

*African Petroleum Corporation Limited*

(ABN 87 125 419 730)

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*Annual Financial Report  
for the year ended  
31 December 2016*

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**CONTENTS**

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<i>Corporate Directory</i>	2
<i>Directors' Report</i>	3
<i>Auditor's Independence Declaration</i>	10
<i>Corporate Governance Statement</i>	11
<i>Consolidated Statement of Comprehensive Income</i>	13
<i>Consolidated Statement of Financial Position</i>	14
<i>Consolidated Statement of Changes in Equity</i>	15
<i>Consolidated Statement of Cash Flows</i>	16
<i>Notes to the Consolidated Financial Statements</i>	17
<i>Directors' Declaration</i>	44
<i>Independent Auditor's Report to the Members</i>	45
<i>Additional Shareholder Information for Oslo Axess</i>	49

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***DIRECTORS***

David King, Chairman  
Jens Pace, Chief Executive Officer  
Stephen West, Chief Financial Officer  
Anders Bjarne Moe  
Timothy Turner  
Anthony Wilson

***COMPANY SECRETARY***

Angeline Hicks

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***STOCK EXCHANGE LISTING***

Oslo Axess  
Code: APCL

Open Market, Frankfurt Stock Exchange  
Code: A1C1G9

**DIRECTORS' REPORT**

Your Directors present their report on African Petroleum Corporation Limited ("African Petroleum" or the "Company") for the year ended 31 December 2016.

**DIRECTORS**

The names of Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Dr David King	Non-Executive Director, appointed Chairman on 23 May 2016
Mr Jens Pace	Executive Director and Chief Executive Officer
Mr Stephen West	Executive Director and Chief Financial Officer
Mr Bjarne Moe	Non-Executive Director
Mr Timothy Turner	Non-Executive Director
Mr Anthony Wilson	Non-Executive Director

Mr Charles Matthews Chairman, resigned 23 May 2016

**COMPANY SECRETARY**

Ms Angeline Hicks

**PRINCIPAL ACTIVITY**

The Company's principal activity during the year was oil and gas exploration.

**REVIEW OF OPERATIONS****CORPORATE*****Board Restructure and Appointment of New Chairman***

Existing Non-Executive Director, Dr David King, was appointed Chairman on 23 May 2016, replacing Mr Charles Matthews who resigned on the same date to pursue other business interests.

***Cost-Cutting Initiative***

During the year, in line with current industry practice the Company has remained focused on maintaining reduced overhead costs across the business. Significant cost savings have continued to be implemented by further reducing staff headcount, continuing reduced salaries of remaining staff and reducing directors' fees. The Company continues to act prudently in light of current challenging market conditions.

***Change of Auditor***

Following an internal review of the Company's auditor and a tender process, the Board selected BDO to replace Ernst & Young as the Company's auditors for the financial year ending 31 December 2016 and subsequent financial years on the basis that BDO are more aligned to the Company's current operations and to the Company's continued strategy to reduce corporate costs. The Board believes that the appointment of BDO is in the best interests of the Company and its shareholders.

**OPERATIONAL UPDATES*****Farm-Out Update***

In 2015 the Group signed a joint bidding agreement ("JBA") with Ophir Energy plc that resulted in the Group and Ophir Energy plc entering into a new petroleum sharing contract ("PSC") in December 2015 covering the Company's CI-513 licence area in Côte d'Ivoire. The new CI-513 PSC became effective in March 2016 with Ophir Energy plc holding a 45% operated interest, the Company holding a non-operated 45% interest and Petroci holding a 10% carried interest. In accordance with the terms of the JBA, Ophir Energy plc paid US\$16.9 million in relation to back costs to the Company upon the PSC becoming effective.

African Petroleum seeks to build on the success of attracting Ophir Energy plc as a partner on the CI-513 licence in Côte d'Ivoire by forming other strategic partnerships to explore the Company's blocks in Côte d'Ivoire, Senegal, The Gambia, and Sierra Leone. The strategy, supported by detailed technical work and prospect definition, is to use the significant equity held in this prospective portfolio to fund a high impact exploration drilling campaign. The industry interest in Côte d'Ivoire, The Gambia and Senegal licences in particular, due to the regional context of hydrocarbon discoveries being made in adjacent blocks in this part of the Atlantic Margin, provides management with confidence that agreements will be concluded in due course.

On 31 August 2016, The Company announced the receipt of a signed a non-exclusive Letter of Intent ("LOI") with an undisclosed International E&P company with respect to Licences A1 and A4, offshore The Gambia. The LOI represents a non-binding commercial proposal regarding the possible acquisition of interests in Licences A1 and A4 where African Petroleum holds 100% operated working interest in both blocks. The proposal set forth within the LOI is subject to ongoing due diligence and commercial negotiations. In the meantime, the Company is in active discussions with other interested companies.

**Côte d'Ivoire – Ayame-1X Exploration Well**

During the year, the Company worked with Ophir Energy and Petroci on planning for the first exploration well (Ayame-1X) to be drilled on the CI-513 licence (Company 45%, Ophir Cote d'Ivoire (CI-513) Limited (Operator) 45%, Petroci 10%). The Ayame-1X exploration well will be targeting the Ayame West prospect with a gross mean prospective resource of 350 million barrels (ERC Equipoise CPR). In February 2017, Ophir Energy signed a drilling rig contract for the Seadrill West Saturn sixth generation drillship with drilling of the Ayame-1X exploration well expected to commence in May 2017.

**The Gambia & Senegal**

During the year, the Company held various meetings and discussions with the Governments of The Gambia and Senegal with a view of aligning the requirements of potential incoming partners with the respective licence terms and obligations.

This part of the Atlantic Margin has become highly active with the recent exploration success of third party operators, namely Cairn Energy in Senegal and Kosmos Energy in Senegal and Mauritania. A significant level of activity in the region is ongoing as Cairn Energy and its partners commenced a multi-well exploration and appraisal drilling programme across their Senegal acreage in December 2015, with the first three appraisal wells SNE-2, SNE-3 and SNE-4 being announced as successful in January 2016, March 2016 and May 2016 respectively. In addition, Kosmos Energy extended their Mauritania drilling campaign further south and commenced drilling in Senegal in December 2015. This has led to a string of very successful drilling programmes by Kosmos Energy through the first half of 2016, including significant gas discoveries at Tortue, Geumbeul-1 and Teranga-1, and the successful appraisal well at Ahmeyim-2. In December 2016 Kosmos announced a farm-out to BP for \$916 million in fixed consideration and up to \$2 billion in variable consideration.

**Licence Amendments – Sierra Leone**

On 24 November 2016 the Company reached agreement with the Government of Sierra Leone to proceed into the First Extension Period of the SL-4A-10 licence and to modify the work programme, minimum expenditure requirements and social obligations in favour of the Company during the First Extension Period on the licence.

**Licence Relinquishment – Liberia**

On 23 November 2016 the Company announced that Liberian production sharing contracts LB-08 and LB-09 (“Liberia PSCs”) had expired and would not be extended. The Company had been in discussions with the relevant Liberian authorities regarding the possible amendment of terms and extension of the Liberia PSCs to enable the Company additional time to attract an industry partner whilst not enduring costly work commitments; however, agreement could not be reached.

**EXPLORATION ACTIVITIES**

The Group is an oil and gas exploration group currently focused on exploration offshore West Africa. The Company's assets are located in fast-emerging hydrocarbon basins, where several discoveries have been made in recent years, including significant discoveries by Total in Côte d'Ivoire, Cairn Energy in Senegal and by Kosmos Energy in Senegal and Mauritania.

The Company has acquired more than 13,400km<sup>2</sup> of 3D seismic data on its existing licences and drilled three exploration wells in West Africa. African Petroleum is a significant net acreage holder in West Africa with estimated net un-risked mean prospective resources in excess of 7.4 billion barrels. Table 1 below shows a detailed overview of the Group's licence interests.

**Table 1: Summary of Licences**

Country	Licence	Operator	Working Interest	Grant Date	End Current Phase	Area km <sup>2</sup>	Outstanding commitments in current phase
Côte d'Ivoire	CI-513	Ophir Cote d'Ivoire (CI-513) Limited	45% <sup>1</sup>	Mar 2016	Mar 2018	1,446	One exploration well
Côte d'Ivoire	CI-509	African Petroleum Cote d'Ivoire Limited	90% <sup>1</sup>	Mar 2012	Mar 2016 <sup>2</sup>	1,091	One exploration well
Sierra Leone	SL-03	European Hydrocarbons Limited	100% <sup>3</sup>	Apr 2010	Apr 2017	1,930	One contingent exploration well <sup>4</sup>
Sierra Leone	SL-4A-10	African Petroleum Sierra Leone Limited	100% <sup>5</sup>	Sep 2012	Sep 2015 <sup>6</sup>	1,995	One contingent exploration well
Senegal	Rufisque Offshore Profond	African Petroleum Senegal Limited	90% <sup>7</sup>	Oct 2011	Oct 2015 <sup>8</sup>	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	African Petroleum Senegal Limited	90% <sup>7</sup>	Oct 2011	Oct 2017	5,439	Further geoscience and one contingent exploration well <sup>9</sup>
The Gambia	A1	African Petroleum Gambia Limited	100% <sup>10</sup>	Sep-2006	Sep 2016 <sup>11</sup>	1,296	One exploration well to be drilled on either A1 or A4
The Gambia	A4	African Petroleum Gambia Limited	100% <sup>10</sup>	Sep-2006	Sep 2016 <sup>11</sup>	1,376	See above

<sup>1</sup> Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire has an option to increase its 10 percent interest to 20 percent following exclusive exploitation authorisation.

<sup>2</sup> The first exploration period expired on 16 March 2016; however, at the date of this report the Company has not received a formal notice of termination and the Company remains in positive dialogue regarding the proposed suspension of the licence to enable sufficient time for a regional technical study and the introduction of a new partner by the Company, at which point it is anticipated the licence will be renewed.

<sup>3</sup> The State of Sierra Leone has a 10 percent carried interest from the development stage.

<sup>4</sup> Contingent on identifying suitable prospects and availability of technology and engineering to safely drill in ultra-deep water depths in the region of 3,700 metres.

**DIRECTORS' REPORT**

<sup>5</sup> The State of Sierra Leone has a 10 percent carried interest from the development stage with an option to increase with another 5 percent participating interest.

<sup>6</sup> In November 2016 the Company signed an agreement with the Government of the Republic of Sierra Leone to enter into the First Extension Period ending on 17 September 2017 and to amend the work program to a contingent well commitment equal to the SL-03 licence commitment. The Company is awaiting receipt of the countersigned agreement and formal ratification from the Government.

<sup>7</sup> Société des Pétroles du Sénégal has an option to increase its 10% interest to 20% following exploitation authorisation.

<sup>8</sup> The current phase of the ROP licence ended in October 2015; however, the Company has lodged a request for an extension with the Government of Senegal and remains in positive dialogue regarding this extension request.

<sup>9</sup> The Company was required to elect whether to continue with the current phase of the SOSP licence in June 2016 by committing to the drilling of an exploration well; however, the Company has not elected to commit to the drilling of the exploration well and has entered into dialogue regarding the possible amendment of this licence commitment.

<sup>10</sup> The Gambia National Oil Company has an option to acquire a 10% participating interest in the Licence from the development stage.

<sup>11</sup> The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The Company was unable to meet this drilling commitment and has made a proposal to the Government of The Gambia regarding the transfer of the outstanding drilling commitment into the next phase and entry into the next phase of the licences which, if successful, will end in September 2019.

As part of the Group's business strategy, it is actively seeking partners to farm-in to its licences in order to share the risk and potential reward of the Company's highly prospective assets whilst also renegotiating some terms of licences. The farm-outs will reduce the Company's working interest and is part of a process of maturing the Group's asset portfolio and is initiated to *inter alia* reduce the Group's capital commitments, generate cash sales proceeds for funding of future operations as well as the introduction of technically and operationally competent joint venture partners to the Group's licences.

**Côte d'Ivoire**

In Côte d'Ivoire as at 31 December 2016, African Petroleum held:

- i. 90% working interest in offshore licence CI-509, with the remaining 10% held by Petroci, the National Oil Company of Côte d'Ivoire. The Company was awarded CI-509 in March 2012; and
- ii. 45% non-operated interest in offshore licence CI-513, with 45% operated interest held by Ophir Energy plc Ltd and the remaining 10% held by Petroci, awarded in December 2015 and became effective on 16 March 2016.

The two licence interests (referred to as the "Côte d'Ivoire Licences") have a combined acreage of 2,537km<sup>2</sup>.

The current phase of licence CI-509 ended in March 2016, by which point the Company had not fulfilled certain terms of the licence and the commitments therein; however, the Company has not received a formal notice of termination and the Company remains in positive dialogue regarding the proposed suspension of the licence to enable sufficient time for a regional technical study and the introduction of a new partner by the Company, at which point the Directors are confident that the licence will be renewed.

On 14 July 2014, the Company signed an agreement to farm-out 10% of CI-509 to Buried Hill Africa Limited, subject to certain conditions precedent. As at the date of this report the conditions precedent had not been satisfied.

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Côte d'Ivoire Licences and estimates the net unrisksed mean prospective oil resources at 1,272MMStb.

**Senegal**

In Senegal, African Petroleum Senegal Limited holds a 90% operated working interest in exploration blocks Rufisque Offshore Profond ("ROP") and Senegal Offshore Sud Profond ("SOSP") (together the "Senegal Licences"). The National Oil Company Petrosen, holds the remaining 10% equity. The Company's Senegal Licences are located offshore southern and central Senegal, with a combined acreage of 15,796km<sup>2</sup>.

In 2015, a one year extension to the initial research phase was offered for the initial research phase of the ROP licence that ended in October 2015; however, the Company has lodged a request for an extension with the Government of Senegal and remains in positive dialogue regarding this extension request. Under the terms of the licence, the licence remains active unless and until a termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

The first renewal period for the SOSP licence, consists of two 18 month sub-periods. The first of those 18 month sub-periods ended in June 2016. The Company has entered into dialogue regarding the possible amendment of this licence to allow more time to complete further 3D seismic work before progressing to the second 18 month sub-period and committing to the drilling of the exploration well.

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Senegal Licences and estimates the net unrisksed mean prospective oil resources at 1,779MMStb.

**The Gambia**

African Petroleum holds a 100% operated working interest in offshore licences A1 and A4 (the "Gambian Licences"), with a combined acreage of 2,672km<sup>2</sup>. The Company has completed a 3D seismic survey with data covering 2,500km<sup>2</sup> and has found a number of analogous leads and prospects in its acreage to that of the recent SNE-1 and FAN-1 discoveries and the SNE-2, SNE-3, SNE-4 and SNE-5 successful appraisal wells drilled by Cairn Energy in Senegal.

The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The Company was unable to meet this drilling commitment and the current phase of the licence has ended and is in positive dialogue with the Government of The Gambia regarding the transfer of the outstanding drilling commitment into the next phase and entry into the next phase of the licences. Under the terms of the licences, the licences remain active unless and until a termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

**DIRECTORS' REPORT**

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Gambian Licences and estimates the net unrisks mean prospective oil resources at 3,079MMStb.

**Sierra Leone**

In Sierra Leone, the Company holds a 100% operated working interest in offshore licences SL-03 and SL-4A-10 (the "Sierra Leone Licences"). African Petroleum was awarded a 100% interest in SL-03 in April 2010, while licence SL-4A-10 was awarded as part of Sierra Leone's third offshore licencing round in 2012. The Company's Sierra Leone Licences cover a combined acreage of 3,925km<sup>2</sup> and are located to the south of Freetown, offshore Sierra Leone.

On 20 July 2016, the Company received formal ratification from the authorities in Sierra Leone for the entry into the First Extension Period on the SL-03 licence. As previously announced in December 2015, the Petroleum Directorate agreed to modify the work programme, minimum expenditure requirements and social obligations in favour of the Company during the First Extension Period on the licence.

The current phase of the SL-4A-10 licence ended in September 2015, having fulfilled the commitment to acquire 3D seismic over the licence. On 23 November 2016 the Company reached agreement with the Government of Sierra Leone to proceed into the First Extension Period of the SL-4A-10 licence and to modify the work programme, minimum expenditure requirements and social obligations in favour of the Company during the First Extension Period on the licence. The Company is awaiting formal ratification of the agreement from the Government.

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Sierra Leone Licences and estimates the net unrisks mean prospective oil resources at 1,354MMStb.

**Liberia**

African Petroleum, through its wholly owned subsidiary European Hydrocarbons Limited, was both operator and holder of a 100% working interest in production sharing contracts LB-08 and LB-09 (the "Liberian Licences"), which had a combined acreage of 5,350km<sup>2</sup>. The Company completed an extensive work programme on its Liberian Licences with 5,100km<sup>2</sup> of 3D seismic acquired, three wells successfully drilled, including the discovery at Narina-1. However, on 23 November 2016, the Company announced that the Liberian Licences had expired and will not be extended. Subsequently the capitalised exploration and evaluation costs were fully impaired.

**RESULT**

African Petroleum reported a loss after income tax of US\$2,617,616 for the year ended 31 December 2016 (2015: loss of US\$31,230,096).

**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 EVENTS AFTER THE BALANCE DATE****Fundraising – US\$ 3.1 million Private Placement**

On 13 January 2017, African Petroleum completed a private placement to certain existing and new investors raising NOK 26,675,000 (approximately US\$ 3.1 million) through the issue of 10,670,000 new fully paid ordinary shares at a price of NOK 2.50 per share. The proceeds from the private placement were used to strengthen the Company's balance sheet and liquidity position, to fund the Company's ongoing working capital and for general corporate purposes.

**Drilling Rig Contract**

In February 2017, Ophir Energy (Operator) signed a drilling rig contract for the Seadrill West Saturn sixth generation drillship with drilling of the Ayame-1X exploration well expected to commence in May 2017.

**Share issue**

On 21 March 2017 the Company announced the issue of 10,900 new ordinary shares upon the exercise of share options at a price of NOK 7.50 per share and the issue of 164,857 new ordinary shares to the former Chairman of the Company, Mr Charles Matthews, in full and final settlement of outstanding directors fees due and payable.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

As discussed in detail under the Operational Update and Exploration Activities the Company will endeavour to continue its exploration activities and 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. There have been no significant known breaches of the Company's exploration license conditions or any environmental regulations to which it is subject.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

**DIRECTORS' REPORT**

There have been no significant changes in the Company's state of affairs during the current year.

**INFORMATION ON DIRECTORS**

<b>Dr David King</b>	<b>Chairman</b>
Qualifications	Dr King graduated from the University of East Anglia with a BSc (Hons) in Class 1 Physics/Mathematics, holds a MSc and D.I.C. in Geophysics from the Imperial College, University of London and a PhD in Seismology from the Australian National University.
Experience	Dr King is a professional geoscientist and has over 30 years' experience in oil and gas and other natural resources industries. He has co-founded, as well as held executive and non-executive board positions with, a number of successful ASX listed oil and gas exploration companies, including Eastern Star Gas Limited, Gas2Grid Limited and Sapex Limited. Dr King is currently non-executive Chairman of two ASX listed companies, oil and gas exploration company Galilee Energy Limited, biotechnology research and development company Cellmid Limited and Chairman of Litigation Capital Management Ltd. In a long corporate career, he has also served as Managing Director of ASX listed gold producer North Flinders Mines, and CEO of oil & gas producers Beach Petroleum and Claremont Petroleum. He was more recently Chairman of ASX listed Robust Resources Limited, Chairman of AIM listed Tengri Resources, and non-executive director of ASX listed Republic Gold Limited.  From 1974-76, Dr King was a Research Fellow with the Royal Norwegian Council for Scientific and Industrial Research (NTNF), working on the NORSAR seismic array. Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining & Metallurgy, a Fellow of the Australian Institute of Geoscientists, a member (and past President) of the Australian Society of Exploration Geophysicists, an active member of the Society of Exploration Geophysicists and a member of the Petroleum Exploration Society of Australia.
Interest in Shares and Options	As at the date of this report, Dr King holds 30,000 shares.

<b>Jens Pace</b>	<b>Executive Director and Chief Executive Officer</b>
Qualifications	Mr Pace holds a BSc in Geology and Oceanography from the University of Wales and an MSc in Geophysics from Imperial College, London
Experience	Mr Pace has a geoscience background and exploration leadership experience gained over a 30 year career with BP and its heritage company Amoco. He joined African Petroleum as Chief Operating Officer in October 2012, and was appointed Chief Executive Officer by the Board in November 2015.
Interest in Shares and Options	As at the date of this report, Mr Pace holds 16,667 options with an exercise price of A\$30.00 and an expiry date of 8 January 2018, 58,334 options with an exercise price of A\$3.00 and an expiry date of 22 November 2018, 200,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 350,000 options with an exercise price of NOK 1.70 and an expiry date of 15 November 2020, 1,000,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020, 33,334 shares and 50,000 performance rights subject to the Company securing a commercial discovery.

<b>Stephen West</b>	<b>Executive Director and Chief Financial Officer</b>
Qualifications	Mr West is a qualified Chartered Accountant who holds a Bachelor of Commerce (Accounting and Business Law) from Curtin University of Technology in Australia.
Experience	Mr West has over 22 years of financial and corporate experience gained in public practice, oil and gas, mining and investment banking spanning Australia, United Kingdom, Europe, CIS and Africa. Mr West is currently a non-executive director of ASX listed Apollo Consolidated Limited (mining exploration company with permits in Australia and Cote d'Ivoire) and Zeta Petroleum plc (oil and gas exploration and production company).
Interest in Shares and Options	As at the date of this report, Mr West holds 58,334 options with an exercise price of A\$3.00 and an expiry date of 22 November 2018, 100,000 options with an exercise price of A\$2.40 and an expiry date of 3 June 2019, 200,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 270,000 options with an exercise price of NOK 1.70 and an expiry date of 15 November 2020, 1,000,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020, 130,425 options with an exercise price of NOK 7.50 and an expiry date of 17 March 2017 and 260,850 shares. Mr West's shares and some of the options are held in the name of Cresthaven Investments Pty Ltd, a company in which Mr West has an indirect beneficial interest.

<b>Bjarne Moe</b>	<b>Non-Executive Director</b>
Qualifications	Degree in Economics from the University of Oslo
Experience	Mr Moe has more than 35 years experience. He started out in the Ministry of Industry and was transferred to the Ministry of Petroleum and Energy when it was established in 1978. In 1988, Mr Moe was appointed Director General and head of the Oil and Gas department. Furthermore, Mr Moe has been a diplomat working for the Ministry of Foreign Affairs and been counsellor at the Norwegian embassy in Washington, D.C. and Mr Moe has further chaired several international commissions for solving questions regarding median line fields, and international gas and oil pipelines. He has also been heading delegations outside of Norway to solve specific questions and been a mediator for unitization of fields etc. Mr Moe has headed several delegations for OECD (IEA) and has been a member of the Petroleum Price board for 15 years.  Mr. Moe is currently chairman of Consultor Energy AS, an energy advisory company.
Interest in Shares and Options	As at the date of this report, Mr Moe holds 50,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 200,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020 and



**DIRECTORS' REPORT**

	10,000 shares.
<b>Timothy Turner</b>	<b>Non-Executive Director</b>
Qualifications	B.Bus, FCPA, CTA, Registered Company Auditor.
Experience	Mr Turner is senior partner with accounting and advisory Firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions.  Mr Turner is also a Non-Executive Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Ore Limited and a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	As at the date of this report, Mr Turner has an interest in 4,167 fully paid ordinary shares and 16,667 options with an exercise price of A\$16.50 and an expiry date of 31 July 2017.
<b>Anthony Wilson</b>	<b>Non-Executive Director</b>
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, including as a director for DAKS Simpson Group plc and as a Non-Executive Director for Panceltica Holdings plc.
Interest in Shares and Options	As at the date of this report, Mr Wilson holds 50,000 options with an exercise price of NOK 4.00 and an expiry date of 3 June 2019, 200,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020 and 10,000 shares.

**COMPANY SECRETARY**

Angeline Hicks is a Chartered Accountant with global corporate and financial experience. After gaining her qualifications at Deloitte, Ms Hicks furthered her career in the banking industry in London for eight years, working for investment banks such as Barclays Capital, Credit Suisse and JP Morgan, focusing on managing compliance and corporate and financial reporting. Ms Hicks is an Associate of the Governance Institute of Australia and also performs the role of Company Secretary for companies listed on the Australian Securities Exchange and the National Stock Exchange.

**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		Continuous Disclosure Committee Meetings		Remuneration Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David King	7	4	-	-	-	-	1	1
Charles Matthews <sup>1</sup>	3	3	1	1	-	-	-	-
Anders Bjarne Moe	7	7	-	-	-	-	-	-
Jens Pace	7	7	-	-	-	-	-	-
Timothy Turner	7	5	-	-	-	-	-	-
Stephen West	7	7	-	-	-	-	-	-
Anthony Wilson	7	6	1	1	-	-	1	1

<sup>1</sup>Mr Matthews resigned as Non-Executive Director on 23 May 2016.

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, five circulating resolutions were authorised by the board of directors.

**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.

**INDEMNIFICATION OF AUDITORS**

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO Audit (WA) Pty Ltd ("BDO"), as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify BDO during or since the financial year.

**OPTIONS***Unissued Shares under Option*

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

<b>Expiry Date</b>	<b>Exercise Price<sup>1</sup></b>	<b>US\$ equivalent Exercise Price at 31 December 2016</b>	<b>Number Under Option<sup>1</sup></b>
31 July 2017	A\$16.50	US\$11.88	240,002
8 January 2018	A\$30.00	US\$21.61	16,667
8 January 2018	A\$37.50	US\$27.01	2,223
12 January 2018	NOK1.70	US\$0.27	200,000
28 April 2018	NOK 4.00	US\$0.64	300,000
15 November 2018	NOK 1.70	US\$0.27	502,000
21 November 2018	A\$3.00	US\$2.16	58,334
22 November 2018	A\$3.00	US\$2.16	193,338
22 April 2019	A\$3.00	US\$2.16	17,501
3 June 2019	A\$ 2.40	US\$1.73	150,000
5 June 2019	A\$3.00	US\$2.16	20,000
15 December 2019	A\$3.00	US\$2.16	16,667
28 April 2020	NOK 4.00	US\$0.64	1,587,000
15 November 2020	NOK 1.70	US\$0.27	1,616,667
22 December 2020	NOK 1.70	US\$0.27	2,900,000
<b>TOTAL</b>			<b>7,820,399</b>

<sup>1</sup>The consolidation of issued capital has been reflected on the options issued prior to 21 October 2015.

*Shares issued on the exercise of options*

During the current year, 73,333 ordinary shares were issued on the exercise of options (2015: Nil).

**PROCEEDINGS ON BEHALF OF COMPANY**

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

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

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 31 December 2016 has been received and can be found on page 10 of the annual report.

**NON-AUDIT SERVICES**

No non-audit services were provided by the entity's auditor's BDO, as per Note 6(d). The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

**Jens Pace**  
Director

**London, 13 April 2017**

**DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF AFRICAN PETROLEUM CORPORATION LIMITED**

As lead auditor of African Petroleum Corporation Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of African Petroleum Corporation Limited and the entities it controlled during the period.



**Phillip Murdoch**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 13 April 2017

**CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of African Petroleum Corporation Limited are 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](http://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.

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 be perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr J. Pace, Mr T. Turner and Mr. S West are not considered independent.

Chairman Dr D King and Non-Executive Directors Mr C Matthews, Mr B. Moe and Mr A. Wilson were considered to have been independent throughout the year, since their appointment or until their resignation (as applicable).

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

D. King	3 years 6 months	Chairman
B. Moe	2 years 6 months	Non-Executive Director
J. Pace	1 year 5 months	Executive Director
T. Turner	9 years 9 months	Non-Executive Director
S. West	1 year 5 months	Executive Director
A. Wilson	6 years 10 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.

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**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\$648,176 (A\$900,000) 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 or individual directors 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 which includes highlighting situations which may constitute a conflict of interest for directors. Directors have a responsibility to avoid any conflict from arising that could compromise their ability to perform their duties impartially. Any actual or potential conflicts of interest must be reported to the Board or superior.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	For the year ended	
		31 December 2016 US\$	31 December 2015 US\$
<b>Continuing operations</b>			
Revenue	6(a)	210,461	454,975
Exploration & evaluation expenditure		9,943,287	(6,837,484)
Impairment of exploration and evaluation expenditure	12	(8,949,626)	(13,698,154)
Impairment of consumable spares and advances to suppliers		-	(1,497,111)
Depreciation & amortisation expense		(4,272)	(455,629)
Loss from disposal of freehold land	11(a)	-	(856,158)
Impairment of related party loans & deposits	8	-	(62,648)
Consulting expenses		(860,541)	(2,853,020)
Compliance and regulatory expenses		(162,877)	(371,500)
Administration expenses		(724,561)	(1,300,467)
Employee benefits	6(c)	(2,505,712)	(4,571,413)
Travel expenses		(260,293)	(575,338)
Aircraft expenses		(9,328)	(444,094)
Impairment of aircraft	10	-	(429,110)
Net unrealised gains on fair value of financial liabilities	21	414,927	2,561,298
Foreign exchange gain/ (loss)		298,537	(294,243)
<b>Loss from continuing operations before income tax</b>		<b>(2,609,998)</b>	<b>(31,230,096)</b>
Income tax expense	5	(7,618)	-
<b>Loss for the year from continuing operations</b>		<b>(2,617,616)</b>	<b>(31,230,096)</b>
<b>Other comprehensive gains</b>			
<i>Items that may be reclassified to profit or loss:</i>			
<b>Foreign currency translation reserve</b>			
Foreign exchange (loss)/gain on translation of functional currency to presentation currency		(216,466)	108,171
<b>Other comprehensive gains for the year, net of tax</b>		<b>(216,466)</b>	<b>108,171</b>
<b>Total comprehensive loss for the year</b>		<b>(2,834,082)</b>	<b>(31,121,925)</b>
Loss for the year is attributable to:			
Non-controlling interest		(56,660)	(123,243)
Owners of the parent		(2,560,956)	(31,106,853)
		<b>(2,617,616)</b>	<b>(31,230,096)</b>
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		(56,660)	(123,243)
Owners of the parent		(2,777,422)	(30,998,682)
		<b>(2,834,082)</b>	<b>(31,121,925)</b>
<b>Loss per share attributable to members</b>			
Basic and diluted loss per share	25	(2.40) cents	(31.81) cents

*The accompanying notes form part of these financial statements*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	As at 31 December 2016 US\$	As at 31 December 2015 US\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	233,298	607,512
Trade and other receivables	8	199,223	187,756
Restricted cash	9	4,944,093	12,569,093
Prepayments		120,403	157,027
		<b>5,497,017</b>	<b>13,521,388</b>
Non-current asset held for sale	10	-	501,925
<b>TOTAL CURRENT ASSETS</b>		<b>5,497,017</b>	<b>14,023,313</b>
<b>NON CURRENT ASSETS</b>			
Inventories		1,006,908	1,006,908
Property, plant and equipment	11	4,104	9,753
Exploration and evaluation expenditure	12	27,582,689	37,583,467
<b>TOTAL NON CURRENT ASSETS</b>		<b>28,593,701</b>	<b>38,600,128</b>
<b>TOTAL ASSETS</b>		<b>34,090,718</b>	<b>52,623,441</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	21,691,260	24,118,636
Provisions	14	-	13,586,770
Derivative financial liabilities	15	75,218	447,438
<b>TOTAL CURRENT LIABILITIES</b>		<b>21,766,478</b>	<b>38,152,844</b>
<b>TOTAL LIABILITIES</b>		<b>21,766,478</b>	<b>38,152,844</b>
<b>NET ASSETS</b>		<b>12,324,240</b>	<b>14,470,597</b>
<b>EQUITY</b>			
Issued capital	16	611,455,218	611,439,967
Reserves	17	19,381,839	18,925,831
Accumulated losses		(615,466,618)	(612,905,662)
<b>Parent interests</b>		<b>15,370,439</b>	<b>17,460,138</b>
<b>Non-controlling interests</b>	18	(3,046,199)	(2,989,539)
<b>TOTAL EQUITY</b>		<b>12,324,240</b>	<b>14,470,597</b>

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Issued capital US\$	Share-based payment reserve US\$	Foreign currency translation reserve US\$	Accumulated losses US\$	Non-controlling interest US\$	Total US\$
<b>BALANCE AT 1 JANUARY 2016</b>		<b>611,439,967</b>	<b>30,906,853</b>	<b>(11,981,022)</b>	<b>(612,905,662)</b>	<b>(2,989,539)</b>	<b>14,470,597</b>
Loss for the year	17	-	-	-	(2,560,956)	(56,660)	(2,617,616)
Other comprehensive income:							
Foreign currency exchange differences arising on translation from functional currency to presentation currency		-	-	(216,466)	-	-	(216,466)
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>(216,466)</b>	<b>(2,560,956)</b>	<b>(56,660)</b>	<b>(2,834,082)</b>
Exercise of share options	16	15,251	-	-	-	-	15,251
Share-based payments	17	-	672,474	-	-	-	672,474
<b>BALANCE AT 31 DECEMBER 2016</b>		<b>611,455,218</b>	<b>31,579,327</b>	<b>(12,197,488)</b>	<b>(615,466,618)</b>	<b>(3,046,199)</b>	<b>12,324,240</b>
<b>For the year ended 31 December 2015</b>							
BALANCE AT 1 JANUARY 2015		600,591,811	29,591,502	(12,089,193)	(581,798,809)	(2,866,296)	33,429,015
Loss for the year	17	-	-	-	(31,106,853)	(123,243)	(31,230,096)
Other comprehensive income:							
Total comprehensive loss for the year		-	-	108,171	-	-	108,171
Issue of share capital	16	10,848,156	-	-	-	-	10,848,156
Share-based payments	17	-	1,315,351	-	-	-	1,315,351
<b>BALANCE AT 31 DECEMBER 2015</b>		<b>611,439,967</b>	<b>30,906,853</b>	<b>(11,981,022)</b>	<b>(612,905,662)</b>	<b>(2,989,539)</b>	<b>14,470,597</b>

The accompanying notes form part of these financial statements.



**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	For the year ended	
		31 December 2016 US\$	31 December 2015 US\$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(3,288,233)	(11,053,979)
Interest received		6,885	49,695
Finance costs		(37,089)	(167,561)
Other income		172,589	72,922
<b>Net cash flows used in operating activities</b>	7	<b>(3,145,848)</b>	<b>(11,098,923)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		2,500	57,000
Payment for plant and equipment		(4,337)	(2,252)
Proceeds from the disposal of freehold land		-	200,000
Payment for exploration and evaluation activities		(5,288,328)	(5,731,049)
Proceeds from farm out of exploration and evaluation assets		6,339,480	-
Cash backing security returned		6,000,000	616,017
Cash backing security provided		(4,375,000)	(1,115,850)
<b>Net cash from/(used) in investing activities</b>		<b>2,674,315</b>	<b>(5,976,134)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	14,067,499
Capital raising costs		-	(210,430)
Proceeds from exercise of share options		15,251	-
<b>Net cash from financing activities</b>		<b>15,251</b>	<b>13,857,069</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(456,282)</b>	<b>(3,217,988)</b>
Cash and cash equivalents at the beginning of the year		607,512	3,869,086
Net foreign exchange differences		82,068	(43,586)
<b>Cash and cash equivalents at the end of year</b>	7	<b>233,298</b>	<b>607,512</b>

*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 2016 was authorised for issue in accordance with a resolution of the directors on 13 April 2017.

African Petroleum Corporation Limited is a ‘for profit entity’ and is a company limited by shares incorporated in Australia. Its shares are publicly traded on the Oslo Axess (code: APCL), a regulated market place of the Oslo Stock Exchange, Norway, and on the Open Market (Regulated Unofficial Market) of the Frankfurt Stock Exchange under the WKN (German securities identification code) A1C1G9. Details of the principal activities are included in the director’s report.

## 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, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in compliance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for the derivative financial liability, which has been measured at fair value.

The financial report is presented in United States Dollars and all values are rounded to the nearest dollar unless otherwise stated.

### *Going concern*

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 2016, the Consolidated Entity had net current liabilities of US\$16,269,461 (31 December 2015: US\$24,129,531) of which US\$8,997,608 was overdue as at 31 December 2016. The restricted cash position at 31 December 2016 was US\$4,944,093 (31 December 2015: US\$12,569,093), and the cash position at 31 December 2016 was US\$233,298 (31 December 2015: US\$607,512). As at the date of this report the liquidity position of the Consolidated Entity has not materially changed since 31 December 2016.

The ability of the consolidated entity to continue as a going concern is dependent on securing additional funding through farm-out arrangements and/or capital raising to continue to meet its working capital requirements in the next 12 months.

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Consolidated entity will be able to continue as a going concern. In forming this view, the directors have considered the Consolidated entity’s current working capital position, underlying exploration projects and funding alternatives. The Consolidated entity’s funding alternatives includes:

### *Short-term cash requirements*

- Deferral of creditor repayments: the Consolidated Entity has been in negotiation with certain creditors to revise payment amounts and terms, as at 31 December 2016, the amounts owed to these creditors totalled US\$8,621,906. As at 31 December 2016, and as at the date of signing this report no legal action has been enacted by these creditors to recover balances outstanding.
- Farm-out arrangement: the Consolidated Entity is progressing with negotiations with third parties relating to farm-out agreements and expects to receive sufficient working capital, through the reimbursement of past costs, to enable it to meet its immediate operating and drilling commitments.

In the event that the above funding options do not result in the receipt of cash in the short term, the Consolidated Entity would need to raise funds through the issue of equity to meet its immediate operating obligations.

### *Longer term funding*

In addition to the immediate cash requirement of the Consolidated Entity, the ability to continue its operations is dependent on the Consolidated Entity completing further farm-out transactions on one or more of its exploration licences in Senegal and The Gambia and/or the raising of funds through the issue of equity to meet longer term working capital requirements and the minimum exploration commitments of US\$42.9 million (within one year) as per Note 23.

There are a number of inherent uncertainties relating to the completion of the funding alternatives as listed above, including but not limited to:

- i. creditors not agreeing to revise payment amounts and terms and filing legal claims to recover the amounts owed to them; and
- ii. unfavourable market conditions resulting in difficulties in achieving farm-out arrangements and/or equity raisings in the time-frames required.

As at the date of this report, the Consolidated Entity is in negotiations to pursue the funding options noted above but none of these negotiations have yet been completed. Should the Consolidated Entity not complete the raising of funds as outlined above in short-term cash requirements and longer term funding, there is material uncertainty as to whether it would continue as a going concern and therefore whether it would realise its assets, maintain its tenements for exploration and evaluation assets in good standing, and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report. This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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) New Accounting Standards and Interpretations

*New Accounting Standards and Interpretations effective 1 January 2016*

The Group has adopted all new and amended Australian Accounting Standards and Interpretations effective as of 1 January 2016. The application of these Accounting Standards and Interpretations had no material impact on the Group.

*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 2016 are set out below. The new Standards and Interpretations effective 1 January 2017 are not expected to have a significant impact on the Group. The Group is still in the process of determining the impact of other new Standards and Interpretations.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 9	Financial Instruments	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p><b>Classification and measurement</b></p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below.</p> <p><b>Financial assets</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Financial liabilities</b></p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This</p>	1 January 2018	1 January 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
		<p>change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p><b>Impairment</b></p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p><b>Hedge accounting</b></p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 ((AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		
15	Revenue from Contracts with Customers	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p> <p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.</p>	1 January 2018	1 January 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: <p>(a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</p> <p>(b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018** instead of 1 January 2016.	1 January 2018	1 January 2018
AASB 2015-7	Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities [AASB 13]	This Standard makes amendments to AASB 13 Fair Value Measurement to exempt not-for-profit public sector entities from certain requirements of the Standard.	1 July 2016	1 January 2017
AASB 16	Leases	The key features of AASB 16 are as follows: <p><b>Lessee accounting</b></p> <ul style="list-style-type: none"> <li>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>• AASB 16 contains disclosure requirements for lessees.</li> </ul> <p><b>Lessor accounting</b></p> <ul style="list-style-type: none"> <li>• AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> AASB 16 supersedes: <p>(a) AASB 117 Leases</p> <p>(b) Interpretation 4 Determining whether an Arrangement contains a Lease</p> <p>(c) SIC-15 Operating Leases—Incentives</p> <p>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.	1 January 2019	1 January 2019
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 January 2017

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: <ul style="list-style-type: none"> <li>• The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>• Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>• A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled</li> </ul>	1 January 2018	1 January 2018

**(a) Consolidation**

The consolidated financial statements comprise the financial statements of African Petroleum Corporation Limited (“the Company”) and its subsidiaries for the year ended 31 December 2016 (together the Group).

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

**(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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 to use United States Dollars, being the functional currency of all major subsidiaries in the Group, 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. The functional currency of African Petroleum Corporation Limited is Australian 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 and any gains or losses are recognised in the income statement.

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*

On consolidation, the assets and liabilities of foreign operations are translated into United States Dollars at the rate of exchange prevailing at the reporting date and their income and expenditure are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

**(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 allowance for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an on-going 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) Exploration and evaluation expenditure**

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. For each area of interest, expenditure incurred in the acquisition of rights to explore and all costs directly associated with holding the licence such as rental, training and corporate and social responsibility are capitalised as exploration and evaluation intangible assets. Signature bonuses required by licence agreements are capitalised as exploration and evaluation intangible assets. Other costs directly associated with the licence are expensed as incurred.

Exploration, evaluation and development expenditure is recorded at historical cost and allocated to cost pools on an area of interest. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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.

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.

All capitalised costs are subject to commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties.

Proceeds from disposal or farm-out transactions of intangible exploration assets are used to reduce the carrying amount of the assets. When proceeds exceed the carrying amount, the difference is recognised as a gain. When the Group disposes of its full interests, gains or losses are recognised in accordance with the policy for recognising gains or losses on sale of plant, property and equipment.

**(g) 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.

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.

**(h) 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.

**(i) 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 due to be settled within 12 months are determined using the projected unit credit method.

**(j) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted.



**(k) 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. Any present obligations where the payment is deemed less than probable but not remote have been disclosed as a contingent liability.

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 licences or production sharing contracts. 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.

**(l) Share capital**

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.

**(m) Share-based payments**

The fair value of shares awarded is measured at the share price on the date the shares are granted. For options awarded, the fair value is measured at grant date using the Black-Scholes model. Shares and options which are subject to vesting conditions, are recognised over the estimated vesting period during which the holder becomes unconditionally entitled to the shares or options.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

**(n) Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups that are expected to be recovered primarily through a sale transaction rather than through continuing use are classified as held for sale and measured at the lower of their carrying amounts and fair values less cost to sell. They are not depreciated or amortised. To be classified as held for sale, an asset or a disposal group must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset to its fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent impairment gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale or distribution, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss

**(o) Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of any one entity and a financial liability or equity instrument of another entity.

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available for sale ('AFS') financial assets, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purposes of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an internal part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 8.

AFS financial assets include equity investments and debt securities. Equity investment classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised as OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income in the statement of profit or loss, or the investment is determined to be impaired when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned while holding AFS financial assets is reported as interest income using the method in the statement of profit or loss.

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principle payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowing, including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

##### ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include derivative financial liabilities, financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied.

##### ***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

#### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### **(p) Joint arrangements**

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Company with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Company recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

To the extent the joint arrangement provides the Company with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method. Under the equity method, the cost of the investment is adjusted by the post-acquisition changes in the Company's share of the net assets of the venture.

#### **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.

##### **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(f) 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. In the case of impairment during the exploration and evaluation phase, fair value less cost to sell is used as the recoverable amount to determine an impairment allowance for exploration and evaluation expenditure assets because the value in use of the assets is nil. 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.

Upon the farm out of equity of an exploration licence, judgement is required when assessing the recognition of any consideration received. If past exploration and evaluation costs are reimbursed as part of the farm out transaction, the consideration is pro-rated and matched against where the original exploration and evaluation costs have been recognised within the financial statements.

##### **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 of shares awarded is measured using the share price on the date the shares are granted. The fair value of options is determined on grant date 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.

##### **Withholding taxes**

The Consolidated Entity is subject to withholding taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and the probability of a pay out occurring. 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 withholding tax provision in the period in which such determination is made (Note 14). In 2016 Management has made a judgement that the chance a paying out historic withholding tax liabilities is no longer deemed probable but is not deemed remote. Therefore Management has released the historical provision and disclosed a contingent liability.

##### **Inventory valuation**

The inventory accounting policy requires that the valuation is based on the Net Realisable Value and due to the reduced operations in the industry combined with the specialist nature of some items, there is not a readily active market to provide some valuations. For these items the valuation is based on management's judgement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. INCOME TAX

	2016 US\$	2015 US\$
(a) The components of income tax expense comprise:		
Under provision in prior year	7,618	-
Current tax	7,618	-
(b) The prima facie tax on loss from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (31 December 2015: 30%)	783,000	9,369,029
Foreign tax rate adjustment	(228,527)	(3,142,190)
	554,473	6,226,839
Add/(less)		
Tax effect of		
- Tax effect of permanent differences	(3,832)	(10,372)
- Unrecognised deferred tax asset attributable to tax losses and temporary differences	(543,023)	(6,216,467)
Income tax expense / (benefit)	7,618	-

Deferred tax assets have not been brought to account in respect of tax losses and unrecognised capital allowances because as at 31 December 2016 it is uncertain when future taxable amounts will be available to utilise those temporary differences and losses. As at 31 December 2016, the carried forward gross tax loss is US\$566 million (2015: US\$557 million).

## 6. LOSS BEFORE INCOME TAX EXPENSE

	2016 US\$	2015 US\$
(a) <b>REVENUE</b>		
Interest income	6,885	84,700
Other revenue	203,576	370,275
	210,461	454,975
(b) <b>EXPENSES</b>		
Depreciation & amortisation	4,272	455,629
Lease rental costs	373,775	504,933
Loss on disposal of property, plant & equipment	5,714	56,597
	383,761	1,017,159
(c) <b>EMPLOYEE REMUNERATION</b>		
Employee benefits expensed	1,074,606	2,104,196
Director's remuneration expensed	709,277	1,140,208
Share based payments expensed (refer to Note 19)	721,829	1,327,009
	2,505,712	4,571,413
(d) <b>REMUNERATION OF AUDITORS</b>		
<b>Paid or payable to BDO</b>		
Audit or review of financial reports		
BDO (WA) Pty Ltd	132,630	-
BDO related practices	-	-
Other non-assurance services	-	-
	132,630	-
<b>Paid or payable to Ernst &amp; Young</b>		
Audit or review of financial reports	(2,171)	270,822
Other non-assurance services	-	77,051
	(2,171)	347,873

## 7. CASH AND CASH EQUIVALENTS

	2016 US\$	2015 US\$
Cash at bank and on hand	233,298	607,512

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Reconciliation of net loss to net cash flows from operating activities**

Loss from ordinary activities		(2,617,616)	(31,230,096)
<i>Adjusted for non-cash items:</i>			
Depreciation and loss on disposal of property, plant and equipment		4,272	471,688
Impairment of aircraft	10	-	429,110
Transfer of ownership of aircraft in settlement of outstanding fees	10	501,925	-
Share based payments		742,474	1,315,351
Net foreign exchange differences		(298,537)	638
Impairment of related party loans & deposits		-	62,648
Interest & foreign exchange on related party loans		-	76,299
Loss on disposal of plant property & equipment	11	3,214	856,158
Fair value movement in financial liability		(414,927)	-
Provision for bank guarantee		6,000,000	-
Impairment of exploration and evaluation expenditure	12	8,949,626	13,698,154
<b>Changes in net assets and liabilities, net of effects from acquisition of business combination:</b>			
Decrease in trade and other receivables		25,159	3,773,082
(Increase)/decrease in inventories		-	(727,619)
Increase/(decrease) in trade and other payables	13	(2,454,668)	175,664
Decrease in provisions	14	(13,586,770)	-
<b>Net cash used in operating activities</b>		<b>(3,145,848)</b>	<b>(11,098,923)</b>

**8. TRADE AND OTHER RECEIVABLES**

	2016	2015
	US\$	US\$
<b>CURRENT</b>		
Trade receivables from external parties	73,637	-
Trade receivables from related parties <sup>(a)</sup>	1,147,163	1,258,837
Loan receivable from related parties	-	62,648
Other receivables	125,585	187,756
	<b>1,346,384</b>	<b>1,509,241</b>
Impairment allowance <sup>(a)</sup>	(1,147,161)	(1,321,485)
	<b>199,223</b>	<b>187,756</b>
Loan receivable from Key Management Personnel <sup>(b)</sup>	1,454,859	1,745,189
Share-based payment liability	(1,454,859)	(1,745,189)
	-	-
<b>Total trade and other receivables</b>	<b>199,223</b>	<b>187,756</b>

(a) On 1 December 2014, African Minerals Limited ('AML') and its subsidiaries announced that the Tonkolili Iron Ore Project had been placed in care and maintenance due to insufficient working capital being available and an inability to secure additional short term funding. On 26 March 2015, AML appointed administrators and on 20 April 2015, 75% of former AML subsidiary Tonkolili Iron Ore (SL) Ltd ('TIO') was sold to Shandong Iron and Steel. The Company continues to pursue TIO for repayment of the debts owed; however, the Company considers it prudent to continue to recognise an impairment allowance for the outstanding balance of US\$1,147,163. This impairment loss may be reversed if AML secures additional funding that facilitates the repayment of the outstanding balance.

(b) During 2012 and 2013, US\$1,037,994 (£645,359) was loaned to former CEO Karl Thompson and US\$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Thompson and Mr Pace. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. During the period, no interest was charged, so no further impairment was necessary. In previous years, interest was charged on the loans at 4%. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. At 31 December 2016, the performance shares awarded to Mr Thompson have a market value of US\$35,373 and the total limited recourse feature of the loan of US\$906,895 (2015 US\$1,087,874) has been recognised as a share-based payment liability. At 31 December 2016 the performance shares awarded to Mr Pace have a market value of US\$10,801 and the total limited recourse feature of the loan of US\$547,964 (2015 US\$657,315) has been recognised as a share-based payment liability.

For terms and conditions relating to related party receivables, refer to Note 20(e).

**Reconciliation of impairment allowance**

	2016	2015
	US\$	US\$
Balance at beginning of the year	(1,321,485)	(1,429,204)
Additions	-	(62,648)
Write offs	174,324	170,367
<b>Balance at end of the year</b>	<b>(1,147,161)</b>	<b>(1,321,485)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December, the ageing analysis of trade receivables and loan receivable from related parties are as follows:

	Total US\$	Past due but not impaired				Past due and impaired
		< 30 days	30-60 days	61-90 days	> 90 days	Specific
2016	1,220,798	73,112	-	525	-	1,147,161
2015	1,321,485	-	-	-	-	1,321,485

See Note 21 on credit risk, which describes how the Company manages and measures the credit quality of its receivables that are neither past due nor impaired.

Other receivables are neither past due or impaired.

## 9. RESTRICTED CASH

	2016 US\$	2015 US\$
<b>CURRENT</b>		
Restricted cash	10,944,093	12,569,093
Provision <sup>1</sup>	(6,000,000)	-
	<b>4,944,093</b>	<b>12,569,093</b>

<sup>1</sup> A provision was recognised after consideration of several factors including ongoing discussions with potential partners, current tenure and future exploration commitments.

Restricted cash balances represent interest bearing cash backed security provided in relation to the Company's exploration programmes. The security deposits will be released upon 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 and settlement of outstanding liabilities under licences.

## 10. NON-CURRENT ASSET HELD FOR SALE

On 12 December 2014, the Company agreed to the immediate sale of the corporate aircraft. On 6 January 2015, the Company entered into an agreement to sell the corporate aircraft to the Timis Corporation, by 6 June 2015 the Company had not received payment and the agreement was terminated. On 8 March 2016, the Company transferred ownership of the corporate aircraft to DA International Air Support Limited, in settlement of outstanding fees that DA International claims against the aircraft (including fees allegedly incurred over the period the aircraft was transferred to Timis Corporation, 6 January to 6 June 2015).

The corporate aircraft was classified as held for sale with a carrying amount at 31 December 2015 of US\$501,925 (2014: US\$931,035), with an accumulated impairment of US\$2,136,949 (2014: US\$1,707,839). The fair value was determined based on estimated market value (level 1 fair value), this was deemed to be equivalent to the amounts claimed against the aircraft, and therefore an additional impairment charge of \$429,110 was recognised during the prior financial year.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US\$	Plant & equipment US\$	TOTAL US\$
<b>31 December 2016</b>			
Cost	-	1,498,383	1,498,383
Accumulated depreciation and impairment	-	(1,494,279)	(1,494,279)
	-	4,104	4,104
<b>31 December 2015</b>			
Cost	-	2,028,607	2,028,607
Accumulated depreciation and impairment	-	(2,018,854)	(2,018,854)
	-	9,753	9,753
<b>1 January 2015</b>			
Cost	1,056,158	3,041,717	4,097,875
Accumulated depreciation and impairment	-	(2,690,605)	(2,690,605)
	1,056,158	351,112	1,407,270

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2016 US\$	2015 US\$
<b>Freehold land</b>		
Balance at beginning of the year	-	1,056,158
Disposal	-	(1,056,158)
Balance at end of the year	-	-
<b>Plant and Equipment</b>		
Balance at beginning of the year	9,753	351,112
Additions at cost	4,337	2,252
Depreciation expense	(4,272)	(327,552)
Disposals	(5,714)	(16,059)
Balance at end of the year	4,104	9,753
<b>Total property, plant and equipment</b>	<b>4,104</b>	<b>9,753</b>

## 12. EXPLORATION AND EVALUATION EXPENDITURE

### i. Carrying Value

	2016 US\$	2015 US\$
Opening balance	37,583,467	43,417,128
Exploration expenditure incurred	5,948,848	7,864,493
Impairment of exploration and evaluation expenditure <sup>1,2</sup>	(8,949,626)	(13,698,154)
Exploration expenditure farmed out <sup>3</sup>	(7,000,000)	-
	<b>27,582,689</b>	<b>37,583,467</b>

<sup>1</sup> An impairment loss of US\$8,336,532 (2015: Nil) was recognised in respect of exploration and evaluation expenditure in Liberia, following the expiration of licences LB-08 and LB-09 during the year.

<sup>2</sup> An impairment loss of US\$301,846 (2015: US\$13,698,154) was recognised in respect of exploration and evaluation expenditure in Cote d'Ivoire. This impairment loss amount was determined after consideration of several factors including ongoing discussions with potential partners, current tenure and future exploration commitments. The carrying value of exploration and evaluation of the affected area of interest was written-off to nil in the absence of future expected benefits.

<sup>3</sup> As part of the transaction to farm out licence CI-513 in Cote d'Ivoire, Ophir Energy Plc agreed to reimburse past costs. The equity share of farmed out capitalised past costs has been transferred to the Statement of Comprehensive Income and matched with the consideration.

### ii. Licence overview and risk

The Consolidated entity's exploration and evaluation assets relate to the following licences:

Country	Licence	Carrying value as at 31 December 2016 /USD 000 000	Operator	Working Interest	Grant Date	End Current Phase	Area km <sup>2</sup>	Outstanding commitments in current phase
Côte d'Ivoire	CI-513	8.2	Ophir Cote d'Ivoire (CI-513) Limited	45% <sup>1</sup>	Mar 2016	Mar 2018	1,446	One exploration well
Côte d'Ivoire	CI-509	-	African Petroleum Cote d'Ivoire Limited	90% <sup>1</sup>	Mar 2012	Mar 2016 <sup>2</sup>	1,091	One exploration well
Sierra Leone	SL-03	1.8	European Hydrocarbons Limited	100% <sup>3</sup>	Apr 2010	Apr 2017	1,930	One contingent exploration well <sup>4</sup>
Sierra Leone	SL-4A-10	7.2	African Petroleum Sierra Leone Limited	100% <sup>5</sup>	Sep 2012	Sep 2015 <sup>6</sup>	1,995	One contingent exploration well
Senegal	Rufisque Offshore Profond	2.0	African Petroleum Senegal Limited	90% <sup>7</sup>	Oct 2011	Oct 2015 <sup>8</sup>	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	2.0	African Petroleum Senegal Limited	90% <sup>7</sup>	Oct 2011	Oct 2017	5,439	Further geoscience and one contingent exploration well <sup>9</sup>
The Gambia	A1	4.6	African Petroleum Gambia Limited	100% <sup>10</sup>	Sep-2006	Sep 2016 <sup>11</sup>	1,296	One exploration well to be drilled on either A1 or A4
The Gambia	A4	1.8	African Petroleum Gambia Limited	100% <sup>10</sup>	Sep-2006	Sep 2016 <sup>11</sup>	1,376	See above

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<sup>1</sup> Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire has an option to increase its 10 percent interest to 20 percent following exclusive exploitation authorisation.

<sup>2</sup> The first exploration period expired on 16 March 2016; however, the Company has not received a formal notice of termination and the Company remains in positive dialogue regarding the proposed suspension of the licence to enable sufficient time for a regional technical study and the introduction of a new partner by the Company, at which point it is anticipated the licence will be renewed.

<sup>3</sup> The State of Sierra Leone has a 10 percent carried interest from the development stage.

<sup>4</sup> Contingent on identifying suitable prospects and availability of technology and engineering to safely drill in ultra-deep water depths in the region of 3,700 metres.

<sup>5</sup> The State of Sierra Leone has a 10 percent carried interest from the development stage with an option to increase with another 5 percent participating interest.

<sup>6</sup> In November 2016 the Company signed an agreement with the Government of the Republic of Sierra Leone to enter into the First Extension Period ending on 17 September 2017 and to amend the work program to a contingent well commitment equal to the SL-03 licence commitment. The Company is awaiting receipt of the countersigned agreement and formal ratification from the Government.

<sup>7</sup> Société des Pétroles du Sénégal has an option to increase its 10% interest to 20% following exploitation authorisation.

<sup>8</sup> The current phase of the ROP licence ended in October 2015; however, the Company has lodged a request for an extension with the Government of Senegal and remains in positive dialogue regarding this extension request.

<sup>9</sup> The Company was required to elect whether to continue with the current phase of the SOSP licence in June 2016 by committing to the drilling of an exploration well; however, the Company has not elected to commit to the drilling of the exploration well and has entered into dialogue regarding the possible amendment of this licence commitment.

<sup>10</sup> The Gambia National Oil Company has an option to acquire a 10% participating interest in the Licence from the development stage.

<sup>11</sup> The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The Company was unable to meet this drilling commitment and has made a proposal to the Government of The Gambia regarding the transfer of the outstanding drilling commitment into the next phase and entry into the next phase of the licences which, if successful, will end in September 2019.

Accounting estimates and judgements are continually evaluated and are based on other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year.

The most significant risk currently facing the Group in relation to the carrying value of exploration and evaluation expenditure is that it does not receive approval for its licence extensions and renegotiations for its Gambian and Senegalese projects.

**Senegalese licences****ROP**

The Group was awarded the production sharing contract ("PSC") on 25 October 2011. The contract covers the duration and obligations required under both the research and exploitation phases of the agreement. The licence period includes an initial research phase of four years which may be extended by two further two year periods. The subsequent exploitation phase lasts 25 years and may be extended by a further 10 years if necessary.

The initial research phase under the PSC ran for a period of four years and expired on 25 October 2015.

In 2015, a one year extension to the initial research phase was offered which further expired on 25 October 2016. As at the date of expiry the Group had not fulfilled certain terms of the PSC and the full commitments therein. Before and since its expiry, Management have actively sought to engage with the various government bodies and other stakeholders to renegotiate the terms of the licence.

Under the terms of the PSC, the PSC remains active unless and until a termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

**SOSP**

The Group was awarded the production sharing contract ("PSC") on 25 October 2011. The contract covers the duration and obligations required under both the research and exploitation phases of the agreement. The licence period includes an initial research phase of four years which may be extended by two further two year periods. The subsequent exploitation phase lasts 25 years and may be extended by a further 10 years if necessary.

The initial research phase under the PSC ran for a period of four years and expired on 25 October 2014.

An amendment to the three year first renewal period was granted, consisting of two 18 month sub-periods. The first of those 18 month sub-periods expired in June 2016. A six month extension has been requested from the Senegalese Government to complete further 3D seismic work before progressing to the second 18 month sub-period. At the date of expiry of the first sub-period the Group had not fulfilled certain terms of the PSC. Before and since its expiry Management have actively sought to engage with the various government bodies and other stakeholders to renegotiate the terms of the licence.

Under the terms of the PSC, the PSC remains active unless and until a termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

The above circumstances create material uncertainty as to whether the State will enact termination procedures or allow for the successful negotiation of the terms of the license in the future.

**Gambian licences****A1 & A4**

The A1 and A4 licences are valid for a period of 30 years. Following successful renegotiations, the licences were restated from 1 September 2014.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The initial exploration phase under the Group's Gambian project areas, A1 & A4, expired on 1 September 2016. At the date of expiry the Group had not fulfilled certain terms of the PSC and the commitments therein. The Group has actively sought to engage with the various government bodies and other stakeholders to move the licence into the next phase and move the commitment to drill the well.

Under the terms of the PSC, the PSC remains active until a termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

The above circumstances create material uncertainty as to whether the State will enact termination procedures or allow for the successful negotiation of the terms of the license in the future.

**Sierra Leone licences****SL-03**

The Group's Petroleum licence was issued on 23 April 2010 and is valid for a 30 year term. The initial exploration term is seven years and is broken down into an initial three year period followed by two further two year extension periods.

The Group's initial exploration phase ended on 23 April 2013 and was extended for a further two year period.

On 23 April 2015, the Group agreed to enter in to the First Extension period through to 23 April 2017. The Group received parliamentary approval for this on 20 July 2016. As at 31 December 2016 the licence is in the current phase but only has 113 days before expiry. There is a contingent well commitment outstanding; however, Management is confident that the contingency will not be met and therefore the well commitment will not be enforceable. The directors and management are confident that negotiations to extend the PSC will be successful.

**SL-04A**

The Group's petroleum licence was issued on 11 September 2012 and is valid for a 30 year term. The initial exploration term is seven years and is broken down into an initial three year period followed by two further two year extension periods.

The Group's initial exploration phase ended on 11 September 2015. Management signed the agreement to the first extension and submitted this to Petroleum Directorate in November 2016. This extension will run until 11 September 2017. As at the date of this report the agreement has not been signed by the Petroleum Directorate or ratified by parliamentary decree. Following expiry of the initial exploration term, the Petroleum Directorate has continued to invoice the Group based on the rates under the PSC for a first extension term and consequently Management are confident that the authorisation by the Petroleum Directorate and parliamentary ratification represents an administration process and are therefore optimistic that the necessary approvals will be received. Under the terms of the PSC, the PSC remains active unless and until termination procedure is enacted by the State (that includes a remedy period). As at the date of the report, no such termination procedure has been enacted by the State.

The above circumstance surrounding SL-04A creates material uncertainty as to whether the authorisation by the Petroleum Directorate and parliamentary ratification will be received for the extension to the PSC.

**13. TRADE AND OTHER PAYABLES**

	2016 US\$	2015 US\$
Trade payables <sup>1</sup>	10,522,608	7,350,462
Other payables <sup>2</sup>	11,168,652	16,768,174
	<b>21,691,260</b>	<b>24,118,636</b>

<sup>1</sup> Trade payables includes US\$248,990 (2015 US\$300,486) payable to related parties as detailed in note 20.

<sup>2</sup> Other payables include amounts accrued for licence rental, training and corporate social responsibility obligations.

**14. PROVISIONS**

	2016 US\$	2015 US\$
Balance at beginning of the year	13,586,770	13,586,770
Additions	-	-
Reversals	(13,586,770)	-
Balance at the end of the year	-	13,586,770

The Company may be required to withhold payment on certain services provided by subcontractors. This amount may be due to the tax authorities and will be credited against the subcontractors own income tax liability. Upon initial recognition of this provision, the timing of these outflows was uncertain. During the year, the Company has rationalised its' licence portfolio and subsequently reassessed the possible exposure for withholding tax on exploration activities that had been recognised in the previous years. Due to the passage of time, the outflow is now considered remote, and disclosed as a contingent liability with the provision reversed (Note 23).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. FINANCIAL LIABILITIES

	2016 US\$	2015 US\$
Options granted in NOK	75,218	447,438

The fair value of the options has been calculated using the Black-Scholes model. The following assumptions were used in the determination of the fair value of the options:

	31 December 2016		On initial recognition	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Number of options (post consolidation)	13,586,600	580,215	13,586,600	580,215
Risk free rate	3.05%	3.05%	3.05%	3.05%
Expected life of options	0.21 years	0.21 years	2.00 years	2.00 years
Share price at grant	NOK3.60	NOK3.40	NOK3.60	NOK3.40
Share price	NOK2.80	NOK2.80	NOK1.60	NOK1.60
Volatility	125%	125%	125%	125%

The fair value of the options has been estimated using market observable inputs and as such is categorised as Level 3 in the fair value hierarchy. The net fair value of all other financial assets and liabilities approximates their carrying values.

## 16. ISSUED CAPITAL

	2016 US\$	2015 US\$
Fully paid ordinary shares	611,455,218	611,439,967

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

	2016	2015
	Number of fully paid ordinary shares	
Balance at beginning of the year	106,611,781	685,857,457
Issue of shares pursuant to a capital raising (pre-consolidation) <sup>2</sup>	-	283,336,330
Share consolidation <sup>1</sup>	-	(872,273,943)
Issue of shares pursuant to a capital raising (post-consolidation) <sup>2</sup>	-	9,691,937
Exercise of share options	73,333	-
<b>Balance at end of the year</b>	<b>106,685,114</b>	<b>106,611,781</b>

## Reconciliation of movements in issued capital

	2016 US\$	2015 US\$
Balance at beginning of the year	611,439,967	600,591,811
Issue of shares pursuant to a capital raising	-	11,793,987
Capital raising costs	-	(945,831)
Exercise of share options	15,251	-
<b>Share capital at end of the year</b>	<b>611,455,218</b>	<b>611,439,967</b>

<sup>1</sup> On 26 October 2015, the Company consolidated every ten shares into one.

<sup>2</sup> During the prior year, the Company issued 28,333,633 shares at NOK 3.50 each (283,336,330 shares at NOK 0.35 each on a pre-consolidation basis) and granted 14,166,815 options with an exercise price of NOK 7.50 each (141,668,150 options with an exercise price of NOK 0.75 each on a pre-consolidation basis), raising NOK 99,167,716 (US\$12,791,142). Costs associated with the capital raising were US\$881,742. The initial fair value of the options granted was US\$3,008,912 and has been recognised as a financial liability (Note 15). The remainder of US\$9,782,230 represents the notional value of the shares issued and is

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

recognised as equity. Also during the prior year, the Company issued a further 9,691,937 shares (post consolidation) at NOK 1.70 each, raising NOK 16,476,293 (US\$ 2,011,757). Costs associated with the capital raising were US\$ 64,089.

On 13 June 2016, the Company agreed to issue 164,857 shares to Mr Charles Matthews, former Chairman, in partial settlement of outstanding remuneration. As at 31 December 2016, the shares had not been formally issued, however an accrual was recognised during the year.

**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. Capital is defined as issued share capital.

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. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Consolidated Entity has no externally imposed capital requirements.

**17. RESERVES****Nature and purpose of reserves****Share-based payment reserve**

The share based payments reserve records options and share awards recognised as expenses, issued to employees, directors 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.

**Accumulated losses**

All other net gains and losses and transactions with owners not recognised elsewhere.

**18. NON-CONTROLLING INTEREST**

	2016 US\$	2015 US\$
Non-controlling interests at the beginning of the year	(2,989,539)	(2,866,296)
Loss attributable to non-controlling interests	(56,660)	(123,243)
<b>Non-controlling interests at the end of the year</b>	<b>(3,046,199)</b>	<b>(2,989,539)</b>

Summarised financial information in respect of the subsidiary, African Petroleum Senegal Ltd, that has a 10% non-controlling interest is provided below. The summarised financial information below represents amounts before inter-company eliminations.

	2016 US\$	2015 US\$
Current assets	10,039	554,500
Non-current assets	3,900,274	3,200,362
Current liabilities	(45,402,801)	(44,680,474)
Equity attributable to owners of the Company	(38,446,289)	(37,936,345)
<b>Non-controlling interests</b>	<b>(3,046,200)</b>	<b>(2,989,540)</b>
	2016 US\$	2015 US\$
Revenue	-	169,052
Administration expenses	(105,590)	(265,993)
Exploration expenses	(461,070)	(1,133,531)
Other expenses	57	(1,960)
Loss for the year from continuing operations	(566,603)	(1,232,432)
<b>Loss attributable to non-controlling interests</b>	<b>(56,660)</b>	<b>(123,243)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. SHARE BASED PAYMENTS

	2016 US\$	2015 US\$
Performance shares	-	158,564
Forfeiture of performance shares	-	(595,634)
Options	742,474	1,564,932
Non-recourse loan	-	199,147
<b>Total share-based payments expense</b>	<b>742,474</b>	<b>1,327,009</b>

All equity related awards presented below are on a post consolidation basis.

## Shares

## Non-recourse loans

During the current year, an amount of Nil (2015: US\$199,147) has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income in relation to loans made to Mr Thompson, a former Executive Director of the Company, and Mr Pace to cover tax payable on performance shares awarded to them. During 2012, loans were provided to Mr Thompson and Mr Pace to cover tax payable on performance shares awarded. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. Interest is charged on the loans at 4% per annum. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. As at 31 December 2016, the Company has provided in full for the loans and associated interest, as the share price would be insufficient to cover the loans.

## Shares awarded in the current year

On 13 June 2016, the Company agreed to issue 164,857 shares to Mr Charles Matthews, former Chairman, in partial settlement of outstanding remuneration. As at 31 December 2016, the shares had not been formally issued, however a financial liability was recognised during the year. The fair value of the share award was US\$ 59,583 (NOK 497,868). The fair value was determined from the share price on the award date being NOK 3.02 (US\$0.361).

## Options

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

	Number of Options	Weighted Average Exercise Price A\$ / NOK <sup>1</sup>	Weighted Average Exercise Price Equivalent USD <sup>2</sup>	Number of Options <sup>1</sup>	Weighted Average Exercise Price A\$ / NOK <sup>1</sup>	Weighted Average Exercise Price Equivalent USD <sup>2</sup>
Balance at beginning of the period	8,466,246			2,418,607		
Granted during the year (A\$)	-	-	-	83,334	A\$3.10	US\$ 2.23
Granted during the year (NOK)	200,000	NOK 1.70	US\$ 0.27	6,359,000	NOK 2.12	US\$ 0.34
Exercised during the year (NOK)	(73,333)	NOK 1.70	US\$ 0.27	-	-	-
Cancelled during the year (A\$)	-	-	-	(966,667)	A\$2.41	US\$ 1.74
Lapsed during the year (A\$)	(103,334)	A\$ 3.66	US\$ 2.64	(368,862)	A\$23.07	US\$ 16.61
Replacement options granted (NOK)	-	-	-	966,667	NOK 4.00	US\$ 0.64
Forfeited during the year (A\$)	(83,334)	A\$ 3.00	US\$ 2.16	(25,833)	A\$4.35	US\$ 3.13
Forfeited during the year (NOK)	(346,667)	NOK 3.34	US\$ 0.54	-	-	-
Balance at end of the year (A\$)	953,911	A\$ 8.81	US\$ 6.34	1,140,579	A\$8.81	US\$ 6.34
Balance at end of the year (NOK)	7,105,667	NOK 2.31	US\$ 0.37	7,325,667	NOK 2.37	US\$ 0.38
Total balance at end of the year	8,059,578			8,466,246		
Exercisable at end of the year (A\$)	895,576	A\$ 9.19	US\$ 6.62	900,000	A\$9.22	US\$ 6.64
Exercisable at end of the year (NOK)	6,072,334	NOK 2.41	US\$ 0.39	2,333,445	NOK 2.58	US\$ 0.41
Exercisable at end of the year	6,967,910			3,233,465		

<sup>1</sup> The consolidation of issued capital has been reflected on the options issued prior to 21 October 2015

<sup>2</sup> The US\$ equivalent weighted average exercise price as at 31 December 2016

The share options outstanding at the end of the period had a weighted average remaining contractual life of 1,167 days (2015: 1,541 days).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Options awarded in the current year**

During the current year, 200,000 unlisted options were issued to consultants of the Company and were not subject to any vesting conditions and vested immediately.

Grant date	Expiry Date	Number of options	Expected life of Options (years)	Risk Free Rate (%)	Volatility (%)	Dividend Yield (%)	Exercise Price NOK	Exercise Price Equivalent US\$	Fair Value at Grant Date NOK	Fair Value at Grant Date US\$
12 Jan 2016	12 Jan 2018	200,000	2	2.48	125	-	1.70	0.27	1.45	0.23

The Company has used the Black-Scholes methodology for measuring the option pricing.

A total of US\$742,474 was recognised for options awarded to staff and consultants of the Company, of this amount US\$721,829 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income, including an accrual for \$70,000 to settle outstanding fees due to former CEO Stuart Lake. US\$20,645 has been recognised within the line item "Consulting expenses" within the Statement of Comprehensive Income.

The value of options capitalised during the period was nil (2015: nil).

The options issued to directors, employees and consultants in the prior year are 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.

**Options forfeited and lapsed during the current year**

During the year, 103,334 unlisted options with various exercise prices of between A\$2.50 and A\$9.00 lapsed without being exercised. A further 430,001 unlisted options with various exercise prices of A\$3.00 and between NOK 1.70 and NOK 4.00 were forfeited upon resignation of certain employees of the Company.

**20. RELATED PARTY INFORMATION****Corporate Structure**

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

Name	Country of incorporation	% Equity interest	
		2016	2015
Parent entity: African Petroleum Corporation Limited	Australia		
African Petroleum Corporation Ltd	Cayman Islands	100%	100%
European Hydrocarbons Ltd	Cayman Islands	100%	100%
African Petroleum Liberia Ltd	Cayman Islands	100%	100%
African Petroleum Sierra Leone Ltd	Cayman Islands	100%	100%
African Petroleum Senegal Ltd	Cayman Islands	90%	90%
African Petroleum Gambia Ltd	Cayman Islands	100%	100%
African Petroleum Cote d'Ivoire Ltd	Cayman Islands	100%	100%
African Petroleum CI-513 Ltd <sup>1</sup>	Cayman Islands	-	100%
African Petroleum (SL) Limited	Sierra Leone	99.99%	99.99%
European Hydrocarbon (SL) Limited	Sierra Leone	99.99%	99.99%
African Petroleum Liberia Limited	Liberia	100%	100%
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire	100%	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%
African Petroleum (Senegal) SAU	Senegal	100%	100%
APCL Gambia B.V.	Netherlands	100%	100%

<sup>1</sup> During December 2016, African Petroleum CI-513 Ltd was struck off and dissolved

**(a) Key management personnel**

Key management personnel include the Board of Directors as detailed in the Directors Report, the Company Secretary and the following other key personnel:

Mr Michael Barrett	Exploration Director
Mr Christopher Butler	Group Financial Controller
Mr Ian Philliskirk	Group General Counsel (resigned 7 September 2016)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (d) Remuneration of key management personnel

2016	Short Term Benefits			Post Employment Benefits <sup>1</sup>	Share-based payments <sup>3</sup>			Total
	Salary and fees	Other cash benefits <sup>2</sup>	Cash bonus		Shares	Options	Other <sup>4</sup>	
	US\$	US\$	US\$		US\$	US\$	US\$	
<b>Directors</b>								
D King	12,000	-	-	-	-	-	-	12,000
S Lake <sup>5</sup>	(40,419)	-	-	10,411	-	46,400	-	16,393
C Matthews <sup>6</sup>	99,767	-	-	-	-	86,242	-	186,009
B Moe	15,032	-	-	-	-	31,499	-	46,531
J Pace	303,684	10,139	-	20,223	-	152,695	-	486,741
T Turner	8,949	-	-	-	-	-	-	8,949
S West	231,457	5,553	-	20,480	-	163,349	-	420,839
A Wilson	12,000	-	-	-	-	26,625	-	38,625
<b>Subtotal</b>	<b>642,470</b>	<b>15,692</b>	<b>-</b>	<b>51,115</b>	<b>-</b>	<b>506,810</b>	<b>-</b>	<b>1,216,087</b>
<b>Key Management</b>								
M Barrett	248,095	1,805	-	5,410	-	85,626	-	340,936
C Butler	141,418	4,432	-	12,561	-	13,211	-	171,623
A Hicks	17,756	-	-	-	-	-	-	17,756
I Philliskirk <sup>7</sup>	152,832	7,011	-	13,534	-	49,038	-	222,415
<b>Subtotal</b>	<b>560,101</b>	<b>13,248</b>	<b>-</b>	<b>31,505</b>	<b>-</b>	<b>147,875</b>	<b>-</b>	<b>752,730</b>
<b>Total</b>	<b>1,202,571</b>	<b>28,940</b>	<b>-</b>	<b>82,620</b>	<b>-</b>	<b>654,685</b>	<b>-</b>	<b>1,968,817</b>

## Notes

1. Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2. Other cash benefits relate to health insurance benefits.
3. Share-based payments represent the value of options and performance shares that have been recognised during the current year.
4. Relates to a non-recourse loan Mr Pace granted on 9 October 2013 and accounted for as a share-based payment.
5. Dr Lake resigned as Chief Executive Officer and Executive Director on 30 September 2015.
6. Mr Matthews resigned on 23 May 2016.
7. Mr Philliskirk resigned on 7 September 2016.

2015	Short Term Benefits			Post Employment Benefits <sup>1</sup>	Share-based payments <sup>3</sup>			Total
	Salary and fees	Other cash benefits <sup>2</sup>	Cash bonus		Shares	Options	Other <sup>4</sup>	
	US\$	US\$	US\$		US\$	US\$	US\$	
<b>Directors</b>								
M Ashurst <sup>6</sup>	76,156	-	-	5,437	-	143,731	-	225,324
G Bangura <sup>7</sup>	20,008	-	-	-	-	75,810	-	95,818
J Couch <sup>8</sup>	20,017	-	-	-	-	70,678	-	90,695
D King	44,018	-	-	-	-	-	-	44,018
S Lake <sup>9</sup>	917,763	75,954	37,088 <sup>5</sup>	91,698	(595,634)	497,321	-	1,024,190
C Matthews	90,154	-	-	-	-	116,904	-	207,058
B Moe	24,094	-	-	-	-	53,926	-	78,020
J Pace <sup>10</sup>	456,213	6,970	-	45,679	158,564	125,915	32,799	826,140
T Turner	22,660	-	-	-	-	-	-	22,660
S West <sup>11</sup>	368,266	6,435	246,470	34,215	-	141,724	-	797,110
A Wilson	42,360	-	-	-	-	72,922	-	115,282
<b>Subtotal</b>	<b>2,081,709</b>	<b>89,359</b>	<b>283,558</b>	<b>177,029</b>	<b>(437,070)</b>	<b>1,298,931</b>	<b>32,799</b>	<b>3,526,315</b>
<b>Key Management</b>								
M Barrett	339,955	12,275	-	54,537	-	114,616	-	521,383
A Hicks	20,378	-	-	-	-	-	-	20,378
I Philliskirk	305,556	10,010	-	35,586	-	60,280	-	411,432
<b>Subtotal</b>	<b>665,889</b>	<b>22,285</b>	<b>-</b>	<b>90,123</b>	<b>-</b>	<b>174,896</b>	<b>-</b>	<b>953,193</b>
<b>Total</b>	<b>2,747,598</b>	<b>111,644</b>	<b>283,558</b>	<b>267,152</b>	<b>(437,070)</b>	<b>1,473,827</b>	<b>32,799</b>	<b>4,479,508</b>

## Notes

1. Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2. Other cash benefits relate to health insurance benefits.
3. Share-based payments represent the value of options and performance shares that have been recognised during the current year.
4. Relates to a non-recourse loan Mr Pace granted on 9 October 2013 and accounted for as a share-based payment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Cash bonuses relate to sign-on bonus due on S. Lake's first anniversary of employment for 50% of his basic salary.
6. Mr Ashurst resigned as Non-Executive Director on 18 November 2015.
7. Mr Bangura resigned as Non-Executive Director on 30 November 2015.
8. Mr Couch resigned as Non-Executive Director on 30 November 2015.
9. Dr Lake resigned as Chief Executive Officer and Executive Director on 30 September 2015.
10. Mr Pace was appointed Executive Director on 18 November 2015.
11. Mr West was appointed Executive Director on 18 November 2015. Mr West invested 100% of the net cash bonus amount to purchase shares in the Company at a price of NOK 3.50 per share.

## Option Holdings by Directors and other Key Management Personnel

	Balance 1 January 2016	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2016	Exercisable	Not Exercisable
<b>Directors</b>								
D King	-	-	-	-	-	-	-	-
C Matthews <sup>1</sup>	666,667	-	-	-	(666,667)	-	-	-
B Moe	250,000	-	-	-	-	250,000	183,333	66,667
J Pace	1,625,000	-	-	-	-	1,625,000	1,272,223	352,777
T Turner	16,667	-	-	-	-	16,667	16,667	-
S West	1,758,758	-	-	-	-	1,758,758	1,405,980	352,778
A Wilson	250,000	-	-	-	-	250,000	183,333	66,667
<b>Key management personnel</b>								
M Barrett	1,055,833	-	-	-	-	1,055,833	869,722	186,111
C Butler	150,000	-	-	-	-	150,000	116,667	33,333
A Hicks	-	-	-	-	-	-	-	-
I Philliskirk <sup>2</sup>	360,000	-	-	-	(360,000)	-	-	-
	<b>6,132,925</b>	-	-	-	<b>(1,026,667)</b>	<b>5,106,258</b>	<b>4,047,925</b>	<b>1,058,333</b>

<sup>1.</sup> Mr Matthews resigned on 23 May 2016.

<sup>2.</sup> Mr Philliskirk resigned on 7 September 2016.

## Share Holdings by Directors and other Key Management Personnel

	Balance 1 January 2016	Balance held on appointment	Shares purchased	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2016
<b>Directors</b>							
D King	30,000	-	-	-	-	-	30,000
C Matthews <sup>1</sup>	10,000	-	-	164,857	-	(174,857)	-
B Moe	10,000	-	-	-	-	-	10,000
J Pace	33,334	-	-	-	-	-	33,334
T Turner	4,167	-	-	-	-	-	4,167
S West	260,850	-	-	-	-	-	260,850
A Wilson	10,000	-	-	-	-	-	10,000
<b>Key management personnel</b>							
M Barrett	-	-	-	-	-	-	-
C Butler	-	-	-	-	-	-	-
A Hicks	-	-	-	-	-	-	-
I Philliskirk <sup>2</sup>	-	-	-	-	-	-	-
	<b>358,351</b>	-	-	<b>164,857</b>	-	<b>(174,857)</b>	<b>348,351</b>

<sup>1.</sup> Mr Matthews resigned on 23 May 2016.

<sup>2.</sup> Mr Philliskirk resigned on 7 September 2016.

## (e) Transactions and period end balances with related parties:

	2016 US\$	2015 US\$
African Minerals Limited and its subsidiaries	1,147,161	1,147,161
Pan African Minerals Limited and its subsidiaries	-	174,324
Loan receivable from Key Management Personnel	1,454,859	1,745,189
	<b>2,602,020</b>	<b>3,066,674</b>
Impairment allowance	<b>(2,602,020)</b>	<b>(3,066,674)</b>
Total receivables from related parties (Note 8)	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, all of the outstanding balances are unsecured, interest free with no specific repayment terms.

- (i) During the year, Nil was paid, or was due and payable by African Minerals Limited ('AML') and its subsidiaries for rental of the Company's corporate aircraft (2015: Nil). As at 31 December 2015 US\$1,147,161 was outstanding (2015: US\$1,147,161). Mr Timis is a director of AML. On 26 March 2015, AML appointed administrators and on 20 April 2015, 75% of former AML subsidiary Tonkolili Iron Ore (SL) Ltd ('TIO') was sold to Shandong Iron and Steel. The Company continues to pursue TIO for repayment of the debts owed; however, the Company considers it prudent to continue to recognise an impairment allowance for the outstanding balance of US\$1,147,161. This impairment loss may be reversed if AML secures additional funding that facilitates the repayment of the outstanding balance.
- (ii) During the year, Nil was paid on the behalf of Pan African Minerals Ltd ('PAM') and its subsidiaries to cover PAM's employment costs and petty cash advances (2015: US\$61,988). During the year, the outstanding balance of US\$62,648 was written off against the specific provision of US\$62,648 recognised in the prior year due to the long-term ageing of items unrecovered. Mr Timis is a significant indirect shareholder of PAM and the Company.
- (iii) During the year, Nil was paid on behalf of PAM and its subsidiaries to cover IT costs in relation to the service they share with the Company in London (2015: US\$43,636). Nil (2015: US\$48,000) was recharged to PAM for these expenses in line with the Company's recharge of services policy and based on PAM's actual share of the total usage plus 10%. No further IT services have been provided to PAM since July 2015. During the year, the outstanding balance of US\$111,676 was written off against the specific provision of US\$111,676 recognised in the prior year, due to the long-term ageing of items unrecovered.
- (iv) During the year Nil (2015: US\$1,222) of travel expenses was paid which related to the personal use of the Company car by Mr Timis. Also in the prior year US\$39,196 was paid, or was due and payable for the sale of a motor vehicle. Mr Timis is a significant indirect shareholder of the Company. As at 31 December 2016 Nil was receivable (2015: Nil).
- (v) During 2012 and 2013, US\$1,037,994 (£645,359) was loaned to former CEO Karl Thompson and US\$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Thompson and Mr Pace. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. During the period, no interest was recognised on the basis that it was not probable that the amounts would be received, therefore could not be recognised under revenue policy, so no further impairment was necessary. In previous years, interest was charged on the loans at 4%. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. At 31 December 2016, the performance shares awarded to Mr Thompson have a market value of US\$35,373 and the total limited recourse feature of the loan of US\$906,895 (2015 US\$1,087,874) has been recognised as a share-based payment liability. At 31 December 2016, the performance shares awarded to Mr Pace have a market value of US\$10,801 and the total limited recourse feature of the loan of US\$547,964 (2015 US\$657,315) has been recognised as a share-based payment liability.

	2016 US\$	2015 US\$
African Minerals Limited and its subsidiaries	236,951	284,237
Cape Lambert Resources Limited	-	9,612
Timis Mining Corporation and its subsidiaries	6,637	6,637
Angeline Hicks (Company Secretary)	4,335	-
Orana Corporate	1,066	-
Total trade payables to related parties (Note 13)	<u>248,990</u>	<u>300,486</u>

- (vi) During the year Nil was paid, or was due and payable to AML and its subsidiaries for office rental costs (2015 Nil). As at 31 December 2016, US\$236,951 (£192,000) was outstanding (2015: US\$284,237 (£192,000)). The Company moved out of these premises in March 2015.
- (vii) Nil (2015: US\$8,738) was payable to Cape Lambert Resources Limited ('Cape Lambert'), for occupancy costs. The occupancy costs represents the Group's share of the overall office floor space. Mr Turner is a director of Cape Lambert. The Company moved out of these premises in March 2015. As at 31 December 2015, US\$9,612 was outstanding and due to Cape Lambert.
- (viii) During the year Nil was paid, or was due and payable by Timis Mining Corporation Ltd ('TMC') and its subsidiaries (2014: Nil) for rental of the Company's corporate aircraft. As at 31 December 2016 US\$6,637 was payable to TMC for refund of overpayment (2015: US\$6,637). Mr Timis is a significant indirect shareholder of TMC and the Company.
- (ix) During the year US\$8,515 was paid, or was due and payable to Orana Corporate LLP for bookkeeping services (2015: Nil). As at 31 December 2016, US\$1,066 was outstanding (2015: Nil). Orana Corporate LLP is controlled by close family of Director Mr West.
- (x) As at 31 December, the following amounts were payable to directors of the Company or their nominees:

	2016 US\$	2015 US\$
Mr Ashurst – resigned 18 November 2015	3,120	14,809
Mr Bangura – resigned 30 November 2015	13,658	13,658



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Dr King	49,736	39,442
Mr Moe	56,450	43,670
Mr Pace	5,647	10,844
Mr Turner	17,149	7,646
Mr West	-	-
Mr Wilson	12,000	6,917

## 21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2016	2015
	US\$	US\$
<b>Financial assets</b>		
Cash and cash equivalents	233,298	607,512
Trade and other receivables	199,223	187,756
Restricted cash	4,944,093	12,569,093
	<b>5,376,614</b>	<b>13,364,361</b>
<b>Financial liabilities</b>		
Trade and other payables	21,691,260	24,118,433
Financial liabilities	75,218	447,438
	<b>21,766,478</b>	<b>24,565,871</b>

**Financial risk management policies**

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

**Risk exposure and responses**

The Company manages its exposure to key financial risks, including 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 to hedge its financial risks. 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, foreign currency risk, equity risk, liquidity risk and credit risk.

**Foreign currency risk**

The Group does not have a material exposure to changes in foreign exchange rates.

**Equity price risk**

The derivative financial liability is susceptible to market price risk arising from uncertainties about the future value of the Group's share price.

At the reporting date, the exposure to equity price risk is limited to the derivative financial liability.

At the reporting date, the fair value of the derivative liability is US\$75,218. An increase or decrease of 10% in the share price of the Group would have an impact of approximately US\$459,000 on the Statement of Comprehensive Income.

**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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2016	0 – 3 months US\$	3 – 6 months US\$	6 – 12 months US\$	1 – 5 years US\$	Greater than 5 years US\$	Total US\$
Trade and other payables	21,691,260					21,691,260
Derivative financial liabilities	75,218	-	-	-	-	75,218
2015						
Trade and other payables	24,118,636	-	-	-	-	24,118,636
Derivative financial liabilities	447,438	-	-	-	-	447,438

To satisfy the commitments and contingencies as detailed in Note 2 and Note 23, the Group will need significant funding to meet its explorations and drilling obligations. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of the Group's various licences when economically recoverable reserves are confirmed. Further details of the Group's liquidity strategies to meet its liquidity requirements are included in Note 2 Going Concern.

### 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 the 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. All trade and other receivables as disclosed in Note 8 are not rated by any rating agencies.

The Company has established an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments.

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. Refer to Note 8 for aging profile.

### Fair value

On 13 June 2016, the Company agreed to issue 164,857 shares to Mr Charles Matthews, former Chairman, in partial settlement of outstanding remuneration. As at 31 December 2016, the shares had not been formally issued and may be settled in exchange for a variable amount of cash when expressed in AUD (the functional currency of the parent entity), consequently an accrual has been recognised. Upon recognition, the fair value of the share award was US\$ 59,583 (NOK 497,868). The fair value was determined from the share price on the award date being NOK 3.02 (US\$0.361). As at 31 December 2016, the share price was NOK 2.80 (US\$0.338), therefore a decrease of US\$4,344 in the fair value was recognised as a net unrealised gain on the fair value of financial liabilities in the current financial year.

In the prior period, the Company granted 14,166,815 options at an exercise price of NOK 7.50 to the participants of the fundraising (Note 15), the options expire on 17 March 2017. As the options may be settled in exchange for a variable amount of cash when expressed in AUD (the functional currency of the parent entity), a financial liability has been recognised. The decrease in the fair value of the derivative liability from initial recognition of \$2,561,298 was recognised as net unrealised gain on fair value of financial liabilities of US\$414,927 in the current financial year.

## 22. SEGMENT INFORMATION

For management purposes, the Group is organised into one main operating segment, which involves exploration for hydrocarbons. All of the Group's activities are interrelated, and discrete financial information is reported to Chief Operating Decision Maker as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2016 US\$	2015 US\$
Côte d'Ivoire	8,225,750	14,001,617
Gambia	6,380,591	3,544,384
Liberia	-	8,308,792
Senegal	3,900,274	3,200,362
Sierra Leone	9,076,824	8,529,929
United Kingdom	1,010,262	1,015,044
	28,593,701	38,600,128

### 23. COMMITMENTS AND CONTINGENCIES

#### Commitments

##### 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 are as follows:

	2016 US\$	2015 US\$
Within one year	42,938,932	76,202,565
After one year but not more than five years	14,649,572	2,656,308
More than five years	-	-
	57,588,504	78,858,873

##### Office rental commitments

The Company has entered into obligations in respect of office premises. Commitments for the payment of office rental in existence at the reporting date but not recognised as liabilities are as follows:

	2016 US\$	2015 US\$
Within 1 year	55,171	55,592
	55,171	55,592

#### Contingencies

##### Withholding Tax

Due to exploration operations in previous years the Company may be required to withhold payment on certain services provided by subcontractors. This amount may be due to the tax authorities and will be credited against the subcontractors own income tax liability. During the year, the Company has rationalised its' licence portfolio and along with considering the passage of time has subsequently reassessed the possible exposure to the Company as a contingent liability.. The maximum exposure for this liability is the provision that had been recognised in previous years (Note 14).

##### Staff remuneration

As part of the cost cutting initiative implemented by the Company, UK head office staff salaries were reduced by 20-45%. If the Company is successful in achieving a farm-out that includes significant consideration to the Company, it is possible that some part of the salary reduction is re-compensated to the staff either in cash or shares, or a combination of both. The Remuneration Committee are responsible for deciding if a farm-out is significant. If the full salary reduction is re-compensated, the cost to the company is:

	2016 US\$	2015 US\$
Directors	324,774	-
Key Management	179,839	2,692
Staff	17,555	-
	522,168	2,692

### 24. EVENTS SUBSEQUENT TO REPORTING DATE

On 13 January 2017, the Company issued 10,670,000 new ordinary shares that were allocated in a private placement to certain existing and new investors raising NOK 26,675,000 (approximately US\$3.1 million) in gross proceeds at a subscription price of NOK 2.50 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In February 2017, Ophir Energy (Operator) signed a drilling rig contract for the Seadrill West Saturn sixth generation drillship with drilling of the Ayame-1X exploration well expected to commence in May 2017.

On 21 March 2017 the Company announced the issue of 10,900 new ordinary shares upon the exercise of share options at a price of NOK 7.50 per share and the issue of 164,857 new ordinary shares to the former Chairman of the Company, Mr Charles Matthews, in full and final settlement of outstanding directors fees due and payable.

There are no other subsequent events that would materially affect the Company's operations and financial performance.

**25. LOSS PER SHARE**

	<b>31 December 2016 US\$</b>	31 December 2015 US\$
<b>Loss attributable to ordinary shareholders</b>		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic loss per share	<b>(2,560,956)</b>	(31,106,853)
Loss attributable to the ordinary equity holders used in calculating basic loss per share	<b>(2,560,956)</b>	(31,106,853)
<b>Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share</b>		
	<b>106,657,928</b>	97,774,419

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. There are 22,226,416 options as at 31 December 2016 (2015: 22,633,061 options). These options 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:

	<b>31 December 2016 US\$</b>	31 December 2015 US\$
<b>Statement of financial position</b>		
Current assets	<b>89,568</b>	1,657
Non-current assets	<b>20,363,641</b>	20,363,641
Total assets	<b>20,453,209</b>	20,365,298
Current liabilities	<b>(603,778)</b>	(864,711)
Total liabilities	<b>(603,778)</b>	(864,711)
Net Assets	<b>19,849,431</b>	19,500,587
Shareholders' equity		
Issued capital	<b>1,007,138,321</b>	1,007,123,071
Reserves	<b>(12,462,573)</b>	(11,565,779)
Accumulated losses	<b>(974,826,317)</b>	(976,056,705)
	<b>19,849,431</b>	19,500,587
Net gain / (loss) for the year	<b>1,230,388</b>	(30,853,770)
Total comprehensive gain / (loss)	<b>1,230,388</b>	(30,853,770)

**b) Guarantees entered into by the parent entity**

As at 31 December 2016, the parent entity has neither provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries, nor provided any financial guarantees in respect of exploration commitments (31 December 2015: nil).

**DIRECTORS' DECLARATION**

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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 year ended 31 December 2016 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of its financial position as at 31 December 2016 and of its performance for the year 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) subject to the achievement of matters disclosed in Note 2 (Going Concern), 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 year ended 31 December 2016.

Signed in accordance with a resolution of the Directors:



Jens Pace  
Chief Executive Officer

**London, 13 April 2017**

## INDEPENDENT AUDITOR'S REPORT

To the members of African Petroleum Corporation Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of African Petroleum Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- (ii) Complying with International Financial Reporting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

#### Emphasis of matter

We draw attention to Note 12(ii) to the financial statements, which describes the material uncertainty arising from the Group not fulfilling certain terms of its product sharing agreements and the full commitments therein associated with the Group's exploration assets in Senegal, The Gambia, and Sierra Leone. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Recoverability of Exploration and Evaluation Assets

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>At 31 December 2016 the carrying value of Exploration and Evaluation Assets was US\$26.6 million (2015: US\$37.6 million), as disclosed in Note 12(i)</p> <p>The assessment of carrying value of Exploration and Evaluation Assets requires management to exercise judgement in identifying indicators of impairment in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources for the purposes of determining whether the assets need to be tested for impairment.</p>	<p>For exploration assets we have critically evaluated management's assessment of each impairment trigger per AASB 6 Exploration for and Evaluation of Mineral Resources, including but not limited to:</p> <ul style="list-style-type: none"> <li>• We assessed whether the Group had the rights to explore in the relevant exploration areas which included obtaining and reviewing supporting documentation such as licence agreements to determine the Group's exploration rights and obligations pursuant to the agreements;</li> <li>• We challenged management assessment of their expectation of renewal of certain licence areas;</li> <li>• We enquired with management as to whether or not the Group had received a notice of termination for each exploration licence area;</li> <li>• We reviewed external legal interpretation of a relevant licence agreement;</li> <li>• We enquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration area. We also assessed management's cash-flow forecast models to assess the level of the budgeted expenditure on these areas;</li> <li>• We assessed whether any data exists to suggest that the carrying value of these exploration and evaluation assets is unlikely to be recovered through development or sale; and</li> <li>• We have assessed the adequacy of the related disclosure within Note 12 of the financial statements.</li> </ul>

## Completeness of withholding taxes

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the year ended 31 December 2016 a historical withholding tax provision of US\$13.6 million relating to exploration and evaluation costs was released (refer Note 14) and recognised as a contingent liability as disclosed within Note 23.</p> <p>As the release of the withholding tax provision represents a significant balance of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the provision should not be released, in addition to assessing management’s assessment for the disclosure of the balance as a contingent liability in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.</p>	<p>In assessing the completeness of withholding tax liabilities and appropriateness of the recognition of contingent liabilities we:</p> <ul style="list-style-type: none"> <li>• have obtained and reviewed management’s assessment of the exposure to withholding tax to historical tax guidance;</li> <li>• have reviewed the predecessor auditor’s prior year files to assess the audit work that had been carried out in prior years;</li> <li>• reviewed correspondence, board minutes, post year end payments and enquired with management for evidence of whether a present obligation exists; and</li> <li>• evaluated management’s assessment of the withholding tax liability as being less than probable however not remote and reviewed the disclosure within Note 23 for adequacy.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 31 December 2016, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.





### **Responsibilities of the directors 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 International Financial Reporting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

**BDO Audit (WA) Pty Ltd**

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

**Phillip Murdoch**

Director

Perth, 13 April 2017

**UNAUDITED ADDITIONAL SHAREHOLDER INFORMATION****ADDITIONAL INFORMATION – OSLO AXESS**

In compliance with Oslo listing requirements and Section 3-3a of the Norwegian Accounting Act, the following information is provided in addition to the information set-out elsewhere in this Annual Report.

**Nature of the business**

The principal activity of the Company is oil and gas exploration and is outlined in the Directors Report on page 3.

**Working environment**

As an operator of offshore concessions, it is the duty of African Petroleum to provide a safe working environment and minimise any adverse impact on the environment. Health, safety, environment and security policies are embedded throughout all of the Company's core operations. In this regard, we strive for continuous improvement as lessons learned from past operations are incorporated into business practices going forward.

During the year ended 31 December 2016 there were no staff injuries or accidents reported, and no illnesses suffered by staff that required extended absences from the workplace.

**Workplace equality**

African Petroleum is committed to workplace diversity which includes but is not limited to gender, age, ethnicity and cultural background. Where possible the Company fills employment positions with local skilled people. During 2016 all staff positions in our West African offices were held by local people.

Proportion of local West African employees:

	<b>Actual</b>	<b>Objective</b>
Organisation as a whole	77%	50%
Board	0%	10%

African Petroleum's Diversity Policy defines initiatives which assist the Company in maintaining and improving the diversity of its workforce. In accordance with this policy and Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity which it hopes to achieve over the next five years as positions become vacant and appropriately skilled candidates are available:

Proportion of women

	<b>Actual</b>	<b>Objective</b>
Organisation as a whole	11%	20%
Executive management team	Nil	20%
Board	Nil	20%

**Significant direct and indirect shareholdings as at 28 February 2017**

	<b>Shareholder</b>	<b>Shares</b>	<b>%</b>
1	Sarella Investments Limited	25,284,633	21.54
2	M&G Investment Mgt	15,981,017	13.61
3	Capital Research Global Investors	6,442,536	5.49
4	Telinet Energi AS	5,860,244	4.99
5	Gekko AS	5,484,377	4.67
6	Henderson Global Investors	5,200,000	4.43
7	City Financial	4,257,889	3.63
8	Nordnet Bank	3,553,276	3.03
9	Banque Heritage	2,872,074	2.45
10	Mirabaud & Cie Banquiers Prives	2,388,985	2.04
11	Dundee Securities	2,345,356	2.00
12	Banca Credinvest	1,496,191	1.27
13	Danske Bank	1,397,812	1.19
14	Mr Andreas Baksaas	1,370,000	1.17
15	Windrush Holdings SA	1,348,750	1.15

**Impact on the external environment**

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. There have been no significant known breaches of the Company's exploration license conditions or any environmental regulations to which it is subject.

**UNAUDITED ADDITIONAL SHAREHOLDER INFORMATION****Going concern assumption**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Further details are provided in Note 2 to the audited financial statements.

**Risk assessment**

As an exploration company in the oil and gas industry, the Company operates in an inherently risky sector. Oil and gas prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectation of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns. These factors are beyond the control of the Company and may affect the marketability of oil and gas discovered. In addition, the Company is subject to a number of risk factors inherent in the oil and gas upstream industry, including operational and technical risks, reserve and resource estimates, risks of operating in a foreign country (including economic, political, social and environmental risks) and available resources. We recognise these risks and manage our operations in order to minimise our exposure to the extent practical.

Further details on the Company's financial risk management policies are set out in Note 21 to the audited financial statements.

**Outlook**

The priority for the next two years is to progress and unlock the high potential in the Company's West African assets through leveraging technology to de-risk ahead of the drill bit and, subject to finalising finance, through drilling key exploration wells with strategic partners. By obtaining partners to farm-in to the Company's acreage, where the Company holds high working interest positions of between 90-100%, the Company will mitigate its risk and financial exposure whilst also enabling the Company to crystallise value for its shareholders.

Further details on the Company's outlook are described in the Directors Report of the annual report.

**Rights and obligations of shareholders**

In accordance with section 5-8a of the Securities Trading Act, the Company provides the following information:

- a. the Company's share capital consists entirely of ordinary shares. Further details are set-out in Note 16 to the audited financial statements. Over 96.95% of the Company's ordinary shares are admitted for trading on the Oslo Axess (Norway);
- b. there are no restrictions on the transfer of securities;
- c. significant direct and indirect shareholdings are set-out on page 49 of the annual report;
- d. no holders of any securities have special control rights;
- e. the Company does not operate an employee share scheme;
- f. there are no restrictions on voting rights;
- g. there are no agreements between shareholders which are known to the Company and which may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC;
- h. the Company's Constitution provides that the Board of Directors shall have no fewer than 3 directors and no more than 12 directors. The directors are elected by a general meeting of shareholders by ordinary resolution. Additionally, pursuant to Clause 13.4 of the Constitution, the Board of Directors may at any time appoint a person to be a Director, provided that the maximum number of Directors is not exceeded. Any such Director appointed will hold office until the next general meeting and will be eligible for re-election. At the Company's annual general meeting, one-third of the Directors for the time being, shall retire from office, provided always that no Director except a Managing Director shall hold office for a period in excess of three years without submitting himself for re-election. The Directors to retire at an annual general meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election. In the event of equal voting at a director's meeting, the chairman of the meeting shall have a second or casting vote providing there is more than two directors competent to vote on the question. As the Company is incorporated in Australia, the Australian Corporations Act requires the Company to have at least two directors that reside in Australia.
- i. the Company may modify or repeal its constitution or a provision of its constitution by special resolution of shareholders;
- j. pursuant to section 198A of the Australian Corporations Act, the business of a company is managed by or under the direction of the Board of Directors. Pursuant to Clause 2.2 of the Company's Constitution, the Board of Directors has the power to issue shares;
- k. subject to the requirements in the Australian Corporations Act, the Company may purchase its own shares in accordance with the buy-back provisions of the Australian Corporations Act, on such terms and at such times as may be determined by the Directors from time to time and approved by the shareholders as required pursuant to the Australian Corporations Act. The Company is not entitled to hold its own shares, subject to exceptions set out in Section 259A of the Australian Corporations Act. Any shares repurchased by the Company will need to be cancelled;
- l. there are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid;
- m. there are no agreements between the Company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

**Corporate governance**

The Board of Directors of African Petroleum is committed to administering its corporate governance policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with African Petroleum's needs. Given its Australian domicile and former NSX listing, the Company's corporate governance framework has been constructed in recognition of, and with regard to, the Australian Corporations Act; the ASX Corporate Governance Council's ("CGC") 'Principles of Good Corporate Governance and Best Practice Recommendations' (Recommendations) and CGC published guidelines; and an extensive range of varying legal, regulatory and governance requirements applicable to publicly listed companies in Australia. The Board of Directors supports the principles of effective corporate governance and is committed to adopting high standards of performance and accountability, commensurate with the size of the Company and its available resources. Accordingly, the Board of Directors has adopted corporate governance principles and practices designed to promote responsible management and conduct of the Company's business. The current corporate governance plan adopted by the Company is available on the Company's website at [www.africanpetroleum.com.au](http://www.africanpetroleum.com.au). The Company is in compliance with the NSX Corporate Governance Principles.

**UNAUDITED ADDITIONAL SHAREHOLDER INFORMATION**

The Companies policies and practice for corporate governance are further outlined in the Company's Corporate Governance Statement on page 11 of the annual report.

**REPORTING – PAYMENTS TO GOVERNMENTS STATEMENT**

This country-by-country report has been developed to comply with the legal requirements in the Norwegian Security Trading Act ("Verdipapirhandelloven") § 5-5a, valid from 2014. The detailed regulation can be found in the regulation "Forskrift om land-for-land rapportering". In 2016, the Company was engaged in extracting activities encompassed by the legislation above in the following countries: Cote d'Ivoire, The Gambia, Liberia, Senegal and Sierra Leone. This report discloses relevant payments to governments for extractive activities in the countries above, in addition to some contextual information as required by the regulation in the "Forskrift om land-for-land rapportering".

**BASIS FOR PREPARATION**

The report includes direct payments to governments from subsidiaries, joint operations and joint ventures. In some cases, however, certain payments to governments may be made by an operator on behalf of a partnership. This is often the case for area fees. In such cases, APCL will report their paying interest share of the payment made by the operator.

**DEFINITIONS**

**Government** - In the context of this report, a government means any national, regional or local authority of a country. It includes a department, agency or undertaking controlled by that authority.

**Project** - For this reporting a project is defined as an investment in a concession agreement.

**Licence fees** - Typically levied on the right to use a geographical area for exploration, development and production and include rental fees, area fees, entry fees, severance tax and concession fees and other considerations for licences and/or concessions. Administrative government fees that are not specifically related to the extractive sector, or to access extractive resources, are excluded.

**Materiality** - As per the "Forskrift om land-for-land rapportering" payments made as a single payment, or as a series of connected payments that equal or exceed Norwegian kroner (NOK) 800.000 during the year are disclosed.

**Reporting currency** - Payments to governments are converted from the functional currency of each legal entity into the presentation currency, United States Dollars (USD). The payments for entities whose functional currencies are other than USD are converted into USD at the foreign exchange rate at the average annual rate.

**PAYMENTS TO GOVERNMENTS AND CONTEXTUAL INFORMATION**

The consolidated overview below discloses the sum of company's payments to governments in each individual country where extractive activities are performed, per payment type and country/project. As the group's projects at all at the exploratory stage, there are no taxes, royalties, dividends to currently report.

<b>Payments per project</b>	
<b>Project</b>	<b>Licence fees /USD</b>
CI509	Nil
CI513	8,408,297
<b>Total Cote d'Ivoire</b>	<b>8,408,297</b>
A01	Nil
A04	Nil
<b>Total The Gambia</b>	<b>Nil</b>
LB08	Nil
LB09	Nil
<b>Total Liberia</b>	<b>Nil</b>
ROP	Nil
SOSP	Nil
<b>Total Senegal</b>	<b>Nil</b>
SL03	Nil
SL04A-10	Nil
<b>Total Sierra Leone</b>	<b>Nil</b>

<b>Payments per government</b>	
<b>Government</b>	<b>Licence fees /USD</b>
Government 1(Federal)	8,408,297
Government 2 (Municipality)	Nil
Government 3 (State owned company)	Nil
<b>Total Cote d'Ivoire</b>	<b>8,408,297</b>
Government 1(Federal)	Nil
Government 2 (Municipality)	Nil
Government 3 (State owned company)	Nil
<b>Total The Gambia</b>	<b>Nil</b>
Government 1(Federal)	Nil
Government 2 (Municipality)	Nil
Government 3 (State owned company)	Nil
<b>Total Liberia</b>	<b>Nil</b>
Government 1(Federal)	Nil
Government 2 (Municipality)	Nil
Government 3 (State owned company)	Nil
<b>Total Senegal</b>	<b>Nil</b>
Government 1(Federal)	Nil
Government 2 (Municipality)	Nil
Government 3 (State owned company)	Nil
<b>Total Sierra Leone</b>	<b>Nil</b>

**UNAUDITED ADDITIONAL SHAREHOLDER INFORMATION****LEGAL ENTITIES BY COUNTRY**

As per the "Forskrift om land-for-land rapportering" it's required that the Company report on certain contextual information at corporate level. This includes information on localization of subsidiary, employees per subsidiary and interests paid to other legal entities within the group.

Legal corporate structure of the Consolidated Entity during 2016 is set out below:

Name	Country of incorporation	Ownership	Main country of operations	Employees <sup>1</sup>	Interest paid to a group entity
African Petroleum Corporation Limited	Australia	n/a	United Kingdom	-	-
African Petroleum Corporation (Services) Limited	United Kingdom	100%	United Kingdom	6	-
African Petroleum Limited	United Kingdom	100%	United Kingdom	-	-
African Petroleum Corporation Limited	United Kingdom	100%	United Kingdom	-	-
African Petroleum Corporation Ltd	Cayman Islands	100%	United Kingdom	-	-
European Hydrocarbons Ltd	Cayman Islands	100%	United Kingdom	-	-
African Petroleum CI-513 Ltd	Cayman Islands	100%	United Kingdom	-	-
African Petroleum Liberia Ltd	Cayman Islands	100%	United Kingdom	-	-
<b>Total employees in United Kingdom</b>				<b>6</b>	<b>-</b>
African Petroleum Cote d'Ivoire Ltd	Cayman Islands	100%	Cote d'Ivoire	-	-
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire	100%	Cote d'Ivoire	2	-
<b>Total employees in Cote d'Ivoire</b>				<b>2</b>	<b>-</b>
African Petroleum Gambia Ltd	Cayman Islands	100%	The Gambia	2	-
APCL Gambia B.V.	Netherlands	100%	The Gambia	-	-
<b>Total employees in The Gambia</b>				<b>2</b>	<b>-</b>
African Petroleum Liberia Limited	Liberia	100%	Liberia	4	-
Regal Liberia Limited	United Kingdom	100%	Liberia	-	-
<b>Total employees in Liberia</b>				<b>4</b>	<b>-</b>
African Petroleum Senegal Ltd	Cayman Islands	90%	Senegal	-	-
African Petroleum (Senegal) SAU	Senegal	100%	Senegal	3	-
<b>Total employees in Senegal</b>				<b>3</b>	<b>-</b>
African Petroleum Sierra Leone Ltd	Cayman Islands	100%	Sierra Leone	-	-
African Petroleum (SL) Limited	Sierra Leone	99.99%	Sierra Leone	10	-
European Hydrocarbon (SL) Limited	Sierra Leone	99.99%	Sierra Leone	-	-
European Hydrocarbons Limited	United Kingdom	100%	Sierra Leone	-	-
<b>Total employees in Sierra Leone</b>				<b>10</b>	<b>-</b>

<sup>1</sup>Employees number is the average during the year

**Responsibility statement**

We confirm that:

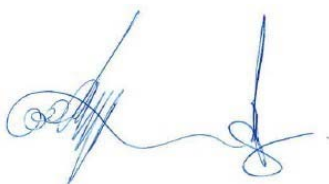
- a. to the best of our knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the Group taken as a whole; and
- b. that the Directors Report together with the Additional Information – Olso Axess includes a fair review of the development and performance of the business and the position of African Petroleum Corporation Limited and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- c. to the best of our knowledge, the country-by-country report for 2016 has been prepared in accordance with the Norwegian Security Trading Act Section 5-5a.”



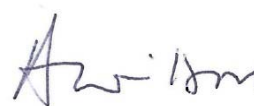
David King, Chairman of the Board



Bjarne Moe, Director of the Board



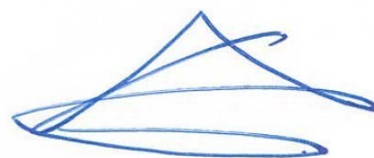
Timothy Turner, Director of the Board



Anthony Wilson, Director of the Board



Jens Pace, CEO and Executive Director of the Board



Stephen West, CFO and Executive Director of the Board