

29 October 2010

## **HIGHLIGHTS**

### **CORPORATE**

- Approximately A\$151.9 million cash at bank at 30 September 2010.
- Appointment of Mr Karl Thompson as Chief Executive Officer.
- Appointment of Mr Jeffrey Couch as an Independent, Non-Executive Director, effective 23 September 2010.
- Appointment of Mr James Smith as an Independent, Non-Executive Director, effective once Shareholders have approved an amendment to the Company's constitution to increase the number of Board members.
- New business opportunities being reviewed offshore West Africa.
- Annual General Meeting of Shareholders to be held on 25 November 2010.

### **OPERATIONS**

- Completed the acquisition of 5100 sq km of 3D seismic data in relation to blocks LB-08 and LB-09 offshore Liberia (**Liberian Project**).
- Entered into contract with Maersk Drilling for a two well programme at the Liberian Project, with the option to test both wells. The programme is scheduled to commence in the first quarter of 2011.
- Chevron Corporation Limited acquires an interest in Oranto Petroleum Limited's 3 exploration blocks offshore Liberia, near the Company's Liberian Project.
- Completed the acquisition of a 60% interest in offshore The Gambian blocks A1 and A4 through a farm-in with Burried Hill Gambia BV (**Gambian Project**).
- Contracted TGS Nopec to acquire 2500 sq km of 3D seismic data on the Gambian Project, which commenced in October 2010.

## CORPORATE

On 23 September 2010, African Petroleum Corporation Limited (**African Petroleum** or the **Company**) appointed Mr Jeffrey Couch 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.

The Company has also appointed Mr James Smith as an Independent, Non-Executive Director. Mr Smith's appointment is subject to Shareholders approving an amendment to the Company's constitution to increase the number of Board members. The approval will be sought at the Annual General Meeting on 25 November 2010.

Mr James 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.

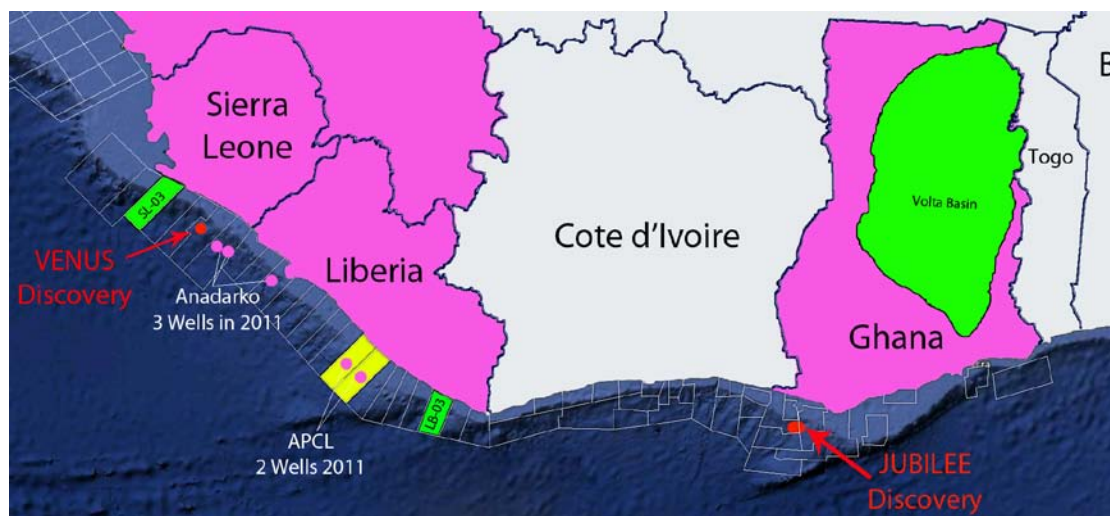
Mr Karl Thompson joined the Board of Directors on 30 June 2010 after the Company successfully completed the acquisition of Cayman Island incorporated African Petroleum Corporation Limited. On 4 October 2010, Mr Thompson was appointed Chief Executive Officer of the Company.

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. He holds an MSc in Geophysics from Imperial College London and BSc in Geology from University College London.

The Company's Annual General Meeting will be held at 9.30am (WST) on 25 November 2010 at 101 Oxford Street Leederville, Western Australia.

## OPERATIONS

### Liberian Project



Blocks LB-08 and LB-09 are located offshore Liberia with the Venus discovery in Sierra Leone located to the West and the Jubilee Field to the East in Ghana. The Jubilee Field has reported reserves approaching 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 6 wells with oil shows on the shallow water shelf area. To date, there have been no deepwater wells in Liberia targeting the Cretaceous sands found in the Venus and Jubilee discoveries.

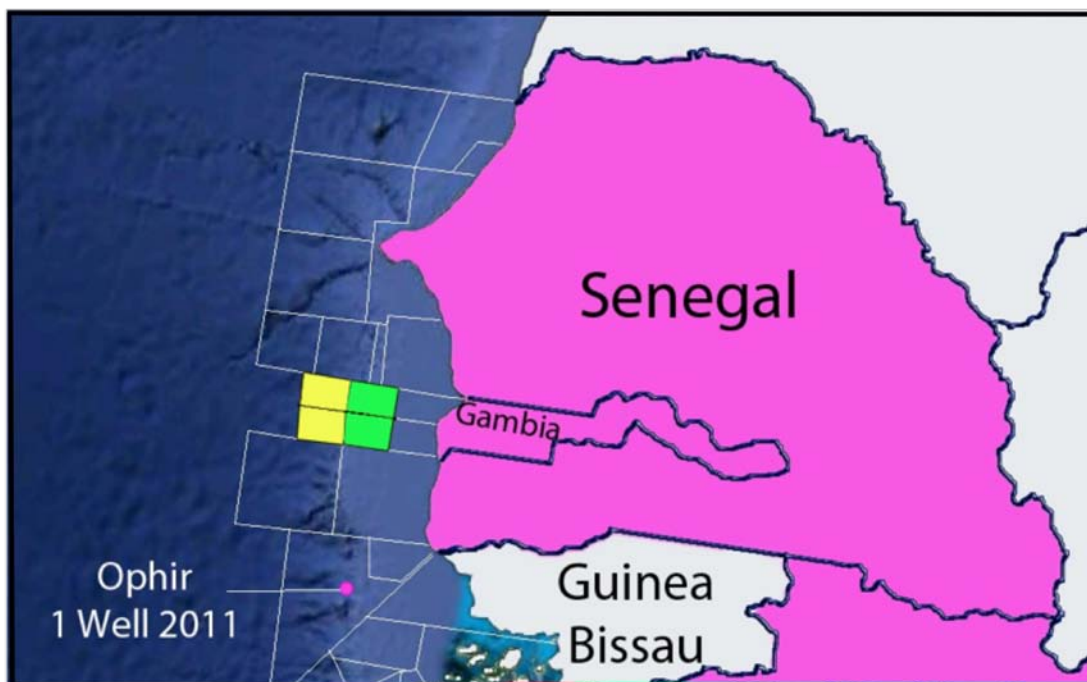
African Petroleum has completed a 5100 sq km 3D seismic survey over blocks LB-08 and LB-09 targeting the Cretaceous submarine fan system previously identified from 2D seismic survey data. Initial results from the 3D dataset have been very encouraging and an extensive submarine fan system similar to those containing the Venus and Jubilee discoveries has been identified on blocks LB-08 and LB-09.

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, with work expected to commence in the first quarter of 2011. 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. The Company expects to drill the first offshore deep water well targeting the prolific Cretaceous reservoirs.

African Petroleum intends to build a core exploration area offshore Liberia and has applied for block LB-03 in the Harper Basin. A well developed Cretaceous submarine fan system has been identified on this block from 2D seismic data.

During the quarter, the Company set up an office in Monrovia, Liberia, which will be used for planning the offshore drilling programme and other exploration activities, and to coordinate the Company's social and educational programmes in Liberia.

## Gambian Project



During the quarter, African Petroleum entered into an agreement with Buried Hill Gambia BV (“Buried Hill”) to acquire, via farm-in, a 60% equity interest in Buried Hill’s two Gambian exploration licences, Alhamdulillah Licence Block A1 and Licence Block A4 (**Gambian Licence Blocks**).

Under the agreement, the Company will assume the operatorship of the Gambian Licence Blocks, which cover a combined total area of 2,668 sq km off-shore The Gambia.

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

To earn the 60% legal and beneficial interest in the Gambian Licence Blocks, the Company is required to:

- pay 80% of the costs incurred on the Gambian Licence Blocks from execution of the agreement to the end of the initial exploration period (31 December 2013), which includes the cost of a 3D seismic acquisition programme, the drilling of the first exploration well and all other operational and technical support costs;
- assume responsibility for all of Buried Hill’s corporate licence guarantees, amounting to US\$8 million; and
- pay Buried Hill’s data fees payable to the Government of The Republic of The Gambia, amounting to US\$750,000.

In the event that the exploration period is mutually extended beyond 31 December 2013 on either of the Gambian Licence Blocks, the Company must pay 60% of Buried Hill’s past costs, which amount to approximately US\$22.9 million.

More than 20 exploration prospects have been identified on the Gambian Licence Blocks including the four way dip closed Alham Dulillah structure, which extends over an area of 24 sq km over 5 mapped reservoirs

with a gross thickness of 1,000m and a potential resource range of 560-1,000 million barrels<sup>1</sup>. Other play types in the Gambian Licence Blocks include stratigraphically-trapped fans and slope channel complexes of Turonian-Campanian age, Upper Jurassic and lower Cretaceous karstified reef build-ups and four-way closures and eroded shelf clastics onlapping the shelf edge.

The Company has contracted TGS Nopec to acquire 2500 sq km of 3D seismic data on the Gambian Licence Blocks, with work commenced in October 2010.

### **NEW OPPORTUNITIES**

The Company is reviewing major new oil provinces for potential discoveries and to expand its exploration acreage in order to position itself as the leading oil and gas exploration company in the West African region.

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<sup>1</sup> 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.

# Quarterly Report

Name of entity

AFRICAN PETROLEUM CORPORATION LIMITED

ABN

87 125 419 730

Quarter ended ("current quarter")

30 September 2010

## Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(807)	(807)
(b) advertising and marketing	(42)	(42)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital	(2,639)	(2,639)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	47	47
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)		
(a) Payments for exploration	(28,839)	(28,839)
(b) Payments for business development	(555)	(555)
<b>Net operating cash flows</b>	<b>(32,835)</b>	<b>(32,835)</b>

	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
1.8	Net operating cash flows (carried forward)	
1.9	<b>Cash flows related to investing activities</b>	
	Payment for acquisition of:	
	(a) businesses (item 5)	-
	(b) equity investments	-
	(c) intellectual property	-
	(d) physical non-current assets	(183)
	(e) other non-current assets	-
1.10	Proceeds from disposal of:	
	(a) businesses (item 5)	-
	(b) equity investments	-
	(c) intellectual property	-
	(d) physical non-current assets	-
	(e) other non-current assets	-
1.11	Loans to other entities	-
1.12	Loans repaid by other entities	-
1.13	Other (provide details if material) Cash backing security provided for bank guarantees	(90)
	<b>Net investing cash flows</b>	<b>(273)</b>
1.14	<b>Total operating and investing cash flows</b>	<b>(33,108)</b>
1.15	<b>Cash flows related to financing activities</b>	
	Proceeds from issues of shares, options, etc (net of capital raising costs)	2,485
1.16	Proceeds from sale of forfeited shares	-
1.17	Proceeds from borrowings	(1,666)
1.18	Repayment of borrowings	-
1.19	Dividends paid	-
1.20	Other (provide details if material)	-
	<b>Net financing cash flows</b>	<b>819</b>
	<b>Net increase (decrease) in cash held</b>	<b>(32,289)</b>
1.21	Cash at beginning of quarter/year to date <sup>1</sup>	211,086
1.22a	Exchange rate adjustments to item 1.21	128
1.22b	Exchange rate adjustments arising on translation from functional currency (USD) to presentation currency (AUD)	(27,065)
1.23	<b>Cash at end of quarter</b>	<b>151,860</b>

<sup>1</sup> Cash balance as at 30 June 2010 as per the Company's audited financial statements.

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	580,955
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions	
	\$580,955 (net of GST) has been paid to directors during the quarter for the provision of consultancy services and services as directors.	

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

**Financing facilities available**

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-



## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
4.1 Cash on hand and at bank <sup>1</sup>	6,051	211,086
4.2 Deposits at call	145,809	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>151,860</b>	<b>211,086</b>

<sup>1</sup> Cash on hand and deposits at call for the previous quarter are the balances as at 30 June 2010 as per the Company's audited financial statements.

## Acquisitions and disposals of business entities

		<b>Acquisitions (Item 1.9(a))</b>	<b>Disposals (Item 1.10(a))</b>
5.1	Name of entity	N/A	N/A
5.2	Place of incorporation or registration	N/A	N/A
5.3	Consideration for acquisition or disposal	N/A	N/A
5.4	Total net assets	N/A	N/A
5.5	Nature of business	N/A	N/A

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to NSX.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: Antony Sage  
Non-Executive Chairman

Date: 29 October 2010

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** NSX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.