

(i) failure to comply with lawful directions given by the Company through the Board;

(ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;

(iii) a serious or consistent breach of any of the provisions of the consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and

(iv) Mr Sage being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

Mr Karl Thompson – Executive Director and Chief Executive Officer

Mr Thompson's role as Executive Director and Chief Executive Officer is governed by a contract between the Company and Mr Thompson.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$547,855 per annum is payable to Mr Thompson and subject to annual review by the board. A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Thompson meeting annual targets set at the commencement of each year.

(b) Options: the Company issued 1,500,000 options to Mr Thompson. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013.

Mr Mark Ashurst – Executive Director and Chief Financial Officer

Mr Ashurst's role as Executive Director and Chief Financial Officer is governed by a contract between the Company and Mr Ashurst.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$234,795 per annum is payable to Mr Ashurst and subject to annual review by the board. A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Ashurst meeting annual targets set at the commencement of each year.

(b) Options: the Company issued 1,500,000 options to Mr Ashurst. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013.

Mr Gibril Bangura – Non-Executive Director

Mr Bangura's role as Non-Executive Director is governed by an agreement between the Company and Mr Bangura.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to Mr Bangura and reviewed annually by the Board. In addition, Mr Bangura is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued 1,000,000 options to Mr Bangura. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013.

(c) Termination: this agreement will cease in the event that Mr Bangura gives notice to the board of his resignation as a director, he resigns by rotation and is not re-elected as a director by the shareholders of the Company.

Mr Jeffrey Couch – Non-Executive Director

Mr Couch's role as Non-Executive Director is governed by an agreement between the Company and Mr Couch.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to Mr Couch and reviewed annually by the Board. In addition, Mr Couch is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued 1,000,000 options to Mr Couch. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013

(c) Termination: this agreement will cease in the event that Mr Couch gives notice to the board of his resignation as a director, he resigns by rotation and is not re-elected as a director by the shareholders of the Company.

Mr James Smith – Non-Executive Director

Mr Smith's role as Non-Executive Director is governed by an agreement between the Company and Mr Smith.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to Mr Smith and reviewed annually by the Board. In addition, Mr Smith is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued 1,000,000 options to Mr Smith. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013

(c) Termination: this agreement will cease in the event that Mr Smith gives notice to the board of his resignation as a director, he resigns by rotation and is not re-elected as a director by the shareholders of the Company.

Mr Timothy Turner – Non-Executive Director

Mr Turner's role as Non-Executive Director is governed by a consultancy agreement between the Company, Corporate Resource and Mining Services ("CRMS") and Mr Turner.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to CRMS and reviewed bi-annually by the Board. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Termination: this agreement may be terminated by the Company in a number of circumstances including:

  (i) failure to comply with lawful directions given by the Company through the Board;

(ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;

(iii) a serious or persistent breach of any of the provisions of the Non-Executive Director consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and

(iv) Mr Turner being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

Mr Alan Watling – Non-Executive Director

Mr Watling's role as Non-Executive Director is governed by an agreement between the Company and Mr Watling.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to Mr Watling and reviewed annually by the Board. In addition, Mr Watling is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued 1,000,000 options to Mr Watling. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013.

(c) Termination: this agreement will cease in the event that Mr Watling gives notice to the board of his resignation as a director, he resigns by rotation and is not re-elected as a director by the shareholders of the Company.

Mr Anthony Wilson – Non-Executive Director

Mr Wilson's role as Non-Executive Director is governed by a consultancy agreement between the Company and Mr Wilson.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of US$48,776 (A$48,000) per annum is payable to Mr Wilson and reviewed annually by the Board. In addition, Mr Wilson is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued 1,000,000 options to Mr Wilson. The options have an exercise price of A$0.55 and an expiry date of 31 July 2013

(c) Termination: this agreement will cease in the event that Mr Wilson gives notice to the board of his resignation as a director, he resigns by rotation and is not re-elected as a director by the shareholders of the Company.

Service agreements have not been entered into for the remaining non-executive directors.

Claire Tolcon – Company Secretary

The engagement conditions of contractor Claire Tolcon were approved by the Board on commencement of her engagement with a fee of US$3,048 (A$3,000) per month plus GST for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of US$1,437 (A$1,460) per day.

Adrian Robinson – Director of Exploration

(a) Rate: a fee of US$255,220 (GBP 165,000) per annum is payable to Mr Robinson and reviewed annually by the Board.

(b) Options: the Company awarded 1,000,000 options to Mr Robinson. The options have an exercise price of A$0.55 and an expiry date of 19 January 2016. These options were issued on 19 January 2011 and will vest upon the following conditions being met:

(i) 250,000 will be exercisable over a three year basis, one third on each anniversary from Mr Robinson's start date (1 December 2010), on the assumption that Mr Robinson remains employed by the Company;

(ii) 250,000 will be exercisable following the completion of the first well.

(iii) 250,000 will be exercisable following the completion of the second well.

(iv) 250,000 will be exercisable in the event of hydrocarbons in any of the Company's wells drilled in 2011 or later, if drilling is delayed for valid internal or external reasons.

(c) A signing bonus of US$30,936 (GBP 20,000) has been paid to Mr Robinson, and a further US$38,670 (GBP 25,000) will be paid on the 31 March 2011.

The board does not prohibit Directors and key management personnel from entering into arrangements to protect the value of unvested share based payment awards.

End of Remuneration Report

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the period each director held office during the financial year and the number of meetings attended by each director is:

	Directors' Meetings	
Director	**Number Eligible to Attend**	**Meetings Attended**
Frank Timis	2	2
Antony Sage	2	2
Mark Ashurst	2	2
Gibril Bangura	2	-
Jeffrey Couch	1	1
James Smith	-	-
Karl Thompson	2	2
Timothy Turner	2	1
Alan Watling	2	1
Anthony Wilson	2	2

INDEMNIFYING DIRECTORS AND OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every director, principal executive officer or secretary of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as director, principal executive officer or secretary of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

OPTIONS

Unissued Shares under Option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	**Exercise Price**[1]	**Number Under Option**
30 June 2013	A$0.55	12,108,826
31 July 2013	A$0.55	12,375,000
19 January 2016	A$0.55	1,000,000

[1] The US$ equivalent exercise price as at 31 December 2010 is US$0.55

Shares issued on the exercise of options

During the current period 12,500,000 ordinary shares were issued on the exercise of options at an exercise price of A$0.20 (30 June 2010: nil).

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the period ended 31 December 2010 has been received and can be found on page 21of the annual report.

NON AUDIT SERVICES

No non-audit services were provided by the Company's auditors, Ernst & Young.

This report is made in accordance with a resolution of the Board of Directors.

Antony Sage
Director **Perth, 30 March 2011**

Ernst & Young Services Pty Limited
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Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

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Fax: +61 8 9429 2436
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Auditor's Independence Declaration to the Directors of African Petroleum Corporation Limited

In relation to our audit of the financial report of African Petroleum Corporation Limited for the financial period ended 31 December 2010, 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.

Ernst & Young

Ernst & Young

Colin Pavlovich
Partner
Perth
30 March 2011

The Board of Directors of the Company is responsible for establishing the corporate governance framework of the Company having regard to the Corporations Act 2001 (Cth) and applicable Listing Rules.

In accordance with NSX Listing Rules, this corporate governance statement summarises the corporate governance practices adopted by the Company.

The corporate governance practices detailed in the summary were adopted by the Company on 23 June 2010 other than the securities trading policy which took effect from 1 January 2011. The current corporate governance plan is posted in a dedicated corporate governance information section of the Company's website at www.africanpetroleum.com.au

Summary of corporate governance practices

The Company's main corporate governance policies and practices are outlined below.

The Board of Directors

The Company's Board of Directors is responsible for overseeing the activities of the Company. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the Company's shareholders.

The Board is responsible for the strategic direction, policies, practices, establishing goals for management and the operation of the Company.

The Board assumes the following responsibilities:

(a) appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
(b) driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
(c) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
(d) approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
(e) approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
(f) approving the annual, half yearly and quarterly accounts;
(g) approving significant changes to the organisational structure;
(h) approving the issue of any shares, options, equity instruments or other securities in the Company;
(i) ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
(j) recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
(k) meeting with the external auditor, at their request, without management being present.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

(a) the composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction; and
(b) the principal criterion for the appointment of new Directors is their ability to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

Composition of the Board (continued)

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. The majority of the Board is to be comprised of non-executive directors and where appropriate, at least 50% of the Board should be independent. Directors of the Company are considered to be independent when they are a non-executive director (ie not a member of management) (and have been for the preceding 3 years), hold less than 5% of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably by perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr F. Timis (Chairman), Mr A. Sage (Deputy Chairman), Mr K. Thompson, and Mr M. Ashurst are not considered independent.

Non-Executive Directors, Mr G. Bangura, Mr R. Catena (resigned 10 May 2010), Mr J Couch, Mr M Gwynne (resigned 30 June 2010), Mr T. Turner, Mr J Smith , Mr A. Watling, and, Mr A. Wilson, were considered to have been independent throughout the year or from the time of their appointment as directors.

The Board believes that while the Chairman is not independent, the majority of the directors are independent and the current composition of the Board with its combined skills and capability, best serve the interests of the Company and its shareholders.

The role and responsibilities of the Chief Executive Officer are discharged by Executive Director, Mr K Thompson. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Mr K Thompson is the most appropriate person to fulfil the role.

The term in office held by each director in office at the date of this report is as follows:

F. Timis	6 months	(Non-Executive Chairman)
A.W.P. Sage	3 years 6 months	(Non-Executive Deputy Chairman)
K. Thompson	6 months	(Executive Director)
M. Ashurst	6 months	(Executive Director)
G. Bangura	6 months	(Non-Executive Director)
J. Couch	3 months	(Non-Executive Director)
J Smith	1 month	(Non-Executive Director)
T. Turner	3 years 6 months	(Non-Executive Director)
A. Wilson	6 months	(Non-Executive Director)
A. Watling	6 months	(Non-Executive Director)

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

Remuneration arrangements

Review of the Company's remuneration policy is delegated to the Remuneration Committee.

The total maximum remuneration of non-executive Directors, which may only be varied by Shareholders in general meeting, is an aggregate amount of US$660,502 (AUD 650,000) per annum. The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

Performance

Review of the performance of the Board is delegated to the Nomination Committee.

The Board have established formal practices to evaluate the performance of the Board, committees, non-executive directors, the Chief Executive Officer, and senior management. Details of these practices are described in the Corporate Governance Plan available on the Company's website. No formal performance evaluation of the Board, individual directors of senior management took place during the year.

Code of Conduct

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements.

Internal Audit and Risk Committee

The Company has appointed an audit and risk committee. The Committee has specific powers delegated under the Company's Audit and Risk Committee Charter. The charter sets out the Audit and Risk Committee's function, composition, mode of operation, authority and responsibilities.

External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Remuneration Committee

The Board has established a Remuneration Committee with specific powers delegated under the Company's Remuneration Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities.

Nomination Committee

The Board has established a Nomination Committee with specific powers delegated under the Company's Nomination Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities.

Continuous Disclosure Policy

The Company has adopted a policy concerning continuous disclosure. The policy outlines the disclosure obligations of the Company as required under the Corporations Act and the applicable Listing Rules. The Company is committed to:

(a) complying with the general and continuous disclosure principles contained in the Corporations Act and applicable Listing Rules;
(b) preventing the selective or inadvertent disclosure of material price sensitive information;
(c) ensuring shareholders and the market are provided with full and timely information about the Company's activities; and
(d) ensuring that all market participants have equal opportunity to receive externally available information issued by the Company.

Nominated Advisor

In accordance with the rules of NSX, the Company has appointed Steinepreis Paganin Lawyers and Consultants as its nominated advisor (**NOMAD**). Steinepreis Paganin are consulted and advise on announcements issued by the Company that are price sensitive.

Continuous Disclosure Committee

In accordance with its existing corporate governance policies, the Company has established a Continuous Disclosure Committee which prepares (in conjunction with other relevant parties including technical consultants) and recommends all announcements for final approval and sign off by Mr A. Sage (Deputy Chairman). In the case of price sensitive announcements the NOMAD reviews and approves the announcement before being released to the exchange.

Continuous Disclosure Committee (continued)

This committee and the NOMAD (together with other relevant parties including technical consultants) complement and strengthen the continuous disclosure policy currently in place.

The members of the Continuous Disclosure Committee are:
Mr T. Sage (Chairman)
Mr M. Ashurst
Mr G. Bangura
Mr T. Turner
Mr A. Watling
Mr A. Wilson

The skills, experience and expertise of each committee member at the date of the annual report is included in the Directors' Report.

A quarterly declaration is made by the Deputy Chairman (Chairman of the Continuous Disclosure Committee) and Chief Executive Officer certifying that the Board has reviewed the Company's operations during the quarter and declares that, in the opinion of the Board, there are no issues that require additional disclosure by the Company and that the market is fully informed in accordance with the Company's continuous disclosure obligations under the Listing Rules in respect of the prospects and activities of the Company.

Risk Management Program

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed. The Board and senior management are committed to managing risks in order to both minimise uncertainty and to maximise its business opportunities. The function and responsibility for maintaining the Company's risk management systems is delegated to the Company's Audit and Risk Committee.

Further information regarding the risk management program can be found in the Corporate Governance Plan available on the Company's website.

Securities Trading Policy

The Company has developed a policy for the sale and purchase of its securities. This policy details and explains the relevant Corporation Act provisions applicable to inside trading and imposes constraints on directors and senior executives of the Company dealing in securities of the Company. It also imposes disclosure requirements on Directors.

Under the Company's Securities Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

In addition, Directors and senior executives may not trade in securities during designated "Blackout Periods" without the prior written consent from the Board or Chairman in the circumstances of "severe financial hardship" or other exceptional circumstances. The "Blackout Periods" are:

- within the period of one (1) month prior to the release of annual or half yearly results; and
- if there is in existence price sensitive information that has not been disclosed because of an NSX exception.

Before commencing to trade, a Director or senior executive must obtain the approval of the Chairman (in the case of a Director) or the Chief Executive Officer or Chairman (in the case of a senior executive) of their intention to do so.

As required by the NSX Listing Rules, the Company notifies the NSX of any transaction conducted by a Director in the securities of the Company.

Shareholder Communication

The Company has adopted a shareholder communication strategy to set out the Company's policy for communicating with its shareholders.

The purpose of the policy is to ensure the Company deals fairly, transparently and promptly with its current and prospective shareholders, encourages and facilitates active participation by shareholders at shareholder meetings and deals promptly with shareholder enquiries.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	6 months ended 31 December 2010 US$	6 months ended 30 June 2010 US$
Continuing Operations			
Revenue	6(a)	**224,969**	617
Discount on acquisition		**-**	278,928
Depreciation expense	6(b)	**(71,380)**	-
Consulting expenses		**(2,958,245)**	(2,647,332)
Compliance and regulatory expenses		**(272,504)**	(32,400)
Other		**(1,965,513)**	(407,465)
Share-based payments	20	**(7,593,509)**	-
Impairment loss on tenements	6(b)	**(118,045)**	-
Employee benefits		**(764,424)**	(173,901)
Directors' remuneration	21	**(876,850)**	(615,529)
Foreign currency gains / (losses)		**(128,509)**	(160,166)
Finance costs		**(82)**	-
Impairment of Goodwill	12	**-**	(18,360,330)
Loss from continuing operations before income tax		**(14,524,092)**	(22,117,578)
Income tax expense	5	**-**	-
Loss for the period, attributable to the members		**(14,524,092)**	(22,117,578)
Other comprehensive income			
Foreign exchange loss on translation of functional currency to presentation currency		**(1,819,279)**	(204,962)
Other comprehensive income / (loss) for the period, net of tax		**(1,819,279)**	(204,962)
Total comprehensive loss for the period		**(16,343,371)**	(22,322,540)
Loss for the period is attributable to:			
Non-controlling interest		**-**	-
Owners of the parent		**(14,524,092)**	(22,117,578)
		(14,524,092)	(22,117,578)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		**-**	-
Owners of the parent		**(16,343,371)**	(22,322,540)
		(16,343,371)	(22,322,540)
EPS attributable to members			
Basic/diluted (loss) per share	26	**(1.08)**	(2.84)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	31 December 2010 US$	30 June 2010 US$
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	7	**135,451,410**	180,829,563
Trade and Other Receivables	8	**1,976,185**	310,942
Prepayments	9	**913,478**	2,751
TOTAL CURRENT ASSETS		**138,341,073**	181,143,256
NON CURRENT ASSETS			
Plant and Equipment	10	**551,324**	29,582
Restricted cash		**117,599**	-
Exploration and Evaluation Expenditure	11	**52,199,175**	27,948,672
TOTAL NON CURRENT ASSETS		**52,868,098**	27,978,254
TOTAL ASSETS		**191,209,171**	209,121,510
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	13	**16,300,362**	26,085,966
Borrowings	14	**-**	1,621,310
TOTAL CURRENT LIABILITIES		**16,300,362**	27,707,276
TOTAL LIABILITIES		**16,300,362**	27,707,276
NET ASSETS		**174,908,809**	181,414,234
EQUITY			
Issued Capital	16	**211,596,478**	209,353,451
Reserves	17	**5,463,233**	(310,997)
Accumulated losses	18	**(42,186,907)**	(27,662,815)
Parent interests		**174,872,804**	181,379,639
Non-controlling interests	19	**36,005**	34,595
TOTAL EQUITY		**174,908,809**	181,414,234

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital US$	Share-based payment reserve US$	Accumulated Losses US$	Foreign currency translation Reserve US$	Non-controlling interest US$	Total US$
BALANCE AT 1 JULY 2010		**209,353,451**	**-**	**(27,662,815)**	**(310,997)**	**34,595**	**181,414,234**
Loss for the period attributable to members	**18**	**-**	**-**	**(14,524,092)**	**-**	**-**	**(14,524,092)**
Other comprehensive income / (losses):							
Foreign currency exchange differences arising on translation from functional currency to presentation currency	**17**	**-**	**-**	**-**	**(1,819,279)**	**-**	**(1,819,279)**
Total comprehensive loss for the period		**-**	**-**	**(14,524,092)**	**(1,819,279)**	**-**	**(16,343,371**
Transactions with owners in their capacity as owners:							
Non-controlling interest recognised during the period		**-**	**-**	**-**	**-**	**1,410**	**1,410**
Share-based payment	**20**	**-**	**7,593,509**	**-**	**-**	**-**	**7,593,509**
Options exercised	**16**	**2,243,027**	**-**	**-**	**-**	**-**	**2,243,027**
BALANCE AT 31 DECEMBER 2010		**211,596,478**	**7,593,509**	**(42,186,907)**	**(2,130,276)**	**36,005**	**174,908,809**

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital US$	Accumulated Losses US$	Foreign currency translation Reserve US$	Non-controlling interest US$	Total US$
BALANCE AT 1 JANUARY 2010		10,638,529	(5,545,237)	(515,959)	-	4,577,333
Loss for the period attributable to members	**18**	-	(22,117,578)	-	-	(22,117,578)
Other comprehensive income / (losses):						
Foreign currency exchange differences arising on translation from functional currency to presentation currency		-	-	204,962	-	204,962
Total comprehensive loss for the period			(22,117,578)	204,962		(21,912,616)
Transactions with owners in their capacity as owners:						
Fair value of shares transferred under reverse acquisition accounting	**12,16**	198,714,922	-	-	-	198,714,922
Non-controlling interest recognised during the period	**19**	-	-	-	34,595	34,595
BALANCE AT 30 JUNE 2010		209,353,451	(27,662,815)	(310,997)	34,595	181,414,234

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	6 months ended 31 December 2010 US$	6 months ended 30 June 2010 US$
Cash Flows from Operating Activities			
Payments to suppliers and employees		**(9,516,424)**	(3,826,019)
Interest received		**136,826**	-
Finance costs		**(82)**	-
Other revenue		**88,142**	
Net cash flows used in operating activities	**7**	**(9,291,538)**	(3,826,019)
Cash Flows from Investing Activities			
Payment for plant and equipment	**10**	**(592,782)**	(19,759)
Cash balances acquired on acquisition of controlled entities		**-**	181,343,555
Payment for exploration and evaluation activities		**(34,035,013)**	(2,008,422)
Net cash from/(used in) investing activities		**(34,627,795)**	179,315,374
Cash Flows from Financing Activities			
Proceeds from borrowings		**-**	372,466
Repayment of borrowings		**(1,621,310)**	-
Proceeds from issue of shares		**2,243,027**	-
Net cash from / (used in) financing activities		**621,717**	372,466
Net increase / (decrease) in Cash and Cash Equivalents		**(43,297,616)**	175,861,821
Cash and Cash Equivalents at the Beginning of the Year		**180,829,563**	4,967,742
Net Foreign exchange differences		**(2,080,537)**	-
Cash and Cash Equivalents at the End of Year	**7**	**135,451,410**	180,829,563

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

The financial report of African Petroleum Corporation Limited and its subsidiaries (together the "Consolidated Entity") for the period ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 30 March 2011.

African Petroleum Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the National Stock Exchange of Australia.

2. BASIS OF PREPARATION OF ANNUAL REPORT

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accruals basis and is based on historical costs.

The financial report is presented in United States Dollars.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Comparative financial information

The financial information presented in the financial statements for the period ended 30 June 2010 has been restated from Australian Dollars to United States Dollars. On 28 June 2010, African Petroleum Corporation Limited ("African Petroleum" or the "Company") completed the acquisition of 100% of Cayman Islands incorporated African Petroleum Corporation Limited ("APCL"). In accordance with AASB 3 "Business Combinations", APCL was deemed to be the accounting acquirer in the business combination. Consequently, the transaction was accounted for as a reverse acquisition.

On 29 January 2010, European Hydrocarbons Limited ("EHL") became a legal subsidiary of APCL. However, this business combination is also required to be accounted for as a reverse acquisition.

Consequently, EHL is regarded as the parent entity of both APCL and African Petroleum for accounting purposes. The consolidation of EHL, APCL and APCL's other legal subsidiaries is referred to as the EHL Group.

Accordingly, the consolidated financial statements for the period ended 30 June 2010 were prepared as a continuation of the business and operations of EHL. EHL, as the deemed acquirer, accounted for the acquisition of African Petroleum from 28 June 2010.

The implications of the application of AASB 3 on the consolidated financial statements for the period ended 30 June 2010 was as follows:

Consolidated Statement of Comprehensive Income

The 30 June 2010 Statement of Comprehensive Income for the Consolidated Entity comprises 6 months of EHL from 1 January 2010 to 30 June 2010 and 2 days of African Petroleum from 28 June 2010 to 30 June 2010.

Consolidated Statement of Financial Position

The 30 June 2010 Consolidated Statement of Financial Position represents that of African Petroleum as at 30 June 2010 and the EHL Group as at 30 June 2010.

Consolidated Statement of Changes in Equity

The 30 June 2010 Consolidated Statement of Changes in Equity comprises:
- The equity balance of EHL at the beginning of the period, 1 January 2010,
- The transactions for the period ended 30 June 2010, being 6 months of the EHL Group and 2 days African Petroleum.
- The consolidated equity balance of EHL and African Petroleum as at 30 June 2010.

Consolidated Statement of Cash Flows

The 30 June 2010 Consolidated Statement of Cash Flows comprises:
- The cash balance of EHL at the beginning of the period, 1 January 2010,
- The transactions for the period ended 30 June 2010, being 6 months of the EHL Group and 2 days African Petroleum, and
- The consolidated cash balance of the EHL Group and African Petroleum as at 30 June 2010.

Compliance with IFRS

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

3. SUMMARY OF ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Changes in accounting policy and other disclosures

New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous period except where noted.

The following standards and interpretations have been applied for the first time by the Consolidated Entity during the current period:

Reference	Title	Application date of standard	Application date for Consolidated Entity
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	1 January 2010	1 January 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	1 January 2010	1 January 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	1 February 2010	1 July 2010

3. SUMMARY OF ACCOUNTING POLICIES (continued)
(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Application date of standard	Application date for Consolidated Entity
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	1 July 2010	1 July 2010
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	1 July 2010

Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the reporting period ended 31 December 2010 are set out below. The application of these Standards and Interpretations, once effective, will not have any impact on the Consolidated Entity.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.	1 January 2013	1 January 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	► These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. ► This Standard shall be applied when AASB 9 is applied	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 January 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 January 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 January 2012

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments	1 July 2013	1 January 2014

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 January 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 January 2011

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
The AASB has not yet issued this amendment finalised by the IASB in November 2010	Amendments to IFRS 9: Fair Value Option for Financial Liabilities	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 January 2013

(b) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information available to chief operating decision makers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.
However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category called "all other segments".

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

Functional and presentation currency
The Company has elected United States Dollars as its presentation currency. Where the functional currencies of entities within the consolidated group differ from United States Dollars, they have been translated into United States Dollars.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in the foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group Companies' functional currency to presentation currency
The results of African Petroleum Corporation Limited and certain of its subsidiaries are translated into United Dollars (presentation currency) as at the date of each transaction. Monetary assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

(e) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due to it according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the amount expected to be received. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the Statement of Comprehensive Income.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(f) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation
Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method.

The depreciation rates used for each class of depreciable assets are:

- Plant and equipment 20% - 33%

Gains and proceeds on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

(g) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure is recorded at historical costs on an area of interest basis. Expenditure on an area of interest is capitalised and carried forward where rights to tenure of the area of interest are current and:

(i) it is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
(ii) exploration and evaluation activities are continuing in an area of interest but at reporting date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in respect of areas of interest which are abandoned, are written off in full against profit in the period in which the decision to abandon the area is made.

Costs of site restoration are provided from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the exploration permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Projects are advanced to development status when it is expected that further expenditure can be recouped through sale or successful development and exploitation of the area of interest.

The consolidated entity is applying AASB 6 *Exploration for and Evaluation of Mineral Resources* which is equivalent to IFRS 6. The carrying value of exploration and evaluation expenditure is historical cost less accumulated amortisation less impairment.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Revenue

Revenues are recognised at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax / or Value Added Tax paid to taxation authorities. Revenue is recognised for the major business activities as follows:

Interest
Interest revenue is recognised on a time proportional basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to the net carrying amount of the financial asset.

The Consolidated Entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Consolidated Entity's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the revenue have been resolved. The Consolidated Entity bases its estimates on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the relevant national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) Other taxes

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") and Value Added Tax ("VAT") except:

- where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from, or payable to, taxation authorities is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to taxation authorities are classified as operating cash flows.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Earnings per share

(i) Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(l) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(m) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Consolidated Entity prior to the reporting date that are unpaid at the reporting date and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Costs of site restoration are provided from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(n) Provisions (continued)

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

(o) Contributed equity

Contributed equity is recognised at the fair value of the consideration received by the Consolidated Entity, less any capital raising costs in relation to the issue.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Share-based payments

The fair value of shares issued and options granted are recognised as an expense or the fair value of the asset acquired with a corresponding increase in equity. For shares issued, the fair value is measured at the share price on the date the shares were issued. For options granted, the fair value is measured at grant date taking into account market performance conditions only, and will be spread over the vesting period during which the holder becomes unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes model.

Upon exercise of options, the fair value of the options exercised and the proceeds received, net of any directly attributable transaction costs, are credited to share capital

(q) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Borrowing costs are expensed and borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(r) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred is a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Costs directly attributable to the acquisition are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling shareholders’ interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(r) Business Combinations (continued)

Any contingent consideration to be transferred by the acquiree will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(s) Interest in jointly controlled assets

The Consolidated Entity recognises its share of the asset and liabilities of jointly controlled assets.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Directors evaluate estimates and judgements incorporated in the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Entity.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future period.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Impairment
The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amounts of the assets are determined.

During the current period, the Directors determined that a number of exploration licences in respect of which the Company held iron ore exploration rights expired or had no attributable value. The capitalised exploration and evaluation costs associated with the tenements to which the licences relate have been recognised as an impairment loss in the statement of comprehensive income.

On 28 June 2010, the Company completed the acquisition of 100% of Cayman incorporated African Petroleum Corporation Limited ("APCL"). Under the terms of AASB 3 "Business Combinations", APCL was deemed to be the accounting acquirer in the business combination. Consequently, the transaction has been accounted for as a reverse acquisition. In the prior period, the excess consideration paid, over the fair value of the net identifiable assets acquired, was written off in the statement of comprehensive income because the Directors determined that there was no future benefit associated with the excess consideration.

Exploration and evaluation expenditure
Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided certain conditions listed in Note 3(g) are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. The related carrying amounts are disclosed in Note 11.

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Share-based payment transactions
The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model. The related assumptions are detailed in note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Income taxes
The Consolidated Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations.
Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Consolidated Entity has not recognised any deferred tax assets relating to carried forward tax losses or temporary differences as there is no certainty that sufficient future taxable incomes will be generated to utilise such losses and temporary differences.

	31 December 2010 US$	30 June 2010 US$
5. INCOME TAX		
(a) The components of income tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) The prima facie tax on profit/(loss) from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax (expense)/benefit on loss from ordinary activities before income tax at 30% (30 June 2010: 30%)	**4,357,228**	6,635,274
Add/(less)		
Tax effect of		
- Non deductible excess purchase consideration written off	**-**	(5,508,099)
- Non assessable discount on acquisition	**-**	83,678
- Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(4,357,228)**	(1,210,852)
Income tax expense / (benefit)	**-**	-
(c) The applicable weighted average effective tax rate is as follows:	**n/a**	**n/a**

Deferred tax assets have not been brought to account in respect of tax losses and temporary differences because as at 31 December 2010 it is not probable that future taxable amounts will be available to utilise those temporary differences and losses.

	31 December 2010 US$	30 June 2010 US$
6. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		
(a) REVENUE		
Interest income	**136,826**	617
Other revenue	**88,143**	-
	224,969	617
(b) EXPENSES		
The following revenue and expense items are relevant in explaining the financial performance for the year:		
Impairment of capitalised exploration expenditure	**118,045**	-
Depreciation	**71,380**	-
(c)REMUNERATION OF AUDITORS		
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**56,505**	-
Ernst & Young related practices	**79,830**	-
Paid or payable to Grant Thornton (UK) Partnership		
Audit or review of financial reports	**-**	18,318
Paid or payable to Bright Grahame Murray		
Audit or review of financial reports	**-**	14,082

	31 December 2010 US$	30 June 2010 US$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**135,451,410**	180,829,563
Cash and cash equivalents	**135,451,410**	180,829,563

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the reporting date as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	31 December 2010 US$	30 June 2010 US$
Cash and cash equivalents	**135,451,410**	180,829,563
b) Reconciliation of Net Loss to Net Cash Flows from Operating Activities		
Loss from ordinary activities	**(14,524,092)**	(22,117,578)
Adjusted for non cash items:		
Depreciation	**71,380**	-
Excess purchase consideration written off	**-**	18,360,330
Discount on acquisition	**-**	(278,928)
Share based payments expense	**7,593,509**	-
Unrealised foreign exchange gain	**128,509**	-
Impairment	**118,045**	-
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Increase / (decrease) in trade and other receivables	**(2,561,290)**	(219,221)
Increase / (decrease) in trade and other payables	**-**	429,378
Increase / (decrease) in restricted cash	**(117,599)**	-
Net cash provided by / (used) in operating activities	**(9,291,538)**	(3,826,019)

(b) Non-Cash Activities

On 13 October 2010, 1,875,000 unlisted options with an exercise price of A$0.55 and an expiry date of 31 July 2013 were issued to consultants and employees. The options have been valued at US$1,141,122 (refer to note 20 for further details).

On 21 December 2010, 10,500,000 unlisted options with an exercise price of A$0.55 and an expiry date of 31 July2013 were issued to directors. The options have been valued at US$6,384,473 (refer to note 20 for further details).

On 1 December 2010, 1,000,000 unlisted options with an exercise price of A$0.55 and an expiry date of 1 December 2015 were issued to an employee. No options vested on issue. The options are expected to vest and will be recognised over the following periods:

- 250,000 options over a 3 year period
- 250,000 options over a 6 month period
- 500,000 options over a 8 month period

An amount of US$67,914 has been recognised in the current period for these options.

8. TRADE AND OTHER RECEIVABLES

	31 December 2010 US$	30 June 2010 US$
GST / VAT recoverable	**1,127,985**	276,573
Other receivables	**848,200**	34,369
	1,976,185	310,942

Trade and other receivables are neither past due or impaired.

9. PREPAYMENTS

	31 December 2010 US$	30 June 2010 US$
Prepayments	**913,478**	2,751
	913,478	2,751

10. PLANT AND EQUIPMENT

	31 December 2010 US$	30 June 2010 US$
Plant and Equipment		
At cost	**626,157**	30,991
Accumulated depreciation	**(74,833)**	(1,409)
	551,324	29,582

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the periods presented are set out below.

	Note	31 December 2010 US$	30 June 2010 US$
Plant and equipment			
Balance at beginning of the period		**29,582**	8,312
Additions		**592,782**	19,699
Depreciation expense		**(71,380)**	-
Additions through business combination	**12**	**-**	1,827
Foreign currency exchange difference arising on translation from functional currency to presentation currency		**340**	(256)
Carrying amount at end of period		**551,324**	29,582

	Note	31 December 2010 US$	30 June 2010 US$
11. EXPLORATION AND EVALUATION EXPENDITURE			
Costs carried forward in respect of areas of interest in:			
- Exploration and evaluation phases		**52,199,175**	27,948,672
Reconciliation			
Exploration and evaluation phases			
Opening balance		**27,948,672**	2,462,787
Exploration expenditure incurred		**24,368,548**	25,378,505
Exploration expenditure impaired		**(118,045)**	-
Exploration expenditure acquired pursuant to a business combination	**12**	**-**	107,380
		52,199,175	27,948,672

During the period, the carrying amount of exploration and evaluation expenditure was assessed in accordance with AASB 6 “Exploration for and Evaluation of Mineral Resources” an impairment loss of $118,045 has been recognised by the Company. This amount is shown as a separate line item on the statement of comprehensive income.

At the date of this report, the Directors are of the opinion the carrying amount of capitalised exploration and evaluation costs represents fair value.

The value of the Consolidated Entity’s interest in exploration expenditure is dependent upon:

- the continuance of its rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Directors’ assessment of carrying amount was after consideration of prevailing market conditions; previous expenditure carried out and the potential for the discovery of hydrocarbons. The ultimate value of these assets is dependent upon recoupment by commercial development or the sale of the whole, or part, of the Consolidated Entity’s interests in those areas for an amount at least equal to the carrying value.

12. BUSINESS COMBINATION

(a) Reverse acquisition of African Petroleum by APCL in prior period

On 28 June 2010, African Petroleum Corporation Limited (formerly Global Iron Limited) ("African Petroleum" or the "Company") completed the acquisition of 100% of Cayman incorporated African Petroleum Corporation Limited ("APCL"). Under the terms of AASB 3 "Business Combinations", APCL was deemed to be the accounting acquirer in the business combination. Consequently, the transaction has been accounted for as a reverse acquisition.

Details of the fair value of assets and liabilities acquired and excess consideration are as follows:

Purchase consideration:	**US$**
421,752,547 (being the number of shares of the legal parent, African Petroleum Corporation Limited, before the business combination) multiplied by A$0.55* per share	198,714,920
Less: fair value of net identifiable assets acquired (see below)	(180,354,590)
Goodwill	18,360,330

* This has been determined to be the fair value of shares on acquisition of APCL

The goodwill has been written off in the statement of comprehensive income because the Directors have determined that there is no future benefit associated with the excess consideration.

Details of the fair value of identifiable assets and liabilities of African Petroleum Corporation Limited as at the date of acquisition are:

	Note	Book carrying value US$	Fair value US$
Assets			
Cash and cash equivalents		180,790,726	180,790,726
Trade and other receivables		78,845	78,845
Capitalised exploration costs	11	107,380	107,380
Property, plant and equipment	10(a)	1,827	1,827
Liabilities			
Trade and other payables		(624,188)	(624,188)
Net assets		**180,354,590**	**180,354,590**

Direct costs relating to the acquisition that have been expensed in the statement of comprehensive income by the legal parent are US$313,394.

Cash outflow / (inflow) on acquisition

Net cash acquired	**180,790,726**

The receivables acquired were expected to be fully recovered within the next 12 months.

The statement of comprehensive income for the Consolidated Entity does not include any revenue or loss for African Petroleum the period ended 30 June 2010, as a result of the reverse acquisition of African Petroleum by APCL on 28 June 2010. Had the acquisition of African Petroleum occurred at the beginning of the reporting period (1 January 2010), the consolidated statement of comprehensive income would have included revenue of US$7,903 and a net loss after tax of US$938,824.

12. BUSINESS COMBINATION (continued)

(b) Acquisition of APSLL in prior period

During the prior period, APCL completed the acquisition of 100% of Cayman incorporated African Petroleum Sierra Leone Limited ("APSLL") and its Sierra Leone incorporated subsidiaries.

Details of the fair value of assets and liabilities acquired and discount on acquisition are as follows:

	US$
Purchase consideration:	47,986
Fair value of net identifiable assets acquired (see below)	315,679
Discount on acquisition	(267,693)

Details of the provisional fair value of identifiable assets and liabilities of African Petroleum Corporation Limited as at the date of acquisition are:

	Book carrying value US$	**Fair value US$**
Assets		
Cash and cash equivalents	530,561	530,561
Trade and other receivables	47,985	47,985
Liabilities		
Trade and other payables	(262,867)	(262,867)
Net assets	**315,679**	**315,679**
Cash outflow / (inflow) on acquisition		
Net cash acquired	530,561	

The statement of comprehensive income for the Consolidated Entity includes nil revenues and loss after tax of US$597,762 for APSLL the period ended 30 June 2010. Had the acquisition of APSLL occurred at the beginning of the reporting period (1 January 2010), the consolidated statement of comprehensive income would have included nil revenues and a net loss after tax of and US$597,889.

	31 December 2010 US$	**30 June 2010 US$**
13. TRADE AND OTHER PAYABLES		
Trade payables	**7,682,461**	24,778,944
Other payables	**8,617,901**	1,307,022
	16,300,362	26,085,966
14. BORROWINGS		
Loan from related party	**-**	1,621,310
Borrowings	**-**	1,621,310

The loan was provided by Sarella Investments Limited, a company controlled by Mr Timis, and is unsecured, non-interest bearing and repayable on demand. The loan has been repaid in full during the current period.

15. INTEREST IN JOINTLY CONTROLLED ASSET

On 23 August 2010, African Petroleum's wholly owned subsidiary, African Petroleum Gambia Limited ("African Petroleum Gambia"), entered into an agreement with Buried Hill Gambia BV (''Buried Hill'') to acquire (via farm-in) a 60% equity interest in two off-shore Gambian exploration licences, Alhamdulilah Licence Block A1 and Licence Block A4 ("Licence Blocks") ("Agreement").

Under the Agreement, African Petroleum Gambia has assumed the operatorship of the Licence Blocks, which cover a combined total area of 2,668km^2 off-shore Gambia and is required to pay 80% of the forward costs incurred on the two blocks from execution of the Agreement to the end of the initial exploration period. In addition, to earn the 60% legal and beneficial interest in the Licence Blocks, African Petroleum Gambia has:

- assumed responsibility for all of Buried Hill's corporate licence guarantees, amounting to US$8,000,000 (refer to note 27); and
- paid Buried Hill's data fees payable to the Government of The Republic of the Gambia, amounting to US$750,000.

The Government of The Republic of the Gambia approved the Agreement and the extension of the initial exploration period for each of the Licence Blocks by a further two years to 31 December 2013.

In the event that the exploration period is mutually extended beyond 31 December 2013 on either of the Licence Blocks, African Petroleum Gambia is required to pay 60% of Buried Hill's past costs, which amount to approximately US$22.9 million.

The Consolidated Entity's interests in the assets and liabilities are included in the statement of financial position as at 31 December 2010.

	31 December 2010 US$	30 June 2010 US$
16. ISSUED CAPITAL		
Fully paid ordinary shares	**211,596,478**	209,353,451

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings, each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

Reconciliation of movement in shares on issue

	Number of fully paid ordinary shares	
	6 months ended 31 December 2010	**6 months ended 30 June 2010**
At beginning of reporting period	1,328,002,598	18,125,002
Issue of shares pursuant to a capital raising	-	403,627,545
Issue of shares as purchase consideration for APCL	-	906,250,051
Exercise of options	12,500,000	-
	1,340,502,598	1,328,002,598

16. ISSUED CAPITAL (continued)

Reconciliation of movements in issued capital

	31 December 2010 US$	30 June 2010 US$
Fair value of issued share capital at beginning of period	**209,353,451**	10,638,529
Fair value of shares transferred under reverse acquisition accounting	**-**	198,714,922
Exercise of options	**2,243,027**	-
Fair value of issued share capital at end of period	**211,596,478**	209,353,451

Capital Management
Management controls the capital of the Company in order to maximise the return to shareholders and ensure that the Company can fund its operations and continue as a going concern.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior reporting period.

Management monitors capital requirements through cash flow forecasting. Capital is defined as issued share capital. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Consolidated Entity has no externally imposed capital requirements.

17. RESERVES

	31 December 2010 US$	30 June 2010 US$
Share-based payment reserve		
At beginning of reporting period	-	**-**
Issue of share based payment options	**7,593,509**	
Expired options	**-**	
Options exercised	**-**	**-**
At reporting date	**7,593,509**	**-**
Foreign currency translation reserve		
At beginning of reporting period	**(310,997)**	(515,959)
Foreign currency exchange differences arising on translation of functional currency to presentation currency	**(1,819,279)**	204,962
At reporting date	**(2,130,276)**	(310,997)
Total reserves	**5,463,233**	(310,997)

Nature and purpose of reserves

Share-based payment reserve
The share based payment reserve is used to recognise the fair value of options issued but not exercised. Refer to note 20 for further details.

Foreign currency translation reserve
The foreign currency translation reserve is used to recognise foreign currency exchange differences arising on translation of functional currency to presentation currency.

	31 December 2010 US$	30 June 2010 US$
18. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the period	**(27,662,815)**	(5,545,237)
Loss attributable to the members of the entity	**(14,524,092)**	(22,117,578)
Accumulated losses at the end of the period	**(42,186,907)**	(27,662,815)
19. NON-CONTROLLING INTEREST		
Contributed equity	**(36,005)**	(34,595)
	(36,005)	(34,595)

20. SHARE BASED PAYMENTS

The following share-based payment options were granted during the period:

Number of options	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
1,875,000	13 October 2010	31 July 2013	A$0.55[2]	A$0.62[3]
10,500,000	25 November 2010	31 July 2013	A$0.55[2]	A$0.61[4]
1,000,000[1]	1 December 2010	1 December 2015	A$0.55[2]	A$0.73[5]

[1] 1,000,000 options were awarded on 1 December 2010. The options will be recognised over the vesting period. 389,400 options vested as at 31 December 2010 with US$67,914 recognised as an expense in the current period.
[2] US$ equivalent exercise price as at 31 December 2010 is $US0.56
[3] US$ equivalent fair value at grant date is US$0.61
[4] US$ equivalent fair value at grant date is US$0.60
[5] US$ equivalent fair value at grant date is US$0.70

The following share-based payment options were granted during the prior period:

Number of options	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
12,108,826	30 June 2010	30 June 2013	A$0.55[1]	A$0.41[2]

[1] US$ equivalent exercise price as at 31 December 2010 is equal to $US0.56
[2] US$ equivalent fair value at grant date is equal to US$0.35

The fair value of options granted during the period which have vested is US$7,593,509 (30 June 2010: US$4,219,462). The fair value of unvested options that were granted during the period that are expected to vest is US$697,703 (30 June 2010: US$ nil).

The options were issued to directors and employees in recognition of services provided and to be provided in the future. Holders of options do not have any voting or dividend rights in relation to the options.

The weighted average fair value of the options granted during the current period is A$0.62 30 June 2010: A$0.41). Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility. No allowance has been made for the effects of early exercise.

20. SHARE BASED PAYMENTS (continued)

The following shows the model inputs for the options granted during the period and outstanding at balance date:

	Option Series			
Inputs into the Model	**Expiring on 30 June 2013**	**Expiring on 31 July 2013**	**Expiring on 31 July 2013**	**Expiring on 1 December 2015**
Grant date	30 June 2010	13 October 2010	25 November 2010	1 December 2010
Grant date share price	A$0.55[1]	A$0.80[3]	A$0.80[4]	A$0.82[5]
Exercise price	A$0.55[2]	A$0.55[2]	A$0.55[2]	A$0.55[2]
Expected volatility	125%	125%	125%	125%
Option life	3 years	2 years 9 months	2 years 8 months	5 years
Dividend yield	-	-	-	-
Risk-free interest rate	4.47%	4.86%	5.22%	5.11%

[1]The US$ equivalent grant date share price is equal to US$0.47
[2] The US$ equivalent exercise price as at 31 December 2010 is US$0.56
[3] The US$ equivalent grant date share price is US$0.79
[4] The US$ equivalent grant date share price is US$0.78
[5] The US$ equivalent grant date share price is US$0.79

The option expense recognised during the period was US$7,593,509 (30 June 2010: Nil). The value of options capitalised during the period was nil (30 June 2010: US$4,219,463).

The following reconciles the outstanding share options granted, exercised and forfeited during the period:

	31 December 2010		**30 June 2010**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance at beginning of the period	**24,608,826**	**A$0.37**[1]	12,500,000	A$0.20
Granted during the period	**13,375,000**	**A$0.55**[2]	12,108,826	A$0.55[2]
Exercised during the period	**(12,500,000)**	**A$0.20**[3]	-	-
Forfeited during the period	**-**	**-**	-	-
Balance at end of the period	**25,483,826**	**A$0.55**[2]	24,608,826	A$0.37[1]
Exercisable at end of the period	**24,483,826**	**A$0.55**[2]	24,608,826	A$0.37[7]

Balance at end of the period

The share options outstanding at the end of the period had a weighted average exercise price of **A$0.55** (30 June 2010: A$0.37) and the weighted average remaining contractual life was 951 days (30 June 2010: 555 days).

[1] The US$ equivalent weighted average exercise price is equal to US$0.38
[2] The US$ equivalent weighted average exercise price is equal to US$0.56
[3] The US$ equivalent weighted average exercise price is equal to US$0.20

21. RELATED PARTY INFORMATION

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

(a) Ultimate parent

African Petroleum Corporation Limited ("African Petroleum") is the ultimate Australian parent entity and the ultimate parent of the Consolidated Entity from a legal perspective.

On 28 June 2010, African Petroleum Corporation Limited completed the acquisition of 100% of Cayman incorporated African Petroleum Corporation Limited ("APCL"). Under the terms of AASB 3 "Business Combinations", APCL was deemed to be the accounting acquirer in the business combination. Consequently, the transaction was accounted for as a reverse acquisition.

On 29 January 2010, European Hydrocarbons Limited ("EHL") became a legal subsidiary of APCL. However, that business combination was also required to be accounted for as a reverse acquisition.

Consequently, EHL is regarded as the parent entity of both APCL and African Petroleum for accounting purposes.

(b) Corporate Structure

The legal corporate structure of the Consolidated Entity is set out below:

Name	Country of incorporation	% Equity interest	
		31 December 2010	30 June 2010
Parent entity: African Petroleum Corporation Limited	Australia		
African Petroleum Corporation Limited	Cayman Islands	100%	100%
European Hydrocarbons Limited	Cayman Islands	100%	100%
African Petroleum Liberia Limited	Cayman Islands	100%	100%
African Petroleum Limited	Cayman Islands	100%	100%
African Petroleum Sierra Leone Limited	Cayman Islands	100%	100%
European Hydrocarbons Ghana Limited	Cayman Islands	100%	100%
African Petroleum Senegal Limited	Cayman Islands	100%	-
African Petroleum Gambia Limited	Cayman Islands	100%	-
African Petroleum Guinea Limited	Cayman Islands	100%	100%
African Petroleum (SL) Limited	Sierra Leone	99%	99%
European Hydrocarbons (SL) Limited	Sierra Leone	99%	99%
European Hydrocarbons (Ghana) Limited	Ghana	95%	95%
African Hydrocarbons Ghana Limited	Ghana	91%	-
African Petroleum Liberia Limited	Liberia	100%	-
African Petroleum Corporation (Services) Limited	United Kingdom	100%	100%
European Hydrocarbons Limited	United Kingdom	100%	100%
Regal Liberia Limited	United Kingdom	100%	100%
African Petroleum Limited	United Kingdom	100%	100%
African Petroleum Corporation Limited	United Kingdom	100%	100%

21. RELATED PARTY INFORMATION (continued)

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in the Remuneration Report within the Directors' Report.

(i) Remuneration of Key Management Personnel

	31 December 2010 US$	30 June 2010 US$
Short-term employee benefits	**946,793**	596,449
Post-employment benefits	**47,738**	19,080
Share based payments	**6,695,828**	-
Total compensation	**7,690,359**	615,529

(ii) Number of Shares held by Directors and other Key Management Personnel:

	Balance 1 July 2010	Balance held on Appointment	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2010
Directors						
F Timis	630,816,987	-	-		-	630,816,987
A Sage	4,216,883	-	-	6,400,000	(107,558)	10,509,325
K Thompson	-	-	-	-	-	-
M Ashurst	-	-	-		-	-
G Bangura	-	-	-		-	-
J Couch[1]	-	443,770	-			443,770
J Smith[2]	-		-			-
T Turner	21,993	-	-	250,000	-	271,993
A Watling	-	-	-		-	-
A Wilson	-	-	-		-	-
Key management personnel						
E von Puttkammer[3]	53,523	-	-	300,000	(353,523)	-
Claire Tolcon[4]	-	-	-		-	-
Adrian Robinson[4]	-	-	-		-	-

[1] Appointed 23 September 2010
[2] Appointed on 25 November 2010
[3] Resigned 1 December 2010
[4] Appointed 1 December 2010

21. RELATED PARTY INFORMATION (continued)

	Balance 1 January 2010	Balance held on Appointment	Awarded as remuneration	Options exercised	Net change other	Balance 30 June 2010
Directors						
F Timis	-	630,816,987[1]	-	-	-	630,816,987
A Sage	1,998,383	2,218,500[1]	-	-	-	4,216,883
K Thompson	-	-	-	-	-	-
M Ashurst	-	-	-	-	-	-
M Gwynne	-	-	-	-	-	20,530
G Bangura	-	-	-	-	-	-
T Turner	11,993	-	-	-	10,000	21,993
A Watling	-	-	-	-	-	-
A Wilson	-	-	-	-	-	-
Key management personnel						
E von Puttkammer	28,523	-	-	-	25,000	53,523

[1] Sarella Investments Limited ("Sarella"), a company controlled by Mr Timis, and Mr Sage were both shareholders of APCL. Pursuant to the acquisition of APCL by African Petroleum, Sarella and Mr Sage received 630,816,987 fully paid ordinary shares and 2,218,500 fully paid ordinary shares respectively. These shares are subject to a 24 month escrow restriction ending on 28 June 2012.

(iii) Option Holdings by Directors and other Key Management Personnel

	Balance 1 July 2010	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2010
Directors						
F Timis	-	-	-	-	-	-
A Sage	-	6,400,000	2,000,000	(6,400,000)	-	2,000,000
K Thompson	-	-	1,500,000	-	-	1,500,000
M Ashurst	-	-	1,500,000	-	-	1,500,000
G Bangura	-	-	1,000,000	-	-	1,000,000
J Couch	-	-	1,000,000	-	-	1,000,000
J Smith	-	-	1,000,000	-	-	1,000,000
T Turner	-	250,000	500,000	(250,000)	-	500,000
A Watling	-	-	1,000,000	-	-	1,000,000
A Wilson	-	-	1,000,000	-	-	1,000,000
Key management personnel						
E von Puttkammer	-	300,000	200,000	(300,000)	(200,000)	-
Claire Tolcon	-	-	200,000	-	-	200,000
A Robinson	-	-	389,400	-	-	389,400
	-	6,950,000	11,289,400	(6,950,000)	(200,000)	11,089,400

There were no options held by Directors and other Key Management Personnel during the prior period.

21. RELATED PARTY INFORMATION (continued)

(d) Transactions with related parties:

	31 December 2010 US$	30 June 2010 US$
Amounts payable at year end to related parties		
Cape Lambert Resources Limited which is a company of which Mr Sage and Mr Turner are directors	-	107,474
Silverwest Pty Ltd which is a company controlled by Mr Gwynne	-	2,570
CRMS which is an entity controlled by Mr Turner	3,769	3,427
Gibril Bangura	3,769	-
Anthony Wilson	3,769	-
Cadence Energy UK Ltd which is an entity controlled by James Smith	3,769	-
Phuket Investments Ltd which is an entity controlled by J Couch	3,769	-
Okewood Pty Ltd which is a company controlled by Mr Sage	-	224,874

22. SEGMENT INFORMATION

In accordance with AASB 8 “Operating Segments”, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity’s chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

The Consolidated Entity only has one operating segment being exploration for hydrocarbons.

The analysis of the location of non-current assets is as follows:

	31 December 2010 US$	30 June 2010 US$
Australia	**1,950**	109,207
United Kingdom	**549,374**	27,755
Offshore Liberia	**52,316,774**	27,841,292
	52,868,098	27,978,254

23. EVENTS SUBSEQUENT TO REPORTING DATE

In February 2011, the Sierra Leonean Parliament ratified the Company’s award of block SL-03. Block SL-03 is a 3,135 sq km area located offshore Sierra Leone.

On 9 March 2011, 6,500,000 ordinary shares were issued to African Oil Investing SARL (“African Oil”) in consideration for the evaluation of a series of new exploration ventures in West Africa including securing the farm-in by the Company of Gambian exploration licences in accordance with the terms of an agreement between the Company and African Oil. The shares are subject to a voluntary escrow restriction of 6 months from the date of issue.

No other event has arisen between 31 December 2010 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

24. COMMITMENTS AND CONTINGENCIES

Remuneration commitments

	31 December 2010 US$	30 June 2010 US$
Commitments for the payment of remuneration under long term contracts in existence at the reporting date but not recognised as liabilities, payable:		
Within 1 year	-	88,665
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	-	88,665

Refer further to the remuneration report in the Directors' Report for details of service contracts.

Exploration commitments

Liberian Project

Set out below is a summary of obligations in respect of Liberian Blocks 8 and 9 in each exploration period, detailing the work commitments, minimum expenditures and mandatory relinquishments under Production Sharing Contracts.

Blocks 8 and 9
Summary Exploration Periods, Work Commitments, Minimum Expenditure and Mandatory Relinquishment

Exploration Period	Commencement Date	Expiration Date	Period Years	Minimum Work Commitment per Block	Minimum Expenditure (US$)	Mandatory Relinquishment
1	23/06/2008	23/06/2012	4	1500km^2 3D Seismic, drill 1 exploratory well	US$8 million	25%
2	23/06/2012	23/06/2014	2	Drill 1 exploratory well	US$10 million	25%
3	23/06/2014	23/06/2016	2	Drill 1 exploratory well	US$10 million	100%

Notes:

- Drilling exploration wells is contingent on the success of the seismic program in defining drill targets.
- Each exploration well must be drilled to a minimum 2,000 metres after deducting water depth.
- At the end of the Third Exploration Period, the remaining area of the Blocks must be relinquished other than areas of petroleum discovery, the subject of Appraisal or Exploration authorisations.
- The above requirements, commitments and relinquishments are required to be met on both Block 8 and 9(i.e. in the First Exploration Period, aggregate minimum expenditure is US$16 million and two exploratory wells are required to be drilled).

Gambian Project (joint venture)

Pursuant to a farm-in agreement, between African Petroleum Gambia Ltd ("African Petroleum Gambia") and Buried Hill Gambia BV, African Petroleum Gambia has assumed the operatorship of the Alhamdulilah Licence Block A1 and Licence Block A4 and is required to pay 80% of the forward costs incurred on the two blocks from execution of the agreement to the end of the initial exploration period (31 December 2013)

Contingent liabilities

Gambian Project (joint venture)

In the event that the exploration period at blocks A1 and A4 located offshore Gambia is mutually extended beyond 31 December 2013 on either of the blocks, the Company will be required to pay 60% of its joint venture partner's past costs, which amount to approximately US$22.9 million.

25. FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Company's principal financial instruments comprise receivables, payables and cash.

Risk exposure and responses

The Company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security.

The Company does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company through regular reviews of the risks.

Treasury Risk Management

The Board analyses financial risk exposure and evaluates treasury strategies in the context of the most recent economic conditions and forecasts.

The overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Financial Risk Exposure and Management

The main risks the Company is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

The Company is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Company does not use derivatives to mitigate these exposures.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	31 December 2010	30 June 2010
	US$	US$
Financial assets		
Cash and cash equivalents	**135,451,410**	180,829,563
Financial liabilities		
Borrowings	**-**	1,621,310

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at reporting date would not affect profit or loss.

An increase of 200 basis points in interest rates would have increased the Company's post tax profit by US$3,162,810 (30 June 2010: US$86,856). 200 basis points is management's assessment of the possible change in interest rates.

The following sensitivity analysis is based in interest rate risk exposure in existence at the reporting date.

25. FINANCIAL RISK MANAGEMENT (continued)

At reporting date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	31 December 2010	30 June 2010	31 December 2010	30 June 2010
	US$	US$	US$	US$
Consolidated Entity				
+2% 200 basis points	**3,162,810**	86,856	**-**	-
-2% 200 basis points	**(3,162,810)**	(86,856)	**-**	-

The movement in profit are due to higher / lower interest earned from variable rate cash balances.

Foreign currency risk

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the entities making up the Consolidated Entity, which is primarily the United States Dollar (US$). The Company has not entered into any derivative financial instrument to hedge such transactions.

As a result of subsidiaries whose functional currency is United States Dollars, the Company's statement of financial position can be affected significantly by movements in the US$/GBP exchange rates.

At reporting date, the Consolidated Entity had the following exposure to Great British Pounds that is not designated in cash flow hedges:

	31 December 2010	30 June 2010
	US$	US$
Financial assets		
Cash and cash equivalents - GBP	**2,069,251**	26,536

The following sensitivity is based on the foreign currency risk exposures in existence at reporting date.

At reporting date, had the US Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	31 December 2010	30 June 2010	31 December 2010	30 June 2010
	US$	US$	US$	US$
Consolidated Entity				
US to GBP + 10%	**206,925**	2,654	**-**	-
US to GBP - 10%	**(206,925)**	(2,654)	**-**	-

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 its reputation.

The Company manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Company does not have any external borrowings.

25. FINANCIAL RISK MANAGEMENT (continued)

The following are the contractual maturities of financial liabilities:

31 December 2010	**6 months or less US$**	**6 – 12 months US$**	**1 – 5 years US$**	**Greater than 5 years US$**	**Total US$**
Trade and other payables	**16,300,362**	**-**	**-**	**-**	**16,300,362**

30 June 2010	**6 months or less US$**	**6 – 12 months US$**	**1 – 5 years US$**	**Greater than 5 years US$**	**Total US$**
Trade and other payables	26,085,966	-	-	-	26,085,966

Credit risk

Credit risk arises from the financial assets of the Consolidated Entity, which comprise cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The Consolidated Entity's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Company has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company does not have any significant credit risk exposure to any single counter-party.

(i) Cash and cash equivalents

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

(ii) Trade and other receivables

Trade and other receivables as at the reporting date mainly comprise GST and short term loans to be refunded to the Company. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Company has established an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments. Management does not expect any counterparty to fail to meet their obligations.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Fair value

The net fair value of the financial assets and liabilities approximates their carrying values.

26. EARNINGS / (LOSS) PER SHARE (EPS)

	31 December 2010 US$	30 June 2010 US$
(a) Basic earnings/(loss) per share		
Overall operations	**(1.08)**	(2.84)
(b) Diluted earnings/(loss) per share		
Overall operations	**(1.08)**	(2.84)
(c) Reconciliation of earnings/(loss) used in calculating earnings/(loss) per share		
Basic earnings/(loss) per share		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic earnings/(loss) per share	**(14,524,092)**	(22,117,286)
Profit/(loss) from discontinued operations	**-**	-
Profit/(loss) attributable to the ordinary equity holders used in calculating basic earnings/(loss) per share	**(14,524,092)**	(22,117,578)
	Number of shares	
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	**1,338,638,468**	778,053,955
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive earnings per share	**1,338,638,468**	778,053,955

Options on issue are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share only to the extent to which they are dilutive. The options on issue at reporting date have not been included in the determination of basic earnings per share because they are considered to be anti-dilutive.

27. PARENT ENTITY FINANCIAL INFORMATION

a) Summary Financial information

The individual financial statements of the parent entity show the following aggregate amounts:

	31 December 2010 US$	30 June 2010 US$
Statement of financial position		
Current assets	**3,707,250**	180,869,571
Total assets	**606,920,614**	607,971,828
Current liabilities	**(48,941)**	(624,188)
Total liabilities	**(48,941)**	(624,188)
Shareholders' equity		
Issued capital	**607,279,584**	605,036,557
Reserves	**44,060,211**	5,272,087
Accumulated losses	**(44,468,122)**	(2,961,004)
Net loss for the period	**(41,507,118)**	(938,824)
Total comprehensive loss	**(41,507,118)**	(938,824)

b) Guarantees entered into by the parent entity

On the 1 October 2010, the parent entity guaranteed $8,000,000 to the Republic of The Gambia for the corporate licenses for Alhamdulilah Block A1 and A4, as part of the farm-in agreement to acquire a 60% interest in the license blocks.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current period (30 June 2010: Nil).

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of African Petroleum Corporation Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of African Petroleum Corporation Limited for the period ended 31 December 2010 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2010 and of its performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(iii) complying with International Financial Reporting Standards as disclosed in Note 2.

(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.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the period ended 31 December 2010.

Signed in accordance with a resolution of the Directors:

Antony Sage
Director

Perth, 30 March 2011

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Independent auditor's report to the members of African Petroleum Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of African Petroleum Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met 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.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of African Petroleum Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the period ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 19 of the directors' report for the period ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of African Petroleum Corporation Limited for the period ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Colin Pavlovich
Partner
Perth
30 March 2011

Additional Stock Exchange Information

African Petroleum Corporation Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia ("NSX").

The Company's registered and principal place of business is 18 Oxford Close Leederville, Western Australia 6007 Australia.

Shareholding

The distribution of members and their holdings of equity securities in the Company as at 16 March 2011 were as follows:

Category (size of holding)	Fully Paid Ordinary Shares
1- 1,000	334
1,001- 10,000	381
10,001- 100,000	70
100,001 – 1,000,000	28
1,000,001 - over	32
Total	**845**

Equity Securities

There are 845 shareholders, holding 1,347,002,749 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and are entitled to dividends.

There are 633,035,487 restricted, quoted equity securities held by 2 shareholders with an escrow period of 24 months from date of issue.

There are 273,214,564 restricted, quoted equity securities held by 29 shareholders with an escrow period of 12 months from date of issue.

The number of ordinary shareholdings held in less than marketable parcels is 176.

Options

The Company currently has 12,108,826 unlisted options exercisable at $0.55 expiring on 30 June 2013, 12,575,000 unlisted options exercisable at $0.55 expiring on 13 October 2013 and 1,000,000 unlisted options exercisable at $0.55 expiring on 1 December 2015.

Voting Rights

In accordance with the Company's constitution, on show of hands every member present in person or by proxy or attorney or duly authorised representative had one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Options do not carry a right to vote.

Substantial Holders

The names of the substantial shareholders listed in the Company's register as at 16 March 2011 are as follows:

	Fully paid ordinary shareholders	Number	% of held Issued Capital
1	Sarella Investments Limited	630,816,987	47.06
2	Caldwell Management AG	71,577,687	5.31

Twenty Largest Shareholders

The names of the twenty largest fully paid ordinary shareholders as at 16 March 2011 are as follows

	Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1.	SARELLA INVESTMENTS LIMITED	630,816,987	46.83
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	259,442,886	19.26
3.	NATIONAL NOMINEES LIMITED	77,613,996	5.76
4.	CALDWELL MANAGEMENT AG	71,577,687	5.31
5.	HILLBURG INTERNATIONAL LIMITED	55,462,492	4.12
6.	KONTILLO RESOURCES LIMITED	55,462,492	4.12
7.	CITICORP NOMINEES PTY LIMITED	30,123,266	2.24
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	28,005,950	2.08
9.	WEIGHBRIDGE TRUST LIMITED	22,184,997	1.65
10.	DALSIN HOLDINGS LIMITED	12,024,268	0.89
11.	J P MORGAN NOMINEES AUSTRALIA LIMITED	8,646,312	0.64
12.	CS FOURTH NOMINEES PTY LTD	8,443,893	0.63
13.	MR ANTONY WILLIAM PAUL SAGE <EGAS SUPERANNUATION FUND A/C>	8,280,825	0.61
14.	AFRICAN OIL INVESTING LIMITED	6,500,000	0.48
15.	DOLVEN HOLDINGS LIMITED	6,149,211	0.46
16.	NED GOODMAN INVESTMENT COUNSEL LIMITED	5,879,246	0.44
17.	STATE STREET NOMINEES LIMITED <DES H63J A/C>	5,879,246	0.44
18.	BMO NESBITT BURNS INCORPORATED <402-20430-22 A/C>	5,879,024	0.44
19.	LAMINGTON CAPITAL INC	4,528,339	0.34
20.	MR CHRISTOPHER DAVID GRANNELL	3,729,631	0.28
		1,306,630,748	**97.02**

SCHEDULE OF EXPLORATION ASSETS AS AT 31 DECEMBER 2010

Key Assets

TENEMENT	HOLDER/ APPLICANT	INTEREST HELD
OFFSHORE THE GAMBIA		
BLOCK A1	African Petroleum Gambia Limited	60%
BLOCK A4	African Petroleum Gambia Limited	60%
OFFSHORE LIBERIA		
BLOCK 8	European Hydrocarbons Limited	100%
BLOCK 9	European Hydrocarbons Limited	100%
OFFSHORE SIERA LEONE		
BLOCK 03[1]	European Hydrocarbons Limited	100%

[1] Ratified by Parliament of Sierra Leone on February 2011.

Non-Core assets

The Company does not have a direct ownership interest in any mineral tenements. The Company has an interest in the iron ore rights of the following tenements:

TENEMENT	HOLDER/ APPLICANT	INTEREST HELD
BRITISH HILL		
E77/1063	Southern Cross Goldfields Ltd	100%
M77/1102	Southern Cross Goldfields Ltd	100%
P77/3601	Southern Cross Goldfields Ltd	100%
P77/3602	Southern Cross Goldfields Ltd	100%
P77/3603	Southern Cross Goldfields Ltd	100%
P77/3604	Southern Cross Goldfields Ltd	100%
P77/3649	Southern Cross Goldfields Ltd	100%
P77/3650	Southern Cross Goldfields Ltd	100%
P77/3651	Southern Cross Goldfields Ltd	100%
P77/3652	Southern Cross Goldfields Ltd	100%
P77/3653	Southern Cross Goldfields Ltd	100%
CLAMPTON		
E77/1423	Southern Cross Goldfields Ltd/International Petroleum Ltd	20%
E77/1424	Southern Cross Goldfields Ltd	100%
EVANSTON		
E77/1037	Evanston Resources NL	100%
E77/1295	Cliffs Asia Pacific Iron Ore Pty Ltd	100%
G77/35	International Petroleum Ltd	100%
M77/394	Evanston Resources NL	100%
M77/576	International Petroleum Ltd	100%
M77/646	Southern Cross Goldfields Ltd	100%
M77/824	International Petroleum Ltd	100%
M77/931	Southern Cross Goldfields Ltd	100%
M77/962	Southern Cross Goldfields Ltd	100%
P77/3412	Evanston Resources NL	100%
P77/3413	Evanston Resources NL	100%
P77/3414	Evanston Resources NL	100%
P77/3552	Evanston Resources NL	100%
P77/3801	Southern Cross Goldfields Ltd	100%

SCHEDULE OF EXPLORATION ASSETS
AS AT 31 DECEMBER 2010

P77/3802	Southern Cross Goldfields Ltd	100%
P77/3808	Southern Cross Goldfields Ltd	100%
P77/3809	Southern Cross Goldfields Ltd	100%
P77/3810	Southern Cross Goldfields Ltd	100%
P77/3811	Southern Cross Goldfields Ltd	100%
P77/3812	Southern Cross Goldfields Ltd	100%
P77/3813	Southern Cross Goldfields Ltd	100%
P77/3816	Southern Cross Goldfields Ltd/ International Petroleum Ltd	80%
P77/3817	Southern Cross Goldfields Ltd/ International Petroleum Ltd	80%
P77/3830	Southern Cross Goldfields Ltd	100%
P77/3958	Southern Cross Goldfields Ltd	100%
P77/3959	Southern Cross Goldfields Ltd	100%
JACKSON		
E77/1034	Cliffs Asia Pacific Iron Ore Pty Ltd	100%
E77/1117	Cliffs Asia Pacific Iron Ore Pty Ltd	100%
E77/1141	Cliffs Asia Pacific Iron Ore Pty Ltd	100%
E77/1320	Southern Cross Goldfields Ltd	100%
E77/1321	Cliffs Asia Pacific Iron Ore Pty Ltd	100%
E77/1322	Southern Cross Goldfields Ltd	100%
E77/1423	Southern Cross Goldfields Ltd/International Petroleum Ltd	20%
E77/1424	Southern Cross Goldfields Ltd	100%
E77/1659	Southern Cross Goldfields Ltd	100%
P77/3552	Evabston Resources NL	100%
MT IDA		
E29/561	International Petroleum Ltd	100%
E29/640	International Petroleum Ltd	100%
E29/641	International Petroleum Ltd	100%
E29/642	International Petroleum Ltd	100%
E29/643	Silvertree Nominees Pty Ltd/International Petroleum Ltd	18%
E29/644	Silvertree Nominees Pty Ltd/International Petroleum Ltd	18%
E29/647	International Petroleum Ltd	100%
E29/659	International Petroleum Ltd	100%
E29/660	International Petroleum Ltd	100%
L29/71	International Petroleum Ltd	100%
L29/72	International Petroleum Ltd	100%
M29/2	International Petroleum Ltd	100%
M29/165	Stuart Leslie Hooper/Cape Lambert Iron Ore Ltd	5%
P29/1912	International Petroleum Ltd	100%
P29/1913	International Petroleum Ltd	100%
P29/1934	International Petroleum Ltd	100%
P29/1935	International Petroleum Ltd	100%
P29/1936	International Petroleum Ltd	100%
P29/1937	International Petroleum Ltd	100%
P29/1938	International Petroleum Ltd	100%
P29/1939	International Petroleum Ltd	100%

SCHEDULE OF EXPLORATION ASSETS AS AT 31 DECEMBER 2010

P29/1940	International Petroleum Ltd	100%
P29/1941	International Petroleum Ltd	100%
P29/1942	International Petroleum Ltd	100%
P29/1943	International Petroleum Ltd	100%
P29/1944	International Petroleum Ltd	100%
P29/1945	International Petroleum Ltd	100%
P29/1946	International Petroleum Ltd	100%
P29/1947	International Petroleum Ltd	100%
P29/1948	International Petroleum Ltd	100%
P29/1949	International Petroleum Ltd	100%
P29/1950	International Petroleum Ltd	100%
P29/1977	International Petroleum Ltd	100%
P29/1990	International Petroleum Ltd	100%
P29/1991	International Petroleum Ltd	100%
P29/1992	International Petroleum Ltd	100%
P29/1993	International Petroleum Ltd	100%
P29/1994	International Petroleum Ltd	100%
P29/1995	International Petroleum Ltd	100%
P29/1996	International Petroleum Ltd	100%
P29/1997	International Petroleum Ltd	100%
P29/1998	International Petroleum Ltd	100%
P29/1999	International Petroleum Ltd	100%
P29/2000	International Petroleum Ltd	100%
P29/2001	International Petroleum Ltd	100%
P29/2002	International Petroleum Ltd	100%
P29/2003	International Petroleum Ltd	100%
P29/2004	International Petroleum Ltd	100%
P29/2005	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2006	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2007	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2008	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2009	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2010	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2011	Silvertree Nominees Pty Ltd/International Petroleum Ltd	85%
P29/2015	International Petroleum Ltd	100%
P29/2016	International Petroleum Ltd	100%
P29/2017	International Petroleum Ltd	100%
P29/2018	International Petroleum Ltd	100%
P29/2019	International Petroleum Ltd	100%
P29/2020	International Petroleum Ltd	100%
P29/2021	International Petroleum Ltd	100%
P29/2022	International Petroleum Ltd	100%
P29/2023	International Petroleum Ltd	100%
P29/2024	International Petroleum Ltd	100%

SCHEDULE OF EXPLORATION ASSETS AS AT 31 DECEMBER 2010

P30/1012	International Petroleum Ltd	100%
P30/1013	International Petroleum Ltd	100%
P30/1014	International Petroleum Ltd	100%
P30/1015	International Petroleum Ltd	100%
P30/1016	International Petroleum Ltd	100%
BALI HI		
E08/1372	GTI Resources Ltd	90%