2011

Annual Financial Report »

FOR THE PERIOD ENDED 31 DECEMBER 2011

African Petroleum CORP LTD

Contents »

"African Petroleum is an Oil and Gas Exploration Company focused on offshore West Africa with current projects off the coast of The Gambia, Liberia, Sierra Leone, Senegal and Cote d'Ivoire."

Corporate Directory »

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
Jeffrey Couch	Non-Executive Director
James Smith	Non-Executive Director
Timothy Turner	Non-Executive Director
Alan Watling	Non-Executive Director
Anthony Wilson	Non-Executive Director

COMPANY SECRETARY

Claire Tolcon

PRINCIPAL & REGISTERED OFFICE

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West Leederville WA 6007
Western Australia 6007
Telephone: (08) 9388 0744
Facsimile: (08) 9382 1411

AUDITORS

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11 Mounts Bay Road
Perth Western Australia 6000
Telephone: (08) 9429 2222
Facsimile: (08) 9429 2436

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth Western Australia 6000
Telephone: (08) 9332 2000
Facsimile: (08) 9323 2033

STOCK EXCHANGE LISTING

National Stock Exchange of Australia
Code: AOQ

Chairman's Letter »

Dear Shareholder,

2011 has seen African Petroleum establish itself as a leading West African focused oil and gas company. Just post year end, we made a significant discovery of hydrocarbons offshore Liberia, finding a total of 32 metres of excellent quality net oil pay. This was the Company's second well and the first such discovery made offshore Liberia, establishing ourselves as a successful and pioneering oil and gas company. During 2011, we have more than doubled our acreage from 13,000 sq km to 34,481 sq km, though the acquisition of four new exploration licences, offshore West Africa. In a highly competitive rig market we have secured a two well programme with Ocean Rig UDW, utilising the Eirik Raude rig, commencing in the fourth quarter of 2012. African Petroleum has now overtaken our competitors as the holder of the largest high quality net acreage, offshore West Africa, with blocks offshore Cote d'Ivoire, The Gambia, Liberia, Senegal and Sierra Leone.

LIBERIA BLOCKS LB-08 & LB-09

On 21 February 2012, the Company announced that we made a significant discovery at the Narina-1 well, offshore Liberia. A total of 32 metres (105 feet) of net oil pay was found in two zones: 21 metres (69 feet) in the Turonian; and 11 metres (36 feet) in the Albian. Good quality oil was found in each the Turonian and Albian reservoirs of 37 degrees API and 44 degrees API, respectively. Hydrocarbon shows were encountered over a 170 metre interval in the Turonian and no oil water contact was found.

This discovery confirms the prospectivity of both of these highly successful West African exploration plays on Blocks LB-08 and LB-09. Oil was found in good quality reservoirs in a Turonian submarine fan system extending across a prospective area of 250 sq km. In addition, excellent quality oil was found in the Albian sands nearby to a very large Albian submarine fan prospect.

In the shallower Campanian, Santonian and Coniacian horizons, 216 metres (709 feet) of water bearing net reservoir sands were encountered. Whilst hydrocarbons were not expected due to absence of a prospect trap, the confirmation of good quality thick reservoir sands significantly reduces the risk in a number of large prospects covering 500 plus sq km, at these levels which are known to be oil bearing in the region. In the deeper Cenomanian and Albian, source rocks were encountered which will be incorporated into the regional geological model to high grade the prospect portfolio as well as the surrounding open acreage.

The thick reservoir sands that were found in the shallower zones and thick sources rocks, together with the discoveries in the Turonian and the Albian have transformed the prospectivity of Blocks LB-08 and LB-09 and the surrounding acreage. We are now focussing on sourcing rigs and we are planning an extensive exploration programme in Liberia during 2012 to further delineate the distribution of oil play across Blocks LB-08 and LB-09.

Narina-1 well was drilled by the 6th generation semi-submersible drilling rig, the Maesk Deliverer, to a total depth of 4,850 metres (15,912 feet), in a water depth of 1,143 metres (3,750 feet), taking 43 days for completion. Both African Petroleum's Narina-1 and Apalis-1 wells were drilled efficiently and cost effectively without any major technical problems.

In March 2012, the Company entered into a contract with Ocean Rig UDW, for a two well programme with the option for a third well, to continue its drilling programme on Blocks LB-08 and LB-09 and African Petroleum's other licence blocks. The programme will be completed using the Eirik Raude, a 5th generation deepwater semi-submersible drilling rig and it is expected to commence operations in the fourth quarter of 2012.

GAMBIA BLOCKS A1 & A4

We have a 60% operating interest in Blocks A1 and A4 cover 2,668 sq km, offshore The Gambia. More than 30 exploration prospects and leads have been identified, including five different play types on Blocks A1 and A4. The Alhamdulilah structure has been identified, which extends over an area of 24 sq km with four-way structural dip closures at five mapped reservoirs and a gross thickness of 1,000m. An independent report by ERC Equipoise Limited commissioned by African Petroleum in April 2011 found potential mean unrisked recoverable prospective undiscovered resources of approximately 500 mmbbls. We completed the acquisition of 2,500 sq km of 3D seismic data in December 2010 using the Geo Caribbean High-Spec 3D seismic vessel. Processed 3D seismic data was received in June 2011 and interpretation is currently underway. The interpretation will refine the existing technical analysis, further identifying a series of Upper Cretaceous fan systems, which will lead to us selecting prospects and drilling locations. We hope to be in a position to drill in The Gambia in the fourth quarter of 2012.

SIERRA LEONE BLOCK SL-03

The Sierra Leonean Parliament ratified our award of 100% interest in Block SL-03, offshore Sierra Leone in February 2011. Block SL-03 is a 3,135 sq km area situated approximately 157 km from Anadarko's Mercury-1 discovery, 144 km from the Mercury-2 discovery, 93 km from the 2009 Venus discovery and 135 km from the Jupiter discovery, all offshore Sierra Leone.

We are actively exploring the Cretaceous-age fan systems in SL-03 similar to those found in the Venus, Mercury and Jupiter discoveries and have identified a number of promising Cretaceous fan leads on the 2D seismic data. An extensive 3D seismic survey on the area, covering approximately 2,500 sq km has been completed and a fast-track volume was received in January 2012. Interpretation has begun on the fast-track volume and the fully processed 3D seismic volume is expected from the end of April 2012. We are hoping to be able to drill a prospect in SL-03 in 2013.

NEW ACREAGE

SENEGAL – RUFISQUE OFFSHORE PROFOND AND SENEGAL OFFSHORE SUD PROFOND

We entered into an agreement with Société des Pétroles du Sénégal (Petrosen) and the Republic of Senegal in November 2011, to acquire two offshore exploration permits: Rufisque Offshore Profond and Senegal Offshore Sud Profond. African Petroleum is the operator with a 90 per cent interest over the combined surface area of 18,277 sq km, with the other 10 per cent being owned by Petrosen. We have purchased a large amount of 2D seismic data over both of the blocks and have contracted Dolphin Geophysical Ltd to acquire 3,600 sq km of 3D seismic data over Senegal Offshore Sud Profond, which commenced in March 2012.

COTE D'IVOIRE BLOCKS CI-513 & CI-509

On 9 January and 12 March 2012, respectively, we announced that we had entered into an agreements with the Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire (PETROCI) and the Republic of Cote d'Ivoire to acquire Block CI-513 and CI-509. Block CI-513 is an exploration permit covering 1,440 sq km, and Block CI-509 covers 1,091 sq km, both offshore Cote d'Ivoire. We are the operator with a 90 per cent interest in both blocks, the other 10 per cent being owned by PETROCI.

In March 2012, we contracted with Prospector Pte Limited for the acquisition of a 3D seismic survey over Block CI-513, covering 1,500 sq km, and subsequently entered into a supplementary agreement for an additional 3D seismic survey over Block CI-509. We will be targeting deepwater Upper Cretaceous submarine fans offshore Cote d'Ivoire which are considered to have similar high impact potential as discoveries in the Jubilee field, Ghana and the Mercury and Jupiter discoveries, in Sierra Leone.

2011 has proven to be a momentous year for African Petroleum, establishing ourselves as a serious industry contender, with a professional management team, a substantial and valuable portfolio of assets in an exciting new region, with significant potential to deliver success. We would like to thank all our staff for their hard work and dedication, which has lead to our first discovery. We thank you the shareholders and our regional stakeholders for your continued support and we look forward to an exciting year in 2012, in which we expect to drill at least two wells and conduct two seismic surveys, whilst continuing to expand our exploration acreage portfolio, offshore West Africa.

Yours sincerely,
Frank Timis
Non-Executive Chairman

Directors' Report »

Your Directors present their report on African Petroleum Corporation Limited ("African Petroleum" or the "Company") for the year ended 31 December 2011.

OFFICERS

Directors

The names of Directors in office during the whole of the year 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
Mr James Smith	Non-Executive Director
Mr Timothy Turner	Non-Executive Director
Mr Alan Watling	Non-Executive Director
Mr Anthony Wilson	Non-Executive Director

Company Secretary

Ms Claire Tolcon

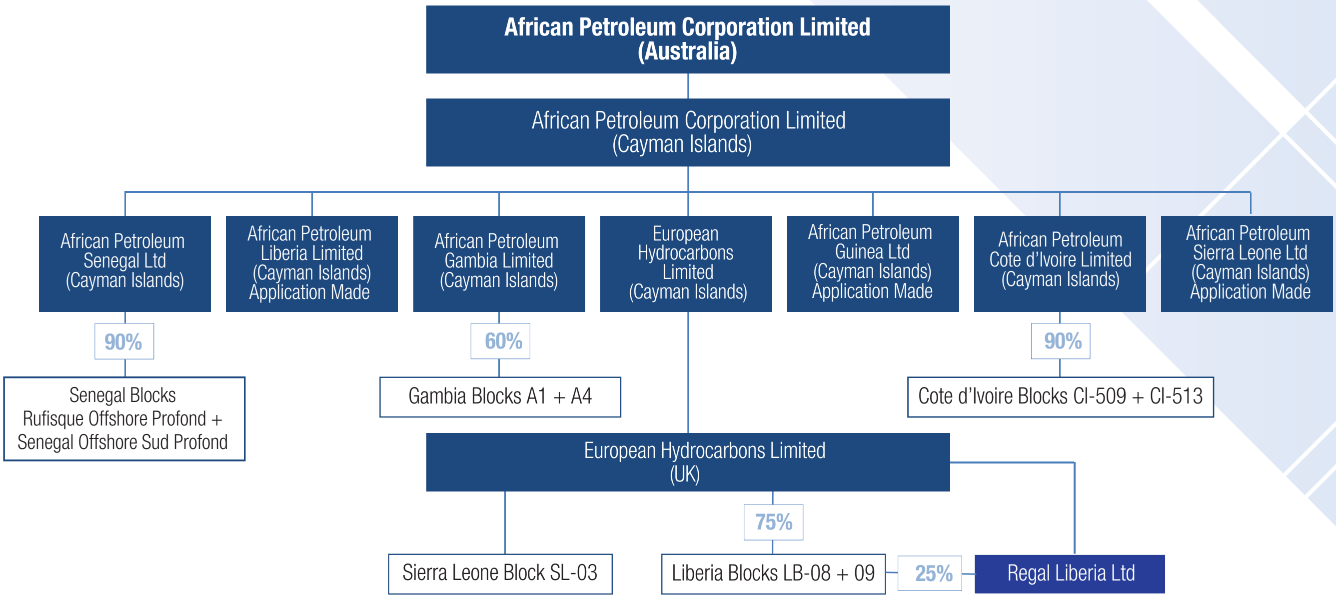
PRINCIPAL ACTIVITIES

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

COMPARATIVE FINANCIAL INFORMATION

During 2010 the Company changed its financial year end from 30 June to 31 December in order to align the Company's financial year end with that of the controlled entities in the Consolidated Group. The comparative information presented is for the 6 months ended 31 December 2010. The current information presented is for the 12 months ended 31 December 2011.

CORPORATE STRUCTURE



Review of Operations »

Corporate

On 9 March 2011, 6,500,000 ordinary shares were issued to African Oil Investing SARL (or its nominee) ("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 were subject to a voluntary escrow restriction of 6 months from the date of issue.

On 3 May 2011, the Company successfully completed a A$250 million (US$271 million) capital raising. Capital raising costs were A$10 million (US$11 million).

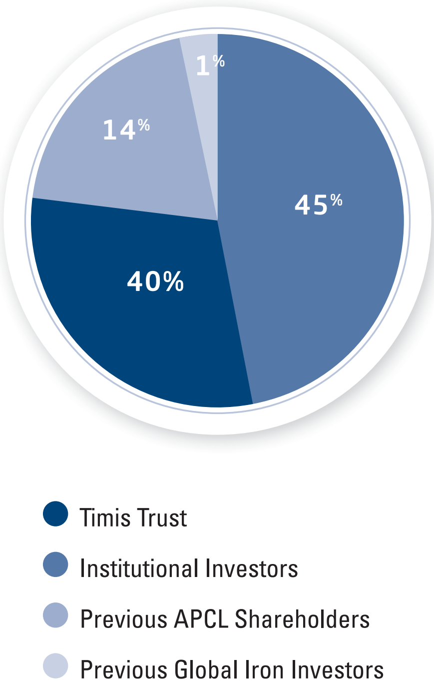
Pursuant to the rules of the National Stock Exchange of Australia ('**NSX**'), the vendors of African Petroleum Corporation Limited (Cayman Islands) who sold their shares to the Company in return for shares in the Company, were subject to restriction agreements, escrowing their shares for a period of 12 months from the date of listing of the Company on NSX. On 30 June 2011, 273,214,564 shares were released from escrow, and are now freely tradable. A further 633,035,487 shares remain subject to escrow until 30 June 2012.

On 18 August 2011, 3,275,000 fully paid ordinary shares were issued to Karl Thompson following the spudding of the Company's first offshore well, pursuant to the terms of his employment contract.

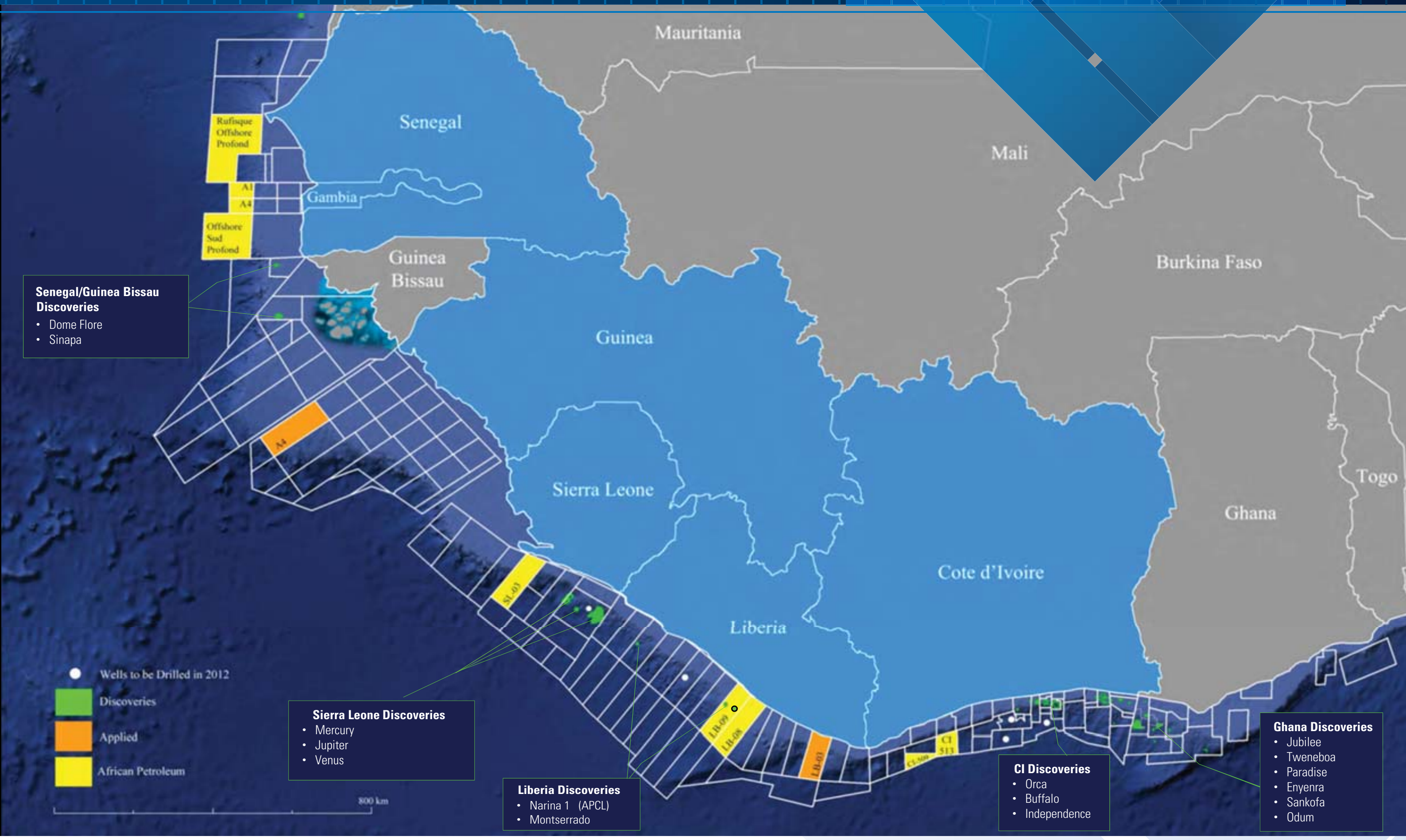
On 7 December 2011, 26,500,000 ordinary shares were issued to African Oil, in consideration for the Company's wholly owned subsidiary, African Petroleum Senegal Limited ("African Petroleum Senegal"), entering into an agreement with the Société des Pétroles du Sénégal ("Petrosen") and the République du Sénégal ("State of Senegal") to acquire two offshore exploration permits covering two blocks: Rufisque Offshore Profond and Senegal Offshore Sud Profond ("Licence Blocks"). The shares are subject to a voluntary escrow restriction of 6 months from the date of issue.

- African Petroleum Corporation Ltd is listed on the NSX (AOQ)
- Raised a total of AUD $472m gross (USD $461m) in two placings during 2010 and 2011
- Total number of shares in issue 1,630,570,051
- Total Number of Options 34,851,524
- Market capitalisation of approximately USD $3.0 billion*

*Based on a share price of AUD1.75(US1.83) at 22 March 2012



African Petroleum Corporation Limited's Acreage Position



The current year has seen a significant expansion in the Company's activities and acreage. As a result, the Company has been actively recruiting suitably qualified staff from a very competitive marketplace. In order to offer prospective employee's market competitive remuneration packages at a time of rapid growth in the Company's activities and given the share price on 20 December 2011, the Board, on advice from the Remuneration Committee, decided that it was in the best interests of the Company and its shareholders to modify the terms of all staff and consultants' share options, which were originally priced at A$0.55, to an exercise price of A$0.30 ("Modified Options"). In addition to the Modified Options, certain staff and consultants were awarded a total of 2,045,000 new options with an exercise price of A$0.30 as part of their remuneration package ("New Options"). The New Options are only exercisable in the event that the Company makes a commercial discovery of hydrocarbons in any one of the Company's wells.

Together, the New Options and the Modified Options are an incentive to promote motivation, company ownership and loyalty within the Company's existing staff structure. The issue of Modified Options and New Options were recommended by the Remuneration Committee and approved by the Board of Directors, with the aim of ensuring a strong link between remuneration and the creation of shareholder value and encouraging growth. The terms of the options held by Directors were not modified, nor have the Directors been awarded any additional options.

Review of Operations Continued »

Liberian Project »

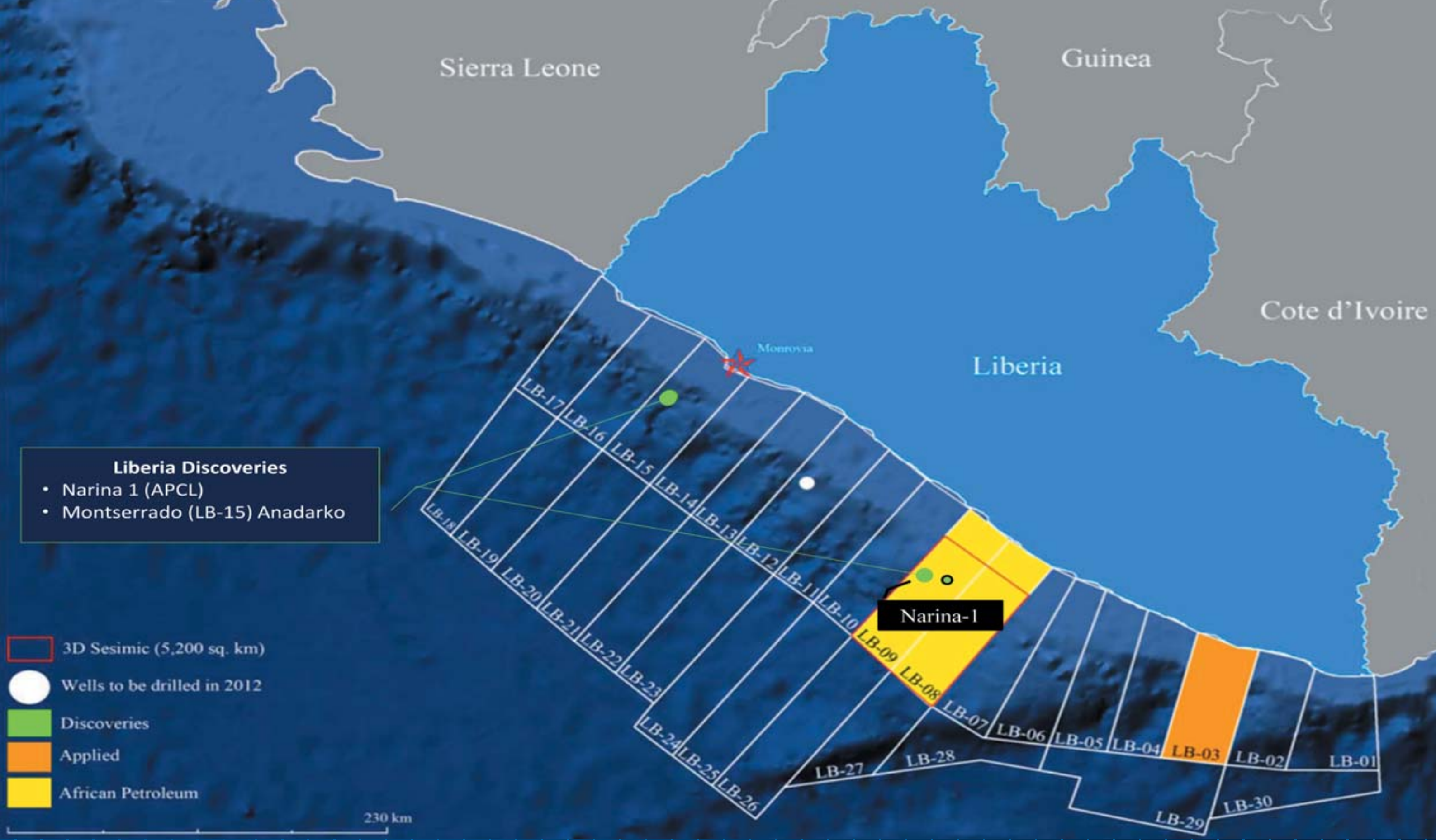
MAERSK RIG

The Liberian project comprises of Blocks LB-08 and LB-09, located offshore Liberia ("Liberian Project" or "Blocks LB-08 and LB-09"). Anardarko's Jupiter, 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.

African Petroleum 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 Jupiter, Mercury, Venus and Jubilee discoveries has been identified on Blocks LB-08 and LB-09 and the evaluation of the 3D seismic data identified more than 40 similar prospects and leads in the Upper Cretaceous section.

The Company 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 utilised 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.

On 8 September 2011, the Company announced that it had completed drilling African Petroleum's first well (Apalis-1) at Block LB-09, offshore Liberia. Apalis-1 was drilled to a depth of 3,665 metres and encountered oil shows in several geological units including the shallower (Tertiary) and deeper (Cretaceous) and petrophysical analysis indicated the presence of hydrocarbons. The results of Apalis-1 confirmed that Blocks LB-08 and LB-09 are located in a prospective oil basin. The geological and geophysical data confirmed the critical components of a working hydrocarbon system. No commercial quality reservoir with hydrocarbons



LIBERIA PROFILE

COUNTRY PROFILE

- Location: Between Cote d'Ivoire and Sierra Leone
- Population: 3.5 million @ 2.6% growth a year
- Capital City: Monrovia
- Tribes: 16 main, 95% indigenous Africans
- Official Language: English
- Government: Republic – Anglo-American Legal System
- President: Ellen Johnson - Sirleaf and a Ministerial Cabinet

AFRICAN PETROLEUM ACTIVITY

- LB-08 and LB-09 - Acquired in 2005
- PSC ratified in 2008
- Completed 3D Seismic on LB-08 and LB-09 (5,100 km^2)
- Successfully completed drilling of Apalis-1 and Narina-1 wells on Block LB-09
- Rig contracted for a two well programme commencing 4th Quarter of 2012
- Applied for LB-03

HISTORIC ACTIVITY

- Pre-1985 stratigraphic drilling concentrated on the shelf and upper slope, in water depths of less than 500 metres
- Six out of seven wells encountered oil shows
- National Oil Company of Liberia (NOCAL) established in 2000
- International bidding round in 2004, eight offshore blocks awarded established in 2000
- International bidding round in 2004, eight offshore blocks awarded

was encountered and consequently no well production test was undertaken. The well was drilled with no technical problems and the costs were materially under budget.

Having confirmed a working hydrocarbon system with Apalis-1, the Company spudded its second well on Block LB-09 on 6 January 2012 with the Maersk Deliverer (Narina-1). The well was drilled to a total depth of 4,850 metres in a water depth of 1,143 metres, taking 43 days to completion.

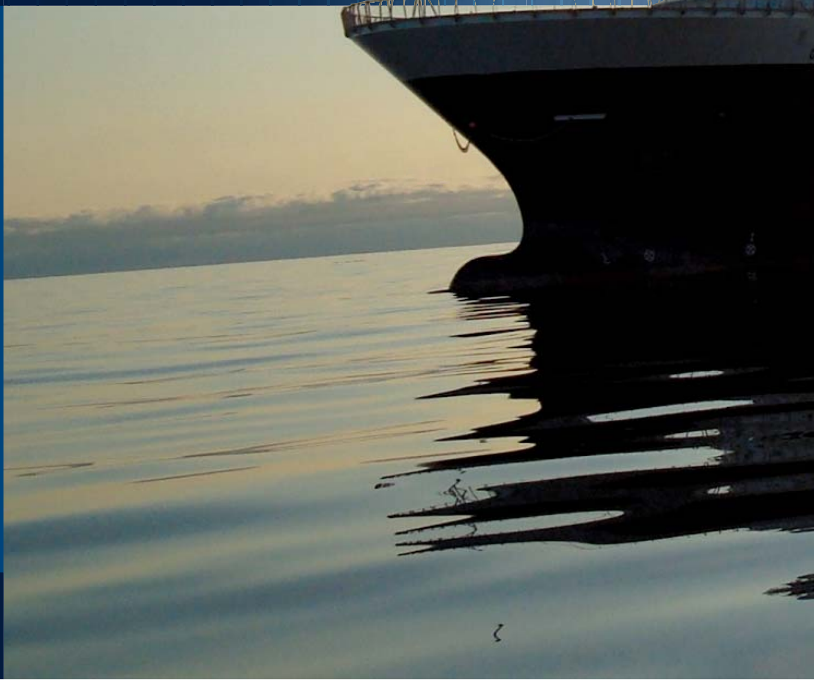
On 21 February 2012, African Petroleum announced that it had made a significant oil discovery with the Narina-1 well. The Company found a total of 32 metres (105 feet) of net oil pay in two zones: 21 metres (69 feet) in the Turonian; and 11 metres (36 feet) in the Albian. Good quality oil was found in each the Turonian and the Albian reservoirs of 37 degrees API and 44 degrees API, respectively. Hydrocarbon shows were encountered over a 170 metre interval in the Turonian and no oil water contact was found.

This discovery confirms the prospectivity of both of these highly successful West African exploration plays on African Petroleum's Blocks LB-08 and LB-09, covering 7,135 sq km. Oil was found in good quality reservoirs in a Turonian submarine fan system extending across a prospective area of 250 sq km. In addition, excellent quality oil was found in the Albian sands nearby to a very large Albian submarine fan prospect.

In the shallower Campanian, Santonian and Coniacian horizons, 216 metres (709 feet) of water bearing net reservoir sands were encountered. Whilst hydrocarbons were not expected due to absence of a prospect trap, the confirmation of good quality thick reservoir sands significantly reduces the risk in a number of large prospects covering up to 500 plus sq km, at these levels which are known to be oil bearing in the region. In the deeper Cenomanian and Albian source rocks were encountered which will be incorporated into the regional geological model to high grade the prospect portfolio as well as the surrounding open acreage.

Gambian Project »

> The Company is aiming to commence drilling its first well in The Gambia in the fourth quarter of 2012.



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 offshore Gambian exploration licences, Alhamdulilah Licence Block A1 and Licence Block A4 ("Licence Blocks") ("Agreement"). Under the Agreement, African Petroleum Gambia assumed the operatorship of the Licence Blocks, which cover a combined total area of 2,668km^2 offshore 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.

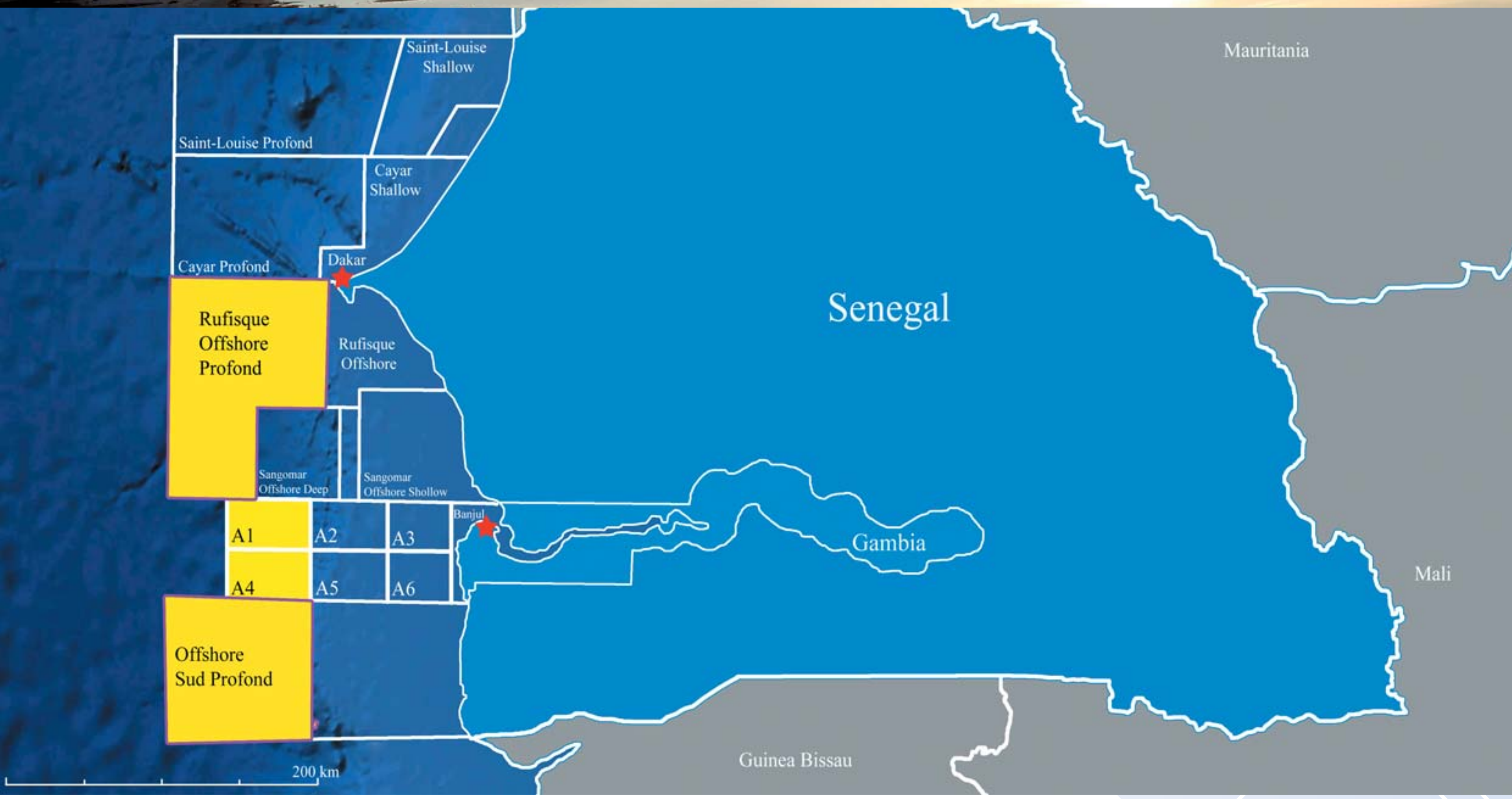
Senergy (GB) Limited ("Senergy"), an independent oil and gas consultant engaged by the Company, has reviewed the exploration potential of the Licence Blocks and based on its assessment, the Directors believe that there is substantial exploration potential with more than 20 prospects identified on the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

The Alhamdulilah Structure within the Licence Blocks is a four-way dip-closed structure with at least five stacked reservoir units. The structure covers an area of approximately 24km^2 over five mapped reservoirs with a gross thickness of 1,000m[1]. An Independent Report by ERC Equipoise Limited commissioned by African Petroleum in April 2011 found potential mean unrisked recoverable prospective undiscovered resources of approximately 500 mmbbls. Other play types in the 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 on lapping the shelf edge.

The Company has completed the acquisition of 2,500 sq km of 3D seismic data in relation to the Licence Blocks in December 2010, using the Geo Caribbean High-Spec 3D seismic vessel. Processed 3D seismic data was received in June 2011 and interpretation is currently underway. The interpretation will refine the existing technical analysis, further identifying a series of Upper Cretaceous fan systems, which will lead to the Company selecting prospects and drilling locations. The Company is aiming to commence drilling its first well in The Gambia in the fourth quarter of 2012 or first quarter 2013.

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.

Gambia: A1/A4



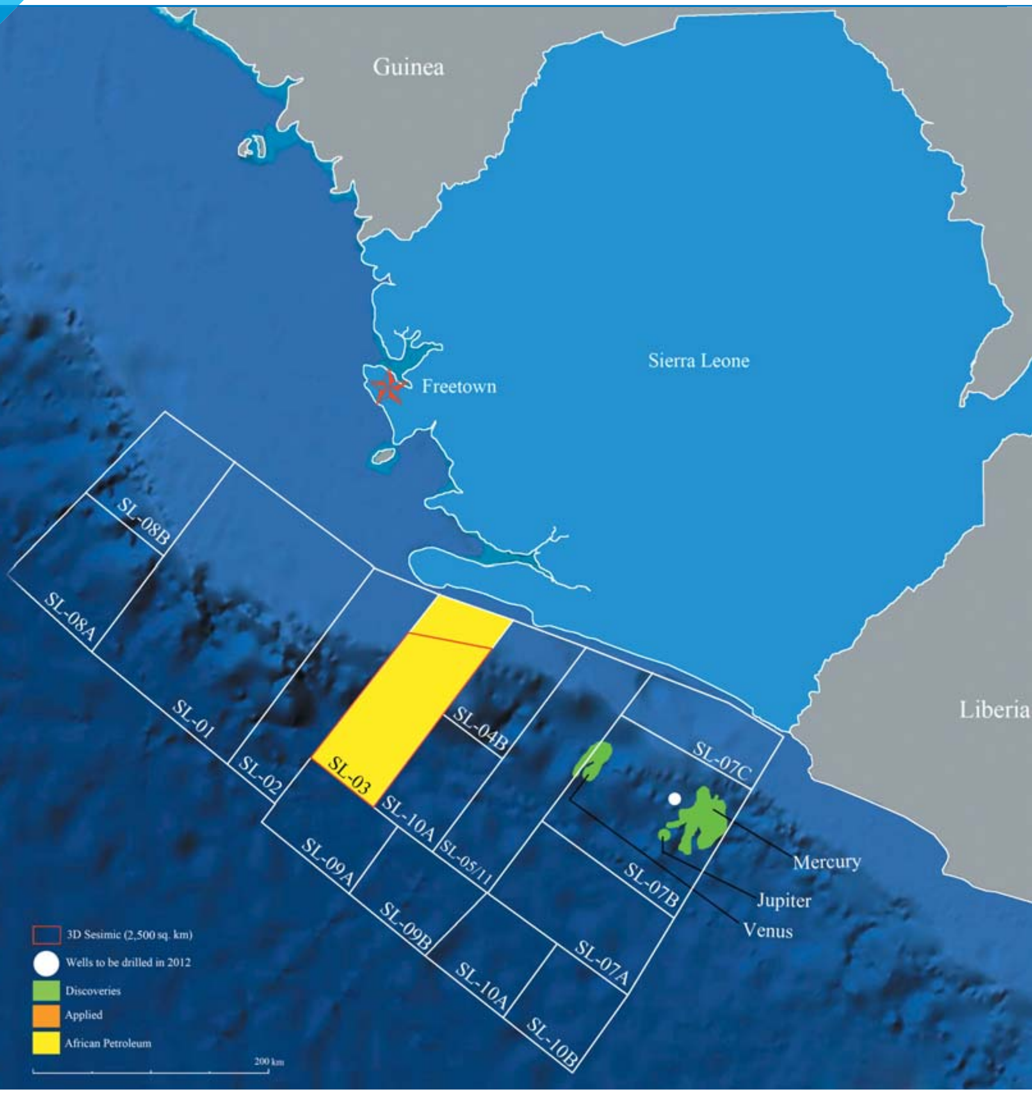
Country Profile

- Location: Between Senegal and Guinea-Bissau
- Onshore Acreage: 11,295 km^2
- Climate: Tropical
- Population: 1.8 million
- Capital City: Banjul
- Official Language: English
- Government: Republic
- President: Yahya AJJ Jammeh

African Petroleum Activity

- Buried Hill – 40% Interest in Blocks A1 and A4
- African Petroleum pays 80% of all costs
- Blocks cover combined surface area of 2,668 km^2
- 3D Seismic on A1 and A4: Complete
- Prospect Evaluation Underway
- Planning to drill 1st well Q4 2012 / Q1 2013

Sierra Leone Project »



Country Profile

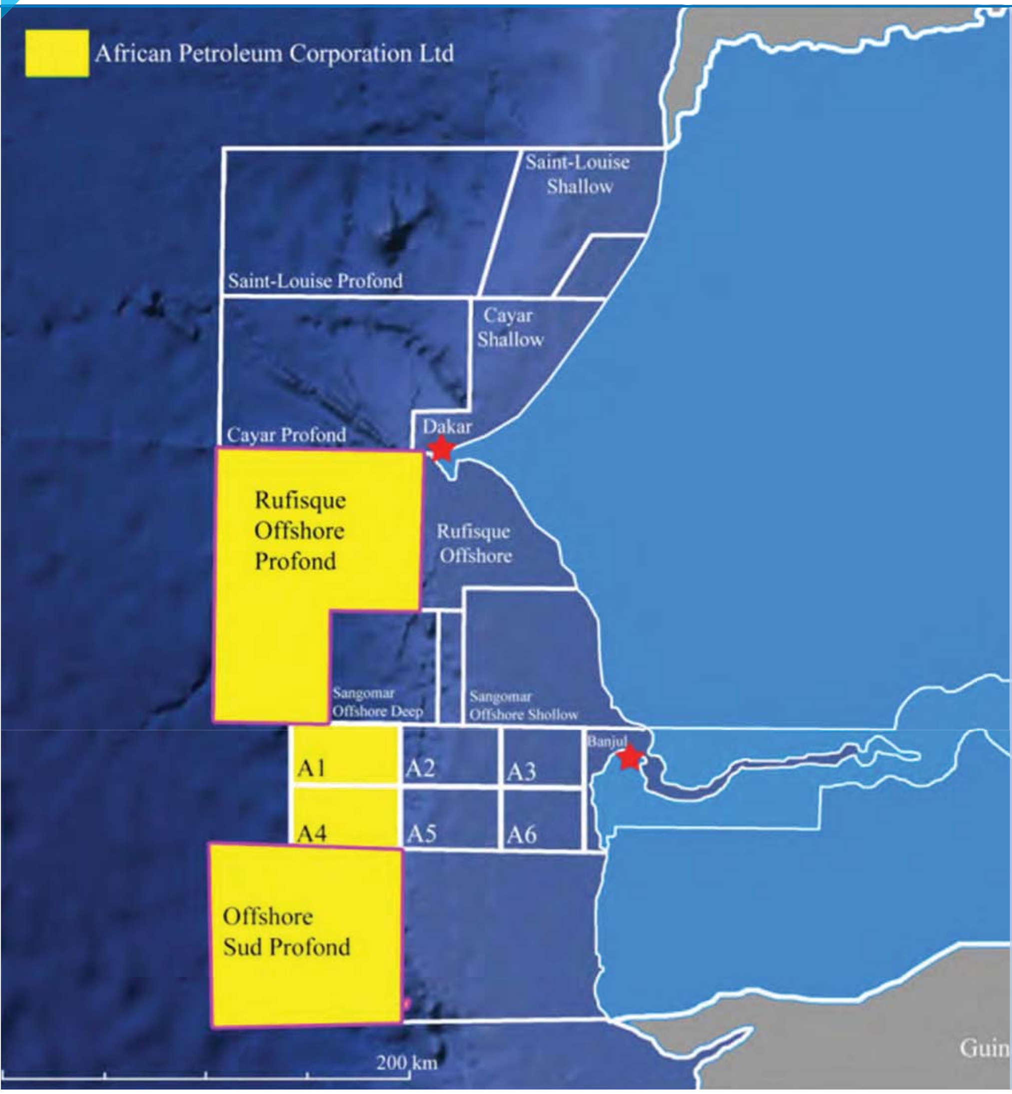
- Location: Between Guinea and Liberia
- Population: 5.1 million
- Capital City: Freetown
- Official Language: English
- Government: Constitutional Democracy
- President: Dr. Ernest Bai Koroma

African Petroleum Activity

- SL-03 Ratified by Sierra Leonean Parliament, 24 February 2011
- 3D seismic acquisition 2,500 km^2 completed September 2011
- Seismic interpretation and prospect definition during 2012
- Aiming to drill 1st well in 2013

Block SL-03 was awarded to the Company on 23 April 2010, with the award of the Block being ratified by the Sierra Leonean government in February 2011. SL-03 is a 3,135 sq km area located offshore Sierra Leone. It is situated approximately 157 km from Anadarko's Mercury-1 discovery, 93km from the 2009 Venus discovery and 135km from the Jupiter discovery, all 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 Jupiter, Mercury and Venus. An extensive 3D seismic survey covering approximately 2,500 sq km has been completed and a fast-track volume was received in January 2012. Interpretation has begun on the fast-track volume and the fully processed 3D seismic volume is expected from the end of April 2012. The Company is aiming to drill a prospect in SL-03 during 2013.

Senegal Project »



Country Profile

- Location: Between Mauritania & Guinea Bissau
- Climate: Tropical
- Population: 12.6 million
- Capital City: Dakar
- Official Language: French
- Government: Republic
- President: Abdoulaye Wade

African Petroleum Activity

- 2 Offshore Blocks, Rufisque Offshore Profond and Offshore Sud Profond
- APCL Operator with 90% interest. PSC Ratified by Parliament 2 November 2011
- Combined surface area of 18,227 km^2
- Seismic Survey Over 3,600 km^2 commenced March 2012 – Dolphin Polar Duke Seismic Vessel

In Novemer 2011, African Petroleum entered into an agreement with the Société des Pétroles du Sénégal ("Petrosen") and the Republique du Sénégal to acquire two offshore exploration permits covering two blocks, Rufisque Offshore Profond and Senegal Offshore Sud Profond. African Petroleum is the operator with a 90 per cent interest over the combined surface area, with the other 10 per cent being owned by Petrosen.

African Petroleum has purchased a large amount of 2D seismic data over both of the Blocks and have contracted Dolphin Geophysical Limited to acquire 3,600 sq km of 3D seismic data over the Senegal Offshore Sud Profond Block, which will commence in March 2012. African Petroleum's exploration programme will target the deepwater Upper Cretaceous submarine fans in Senegal which are considered to have similar high impact potential as discoveries in the Jubilee field, Ghana and Mercury discoveries, offshore Sierra Leone.

Cote d'Ivoire Project »

In January 2012, African Petroleum entered into an agreement with the Société Nationale d'Opérations Pétroliéres de la Côte d'Ivoire ("PETROCI") and the Republic of Côte d'Ivoire to acquire Block CI-513, offshore Cote d'Ivoire. The Block is situated in the Western offshore area of Cote d'Ivoire, with a total surface area of 1,440 sq km. African Petroleum is the operator with a 90 per cent interest, with the remaining 10 per cent being owned by PETROCI.

African Petroleum have purchased a large amount of 2D seismic data and is currently in the process of arranging the commencement of a 3D seismic survey over Block CI-513 to be completed in 2012, targeting deepwater Upper Cretaceous submarine fans offshore Cote d'Ivoire.

Country Profile

- Location: Between Liberia, Guinea, Mali, Burkina Faso and Ghana
- Population: 21.5 million
- Capital City: Yamoussoukro
- Official Language: French
- Government: Republic
- President: Alassane OUATTARA

African Petroleum Activity

- Successfully acquired Blocks CI-509 & CI-513 in 2012 covering 2,537 km^2
- Planning to acquire 3D seismic survey on Blocks CI-509 and CI-513 commencing in April 2012

> The Company will continue to meet its obligations with respect to its interests in its West African projects.

Result

African Petroleum reported a loss after income tax of US$19,019,539 for the year ended 31 December 2011 (6 months ended 31 December 2010: loss of US$14,524,092).

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

The Review of Operations on pages 6 to 15 outlines the significant changes in the state of affairs.

SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 21 February 2012, the Company announced that a significant oil discovery was made at the Narina-1 well, offshore Block LB-09. The Company found a total of 32 metres (105 feet) of net oil pay in two zones: 21 metres (69 feet) in the Turonian; and 11 metres (36 feet) in the Albian. Good quality oil was found in each of the Turonian and Albian reservoirs of 37 degrees API and 44 degrees API, respectively. Hydrocarbon shows were encountered over a 170 metre interval in the Turonian and no oil water contact was found.

No other event has arisen between 31 December 2011 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to meet its obligations with respect to its interests in its West African projects.

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 is the founder and has interests in numerous resource companies listed in London and Australia and in assets worldwide. Mr Timis has raised over US$4 billion on the financial markets worldwide and is Executive Chairman of African Minerals Limited, an AIM listed iron ore producer 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 27 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, Chameleon Mining NL, Matrix Metals 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, of this total 2,218,500 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.

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 3,275,000 fully paid ordinary shares at the date of this report. Mr Thompson also holds 3,500,000 options with an exercise price of $A0.55 and an expiry date of 31 July 2013.

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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.

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 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 a Non-Executive Director of NSX listed International Petroleum Limited.

Interest in Shares and Options Mr Ashurst holds 2,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2013.

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 Minerals 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 Managing Director and Head of Investment and Corporate Banking Europe for BMO Capital Markets, a leading North American financial services provider. Previously, he was Head of Business Development and M&A 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 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. Mr Couch also 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.

Timothy Turner *Non-Executive Director*

Qualifications B.Bus, FCPA, FTIA, Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia.

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 is also a Non-Executive Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and a Non-Executive Director of NSX listed International Petroleum Limited.

Interest in Shares and Options Mr Turner has an interest in 125,682 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, Mr Wilson 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.

Mr Wilson 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.

Mr Wilson is currently a Director of LondonPharma Ltd.

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 14 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 has completed a Graduate Diploma of Applied Finance with FINSIA and a Graduate Diploma of Corporate Governance with Chartered Secretaries of Australia Ltd.

REMUNERATION REPORT (Audited) »

This report details the nature and amount of remuneration for key management personnel of the Company.

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
Jeffrey Couch	Non-Executive Director
James Smith	Non-Executive Director
Timothy Turner	Non-Executive Director
Alan Watling	Non-Executive Director
Anthony Wilson	Non-Executive Director

(ii) Other Key Management Personnel

Claire Tolcon	Company Secretary
Adrian Robinson	Director of Exploration
Phil Church	Director of Drilling (appointed 27 June 2011)
Michael Barrett	Director of Business Development (appointed 12 August 2011)
Pierre Raillard	General Manager – West Africa (appointed 16 January 2012)

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 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$661,443 (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 prior year, 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 principally to the expansion of the Company's exploration asset portfolio and the commercial discovery of hydrocarbons.

Details of remuneration of directors and key management personnel of the Company for the year ended 31 December 2011

The table below sets out the remuneration paid to the directors and key management personnel of African Petroleum for the year ended 31 December 2011.

	Short Term Benefits			Post Employment Benefits[1]	Share-based payments[2]			Performance Related
	Salary and fees	Other cash Benefits	Cash Bonus[3]		Shares	Options	Total	
	US$	US$	US$	US$	US$	US$	US$	%
Directors								
F Timis[4]	397,690	-	-	-	-	-	397,690	-
A Sage	103,229	-	-	-	-	-	103,229	-
K Thompson	601,717	-	-	65,551	5,913,793	1,606,118	8,187,179	72
M Ashurst	260,708	-	-	34,062	-	803,059	1,097,829	-
G Bangura	50,235	-	-	-	-	-	50,235	-
J Couch	51,280	-	-	-	-	-	51,280	-
J Smith	46,330	-	-	-	-	-	46,330	-
T Turner	49,551	-	-	-	-	-	49,551	-
A Watling[5]	-	-	-	-	-	-	-	-
A Wilson	51,526	-	-	-	-	-	51,526	-
	1,612,266	**-**	**-**	**99,613**	**5,913,793**	**2,409,177**	**10,034,849**	**59**
Key management								
C Tolcon	108,252	-	-	-	-	27,957	136,209	2
A Robinson	270,290	-	225,887	31,437	-	578,792	1,106,406	42
P Church[6]	136,402	-	159,070	14,063	-	596,057	905,592	59
M Barrett[7]	85,731	89,296	77,266	8,241	-	239,391	499,925	41
P Raillard[8]	-	-	-	-	-	-	-	-
Total	**2,212,941**	**89,296**	**462,223**	**153,354**	**5,913,793**	**3,851,374**	**12,682,981**	**27**

1 Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.

2 Share based payments represent the value of options and performance shares that have vested during the current year.

3 Cash bonuses include sign on bonuses and discretionary bonuses awarded based on assessment of performance.

4 Includes US$158,706 (A$150,000) non-executive director fees and US$238,984 as payment for consulting services provided by Mr Timis to the Company.

5 Mr Watling has elected for his fees to be paid to a charity of his choice.

6 Appointed on 23 May 2011.

7 Appointed on 12 August 2011. Other cash benefits relates to relocation costs of US$28,153 and US$61,143 (CHF 54,375) paid to cover amounts due by Mr Barrett to his previous employer.

8 Appointed on 22 November 2011, commenced employment on 16 January 2012. Mr Raillard is eligible to a £50,000 signing bonus, with £25,000 payable on commencement of employment and the remaining £25,000 payable 3 months later. Mr Raillard has been issued 1,350,000 options with an exercise price of A$0.30 and expiry date of 17 January 2017. The fair value of these options is US$419,498. These options are all subject to vesting conditions.

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[2]		Performance Related
	Salary and fees	Non-cash Benefits	Cash Bonus[3]		Options	Total	
	US$	US$	US$	US$	US$	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[7]	22,602	-	-	-	608,045	630,647	-
J Smith[6]	3,767	-	-	-	608,045	611,812	-
T Turner	22,602	-	-	-	304,022	326,624	-
A Watling[8]	-	-	-	-	608,045	608,045	-
A Wilson	22,602	-	-	-	608,045	630,647	-
	609,718		**225,609**	**41,523**	**6,384,474**	**7,261,324**	**-**
Key management							
E von Puttkammer[4]	11,301	-	-	-	121,720	133,021	-
C Tolcon[5]	9,625	-	-	-	121,720	131,345	-
A Robinson[5]	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 Sharebased payments represent the value of options that vested during the period.

3 Cash bonuses include sign on bonuses and discretionary bonuses awarded based on assessment of performance.

4 Resigned on 1 December 2010

5 Appointed on 1 December 2010

6 Appointed on 25 November 2010

7 Appointed on 23 September 2010

8 Mr Watling has elected for his fees to be paid to a charity of his choice.

Options issued as part of remuneration for the year ended 31 December 2011

7,475,000 options were issued as part of remuneration of directors and key management personnel during the period year ended 31 December 2011. 3,000,000 options vested on issue, with the remaining 4,475,000 options subject to vesting conditions, and will be recognised over the vesting period.

Terms and Conditions for each grant during the year								Options vested during the year	
	Options awarded during the period	Award date	Fair value per option at award date	Exercise price	Expiry date	First exercise date	Last exercise date	No.	%
			A$	A$					
Executive directors									
M Ashurst	1,000,000	27 May 2011	0.76[1]	0.55[2]	31 Jul 2013	27 May 2011	31 Jul 2013	1,000,000	100
K Thompson	2,000,000	27 May 2011	0.76[1]	0.55[2]	31 Jul 2013	27 May 2011	31 Jul 2013	2,000,000	100
Key management									
C Tolcon	75,000	20 Dec 2011	0.26[3]	0.30[4]	17 Jan 2017	20 Dec 2011	17 Jan 2017	-	-
A Robinson	350,000	20 Dec 2011	0.26[5]	0.30[4]	17 Jan 2017	17 Jan 2012	17 Jan 2017	-	-
P Church	1,000,000	23 Jun 2011	0.26[5]	0.30[4]	17 Jan 2017	23 Jun 2011	17 Jan 2017	250,000	25
	350,000	20 Dec 2011	0.26[5]	0.30[4]	17 Jan 2017	17 Jan 2012	17 Jan 2017	-	-
M Barrett	1,000,000	12 Aug 2011	0.26[5]	0.30[4]	17 Jan 2017	12 Aug 2011	17 Jan 2017	-	-
	350,000	20 Dec 2011	0.26[5]	0.30[4]	17 Jan 2017	17 Jan 2012	17 Jan 2017	-	-
P Raillard	1,350,000	22 Nov 2011	0.36[6]	0.30[4]	17 Jan 2017	17 Jan 2012	17 Jan 2017	-	-
Total	**7,475,000**							**3,250,000**	**43**

For details on the valuation of the options, including models and assumptions used, please refer to note 19.

[1] The equivalent US$ fair value per option at award date is equal to US$0.80

[2] The equivalent US$ exercise price per option at 31 December 2011 is equal to US$0.56

[3] The equivalent US$ fair value per option at award date is equal to US$0.25

[4] The equivalent US$ exercise price per option at 31 December 2011 is equal to US$0.31

[5] The equivalent US$ fair value per option at award date is equal to US$0.26

[6] The equivalent US$ fair value per option at award date is equal to US$0.31

Options issued as part of remuneration for the 6 months ended 31 December 2010

11,900,000 options were issued as part of remuneration of key management personnel during the 6 months ended 31 December 2010. 10,900,000 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	Exercise price	Expiry date	First exercise date	Last exercise date	No.	%
			A$	A$					
Executive directors									
M Ashurst	1,500,000	25 Nov 2010	0.61[5]	0.558	31 Jul 2013	25 Nov 2010	31 Jul 2013	1,500,000	100
K Thompson	1,500,000	25 Nov 2010	0.61[5]	0.558	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
Key management									
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	-	-
Total	**11,900,000**							**10,900,000**	**92**

For details on the valuation of the options, including models and assumptions used, please refer to note 19.

[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 ended 31 December 2011

2011	Value at grant date US$	Value at exercise date US$	Value at time of lapse US$	Percentage of total remuneration for the year that consists of options %
Executive directors				
M Ashurst	803,059	-	-	73
K Thompson	1,606,118	-	-	17
Key management				
C Tolcon	19,094	-	-	21
A Robinson	122,754	-	-	50
P Church	748,649	-	-	65
M Barrett	529,858	-	-	47
P Raillard[1]	-	-	-	-
Total	**3,829,532**	**-**	**-**	**47**

Number of options awarded, exercised and lapsed during the year ended 31 December 2011

2011	Options granted Number	Options exercised Number	Options lapsed Number	Percentage of total remuneration for the year that consists of options %
Executive directors				
M Ashurst	1,000,000	-	-	73
K Thompson	2,000,000	-	-	17
Key management				
C Tolcon	75,000	-	-	21
A Robinson	350,000	-	-	50
P Church	1,350,000	-	-	65
M Barrett	1,350,000	-	-	47
P Raillard[1]	1,350,000	-	-	-
Total	**7,475,000**	**-**	**-**	**47**

[1] Appointed on 22 November 2011, commenced employment on 16 January 2012. Mr Raillard has been issued 1,350,000 options with an exercise price of A$0.30 and expiry date of 17 January 2017. The fair value of these options is US$419,498. These options are subject to vesting conditions.

Value of options awarded, exercised and lapsed during the 6 months ended 31 December 2010

2010	Value at grant date US$	Value at exercise date US$	Value at time of lapse US$	Percentage of total remuneration for the year that consists of options %
Executive directors				
M Ashurst	901,575	-	-	72
K Thompson	901,575	-	-	78
Non-executive directors				
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
Key management				
E von Puttkammer	121,720	25,263	-	91
C Tolcon	121,720	-	-	98
A Robinson	697,703	-	-	41
Total	**7,252,168**	**585,260**	-	**87**

Number of options awarded, exercised and lapsed during the 6 months ended 31 December 2010

2010	Options granted Number	Options exercised Number	Options lapsed Number	Percentage of total remuneration for the year that consists of options %
Executive directors				
M Ashurst	1,500,000	-	-	72
K Thompson	1,500,000	-	-	78
Non-executive directors				
G Bangura	1,000,000	-	-	96
J Couch	1,000,000	-	-	96
A Sage	2,000,000	-	-	95
J Smith	1,000,000	-	-	99
T Turner	500,000	-	-	93
A Watling	1,000,000	-	-	100
A Wilson	1,000,000	-	-	96
Key management				
E von Puttkammer	200,000	(200,000)	-	91
C Tolcon	200,000	-	-	98
A Robinson	1,000,000	-	-	41
Total	**11,900,000**	**(200,000)**	-	**87**

Service Agreements

Mr Antony Sage – Non-Executive Deputy Chairman

Mr Sage's role as Non-Executive Deputy Chairman is governed by a contract between the Company and Mr Sage.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$100,000 per annum to be payable to Okewood Pty Ltd and reviewed bi-annually by the Board. Mr Sage's fee is settled in Australian dollars, with the US$ equivalent equal to US$103,229. In addition, Mr Sage 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 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 days; 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 £500,000 per annum is payable to Mr Thompson and subject to annual review by the board. During the year, Mr Thompson's agreed annual fee was increased from £350,000 to £500,000 effective, from November 2011. Mr Thompson's fee is settled in Great British pounds with the US$ equivalent equal to US$601,717.

(b) 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.

(c) Options: the Company issued 2,000,000 options to Mr Thompson in the current year (December 2010: 1,500,000 options). These options have an exercise price of A$0.55 and an expiry date of 31 July 2013.

(d) Shares: the Company issued 3,275,000 fully paid shares to Mr Thompson. The shares are in recognition of the Company spudding it's first well. A further 3,275,000 will be issued upon Company securing a commercial discovery.

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 £225,000 per annum is payable to Mr Ashurst and subject to annual review by the board. During the year Mr Ashurst's annual fee was increased from £150,000 to £225,000 effective from November 2011. Mr Ashurst's fee is settled in Great British pounds, with the US$ equivalent equal to US$260,708.

(b) 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.

(c) Options: the Company issued 1,000,000 options to Mr Ashurst in the current year (31 December 2010: 1,500,000 options). These 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 A$48,000 per annum is payable to Mr Bangura and reviewed annually by the Board. Mr Bangura's fee is settled in US$, with US$50,235 paid to him during the year. In addition, Mr Bangura is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued nil options to Mr Bangura in the current year (31 December 2010: 1,000,000 options). 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 A$48,000 per annum is payable to Mr Couch and reviewed annually by the Board. Mr Couch's fee is settled in US$, with US$51,280 paid to him during the year. In addition, Mr Couch is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued nil options to Mr Couch in the current year (31 December 2010: 1,000,000 options). 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 A$48,000 per annum is payable to Mr Smith and reviewed annually by the Board. Mr Smith's fee is settled in US$, with US$46,330 paid to him during the year. In addition, Mr Smith is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued nil options to Mr Smith in the current year (31 December 2010: 1,000,000 options). 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 an 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 A$48,000 per annum is payable to CRMS and reviewed bi-annually by the Board. Mr Turner's fee is settled in Australian Dollars, with the US$ equivalent equal to US$49,551. 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 days; 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 A$48,000 per annum is payable to Mr Watling and reviewed annually by the Board. Mr Watling's fee is settled in Australian Dollars, with the US$ equivalent equal to US$49,551. Mr Watling has elected for his annual fee to be paid to a charity of his choice. In addition, Mr Watling is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued nil options to Mr Watling in the current year (31 December 2010: 1,000,000 options). 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 A$48,000 per annum is payable to Mr Wilson and reviewed annually by the Board. Mr Wilson's fee is settled in US$ and US$51,526 was paid to him during the year. In addition, Mr Wilson is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company issued nil options to Mr Wilson in the current year (31 December 2010: 1,000,000 options). 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.

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 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 A$1,460 per day. Ms Tolcon's fee was settled in Australian dollars, with the US$ equivalent equal to US$108,252.

The Company awarded 75,000 options to Ms Tolcon during the current year (31 December 2010: 200,000 options). The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. The options issued during the current year vest upon the Company securing a commercial discovery. The options issued during the prior period vested on issue.

Adrian Robinson – Director of Exploration

(a) Rate: a fee of £165,000 per annum is payable to Mr Robinson and reviewed annually by the Board. Mr Robinson's fee is settled in Great British pounds, with the US$ equivalent equal to US$270,290.

(b) Options: the Company awarded 350,000 options to Mr Robinson during the current year (31 December 2010: 1,000,000 options). The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options 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 a discovery of hydrocarbons in any of the Company's wells drilled in 2011 or later, if drilling is delayed for valid internal or external reasons.

   (v) 350,000 will be exercisable in the event of a commercial discovery of hydrocarbons in any of the Company's wells.

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

(d) A discretionary bonus of up to US$254,976 (£165,000) can be paid to Mr Robinson. During the current year US$156,281 (£100,000) was paid to Mr Robinson in recognition of his services to the Company.

Phil Church – Director of Drilling

(a) Rate: a fee of £175,000 per annum is payable to Mr Church and reviewed annually by the Board. Mr Church's fee is settled in Great British pounds, with the US$ equivalent equal to US$270,429.

(b) Options: the Company awarded 1,350,000 options to Mr Church. The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options 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 Church's start date (27 June 2011), on the assumption that Mr Church 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 a discovery of hydrocarbons in any of the Company's wells drilled in 2011 or later, if drilling is delayed for valid internal or external reasons.

   (v) 350,000 will be exercisable in the event of a commercial discovery of hydrocarbons in any of the Company's wells.

(c) A signing bonus of US$80,930 (£50,000) has been paid to Mr Church.

(d) A discretionary bonus of up to US$270,429 (£175,000) can be paid to Mr Church. In the current year, US$78,140 (£50,000) bonus was paid to Mr Church following the successful drilling of the Apalis well.

Michael Barrett – Director of Business Development

(a) Rate: a fee of £160,000 per annum is payable to Mr Barrett and reviewed annually by the Board. Mr Barrett's fee is settled in Great British pounds, with the US$ equivalent equal to US$247,250.

(b) Options: the Company awarded 1,350,000 options to Mr Barrett. The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options 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 Barrett's start date (5 September 2011), on the assumption that Mr Barrett remains employed by the Company;

   (ii) 250,000 will be exercisable following the completion of the second well;

   (iii) 250,000 will be exercisable following the completion of either a new ventures transaction which brings material additional new acreage into the African Petroleum Corporation Limited consolidated group's portfolio or a commercial transaction, such as a farm-in or Joint Venture agreement on one or more of the group's assets, which is of material commercial benefit to the group. Materiality will be determined by the African Petroleum Remuneration Committee.

   (iv) 250,000 will be exercisable in the event of the commercial discovery of hydrocarbons in any of the Company's wells drilled within 18 months of Mr Barrett's start date.

   (v) 350,000 will be exercisable in the event of the commercial discovery of hydrocarbons in any of the Company's wells.

(c) A signing bonus of US$77,266 (£50,000) and relocation costs of US$28,153 was paid to Mr Barrett. US$61,143 (CHF 54,375) was also paid to cover amounts due by Mr Barrett to his previous employer.

(d) A discretionary bonus of up to US$247,250 (£160,000) can be paid to Mr Barrett.

Pierre Raillard - General Manager, West Africa (appointed 22 November 2011, commenced employment 16 January 2012)

(a) Rate: a fee of US$293,609 (£190,000) per annum is payable to Mr Raillard and reviewed annually by the Board.

(b) Options: the Company awarded 1,350,000 options to Mr Raillard. The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options were issued on 22 November 2011 and will vest upon the following conditions being met:

   (i) 450,000 will be exercisable over a three year basis, one third on each anniversary from Mr Raillard's start date (16 January 2012), on the assumption that Mr Raillard remains employed by the Company;

   (ii) 450,000 will be exercisable in two tranches: 225,000 upon completion of the Company's third well; and 225,000 upon completion of the Company's fourth well;

   (iii) 450,000 will be exercisable in the event of a commercial discovery of hydrocarbons in any one of the Company's wells drilled in 2012 of later.

(c) A signing bonus of US$77,266 (£50,000) has been agreed with Mr Raillard, with 50% payable on commencement date and the remaining 50% paid 3 months later, assuming Mr Raillard remains employed by the Company at this date.

(d) A discretionary bonus of up to 100% of Mr Raillard's base salary (£190,000) can be awarded by the remuneration committee upon assessment of whether annual targets, as set year on year, have been achieved.

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:

Director	Directors' meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Frank Timis	1	1	-	-	2	2
Antony Sage	1	1	3	-	2	2
Mark Ashurst	1	1	3	3	2	2
Gibril Bangura	1	1	-	-	2	2
Jeffrey Couch	1	1	3	2	2	2
James Smith	1	-	-	-	2	1
Karl Thompson	1	1	-	-	2	2
Timothy Turner	1	1	-	-	2	2
Alan Watling	1	1	-	-	2	2
Anthony Wilson	1	-	3	3	2	2

In addition to meetings of directors held during the year, due to the number and diversified location of the Directors, a number of matters are authorised by the board of directors via circulating resolutions. During the current year, 9 circulating resolutions were authorised by the board of directors had many circulating resolutions throughout the current year to deal with business as it arose.

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	Number Under Option
30 June 2013	A$0.55[1]	11,145,655
31 July 2013	A$0.55[1]	13,700,000
17 January 2017	A$0.30[2]	11,850,000

[1] The US$ equivalent exercise price as at 31 December 2011 is US$0.56
[2] The US$ equivalent exercise price as at 31 December 2011 is US$0.31

OPTIONS (Continued)

Shares issued on the exercise of options

During the current year no ordinary shares were issued on the exercise of options (31 December 2010: 12,500,000).

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 2011 has been received and can be found on page 35 of the annual report.

NON AUDIT SERVICES

Tax advisory services in respect of operations in West Africa 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, 14 March 2012

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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 year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
14 March 2012

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.

This corporate governance statement summarises the corporate governance practices adopted by the Company.

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 (i.e. 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 (Non-Executive Chairman), Mr A. Sage (Non-Executive Deputy Chairman), Mr K. Thompson and Mr M. Ashurst are not considered independent.

Non-Executive Directors, Mr G. Bangura, Mr J. Couch, Mr T. Turner, Mr J. Smith, Mr A. Wilson and Mr A. Watling, were considered to have been independent throughout the year.

The Board believes that while the Chairman is not independent, the majority of the directors are independent and Mr F. Timis is the most appropriate person to fulfil the role.

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	1 year 8 months	Non-Executive Chairman
A. Sage	4 years 9 months	Non-Executive Deputy Chairman
K. Thompson	1 year 8 months	Executive Director
M. Ashurst	1 year 8 months	Executive Director
G. Bangura	1 year 8 months	Non-Executive Director
J. Couch	1 year 7 months	Non-Executive Director
J. Smith	1 year 2 months	Non-Executive Director
T. Turner	4 years 9 months	Non-Executive Director
A. Wilson	1 year 8 months	Non-Executive Director
A. Watling	1 year 8 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$661,443 (A$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 or 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 members of the committee throughout the year were:

- Anthony Wilson (Chairman)
- Jeffrey Couch
- Mark Ashurst
- Antony Sage

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

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. The members of the committee throughout the year were:

- Mark Ashurst (Chairman)
- Jeffrey Couch
- Antony Sage
- James Smith

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

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.

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:
- Antony Sage (Chairman)
- Mark Ashurst
- Anthony Wilson
- James Smith
- Timothy Turner
- Jeffrey Couch

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 Chairman, 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, Chief Financial 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 2011

	Note	Consolidated 12 months ended 31 December 2011 US$	Consolidated 6 months ended 31 December 2010 US$
Continuing operations			
Revenue	6(a)	**4,060,311**	224,969
Depreciation expense	6(b)	**(558,803)**	(71,380)
Consulting expenses		**(4,410,460)**	(2,958,245)
Compliance and regulatory expenses		**(486,594)**	(272,504)
Administration expense		**(2,471,360)**	-
Other		**(1,355,877)**	(1,184,541)
Travel expenses		**(6,250,800)**	(780,972)
Impairment loss on capitalised exploration expenditure	6(b)	**-**	(118,045)
Employee remuneration	6(c)	**(16,581,150)**	(9,234,783)
Realised foreign currency gains		**1,900,307**	-
Unrealised foreign currency gains / (losses)	6(d)	**7,135,330**	(128,509)
Finance costs		**(443)**	(82)
Loss from continuing operations before income tax		**(19,019,539)**	(14,524,092)
Income tax expense	5	**-**	-
Loss for the period, attributable to the members		**(19,019,539)**	(14,524,092)
Other comprehensive losses			
Foreign exchange loss on translation of functional currency to presentation currency	16	**(14,026,613)**	(1,819,279)
Other comprehensive losses for the period, net of tax		**(14,026,613)**	(1,819,279)
Total comprehensive loss for the period		**(33,046,152)**	(16,343,371)
Loss for the period is attributable to:			
Non-controlling interest		**(21,031)**	36,005
Owners of the parent		**(18,998,508)**	(14,560,097)
		(19,019,539)	(14,524,092)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		**(21,031)**	36,005
Owners of the parent		**(33,025,121)**	(16,379,376)
		(33,046,152)	(16,343,371)
Loss per share attributable to members			
Basic/diluted loss per share	25	**(1.26) cents**	(1.08) cents

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 31 DECEMBER 2011

		Consolidated	
	Note	31 December 2011	31 December 2010
		US$	US$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**204,529,028**	135,451,410
Trade and other receivables	8	**11,708,489**	1,976,185
Restricted cash	9	**28,087,489**	-
Prepayments	10	**7,725,138**	913,478
TOTAL CURRENT ASSETS		**252,050,144**	138,341,073
NON CURRENT ASSETS			
Property, plant and equipment	11	**6,062,331**	551,324
Restricted cash	9	**11,250,614**	117,599
Exploration and evaluation expenditure	12	**173,899,527**	52,199,175
Trade and other receivables	8	**4,454,203**	-
TOTAL NON CURRENT ASSETS		**195,666,675**	52,868,098
TOTAL ASSETS		**447,716,819**	191,209,171
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	**21,521,453**	16,300,362
TOTAL CURRENT LIABILITIES		**21,521,453**	16,300,362
TOTAL LIABILITIES		**21,521,453**	16,300,362
NET ASSETS		**426,195,366**	174,908,809
EQUITY			
Issued Capital	15	**488,152,298**	211,596,478
Reserves	16	**(786,491)**	5,463,233
Accumulated losses	17	**(61,185,415)**	(42,186,907)
Parent interests		**426,180,392**	174,872,804
Non-controlling interests	18	**14,974**	36,005
TOTAL EQUITY		**426,195,366**	174,908,809

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	Ordinary share capital	Share-based payment reserve	Accumulated losses	Foreign currency translation reserve	Non-controlling interest	Total
		Consolidated					
		US$	US$	US$	US$	US$	US$
BALANCE AT 1 JANUARY 2011		**211,596,478**	**7,593,509**	**(42,186,907)**	**(2,130,276)**	**36,005**	**174,908,809**
Loss for the period		-	-	(18,998,508)	-	(21,031)	(19,019,539)
Other comprehensive income / (losses):							
Foreign currency exchange differences arising on translation from functional currency to presentation currency		-	-	-	(14,026,613)	-	(14,026,613)
Total comprehensive loss for the period		-	-	(18,998,508)	(14,026,613)	(21,031)	(33,046,152)
Transactions with owners in their capacity as owners:							
Issue of capital – capital raising	15	259,560,160	-	-	-	-	259,560,160
Share-based payments	15,16	16,995,660	7,776,889	-	-	-	24,772,549
BALANCE AT 31 DECEMBER 2011		**488,152,298**	**15,370,398**	**(61,185,415)**	**(16,156,889)**	**14,974**	**426,195,366**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2010

		Consolidated					
	Note	Ordinary share capital	Share-based payment reserve	Accumulated losses	Foreign currency translation reserve	Non-controlling interest	Total
		US$	US$	US$	US$	US$	US$
BALANCE AT 1 JULY 2010		209,353,451	-	(27,662,815)	(310,997)	34,595	181,414,234
Loss for the period	17,18	-	-	(14,524,092)	-	1,410	(14,525,502)
Other comprehensive income / (losses):							
Foreign currency exchange differences arising on translation from functional currency to presentation currency	16	-	-	-	(1,819,279)	-	(1,819,279)
Total comprehensive loss for the period		-	-	(14,524,092)	(1,819,279)	-	(16,344,781)
Transactions with owners in their capacity as owners:							
Share-based payments	16	-	7,593,509	-	-	-	7,593,509
Options exercised	15	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.

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	Consolidated	
		12 months ended 31 December 2011	6 months ended 31 December 2010
		US$	US$
Cash flows from operating activities			
Payments to suppliers and employees		**(25,884,062)**	(9,516,424)
Interest received		**1,343,718**	136,826
Finance costs		**(443)**	(82)
Other revenue		**-**	88,142
Net cash flows used in operating activities	7(b)	**(24,540,787)**	(9,291,538)
Cash flows from investing activities			
Payment for plant, equipment and aircraft	11	**(4,394,864)**	(592,782)
Payment for land	11	**(1,056,158)**	-
Payment for exploration and evaluation activities		**(104,378,760)**	(34,035,013)
Loan to related party	8	**(10,000,000)**	-
Increase in cash backing security provided for drilling operations & seismic data acquisition		**(39,235,612)**	-
Net cash (used in) investing activities		**(159,065,394)**	(34,627,795)
Cash flows from financing activities			
Repayment of borrowings		**-**	(1,621,310)
Proceeds from issue of shares	15	**270,549,011**	2,243,027
Capital raising costs	15	**(10,988,851)**	-
Net cash from financing activities		**259,560,160**	621,717
Net increase / (decrease) in cash and cash equivalents		**75,953,979**	(43,297,616)
Cash and cash equivalents at the beginning of the year		**135,451,410**	180,829,563
Net foreign exchange differences		**(6,876,361)**	(2,080,537)
Cash and cash equivalents at the end of year	7(a)	**204,529,028**	135,451,410

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

The financial report of the Company and its subsidiaries (together the "Consolidated Entity") for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 14 March 2012.

African Petroleum Corporation Limited is a company limited by shares incorporated in Australia and its shares are publicly traded on the National Stock Exchange of Australia (code: AOQ).

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 Company has early adopted, effective 1 January 2011, AASB 1054 Australian Additional Disclosures. There is no impact on recognition and measurement of the financial position or performance of the Consolidated Entity, with the only impact on disclosures of capital commitments.

Comparative financial information

During 2010 the Company changed it's financial year end from 30 June to 31 December. The comparative information presented is for the 6 months ended 31 December 2010. The current information presented is for the 12 months ended 31 December 2011.

Compliance with IFRS

The financial report complies with Australian Accounting Standards. 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 124 (Revised)	The revised AASB 124 Related Party Disclosures (December 2009) 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	1 January 2011	1 January 2011
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] 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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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 2011 are set out below. The application of these Standards and Interpretations, once effective, will not have any impact on the Consolidated Entity other than disclosure.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1 July 2012	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	1 January 2014

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Accounting Standards and interpretations issued but not yet effective (continued)

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. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be 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. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Accounting Standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.	1 January 2013	1 January 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB128.	1 January 2013	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Accounting Standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	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 Board and 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".

(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. The exchange rates used to translate the functional currency to presentation currency are as follows:

As at 1 January 2011	1 US$ = A$0.9841
As at 31 December 2011	1 US$ = A$0.9827
Average rate for the year ended 31 December 2011	1 US$ = A$0.9687

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.

(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.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(f) Plant and equipment (continued)

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%
- Aircraft 10%

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 cost 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:

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.

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.

Rental income
Rental income arises from leasing the corporate jet and is accounted for on a transaction basis.

(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.

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.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(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 granted. 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.

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.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(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. There have been no impairment trigger events during the current year.

During the prior 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.

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

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 12.

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.

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees, directors and consultants 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 19. 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. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

5. INCOME TAX

	31 December 2011 US$	31 December 2010 US$
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% (31 December 2010: 30%)	**5,705,862**	4,357,228
Foreign tax rate adjustment	**(1,429,846)**	(761,308)
	4,276,016	3,595,920
Add/(less)		
Tax effect of		
- Tax effect of permanent differences	**(3,371,376)**	(2,289,353)
- Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(904,640)**	(1,306,567)
Income tax expense/(benefit)	**-**	-

Deferred tax assets have not been brought to account in respect of tax losses and temporary differences because as at 31 December 2011 it is not probable that future taxable amounts will be available to utilise those temporary differences and losses.

6. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

	12 months to 31 December 2011 US$	6 months to 31 December 2010 US$
(a) REVENUE		
Interest income	**1,540,247**	136,826
Rental income [1]	**1,367,371**	-
Other revenue	**1,152,693**	88,143
	4,060,311	224,969

[1] During the current year, the Consolidated Entity purchased a corporate jet. The jet is leased to related parties and generated US$1,367,371 external revenue for the year ended 31 December 2011.

(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	**558,803**	71,380

(c) EMPLOYEE REMUNERATION		
Employee benefits	**3,575,350**	764,424
Director's remuneration	**1,761,430**	876,850
Share based payments	**11,244,370**	7,593,509
	16,581,150	9,234,783

(d) UNREALISED FOREIGN CURRENCY GAINS / (LOSSES)		
Unrealised foreign currency gains / (losses) on translation of foreign denominated cash balances[1]	**7,135,330**	(128,509)

[1] The functional currency of the legal parent entity of the Consolidated Entity, African Petroleum Corporation Limited ("African Parent") is Australian Dollars ("AUD"). The presentation currency of the Consolidated Entity is United States Dollars ("USD"). Consequently, the financial statements of African Parent are stated in AUD and translated into USD. During the year ended 31 December 2011, the Consolidated Entity completed a significant capital raising of A$250 million (before costs). African Parent used the capital raising proceeds to purchase USD which it held in various term deposits and call accounts ("USD deposits"). As at 31 December 2011, African Parent has recognised the difference between the AUD equivalent of the USD deposits at the time they were acquired and AUD equivalent of the USD deposits at 31 December 2011 as an unrealised foreign currency exchange gain.

(e) REMUNERATION OF AUDITORS		
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**96,872**	56,505
Ernst & Young related practices	**167,000**	79,830

7. CASH AND CASH EQUIVALENTS

	31 December 2011 US$	31 December 2010 US$
Cash at bank and on hand	**199,276,799**	47,656,979
Term deposits	**5,252,229**	87,794,431
Cash and cash equivalents	**204,529,028**	135,451,410

(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 2011 US$	31 December 2010 US$
Cash and cash equivalents	**204,529,028**	135,451,410

b) Reconciliation of Net Loss to Net Cash Flows from Operating Activities

Loss from ordinary activities	**(19,019,539)**	(14,524,092)
Adjusted for non cash items:		
Depreciation	**558,803**	71,380
Share based payments expense	**11,244,370**	7,593,509
Unrealised foreign exchange gain	**(7,135,330)**	128,509
Interest and commitment fee capitalised on loan to related party	**(435,209)**	-
Impairment loss	**-**	118,045
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Increase / (decrease) in trade and other receivables	**(11,181,494)**	(2,561,290)
Increase / (decrease) in trade and other payables	**1,427,612**	-
Increase / (decrease) in restricted cash	**-**	(117,599)
Net cash provided by / (used) in operating activities	**(24,540,787)**	(9,291,538)

(c) Non-Cash Activities

During the current year, 11,975,000 unlisted options have been issued to directors, employees and consultants of the Company (31 December 2010: 13,375,000 unlisted options). US$5,330,577 has been expensed in the current year with respect to these options (31 December 2010: US$7,593,509).

On 9 March 2011, 6,500,000 ordinary shares were awarded to African Oil Investing SARL (or its nominee) 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 Investing SARL. The shares are subject to a voluntary escrow restriction of 6 months from the date of issue. US$5,811,989 has been capitalised within exploration and evaluation expenditure in the current period with respect to these shares.

On 18 August 2011, 3,275,000 ordinary shares were awarded to Karl Thompson, Chief Executive Officer in line with the terms of his employment contract, following the spudding of the Company's first well. A share based payments expense of US$2,446,313 has been recognised in the statement of changes in equity.

7. CASH AND CASH EQUIVALENTS (continued)

(c) Non-Cash Activities (continued)

On 7 December 2011, 26,500,000 ordinary shares were awarded to African Oil Investing SARL (or its nominee) in accordance with the terms of an agreement between the Company and African Oil Investing SARL following the award of two offshore exploration permits in Senegal to the Company. The shares are subject to a voluntary escrow restriction of 6 months from the date of issue. US$7,716,191 has been capitalised within Exploration and evaluation expenditure in the current period with respect to these shares.

8. TRADE AND OTHER RECEIVABLES

	31 December 2011 US$	31 December 2010 US$
CURRENT		
GST / VAT recoverable	**-**	1,127,985
Loan receivable from related party[1]	**10,435,209**	-
Other receivables	**1,273,280**	848,200
	11,708,489	1,976,185
NON CURRENT		
GST / VAT recoverable	**4,430,187**	-
Other receivables	**24,016**	-
	4,454,203	-

Trade and other receivables are neither past due or impaired.

[1] During the year, the Company has provided a US$10 million loan facility to a director related entity. As at 31 December 2011, the loan facility was had been fully drawn down.

Under the terms of the facility agreement, the amounts drawn down are required to be repaid by 1 June 2012.

Interest is receivable on amounts drawn down under the facility at the cash rate plus 3%. The facility is secured by a fixed and floating charge. Interest earned but not yet received on the facility for the year ended 31 December 2011 is US$185,209. The Company is also entitled to a US$250,000 commitment fee for the provision of the facility.

9. RESTRICTED CASH

	31 December 2011 US$	31 December 2010 US$
CURRENT		
Restricted cash	**28,087,489**	-
NON-CURRENT		
Restricted cash	**11,250,614**	117,599
	39,338,103	117,599

Restricted cash balances represent cash backing security provided in relation to the Consolidated Entity's exploration programs. The security deposits will be released upon completion of exploration works such as seismic data acquisition, and on achievement of certain drilling milestones. The classification of restricted cash balances as either current or non-current within the Statement of Financial Position is based on management's estimate of the timing of completion of seismic acquisition and drilling milestones.

10. PREPAYMENTS

	31 December 2011 US$	31 December 2010 US$
Prepayments related to exploration activities	**7,150,672**	-
Other prepayments	**574,466**	913,478
	7,725,138	913,478

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$	Plant & equipment US$	Aircraft US$	Total US$
31 December 2011				
Cost	**1,056,158**	**2,065,578**	**3,645,611**	**6,767,347**
Accumulated depreciation	**-**	**(433,273)**	**(271,743)**	**(705,016)**
	1,056,158	**1,632,305**	**3,373,868**	**6,062,331**
31 December 2010				
Cost	-	626,157	-	626,157
Accumulated depreciation	-	(74,833)	-	(74,833)
	-	551,324	-	551,324

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliations

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

	31 December 2011 US$	31 December 2010 US$
Freehold land		
Balance at beginning of period	-	-
Additions at cost	1,056,158	-
Balance at end of period	1,056,158	-
Plant and Equipment		
Balance at beginning of period	551,324	29,582
Additions at cost	1,368,041	592,782
Depreciation expense	(287,060)	(71,380)
Foreign currency exchange difference arising on translation from functional currency to presentation currency	-	340
Balance at end of period	1,632,305	551,324
Aircraft		
Balance at beginning of period	-	-
Additions at cost	3,026,823	-
Transfer from prepayments	618,788	-
Depreciation expense	(271,743)	-
Balance at end of period	3,373,868	-
Total property, plant and equipment	6,062,331	551,324

12. EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest in exploration and evaluation phases	159,715,694	52,199,175
Reconciliation		
Opening balance	52,199,175	27,948,672
Exploration expenditure incurred	113,172,171	24,368,548
Exploration expenditure – recouped	(5,000,000)	-
Issue of shares to acquire exploration assets	13,528,181	-
Exploration expenditure impaired	-	(118,045)
	173,899,527	52,199,175

12. EXPLORATION AND EVALUATION EXPENDITURE (continued)

During the year, 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 nil (31 December 2010: US$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.

13. TRADE AND OTHER PAYABLES

	31 December 2011 US$	31 December 2010 US$
Trade payables	**11,402,224**	7,682,461
Other payables[1]	**10,119,229**	8,617,901
	21,521,453	16,300,362

[1] Other payables includes amounts due payable for seismic data interpretation and drilling costs.

14. 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 offshore 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 offshore 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 23); 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 joint venture does not have any revenues or expenses for the period year ended 31 December 2011 and the period ended 31 December 2010. The Consolidated Entity's interests in the assets and liabilities as at 31 December 2011 and 31 December 2010, which is proportionally consolidated in the consolidated financial statements, are as follows:

	31 December 2011 US$	31 December 2010 US$
Share of the joint venture's statement of financial position:		
Current assets	**175,190**	60,706
Non-current assets	**17,473,110**	10,778,946
Current liabilities	**(287,956)**	(10,839,652)
Equity	**17,360,344**	-

The Company's capital commitments in relation to the joint venture are included in note 23.

15. ISSUED CAPITAL

	31 December 2011 US$	31 December 2010 US$
Fully paid ordinary shares	**488,152,298**	211,596,478

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	
	31 December 2011	31 December 2010
At beginning of reporting period	**1,340,502,598**	1,328,002,598
Issue of shares pursuant to a capital raising	**250,000,000**	-
Issue of shares pursuant to share based payment arrangements	**36,275,000**	-
Issue of shares on the exercise of options	**-**	12,500,000
At end of reporting period	**1,626,777,598**	1,340,502,598

Reconciliation of movements in issued capital

	31 December 2011 US$	31 December 2010 US$
Fair value of issued share capital at beginning of period	**211,596,478**	209,353,451
Issue of share pursuant to a capital raising	**270,549,011**	-
Capital raising costs	**(10,988,851)**	-
Issue of shares pursuant to share based payment arrangements	**16,995,660**	-
Issue of shares on the exercise of options	**-**	2,243,027
Fair value of issued share capital at end of period	**488,152,298**	211,596,478

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.

16. RESERVES

	31 December 2011 US$	31 December 2010 US$
Share-based payment reserve		
At beginning of reporting period	**7,593,509**	-
Issue of options pursuant to share based payment arrangements	**7,776,889**	7,593,509
At end of period	**15,370,398**	7,593,509
Foreign currency translation reserve		
At beginning of reporting period	**(2,130,276)**	(310,997)
Foreign currency exchange differences arising on translation of functional currency to presentation currency	**(14,026,613)**	(1,819,279)
At end of period	**(16,156,889)**	(2,130,276)
Total reserves	**(786,491)**	5,463,233

Nature and purpose of reserves

Share-based payment reserve

The share based payments reserve records items recognised as expenses on valuation of employee share options, and options issued to directors, employees and consultants. Refer to note 19 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.

The functional currency of the legal parent of the Consolidated Entity, African Petroleum Corporation Limited ("African Parent") (the parent entity of the consolidated group) is Australian Dollars ("AUD"). African Parent's accounts are stated in AUD. On translation of African Parent's accounts to the Consolidated Entity's presentation currency of United States Dollars (US$), an unrealised foreign currency exchange loss of US$13,651,648 has been recognised in the Foreign Currency Translation Reserve in the current year (loss recognised at 31 December 2010: US$2,042,554). A number of other entities within the Consolidated Entity have functional currencies other than US$. On translation of the accounts of these entities functional currency to the Consolidated Entity's presentation currency (US$), an unrealised foreign currency exchange loss of US$374,965 has been recognised in the Foreign Currency Translation Reserve during the current year (31 December 2010: unrealised foreign currency gain of US$223,275).

17. ACCUMULATED LOSSES

	31 December 2011 US$	31 December 2010 US$
Accumulated losses at the beginning of the period	**(42,186,907)**	(27,662,815)
Loss attributable to the members of the entity	**(18,998,508)**	(14,524,092)
Accumulated losses at the end of the period	**(61,185,415)**	(42,186,907)

18. NON-CONTROLLING INTEREST

Accumulated losses at the beginning of the period	**36,005**	34,595
Loss attributable to non-controlling interest	**(21,031)**	1,410
Non-controlling interest at the end of the period	**14,974**	36,005

19. SHARE BASED PAYMENTS

Shares

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 were subject to a voluntary escrow restriction of 6 months from the date of issue. The fair value of the share based payment is US$5,811,989 (A$5,785,000).

A further 26,500,000 ordinary shares were issued to African Oil on 7 December 2011, in consideration for the Company’s wholly owned subsidiary, African Petroleum Senegal Limited (“African Petroleum Senegal”), entering into an agreement with the Société des Pétroles du Sénégal (“Petrosen’’) and the République du Sénégal (the “State of Senegal”) to acquire two offshore exploration permits covering two blocks: Rufisque Offshore Profond and Senegal Offshore Sud Profond (“Licence Blocks”). The shares are subject to a voluntary escrow restriction of 6 months from the date of issue. The fair value of the share based payment is US$7,716,191 (A$7,420,000).

On 18 August 2011, 3,275,000 fully paid ordinary shares were issued to Karl Thompson following the spudding of the Company’s first offshore well, pursuant to the terms of his employment contract. The fair value of the share based payment is US$3,467,480 (A$3,275,000).

Karl Thompson was also awarded 3,275,000 performance shares in the Company. These performance shares have not vested as at 31 December 2011. The fair value of the shares at grant date is US$3,467,480 (A$3,275,000) and US$2,446,313 (A$2,310,518) has been expensed in the current year.

Options

On 20 December 2011, the Remuneration Committee decided that it was in the best interests of the Company and its shareholders to modify the terms of all staff and consultant options. The options were originally issued with an exercise price of A$0.55, and have been modified to an exercise price of A$0.30 (‘Modified Options’). Options held by Directors were not replaced and therefore all Director held options remain exercisable at A$0.55.

19. SHARE BASED PAYMENTS (continued)

In addition to the Modified Options, certain staff and consultants were awarded a total of 2,045,000 new options with an exercise price of A$0.30 as part of their remuneration package ("New Options"). The New Options are only exercisable in the event that the Company makes a commercial discovery of hydrocarbons in any one of the Company's wells.

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

Number of options	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
440,000	10 January 2011	17 January 2017[1]	A$0.30[1]	A$0.84[2]
440,000	13 January 2011	17 January 2017[1]	A$0.30[1]	A$0.81[3]
200,000	19 January 2011	31 July 2013	A$0.55[4]	A$0.79[5]
150,000	13 April 2011	17 January 2017[1]	A$0.30[6]	A$0.86[7]
100,000	13 June 2011	17 January 2017[1]	A$0.30[1]	A$0.64[8]
200,000	1 April 2011	17 January 2017[1]	A$0.30[1]	A$0.92[9]
3,000,000	27 May 2011	31 July 2013	A$0.55[3]	A$0.76[10]
1,000,000	23 June 2011	17 January 2017[1]	A$0.30[1]	A$0.74[11]
1,000,000	12 August 2011	17 January 2017[1]	A$0.30[1]	A$0.55[12]
1,350,000	22 November 2011	17 January 2017	A$0.30[13]	A$0.31[14]
4,095,000	20 December 2011	17 January 2017	A$0.30[13]	A$0.26[15]

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
1,875,000	13 October 2010	31 July 2013	A$0.55[1]	A$0.62[11]
10,500,000	25 November 2010	31 July 2013	A$0.55[1]	A$0.61[12]
1,000,000[13]	1 December 2010	1 December 2015	A$0.55[1]	A$0.73[14]

1 The options were originally issued with an exercise price of A$0.55 and a range of expiry dates from 31 July 2013 to 5 September 2019. On 20 December 2011 the terms of the options were modified to an exercise price of A$0.30 and an expiry date of 17 January 2017. The equivalent US$ exercise price as at 31 December 2011 is US$0.31

2 The equivalent US$ fair value at grant date is US$0.82

3 The equivalent US$ fair value at grant date is US$0.81

4 The equivalent US$ exercise price as at 31 December 2011 is US$0.56

5 The equivalent US$ fair value at grant date is US$0.79

6 The options were originally issued with an exercise price of A$1.00 and an expiry date of 3 June 2014. On 20 December 2011 the terms of the options were modified to an exercise price of A$0.30 and an expiry date of 17 January 2017. The equivalent US$ exercise price as at 31 December 2011 is US$0.31.

7 The equivalent US$ fair value at grant date is US$0.90

8 The equivalent US$ fair value at grant date is US$0.70

9 The equivalent US$ fair value at grant date is US$0.95

10 The equivalent US$ fair value at grant date is US$0.80

11 The equivalent US$ fair value at grant date is US$0.77

12 The equivalent US$ fair value at grant date is US$0.56

13 The equivalent US$ exercise price as at 31 December 2011 is US$0.31

14 The equivalent US$ fair value at grant date is US$0.31

15 The equivalent US$ fair value at grant date is US$0.25

19. SHARE BASED PAYMENTS (continued)

The fair value of options which has been recognised in the statement of comprehensive income for the current year is US$5,330,577 (31 December 2010: US$7,593,509). The fair value of options that have not vested have not been recognised in the statement of comprehensive income for the current year but which are expected to vest is US$3,353,723 (31 December 2010: US$697,703).

The options were issued to directors, employees and consultants 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 year is A$0.40 (31 December 2010: A$0.62). 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.

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

	Option Series				
Expiry Date	**31 Jul 2013**	**31 Jul 2013**	**17 Jan 2017**	**31 Jul 2013**	**31 Jul 2013**
Grant date	30 June 2010	25 Nov 2010	Various	19 Jan 2011	27 May 2011
No. of options	12,108,826	10,500,000	11,650,000	200,000	3,000,000
Grant date share price	A$0.55[1]	A$0.80[3]	Between A$0.30[4] and A$1.02[5]	A$1.01[7]	A$1.00[8]
Exercise price	A$0.55[2]	A$0.55[2]	A$0.30[6]	A$0.55[2]	A$0.55[2]
Expected Volatility	125%	125%	125%	125%	125%
Option life	3 years	2 years 8 months	5 years	2 years 7 months	3 years 2 months
Dividend yield	-	-	-	-	-
Risk-free interest rate	4.47%	5.22%	Between 3.23% and 5.43%	5.16%	4.86%

1 The equivalent US$ grant date share price is US$0.47

2 The equivalent US$ exercise price as at 31 December 2011 is US$0.56

3 The equivalent US$ grant date share price is US$0.79

4 The equivalent US$ grant date share price is US$0.30

5 The equivalent US$ grant date share price is US$1.05

6 The equivalent US$ exercise price is US$0.31. On 20 December 2011 the terms of 6,205,000 options were modified to an exercise price of A$0.30 and an expiry date of 17 January 2017 and a further 4,095,000 new options issued.

7 The equivalent US$ grant date share price is US$1.01

8 The equivalent US$ grant date share price is US$1.06

19. SHARE BASED PAYMENTS (continued)

The option expense recognised during the period was US$5,330,577 (31 December 2011: US$7,593,509). The value of options capitalised during the period was nil (31 December 2010: nil).

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

	2011		2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance at beginning of the period	**25,483,826**	**A$0.52[1]**	24,608,826	A$0.37[2]
Granted during the period	**11,975,000**	**A$0.30[3]**	13,375,000	A$0.55[4]
Exercised during the period	**-**	**-**	(12,500,000)	A$0.20[5]
Forfeited during the period	**-**	**-**	-	-
Balance at end of the period	**37,458,826**	**A$0.45[6]**	25,483,826	A$0.55[2]
Exercisable at end of the period	**29,062,159**	**A$0.50[7]**	24,483,826	A$0.55[2]

The share options outstanding at the end of the period had a weighted average exercise price of A$0.45 (31 December 2010: A$0.55) and the weighted average remaining contractual life was 962 days (31 December 2010: 951 days).

1 The US$ equivalent weighted average exercise price is equal to US$0.53

2 The US$ equivalent weighted average exercise price is equal to US$0.38

3 The US$ equivalent weighted average exercise price is equal to US$0.56. Of the total options granted during the period 3,180,000 options were originally granted at an exercise price of A$0.55 and 150,000 options were originally granted at an exercise price of A$1.00. On 20 December 2011the exercise price was modified to A$0.30.

4 The US$ equivalent weighted average exercise price is equal to US$0.56. On 20 December 2011 the terms of 1,000,000 options were modified from an exercise price of A$0.55 and expiry date of 19 January 2016 and 1,875,000 options with an exercise price of A$0.55 and expiry date of 31 July 2013 to an exercise price of A$0.30 and an expiry date of 17 January 2011.

5 The US$ equivalent weighted average exercise price is equal to US$0.20

6 The US$ equivalent weighted average exercise price is equal to US$0.46

7 The US$ equivalent weighted average exercise price is equal to US$0.51

20. 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.

(b) Corporate Structure

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

		% Equity interest	
Name	**Country of incorporation**	**2011**	**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	90%	100%
African Petroleum Gambia Limited	Cayman Islands	100%	100%
African Petroleum Guinea Limited	Cayman Islands	100%	100%
African Petroleum Cote d'Ivoire Limited	Cayman Islands	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%	91%
African Petroleum Liberia Limited	Liberia	100%	100%
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire SAU	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%

20. 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

	12 months to 31 December 2011 US$	6 months to 31 December 2010 US$
Short-term employee benefits	**2,764,460**	946,793
Post-employment benefits	**153,354**	47,738
Share based payments	**9,765,167**	6,695,828
Total compensation	**12,682,981**	7,690,359

(ii) Number of Shares held by Directors and other key management personnel

	Balance 1 January 2011	Balance held on appointment	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2011
Directors						
F Timis	630,816,987	-	-	-	-	630,816,987
A Sage	10,509,325	-	-	-	-	10,509,325
K Thompson	-	-	3,275,000	-	-	3,275,000
M Ashurst	-	-	-	-	-	-
G Bangura	-	-	-	-	-	-
J Couch	443,700	-	-	-	-	443,700
J Smith	-		-	-	-	-
T Turner	271,993	-	-	-	(146,311)	125,682
A Watling	-	-	-	-	-	-
A Wilson	-	-	-	-	-	-
Key management						
C Tolcon	-	-	-	-	-	-
A Robinson	-	-	-	-	-	-
P Church [1]	-	-	-	-	-	-
M Barrett[2]	-	-	-	-	-	-
P Raillard[3]	-	-	-	-	-	-
	642,042,005	**-**	**3,275,000**		**(146,311)**	**645,170,694**

[1] Appointed on 23 May 2011
[2] Appointed on 12 August 2011
[3] Appointed on 22 November 2011, commenced employment 16 January 2012

20. RELATED PARTY INFORMATION (continued)

	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]	-	443,700	-	-	-	443,700
J Smith[2]	-	-	-	-	-	-
T Turner	21,993	-	-	250,000	-	271,993
A Watling	-	-	-	-	-	-
A Wilson	-	-	-	-	-	-
Key management						
E von Puttkammer[3]	53,523	-	-	300,000	(353,523)	-
Claire Tolcon[4]	-	-	-	-	-	-
Adrian Robinson[4]	-	-	-	-	-	-
	635,109,386	**443,700**	**-**	**6,950,000**	**(461,081)**	**642,042,005**

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

Sarella Investments Limited ("Sarella"), a company controlled by the Timis Trust, of which Mr Timis is a beneficiary, and Mr Sage were both shareholders of Cayman Island incorporated African Petroleum Corporation Limited ("APCL Cayman"). Pursuant to the acquisition of APCL Cayman by Australian incorporated African Petroleum Corporation Limited, 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.

20. RELATED PARTY INFORMATION (continued)

(iii) Option Holdings by Directors and other key management personnel

	Balance 1 January 2011	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2011
Directors						
F Timis	-	-	-	-	-	-
A Sage	2,000,000	-	-	-	-	2,000,000
K Thompson	1,500,000	-	2,000,000	-	-	3,500,000
M Ashurst	1,500,000	-	1,000,000	-	-	2,500,000
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	500,000	-	-	-	-	500,000
A Watling	1,000,000	-	-	-	-	1,000,000
A Wilson	1,000,000	-	-	-	-	1,000,000
Key management						
Claire Tolcon	200,000	-	75,000	-	-	275,000
A Robinson	1,000,000	-	350,000	-	-	1,350,000
P Church	-	-	1,350,000	-	-	1,350,000
M Barrett	-	-	1,350,000	-	-	1,350,000
P Raillard[1]	-	-	1,350,000	-	-	1,350,000
	11,700,000	**-**	**7,475,000**	**-**	**-**	**19,175,000**

[1] Appointed 22 November 2011.

	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						
E von Puttkammer	-	300,000	200,000	(300,000)	(200,000)	-
Claire Tolcon	-	-	200,000	-	-	200,000
A Robinson	-	-	1,000,000	-	-	1,000,000
	-	**6,950,000**	**11,900,000**	**(6,950,000)**	**(200,000)**	**11,700,000**

20. RELATED PARTY INFORMATION (continued)

(d) Transactions and period end balances with related parties:

(i) In May 2011, the Company provided a US$10 million loan facility to International Petroleum Limited ("International Petroleum"). Mr Timis, Mr Sage, Mr Turner and Mr Ashurst are directors of International Petroleum. As at 31 December 2011 the loan facility had been fully drawn down.

Repayment of the loan and accumulated interest is due on the earlier of 1 June 2012, receipt by International Petroleum of cash consideration from Nkwe Platinum Limited under its agreement with Nkwe for the sale of International Petroleum's interest in the Tubatse Project and receipt of any other funding except for the funding that International Petroleum raised in February 2012.

Interest is charged on the loan facility at the cash rate plus 3% per annum and is secured by a fixed and floating charge over International Petroleum. International Petroleum is also obliged to pay a US$250,000 commitment fee for the provision of the loan facility. As at 31 December 2011, the interest and commitment fee has not been paid.

(ii) An aggregate amount of US$12,000 (31 December 2010: US$30,842) was paid to Cape Lambert Resources Limited ('Cape Lambert'), for expenditure incurred by Cape Lambert on behalf of the Company. Mr Sage and Mr Turner are directors of Cape Lambert.

(iii) During the year US$51,423 (31 December 2010: US$1,002) was paid to PG Partnerships Pty Ltd, an entity related to Mr Sage for the corporate boxes at the Perth Glory football matches.

(iv) During the year US$325,930 was paid by African Minerals Engineering Ltd (31 December 2010: nil) for rental of the Company's corporate jet. Mr Timis and Mr Bangura are directors of African Minerals Engineering Ltd. Also, during the year, US$321,954 was paid by Pan African Minerals Services Ltd (31 December 2010: nil) for rental of the Company's corporate jet. Mr Timis, Mr Bangura and Mr Ashurst are directors of Pan African Minerals Services Ltd. During the year US$51,162 was paid by Mr Timis for personal use of the Company's corporate jet.

(v) As at 31 December 2011, the following amounts were payable to directors of the Company or their nominees:

	31 December 2011 US$	31 December 2010 US$
CRMS which is an entity controlled by Mr Turner	**4,070**	3,769
Mr Bangura	**4,070**	3,769
Mr Wilson	**-**	3,769
Cadence Energy UK Ltd which is an entity controlled by Mr Smith	**-**	3,769
Phuket Investments Ltd which is an entity controlled by Mr Couch	**-**	3,769
A Watling	**4,070**	-

21. 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.

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 2011 US$	31 December 2010 US$
Australia	1,562	1,950
United Kingdom	9,103,068	510,811
Ghana	40,885	45,403
Sierra Leone	1,269,782	2,286,887
Gambia	23,259,227	10,426,376
Liberia	128,756,885	39,596,671
Cote d'Ivoire	16,430,895	-
Senegal	16,706,683	-
Other	97,688	-
	195,666,675	**52,868,098**

22. EVENTS SUBSEQUENT TO REPORTING DATE

On 21 February 2012 the Company announced that a significant oil discovery was made at the Narina-1 well, offshore Block LB-09. The Company has found a total of 32 metres (105 feet) of net oil pay in two zones: 21 metres (69 feet) in the Turonian; and 11 metres (36 feet) in the Albian. Good quality oil was found in each of the Turonian and Albian reservoirs of 37 degrees API and 44 degrees API, respectively. Hydrocarbon shows were encountered over a 170 metre interval in the Turonian and no oil water contact was found.

No other event has arisen between 31 December 2011 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.

23. COMMITMENTS AND CONTINGENCIES

Exploration commitments

The Company has entered into obligations in respect of its exploration projects. Outlined below are the minimum expenditures required as at 31 December:

	31 December 2011 US$	31 December 2010 US$
Within one year	**5,599,385**	3,113,000
After one year but not more than five years	**7,555,305**	4,378,750
More than five years	**-**	-
	13,154,690	**7,491,750**

23. COMMITMENTS AND CONTINGENCIES (continued)

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.

24. 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.

24. FINANCIAL RISK MANAGEMENT (continued)

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

	31 December 2011 US$	31 December 2010 US$
Financial assets		
Cash and cash equivalents	**204,434,090**	135,451,410
Related party loan receivable	**10,435,209**	-
Financial liabilities		
Borrowings	**-**	-

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$398,830 (2010: US$3,162,810). 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.

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)	
	2011 US$	2010 US$	2011 US$	2010 US$
Consolidated Entity				
+2% 200 basis points	**308,049**	3,162,810	**-**	-
-2% 200 basis points	**(308,049)**	(3,162,810)	**-**	-

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$/A$ and US$/£ exchange rates.

24. FINANCIAL RISK MANAGEMENT (continued)

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

	2011 US$	2010 US$
Financial assets		
Cash and cash equivalents - A$	**9,800,883**	3,528,376
Cash and cash equivalents - £	**1,032,394**	2,069,251

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

At reporting date, had the US$ 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)	
	2011 US$	2010 US$	2011 US$	2010 US$
Consolidated Entity				
US$ to A$ + 10%	**980,088**	352,837	**-**	-
US$ to A$ - 10%	**(980,088)**	(352,837)	**-**	-
US$ to £ + 10%	**103,239**	206,925	**-**	-
US$ to £ - 10%	**(103,239)**	(206,925)	**-**	-

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.

The following are the contractual maturities of financial liabilities:

2011	6 months or less US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	**21,484,832**	**-**	**-**	**-**	**21,484,832**

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

24. FINANCIAL RISK MANAGEMENT (continued)

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.

25. LOSS PER SHARE

	31 December 2011 US$	31 December 2010 US$
(a) Basic loss per share		
Overall operations	**(1.26) cents**	(1.08) cents
(b) Diluted loss per share		
Overall operations	**(1.26) cents**	(1.08) cents
(c) Reconciliation of loss used in calculating loss per share		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic loss per share	**(19,019,539)**	(14,524,092)
Profit/(loss) from discontinued operations	**-**	-
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(19,019,539)**	(14,524,092)
	Number of shares	
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	**1,509,877,666**	1,338,638,468
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive loss per share	**1,509,877,666**	1,338,638,468

Options on issue are considered to be potential ordinary shares and have been included in the determination of diluted loss 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 loss per share because they are considered to be anti-dilutive.

26. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

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

	31 December 2011 US$	31 December 2010 US$
Statement of financial position		
Current assets	**199,235,588**	3,707,250
Non current assets	**681,842,007**	603,213,364
Total assets	**881,077,595**	606,920,614
Current liabilities	**(118,314)**	(48,941)
Total liabilities	**(118,314)**	(48,941)
Shareholders' equity		
Issued capital	**883,835,402**	607,279,584
Reserves	**36,911,032**	44,060,211
Accumulated losses	**(39,787,153)**	(44,468,122)
	880,959,281	606,871,673
Net gain / (loss) for the period	**4,680,969**	(41,507,118)
Total comprehensive loss	**(9,027,360)**	(41,507,118)

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 licences for Alhamdulilah Block A1 and A4, as part of the farm-in agreement to acquire a 60% interest in the licence blocks. This guarantee is still in place as at 31 December 2011.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current period (31 December 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 2011 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2011 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 Company 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 2011.

Signed in accordance with a resolution of the Directors:

Antony Sage
Director

Perth, 14 March 2012

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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 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Opinion

In our opinion:

a. 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 as at 31 December 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2011. 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.

Opinion

In our opinion, the Remuneration Report of African Petroleum Corporation Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
14 March 2012

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 6 March 2012 were as follows:

Category (size of holding)	Holders	Units
1- 1,000	326	150,223
1,001- 10,000	360	1,445,016
10,001- 100,000	80	2,759,373
100,001 – over	58	1,623,023,137
Total	**824**	**1,627,377,749**

Equity Securities

There are 824 shareholders, holding 1,627,377,749 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. These shares will be released from escrow on 30 June 2012.

The number of ordinary shareholdings holding less than a marketable parcel is 147.

Options

The Company currently has the following options on issue:

(a) 11,145,655 unlisted options exercisable at A$0.55 expiring on 30 June 2013;

(b) 13,700,000 unlisted options exercisable at A$0.30 expiring on 31 July 2013; and

(c) 11,850,000 unlisted options exercisable at A$0.30 expiring on 17 January 2017.

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 6 March 2012 are as follows:

	Fully paid ordinary shareholders	Number	% of held Issued Capital
1	Sarella Investments Limited	630,816,987	38.76
2	HSBC Custody Nominees (Australia) Limited	437,020,709	26.85
3	Citicorp Nominees Pty Limited	132,939,872	8.17
4	National Nominees Limited	123,805,835	7.61

Twenty largest shareholders

The names of the twenty largest fully paid ordinary shareholders as at 6 March 2012 are as follows:

	Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1	SARELLA INVESTMENTS LIMITED	630,816,987	38.76
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	437,020,709	26.85
3	CITICORP NOMINEES PTY LIMITED	132,939,872	8.17
4	NATIONAL NOMINEES LIMITED	123,805,835	7.61
5	HILLBURG INTERNATIONAL LIMITED	53,962,492	3.32
6	KONTILLO RESOURCES LIMITED	40,462,492	2.49
7	AFRICAN OIL INVESTING LIMITED	33,000,000	2.03
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	23,782,290	1.46
9	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	22,680,000	1.39
10	CS FOURTH NOMINEES PTY LTD	20,372,825	1.25
11	J P MORGAN NOMINEES AUSTRALIA LIMITED	19,563,718	1.20
12	DALSIN HOLDINGS LIMITED	12,024,268	0.74
13	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	10,104,021	0.62
14	MR ANTONY WILLIAM PAUL SAGE <EGAS SUPERANNUATION FUND A/C>	8,280,825	0.51
15	DOLVEN HOLDINGS LIMITED	6,149,211	0.38
16	NED GOODMAN INVESTMENT COUNSEL LIMITED	5,879,246	0.36
17	LAMINGTON CAPITAL INC	4,528,339	0.28
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	4,318,123	0.27
19	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	4,107,086	0.25
20	MR CHRISTOPHER DAVID GRANNELL	3,729,631	0.23
		1,597,527,970	**98.17**

SCHEDULE OF EXPLORATION ASSETS »

AS AT 31 DECEMBER 2011

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 LB - 08	European Hydrocarbons Limited[1]	100%
BLOCK LB - 09	European Hydrocarbons Limited[1]	100%
OFFSHORE SIERA LEONE		
BLOCK SL - 03[2]	European Hydrocarbons Limited	100%
OFFSHORE SENEGAL		
BLOCK RUFISQUE PROFOND[3]	African Petroleum Senegal Limited	90%
BLOCK SUD PROFOND[3]	African Petroleum Senegal Limited	90%
OFFSHORE COTE D'IVOIRE		
BLOCK CI-513[4]	African Petroleum Cote d'Ivoire Limited	90%

[1] European Hydrocarbons Limited has 100% equity indirectly through its 100% ownership of Regal Liberia Limited which has 25% interest in block 8 and 9.

[2] Ratified by parliament of Sierra Leone during February 2011.

[3] Production Sharing Contract awarded on 25 October 2011.

[4] Production Sharing Contract awarded on 19 December 2011.

Non-Core assets

The Company does not have a direct ownership interest in any mineral tenements.

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