
High Impact
Exploration
African Petroleum Corporation Ltd
Annual Report and
Accounts 2013

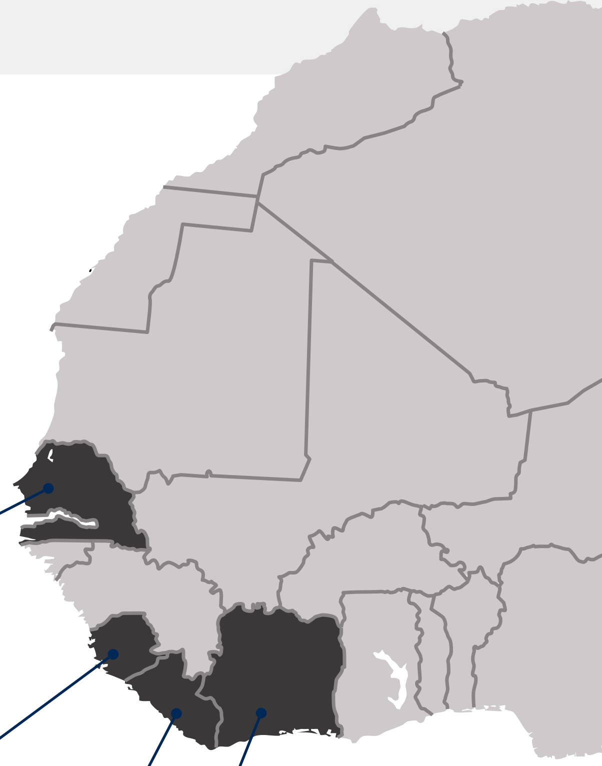
African Petroleum
is a significant net acreage holder in the West African Transform Margin with estimated net unrisked mean prospective resources in excess of 5.2* Bnbbls

* ERC Equipoise, CPR 2014

African Petroleum

West Africa Focused Portfolio

The Group has a highly skilled team with extensive oil and gas experience in West Africa. Our assets are in prospective regions along a relatively under explored margin



Senegal

- Acreage: 18,277km^2
- Working Interest: 81%
- No assessment has been made for Senegal

Sierra Leone

- Acreage: 5,855km^2
- Working Interest: 100%
- Estimated Resources: 434MMstb*

Liberia

- Acreage: 5,350km^2
- Working Interest: 100%
- Estimated Resources: 3,230MMstb*

Côte d'Ivoire

- Acreage: 2,537km^2
- Working Interest: 90%
- Estimated Resources: 1,560MMstb*

See pages 02–03

* Net unrisked mean estimate of prospective oil resources taken from CPR ERC Equipoise 2014

Our strategic priorities

> **Current focus (1 year):**
Consolidate position

> **Future focus (3 years):**
Drill our exploration acreage

> **Long-term focus (5 years):**
Commercialise and expand

See pages 10–15

African Petroleum Investment Case

Why African Petroleum?

Portfolio offers high impact exploration in emerging basins

Significant acreage holder in West Africa

High net working interest in all our Blocks: 81-100%

Exposed to a large diverse portfolio in multiple "liquid rich" plays

First to prove active hydrocarbon system in the central Liberian basin

Estimated net unrisked mean prospective resource > 5.2bnbbls*

New for 2013-14

New Chairman, Chief Executive Officer and Finance Director

New strategy in place that focuses on leveraging past accomplishments and driving new initiatives

Licence extensions granted in Liberia and Sierra Leone

Funding secured in February 2014 and renewed emphasis on capital discipline

Continued focus on securing pre-drill strategic partners and build a clear path to drilling

Why Today?

Attractive valuation in the market

Diverse portfolio of options available in frontier and emerging basins

Licence extensions provide room to de-risk ahead of drill bit

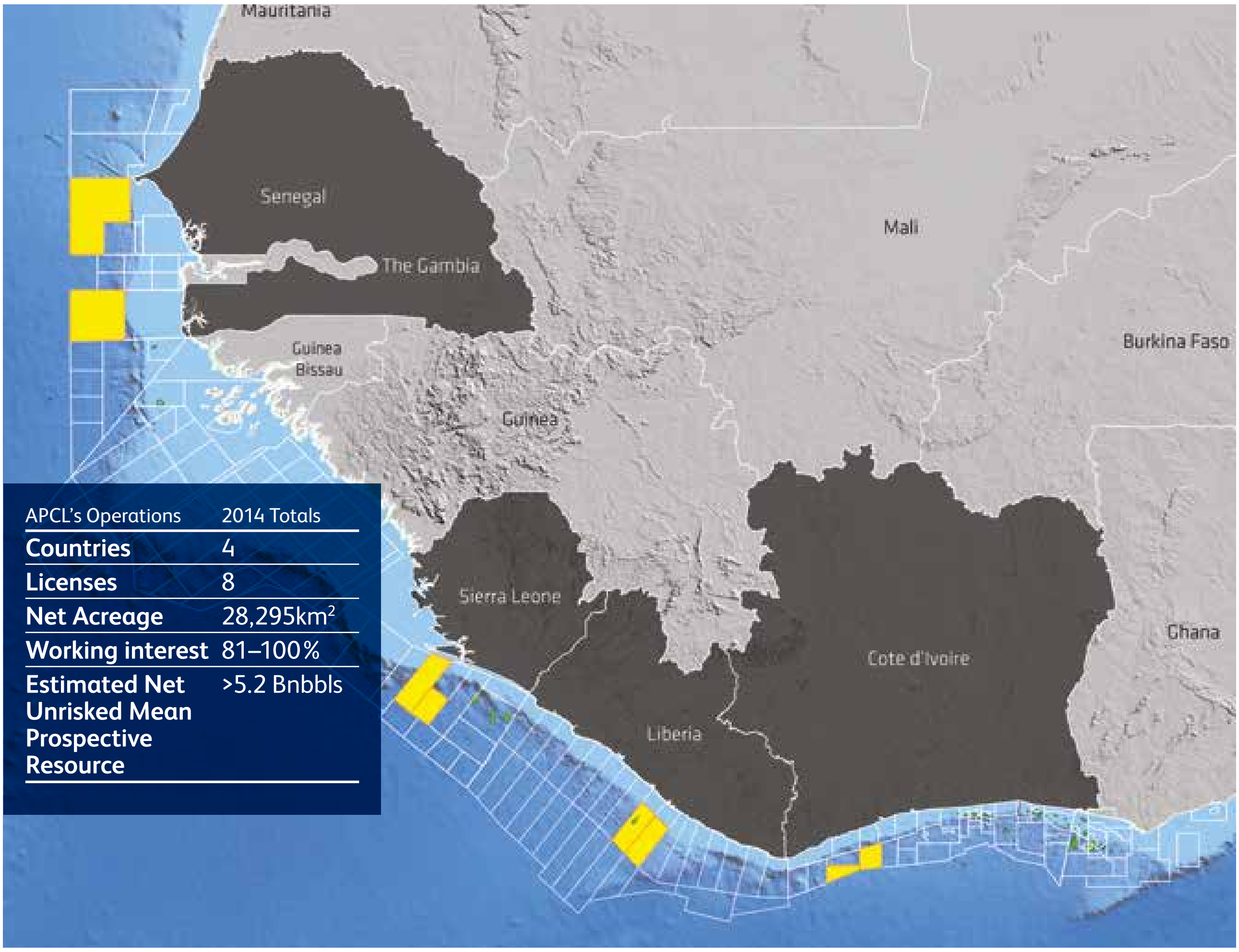
Significant activity in surrounding acreage throughout 2014

*ERC Equipoise 2014

Contents

African Petroleum at a Glance

African Petroleum Corporation Limited ("APCL") is an independent oil and gas exploration company operating eight licences in four countries (Côte d'Ivoire, Liberia, Senegal and Sierra Leone) offshore West Africa. APCL's assets are located in fast-emerging hydrocarbon basins, principally the West African Transform Margin, where several discoveries have been made in recent years. The Company has rapidly matured its portfolio having acquired more than 15,000km^2 of seismic data and successfully drilling three wells, one of which was a discovery. APCL's portfolio has estimated net unrisked mean prospective oil resources in excess of 5.2 billion barrels.



APCL's Operations	2014 Totals
Countries	4
Licenses	8
Net Acreage	28,295km^2
Working interest	81–100%
Estimated Net Unrisked Mean Prospective Resource	>5.2 Bnbbls

Our Projects >

Liberia

The Company holds a 100% operating interest in exploration blocks LB-08 and LB-09, these blocks have been central to our exploration activities: APCL acquired extensive 3D seismic over LB-08 and LB-09 and successfully drilled three wells, one of which was a discovery. The Liberian Blocks extend over 5,352km^{2}* and have estimated net unrisked mean prospective resources of 3,230 MMstb**. In February 2014 the Company announced it has received a two year extension on Blocks LB-08 & LB-09.

Côte d'Ivoire

The Company holds a 90% operating interest in exploration Blocks CI-509 and CI-513 offshore western Côte d'Ivoire, with a combined surface area of 2,284km^{2}* and estimated net unrisked prospective resources of 1,560 MMstb**. African Petroleum acquired extensive seismic data over both blocks and has made significant progress in the interpretation of this data, identifying a number of key prospects.

Senegal

The Company holds a 81% operating interest in the two Blocks Rufisque Offshore Profond and Senegal Offshore Sud Profond, covering a total area of 14,804km^{2}*. Both blocks are positioned in a high potential frontier exploration area with oil accumulations and hydrocarbon shows in shelf areas along the margin. African Petroleum has acquired extensive 3D seismic data over both blocks.

Sierra Leone

The Company holds a 100% operated working interest in exploration blocks SL-03 and SL-4A-10 offshore Sierra Leone, with a combined surface area of 5,855km^{2} and estimated net unrisked prospective resources of 434 MMstb**. African Petroleum has acquired 3D data covering SL-03 and 2D seismic data over SL-4A-10. African Petroleum received a two-year extension on block SL-03, allowing the Company the opportunity to identify further prospects and to de-risk ahead of the drill bit.

* Net acreage
** ERC Equipoise, 2014

Chairman's Statement

An attractive investment proposition

It is a great privilege to write my first Chairman's statement to the shareholders of African Petroleum, and I would like to start by thanking you all for your continued support. 2013 has been a year of progress on all fronts for your Company, we find ourselves in a strong and exciting position as we look ahead to 2014 and beyond.

African Petroleum has a significant opportunity to become a leading independent oil and gas exploration and development company through its acreage offshore West Africa. We have continued to achieve key operational milestones across our four licence areas in Côte d'Ivoire, Liberia, Senegal and Sierra Leone this year. African Petroleum is among the largest net acreage holders in the West African Transform Margin, rivalling industry majors such as Anadarko Petroleum, Chevron Corporation and Lukoil. In July 2013, we announced an updated Competent Persons Report published by ERC Equipoise estimating African Petroleum's net mean unrisked prospective oil resources are in excess of 5.2 billion barrels, further highlighting the scale of our presence in the region.

The significance of the wider opportunity in West Africa should not be underestimated. Since 2010, 28 technical discoveries have been made on the West African Transform Margin, where our operations are focused. 63 wells are planned for drilling in the area over the next two years, and with historic exploration success rates of over 70 per cent in both Sierra Leone and Côte d'Ivoire, where African Petroleum has acreage, coupled with the presence of major international companies in the area, a compelling picture emerges. The Company is pursuing a high impact exploration programme and we can count early mover advantage, strong relationships with host Governments and excellent licence terms as factors in our favour.

The Company is well placed to take advantage of its strong position. African Petroleum is backed by a highly supportive blue chip institutional shareholder base, a new and vastly experienced team in place, a refreshed strategy, and new funding which is underpinned by an emphasis on capital discipline.

The Board has seen several changes in the past year including my appointment in October 2013.

First and foremost, I would like to thank Mr Frank Timis who founded African Petroleum. Frank retired from the Board and his position as Non-Executive Chairman on 10 October 2013. I would like to express my gratitude to him for his tireless work and investment which has been integral to building the Company and making it the success it is today.

Further Board changes this year saw Antony Sage and Alan Watling step down in June and July 2013 respectively, I would like to take this opportunity to thank Mr Sage and Mr Watling for their hard work over the years and their significant contribution to the Company.

Dr David King joined the Board as a Non-Executive Director in July 2013. David has over 30 years' experience in natural resources, and has co-founded and held executive and non-executive board positions in a number of successful ASX listed companies.

Finally, one further executive change took place in October, when Mark Ashurst stepped down from his role as Chief Financial Officer and Stephen West was appointed Finance Director. Stephen is a qualified Chartered Accountant who holds a Bachelor of Commerce (Accounting and Business Law) from the Curtin University of Technology in Australia, and has over 20 years of financial and corporate experience in oil and gas, mining and investment banking industries.

Primed for Growth

Volume Potential

> 5.2* billion barrels net un-risked mean prospective oil resources over a diversified portfolio; Major hydrocarbon discoveries along the margin

Operational Environment

> Benign low-cost deepwater environment in 4 countries, 8 licences

Value

> We are seeking partners to share the value and rewards

> Liquid Rich environment with excellent terms, high net working interest, and attractive asset valuations

New Wave of Exploration

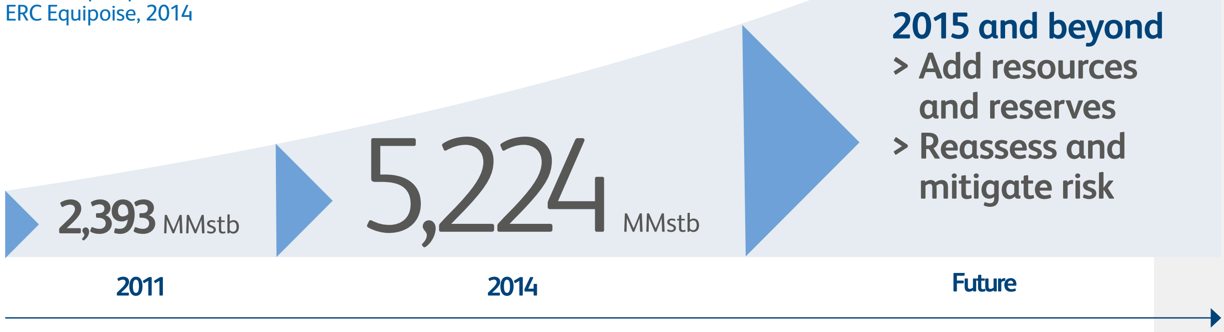
> 16 exploration and appraisal** wells in neighbouring blocks in 2014

> Catalyst wells provide potential to de-risk portfolio

> Licence extensions provide opportunity to leverage learnings and find partners

* ERC Equipoise 2014
** drillinginfo©

Our portfolio - Growth of estimated net unrisked prospective resources MMstb; ERC Equipoise, 2014



Chairman's Statement
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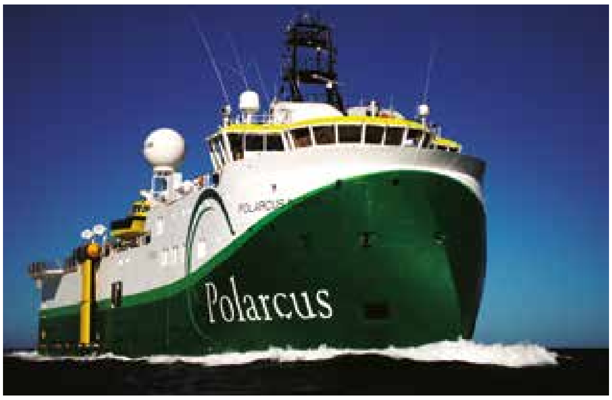

Operationally, African Petroleum continued to achieve important milestones in 2013. In January, the Bee Eater-1 well was drilled to test an up-dip of Narina-1. Unfortunately, the well encountered a tight reservoir but has provided valuable information as to further prospectivity in the Liberian licences. Interpretation of 3D seismic over our Blocks in Côte d'Ivoire began in 2013 identifying a number of key prospects and furthering our understanding of this exciting acreage. At our assets in Senegal and Sierra Leone work was carried out to reprocess 2D and 3D seismic over the licence blocks as we continue to mature the prospects towards the drilling phase.

The Company received news in September 2013 that the Sierra Leone Petroleum Directorate approved a two-year extension of the initial exploration period on our SL-03 licence offshore Sierra Leone. The extension was ratified by the Parliament of Sierra Leone on 7 November 2013, and now means that the initial exploration period will terminate on 23 April 2015.

Whilst this report is meant to be retrospective, it is important to highlight some important developments for our Company that have already occurred in 2014. Most significantly, in February 2014 we welcomed Dr Stuart Lake to the position of Chief Executive Officer of African Petroleum. Stuart brings with him a wealth of unrivalled industry experience, having spent over 27 years in Hess Corporation, Apache Corporation and Shell. In that time he has worked on drilling over 300 wells in 11 countries, maintaining an 85% geological success rate. During his career Stuart oversaw an exploration campaign in Ghana that led to 7 consecutive hydrocarbon discoveries, and whilst VP Exploration at Hess he directed more than 30 discoveries in Russia. We are delighted to have him on board and as you will gather from his statement in this annual report, he has bold and exciting plans for the business. I would like to take this opportunity to thank Karl Thompson, who stepped down from the position of CEO in January 2014, for his hard work and commitment to African Petroleum.

Also in February 2014 we announced a A$20M share placement, the net proceeds thereof the Company intends to use for maintaining our West African licences in good order, and for general working capital purposes. In addition, it has been announced that, further to our proposed listing on the ASX, the Company will be seeking a potential listing on a recognised European stock exchange in 2014. We will keep shareholders informed of further developments.

I would like to finish by saying thank you again to our shareholders for your support and commitment to the future of African Petroleum. We look forward to updating you on our progress throughout 2014.

Charles Matthews,OBE
Chairman
9 April 2014


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Chief Executive's Statement

Well positioned for the future

As my first annual statement to shareholders, I would like to take this opportunity to report on the progress African Petroleum has made in 2013 and to outline my vision for the business.

In the two months since I have joined the Company, it is clear to me that the quality of the assets and the team we have in place are exceptional. I am delighted to be CEO of the Company at this exciting time and in a position to utilise my experience to take African Petroleum into the next phase of delivery and growth.

Operationally, 2013 began with the drilling of the Bee Eater-1 well. The well was spudded on 4 January 2013 in Block LB-09, and tested an up-dip axial section of the Turonian slope fan in which the Company's Narina-1 discovery had been made in 2012. The Bee Eater-1 well encountered a tight reservoir interval, this was clearly a disappointing result for the Company however, the data gathered from the Bee Eater-1 well had regional significance for the Cretaceous on-lap play, highlighting the exploration potential down-dip and basin-wards to, more likely, better quality reservoir units. These new findings have been incorporated into a revised interpretation of the subsurface across the portfolio, with new basin floor fan prospects included in a Competent Person's Report, published by ERC Equipoise in July 2013 and updated in February 2014.

In October 2013, African Petroleum saw significant changes to its governance structure with Mr Charles Matthews appointed as Chairman of the Company, bringing with him over 10 years' experience in chairman and director positions. Charles is currently Chairman of LSE listed Porvair Plc, has previously held senior management positions at Cosworth Group, Rolls Royce and Bentley Motor Cars, and has served as a Member of the Vickers Group Executive Board.

As the Chairman mentioned in his statement, we have also further strengthened the board this year with the appointment of Dr David King as a Non-Executive Director. He brings with him a wealth of experience and we are delighted to have him on the team.

Since assuming the position of Chief Executive Officer at African Petroleum, a key focus has been to re-establish a corporate vision, mission and company values, in conjunction with revising our strategy and a continued emphasis on creating sustainable value for our shareholders in the short, medium and longer term.

African Petroleum's strategy is to consolidate our position as a leading West African focused oil and gas exploration company by rapidly maturing our exploration portfolio and fulfilling our work programme commitments with new partners, whilst placing a strict emphasis on capital discipline. African Petroleum is a significant acreage holder in the highly prospective West African Transform Margin, with high equity positions in all of its licences, offering a unique opportunity to strategic partners to share risk and rewards. In addition, African Petroleum has now integrated recent operated and industry well results with our extensive seismic dataset to further high-grade our diverse and deeply evolving portfolio, with a view to drilling further high impact exploration wells in 2015 and beyond.

Commercially, the Company has already taken a number of steps to address its short-term financial commitments. This manifested itself early in 2014, when the company announced two-year licence extensions in Liberia and Sierra Leone. This additional time will be used in these areas to reduce exploration risk through the application of new seismic acquisition including high-resolution 3D seismic and enhanced processing technology, prior to locating future drilling targets.

Furthermore, following our announcement on 24 February 2014, African Petroleum will continue to work towards listing on a recognised European Stock Exchange, an important and exciting step for the Company, and a move that would offer increased liquidity and an opportunity to raise significant capital.

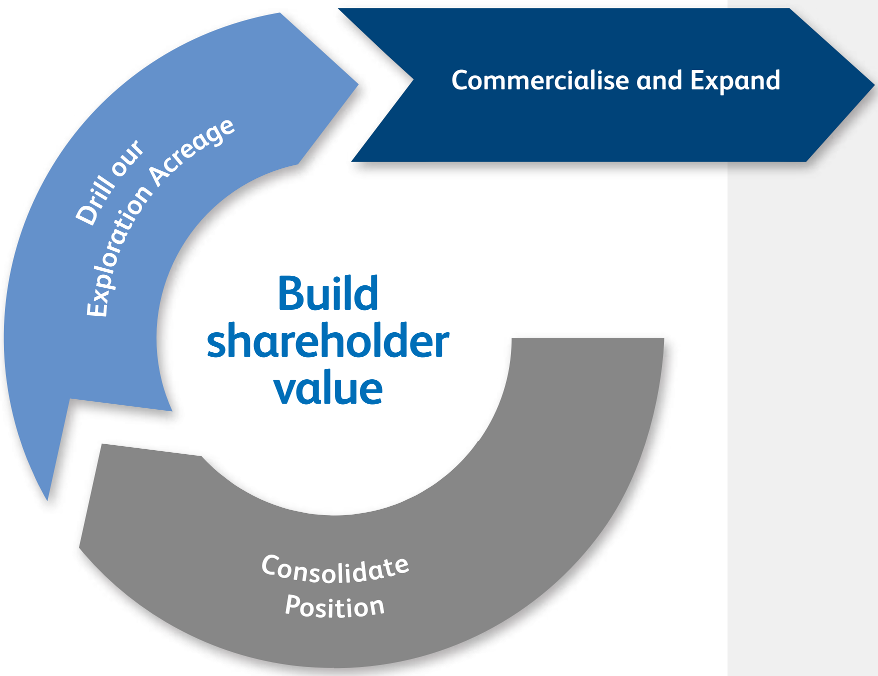
Over the forthcoming year, my priorities are to work with the new Chairman, Board of Directors and management team to build on the Company's reputation as a fast moving explorer in both emerging and frontier basins. We will work towards moving to a new exchange, securing long-term strategic partners, firming up the funding base and executing a successful, safe and low cost exploration programme of 3D acquisition in preparation for the 2015 drilling campaign. Such moves will be a significant step towards our goal to deliver the highest value and return to all our stakeholders. With our oil discovery at Narina-1 in Liberia Block LB-09 and significant drilling activity in adjacent acreage by majors and independents alike this year, the Company is in a good position to unlock the prospective resources of our assets and mitigate risk.

I would like to take this opportunity to offer my sincere appreciation to all the employees at African Petroleum. Their dedication and hard work have led to the significant achievements to date and have put the Company in an excellent position for the next stage of its journey. Similarly, I would like to thank the Board of Directors for their continued support, counsel and guidance of the Company.

Finally, I want to express my gratitude to African Petroleum's shareholders, host governments and communities for your continued trust and support. Your confidence in us lies at the heart of our mission and future success as we endeavour to fulfil our commitment to create shared and enduring value for all stakeholders.

Dr Stuart Lake
Chief Executive Officer

Strategic focus



Our Strategy in Action

12 month objective: Consolidate Position

African Petroleum is working towards maximising our external relations through efficient communication and proactive engagement with Company stakeholders.

The Company has renewed its emphasis on capital discipline, with the intention to move to a recognised European exchange and focusing on building strategic partnerships to share risk and potential reward.

The next 12 months will see the Company complete a wider regional analysis of geology through acquisition of further 3D seismic data, utilising learnings from third party drilling in neighboring acreage to further de-risk our acreage in anticipation of executing a high impact exploration programme.

Our Strategy in Action

Three year objective: Drill our exploration acreage

Over the next 36 months African Petroleum will focus on maturing our high potential assets through an extensive exploration campaign by drilling key wells with strategic partners.

The Company will continue to work in concert with host governments to design and implement social investment programmes, to build on education and improve healthcare.

African Petroleum will continue to build on our acreage position, while seeking to execute visible commercial options with others.

Our Strategy in Action

Five year objective: Commercialise and Expand

Assuming exploration success, the long-term strategy for African Petroleum will focus on moving discoveries to commerciality. Commercial success will be leveraged to acquire new acreage and expand the Company's portfolio options over a broader asset base.

The Company will consider access to non-operating equity in producing blocks and ensure strong financials will support further growth opportunities. Ultimately, the Company endeavours to create sustainable commerciality and stakeholder value.

Review of Operations

Discovering potential

African Petroleum is an independent oil exploration company operating eight licences in four countries offshore West Africa. The Company's assets are located in fast-emerging hydrocarbon basins, principally the West African Transform Margin, where several discoveries have been made in recent years including African Petroleum's Narina-1 discovery in February 2012, which successfully proved a working hydrocarbon system in the Liberian basin. With a combined net acreage position of 28,295km^2 through its assets in Côte d'Ivoire, Liberia, Senegal and Sierra Leone, the Company has matured its portfolio rapidly, acquiring more than 15,000km^2 of 3D seismic data and successfully drilling three wells, one of which was a discovery.

African Petroleum has estimated net unrisked mean prospective oil resources in excess of 5.2 billion barrels (ERC Equipoise – CPR, 2014) in highly attractive acreage, which is located adjacent to that held by major operators such as Exxon, Total, Lukoil, Anadarko, Tullow and Chevron.

As part of the Company's exploration led strategy African Petroleum has now integrated recent operated and industry well results with our extensive seismic dataset to high-grade our diverse and deeply evolving portfolio, with a view to drilling high impact exploration wells.

The Company is actively looking to farm-out its acreage in order to share risk across the exploration portfolio. The farm-out process is a first step towards maturing the Group's asset portfolio with the objectives to 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 Company's licences. African Petroleum is in active discussions with a number of potential farm-in partners and will announce any updates to the market as they materialise.

Liberia

- Water Depth – 900-2,350m
- 100% working interest in production sharing contracts LB-08 and LB-09 with combined net acreage of 5,352km^2
- Three wells drilled to date, including the oil discovery at Narina-1
- A number of key prospects identified with net unrisked mean prospective oil resources of 3,230 MMstb
- High resolution 3D seismic data planned to de-risk acreage further
- Announced 2 year extension of Liberia Licence blocks in February 2014

In Liberia, African Petroleum is the operator and holds a 100% working interest in production sharing contracts LB-08 and LB-09 with combined net acreage of 5,352km^2.

The Company has conducted an extensive work programme to date on its Liberian licences. In 2010, the Group completed the acquisition and processing of 5,100km^2 of 3D seismic data over both licences. The interpretation of this data identified numerous prospects and leads in the Upper Cretaceous section.

African Petroleum has successfully executed an exploration programme in LB-09, with three wells drilled, Apalis-1, Narina-1 and Bee Eater-1.

In September 2011, African Petroleum completed drilling of its first exploration well, Apalis-1, on LB-09. The well encountered oil shows in several geological units including the shallower (Tertiary) and deeper (Cretaceous). Petrophysical analysis, and core samples from the well, indicated the presence of hydrocarbons and source rock intervals.

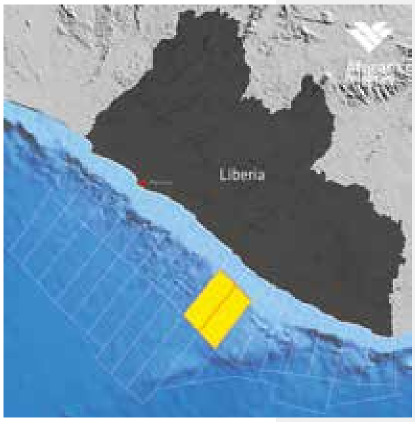
The Narina-1 well was drilled on LB-09 in January 2012, targeting a major Turonian fan system. The well encountered a combined total of 31 metres of net oil pay in the primary objective Turonian and underlying Albian reservoirs with no oil water contacts observed. African Petroleum's discovery at Narina-1 proved a working petroleum system in the Liberian basin, an extremely positive result for the Company and one that improves the chances of success elsewhere in the area.

The Company drilled its third well, Bee Eater-1, on LB-09 in January 2013. The well tested an up-dip axial section of the Turonian slope fan in which the Company's Narina-1 discovery had been made in 2012. The Bee Eater-1 well encountered a tight reservoir interval, but critically, has regional significance for the Cretaceous on-lap play, highlighting the exploration potential down-dip and basin-wards to, more likely, better quality reservoir units. These new findings have been incorporated into a revised interpretation of the subsurface across the portfolio, with new basin floor fan prospects identified.

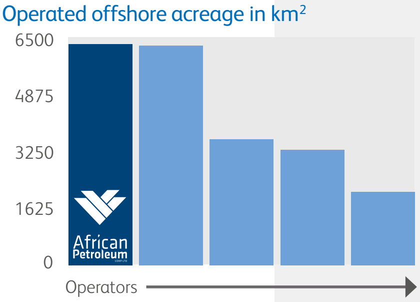
In September 2013 the Company completed reprocessing of all the 3D seismic data from its Liberian Licences to improve image quality and support the maturation of additional prospects and appraisal opportunities. Certain areas would benefit from additional improvement of the seismic image and so currently, new high-resolution 3D seismic is being considered for LB-09 to cover two key exploration prospects (Narina West and Night Heron) near the Narina-1 well. This survey will incorporate lessons learned from seismic processing to date and will be acquired utilising state of the art technology. Detailed stratigraphic analysis and reservoir quality prediction from seismic data will assist in the rapid assessment of both Narina West and Night Heron to further de-risk the licence area to enable accurate well positioning and efficient development in the event of appraisal success.

In LB-08, new seismic data is also being considered to cover three prospects (Lovebird, Darter and Turaco) in the Southern corner of the licence area. Encouraging amplitude support for reservoir and potential hydrocarbons exists within the current reprocessed dataset. However, near surface effects (shallow slump zone "mass transport deposit") degrades seismic data quality. Investment in both of these 3D datasets will better delineate and further de-risk the prospects prior to drilling.

The Company has identified a number of key prospects in the Liberia licences with net unrisked mean prospective oil resources of 3230MMstb (ERC Equipoise, independent evaluation).



Liberia
Operated offshore acreage in km^2



Review of Operations
continued

Côte d'Ivoire

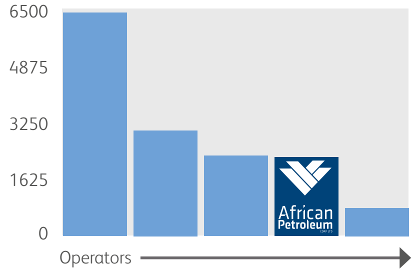
- Water depth – 900-3,150m
- 90% working interest in offshore licences CI-509 and CI-513 with combined net acreage of 2,284km^2
- Acquired 4,200km^2 seismic data over Côte d'Ivoire Licence Blocks
- Key prospects identified with net unrisked mean prospective oil resources of 1,560 MMstb
- Significant well campaigns in neighbouring blocks will potentially de-risk acreage

In Côte d'Ivoire, African Petroleum holds a 90% working interest in offshore licences CI-509 and CI-513 (the "CI Licences"), the remaining 10% is held by Petroci, the national oil company of Côte d'Ivoire. The Company was awarded CI-513 in December 2011 and CI-509 in March 2012, with a combined net acreage of 2,284km^2.

In October 2012, the Group acquired 4,200km^2 of 3D seismic data over the CI Licences, fulfilling the seismic work commitments of the first exploration phase for both licences. Fast-track 3D seismic data was received in November 2012, while final 3D seismic processing for the entire survey was completed in June 2013. Interpretation of the data has identified a number of significant prospects, with net unrisked mean prospective oil resources of 1560MMstb (ERC Equipoise, independent evaluation).

African Petroleum is actively seeking strategic partners in our Côte d'Ivoire acreage. Significant well campaigns are due to take place offshore Côte d'Ivoire in 2014, with exploration and appraisal wells planned by, amongst others, Vitol, Anadarko and Total. These catalyst wells provide potential to de-risk the Company's acreage.

Côte d'Ivoire
Operated offshore acreage in km^2



Senegal

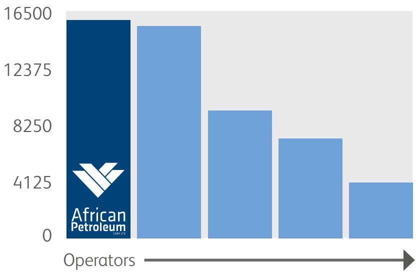
- 81% working interest in exploration blocks Rufisque Offshore Profond and Senegal Offshore Sud Profond with combined net acreage of 14,804km^2
- 13,600km^2 seismic data acquired over both blocks
- Extensive regional database is currently being interpreted
- Third party drilling activity will aid in the evaluation of the licences

In Senegal, African Petroleum holds an 81 per cent operated working interest in exploration blocks Rufisque Offshore Profond ("ROP") and Senegal Offshore Sud Profond ("SOSP") (together the "Senegal Licences"). The Company's Senegal licences are located offshore southern and central Senegal, with a net acreage of 14,804km^2.

To date, the Group has acquired 10,000km of 2D seismic data over the Senegal Licences and has compiled an extensive regional database. In May 2012, the Group completed a 3,600km^2 3D seismic data acquisition over the SOSP licence block. Fast-track 3D seismic data has been received and is currently being interpreted. In addition, 1,500km^2 of 3D data over the ROP licence block is currently being reprocessed ready for final interpretation during 2014.

Cairn Energy and Conoco Philips are scheduled to commence a two well drilling campaign offshore Senegal during 2014, and the results from this campaign will aid in the evaluation of the prospectivity of African Petroleum's Senegal Licences.

Senegal
Operated offshore acreage in km^2



NB. The Gambia: The Government of the Republic of Gambia purported to terminate both licences over Blocks A1 and A4 by letters dated 3 January 2014. African Petroleum Gambia Limited (APGL) disputes the Government's actions, which APGL considers are in breach of its licence obligations. Disputes under the licences are subject to resolution by confidential arbitration at ICSID.

Sierra Leone

- > Water depth: 2,800 – 3,800m
- > 100% working interest in offshore licences SL-03 and SL-4A-10 with combined net acreage of 5,855km^2
- > Significant 3D and 2D seismic data acquired over the licence area
- > A number of key prospects have been identified, one of which has net unrisked mean prospective oil resources of 434 MMstb
- > Two-year extension agreed for the first exploration period in the SL-03 Licence

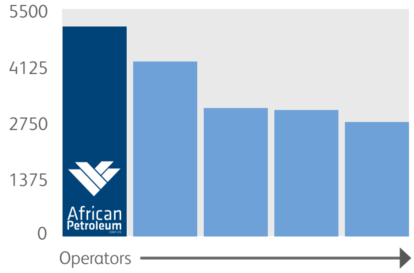
In Sierra Leone, the Group holds 100% operated working interest in offshore licences SL-03 and SL-4A-10. African Petroleum was awarded a 100 per cent interest in SL-03 in April 2010, which is currently in its initial exploration period, while licence SL-4A-10 was awarded as part of Sierra Leone's third offshore licencing round in 2012 and is also currently in the initial exploration period. The Company's Sierra Leone licences cover a combined net acreage of 5,855km^2 and are located to the south of Freetown, offshore Sierra Leone.

Since gaining operatorship of the Sierra Leone licences, African Petroleum has acquired 3D seismic data covering SL-03 and 2D seismic data over the SL-4A-10 licence and is currently performing extensive geological and geophysical work on both blocks. The Company has already identified a number of key prospects in the Sierra Leone licences, one of which has net unrisked mean prospective oil resources of 434 MMstb (ERC Equipoise, CPR 2014).

Following discussions with the Government of Sierra Leone, in September 2013, the Group received a two-year extension to the first exploration period for SL-03, extending the first exploration period on the block to April 2015.

On SL-4A-10, the Group has interpreted existing 2D seismic and has identified a number of promising prospects for verification. TGS-Nopec acquired a multi-client 3D seismic survey over parts of SL-4A-10 in October 2011, which the Group is considering to licence for further geological and geophysical work, though other options including a new 3D seismic shoot have not been evaluated.

Sierra Leone
Operated offshore acreage in km^2



Financial Review

Corporate and Financial Activities

2013 Results overview

During the 2013 year the Company continued to invest in its licence interests in Côte d'Ivoire, Liberia, Senegal and Sierra Leone with US$94.8 million invested in well drilling operations, and seismic and evaluation activities (2012: US$180.9 million).

The 2013 loss after tax of US$88.2 million (2012: loss of US$40.4 million) included US$49.7 million of impairment charges (refer below for further details).

Depreciation, impairments and expenses

Depreciation charges for the year totalled US$1.7 million (2012: US$1.3 million) with most of the charge relating to the Group's plant and equipment. The Group recognised an impairment charge of $31.2 million in respect of the A1 and A4 licences in The Gambia due to the government's purported termination of the licences in early January 2014. Impairment charges of US$3.8 million for consumable spares, US$12.9 million for related party loans and deposits, and US$1.7 million for aircraft were also recognised during the year.

Other expenses incurred during the year totalled US$39.6 million (2012: US$43.0 million) which included a one-off charge of US$3.7 million for rig demobilisation/cancellation costs. Also included in other expenses is employee benefits of US$11.2 million (2012: US$17.6 million) which includes a charge of US$2.6 million for share-based payments (2012: US$11.7 million).

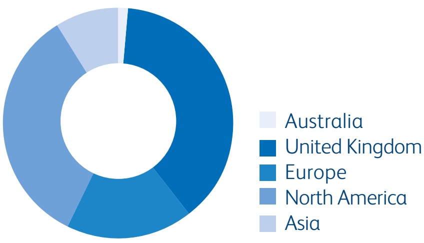
Capital Expenditure

During 2013 the Group incurred exploration and evaluation expenditure of US$94.8 million with US$75.9 million invested in drilling the Bee Eater-1 well in Liberia and US$18.9 million invested in seismic and other evaluation work work in Liberia, Côte d'Ivoire, Sierra Leone and Senegal (2012: US$180.9 million invested in drilling wells, seismic and other evaluation work in Liberia, Côte d'Ivoire, Sierra Leone and Senegal).

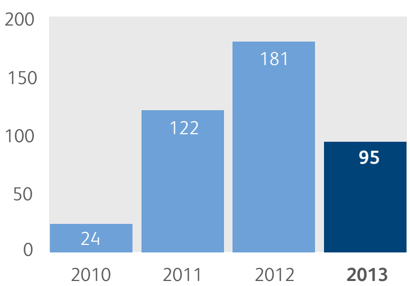
Accounting Policies

The Company is an Australian incorporated company listed on the National Stock Exchange of Australia and accordingly the Group is required to comply with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Group's significant accounting policies and details of the significant accounting judgements and critical accounting estimates are disclosed within the notes to the financial statements. The Group has not made any changes to its accounting policies in the year ended 31 December 2013.

Geographic Location of Shareholders
(%)



Exploration and Evaluation Expenditure
$m



Substantial shareholdings

As at 3 March 2014, the Company had been notified in accordance with section 671B of the Corporations Act of Australia of the following substantial holdings in the Company's ordinary share capital:

Shareholder	Number of shares	% of issued capital
Sarella Investments Limited	210,272,329	**34.87**
M&G Investment Funds	66,986,178	**11.11**
Dundee Corporation	45,792,088	**7.59**
The Capital Group of Companies Inc	41,769,488	**6.93**

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios. The Group's forecasts demonstrate that the Group will be able to operate its normal business activities with its current cash position for at least 12 months from the date of this Annual Report.

Events Since Year-end

Following shareholder approval at a general meeting of shareholders on 8 January 2014, the Company completed a share consolidation, which was effective 3 February 2014. All securities, including ordinary shares on issue and all options on issue, were consolidated on the following basis:

> Every three shares consolidated into one share; and
> Every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.

In February 2014, the Company announced it had received firm commitments for a placing of 83,334,000 new fully paid ordinary shares ("Placing Shares") at A$0.24 per Share with institutional and sophisticated investors, to raise a total of A$20,000,160 before costs ("Placing"). The Placing took place in two tranches with the first tranche of 37,852,000 Placing Shares being issued on 4 March 2014 and the second tranche of 45,482,000 Placing Shares being issued on 7 April 2014. This successful Placing reflects the commitment of our major shareholders to the future of the Company.

On 24 February 2014, the Company announced its intention to seek a potential listing on a recognised European stock exchange, in addition to seeking a listing on the ASX (Australian Stock Exchange). The Company will keep shareholders informed of further developments with regards to this process.

Financial Strategy and Outlook for 2014

Going forward our financial strategy is to broaden the sources of funding for the Company whilst ensuring an appropriate capital structure, in order to support the Group's growth strategy. During 2014 we will focus on funding our high-impact exploration work by farming out licence interests to industry partners whilst maintaining capital discipline to ensure that our cost base remains appropriate to our organisational capacity. In addition to the immediate funding benefit, the farm-out process introduces further technical competence from industry partners in the evaluation and development of the Group's licence interests, contributes to reducing the Group's cost of operations, preserves and enhances cash balances, and diversifies the Group's exploration risk.

Corporate Social Responsibility

Core Commitments

Our Responsibility

The Board of African Petroleum is committed to operating in a socially responsible way with the highest standards of Business Ethics, Environmental Awareness and Health & Safety.

© Andy Weekes; Sightsavers

Corporate Citizenship

African Petroleum is committed to having a sustainable beneficial impact on the communities in which we operate.

As a resource exploration company, we view ourselves as partners in development with our host governments. Accordingly it is our duty to strive for the economic betterment of the countries in which we operate by targeting our social investments towards the key development goals of host states. African Petroleum believes that human capacity development is the foundation for long-term sustainable growth.

In particular, APC provides ongoing technical support towards the geoscience and engineering programmes at the following major universities in West Africa: University of Liberia, Fendall; University of Sierra Leone, Fourah Bay College; and the University of Senegal, Dakar.

Access to Quality Healthcare

Recognising the negative economic impacts and social isolation caused by preventable blindness, African Petroleum partnered with Sightsavers in order to help build the infrastructure for sustainable health services in underserved communities and help people lead more productive lives.

2012 and 2013 marked the successful launch and completion of African Petroleum's Eye Care for All initiative in concert with Sightsavers, an award-winning international charity committed to the elimination of preventable blindness.

This partnership endeavoured to increase accessibility of sustainable health services to underserved rural communities through the training of over thirteen eye care professionals and provide critical equipment to regional eye care centres throughout three West African countries.

Environment

The Company's environmental policy provides a framework for decision making and project implementation. In that regard, we strive to conduct all operations in an environmentally responsible manner.

Health and Safety

As an owner and 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. HSE is embedded throughout all of African Petroleum's core operations. In this regard we strive for continuous improvement and all past learnings are incorporated into business practices going forward.

Business Ethics

African Petroleum is committed to carrying out its operations with high moral and legal standards.

We hold our employees and contractors to high standards of business ethics and endeavour to approach all stakeholders with integrity and fair dealing in all actions.

© Nikki Bayliss; Sightsavers

© Zul Mukhida; Sightsavers

1.6m

People covered by Sightsavers trained eye care professionals

Board of Directors

Charles Matthews, OBE
Chairman

Date of appointment
10 October 2013

Qualifications
BSc in Geography and Oceanography from the University of Wales, as well as an MBA from Cranfield Business School and a Strategic Marketing qualification from Harvard Business School.

Dr Stuart Lake
CEO and Executive Director

Date of appointment
3 February 2014

Qualifications
BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England.

©Bronac McNeill

Mark Ashurst
Executive Director

Date of appointment
5 July 2010

Qualifications
BA (Hons) Law; Barrister; Fellow of the Institute of Chartered Accountants in England and Wales.

Gibril Bangura
Non-Executive Director

Date of appointment
5 July 2010

Qualifications
Arts and Business Management, Junior College Atlanta.

Jeffrey Couch
Non-Executive Director

Date of appointment
23 September 2010

Qualifications
Bachelor of Law.

David King
Non-Executive Director

Date of appointment
5 July 2010

Qualifications
MSc in Geophysics from Imperial College, London, and a PhD in Seismology from the Australian National University, Canberra.

James N. Smith
Non-Executive Director

Date of appointment
23 September 2010

Qualifications
MSc in Petroleum Geology (Geophysics option), BSc (Hons) in Geological Geophysics, Fellow of Geological Society.

Timothy Turner
Non-Executive Director

Date of appointment
16 May 2007

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

©Bronac McNeill

Anthony Wilson
Non-Executive Director

Date of appointment
5 July 2010

Qualifications
Fellow of the Institute of Chartered Accountants in England and Wales, and Fellow of the Chartered Institute for Securities and Investment.

Directors’ Report

Your Directors present their report on African Petroleum Corporation Limited (“African Petroleum” or the “Company”) for the year ended 31 December 2013.

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.

Mr Charles Matthews	Chairman, appointed 10 October 2013
Dr Stuart Lake	Executive Director and Chief Executive Officer, appointed 1 February 2014
Mr Mark Ashurst	Executive Director and Chief Financial Officer, resigned as Chief Financial Officer 1 October 2013
Mr Gibril Bangura	Non-Executive Director
Mr Jeffrey Couch	Non-Executive Director
Mr David King	Non-Executive Director, appointed 1 July 2013
Mr James Smith	Non-Executive Director
Mr Timothy Turner	Non-Executive Director
Mr Anthony Wilson	Non-Executive Director
Mr Frank Timis	Non-Executive Chairman, resigned 10 October 2013
Mr Antony Sage	Non-Executive Deputy Chairman, resigned 30 June 2013
Mr Karl Thompson	Executive Director and Chief Executive Officer, resigned 1 February 2014
Mr Alan Watling	Non-Executive Director, resigned 1 July 2013

COMPANY SECRETARY

Ms Claire Tolcon

PRINCIPAL ACTIVITY

The Company’s principal activity during the year is oil and gas exploration.

REVIEW OF OPERATIONS

Corporate

Issue of options

On 20 September 2013, 2,050,000 options exercisable at A$0.10 per option with an expiry date of 22 November 2018 were issued to employees of the Company. These options are subject to various vesting conditions.

On 21 November 2013, 1,750,000 options exercisable at A$0.10 per option with an expiry date of 22 November 2018 were issued to employees of the Company. These options are subject to various vesting conditions.

Modification and replacement of options

On 11 April 2013, 8,916,524 unlisted options exercisable at A$0.55 per option with an expiry date of 30 June 2013 were modified whereby the expiry date was extended for a further two years, to 30 June 2015.

Also on this date, 2,500,000 unlisted options with an expiry date of 30 June 2013 were modified with the expiry date being extended to 10 April 2015. Of these options, 1,000,000 are exercisable at A$1.25 per option; 500,000 exercisable at A$1.50 per option; 500,000 exercisable at A$1.75 per option and 500,000 exercisable at $2.00 per option. The options will vest on reaching the exercise price(s) for a minimum of 10 trading days in a particular month. The options that have not vested at any time shall automatically vest upon a change of control in sale of more than 50% of issued share capital (fully diluted) of the Company.

On 20 September 2013, 3,025,000 unlisted options were cancelled and replaced whereby the number of options was increased to 4,950,000 unlisted options; the exercise price of the options was reduced to A$0.10; the various expiry dates were extended to 22 November 2018 and the various vesting conditions were altered.

Forfeiture of options

During the current year, 5,618,332 unlisted options with various exercise prices of between A$0.30 and A$1.25 lapsed upon resignation of certain employees of the Company.

Directors' Report (continued)

REVIEW OF OPERATIONS CONTINUED

Board restructure

During 2013, the Company completed a board restructuring whereby Mr Charles Matthews, OBE was appointed Chairman and Director of the Board effective 10 October 2013 and Dr David King was appointed as a Non-Executive Director, effective 1 July 2013. Mr Alan Watling and Mr Antony Sage resigned from the Board on 1 July 2013 and 30 June 2013 respectively, and Mr Frank Timis resigned from the Board and his position as Non- Executive Chairman on 10 October 2013.

Mr Matthews has over 10 years of experience as a chairman and director of listed and unlisted companies having been on the board of a number of listed manufacturing and technology companies, including the FTSE 250 LSE listed company FKI Plc. Mr Matthews is currently Chairman of LSE listed Porvair Plc, a specialist filtration technologies business in the aerospace and general engineering sectors. He has previously held senior management positions at Cosworth Group, Rolls Royce and Bentley Motor Cars, and has served as a Director of the Vickers Group Executive Board. He has previously served as Chairman of AG Holdings, Creative Learning Media Limited and as Strategic Advisor to the board of "3", the 3G mobile business of Hutchison Whampoa, and as strategic advisor to NEC.

Mr Matthews holds a BSc in Geography and Oceanography from the University of Wales, as well as an MBA from Cranfield Business School and a Strategic Marketing qualification from Harvard Business School.

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: the gold exploration company Robust Resources Limited, and biotechnology research and development company, Cellmid Limited. He is also a Non-Executive Director of ASX listed Republic Gold Limited, a gold exploration and development company with assets in Mozambique, and a Director of unlisted shale oil/gas explorer Tamboran Resources. 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.

Dr King graduated from the University of East Anglia with a BSc (Hons) in Class 1 Physics/Mathematics, holds a MSc in D.I.C. Geophysics from the Imperial College, University of London and a PhD in Seismology from the Australian National University. Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining & Metallurgy and Chartered Professional (Management), a Fellow of the Australian Institute of Geoscientists, a member 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.

In addition, on 1 October 2013 Mr Mark Ashurst stepped down from his role as Chief Financial Officer and Mr Stephen West was appointed Finance Director. Mr West is not on the Company's board of Directors. Mr West is a qualified Chartered Accountant who holds a Bachelors of Commerce (Accounting and Business Law) from the Curtin University of Technology in Australia, with over 20 years of financial and corporate experience in oil and gas, mining and investment banking industries. Mr West is currently a Non-Executive Director of ASX listed Apollo Consolidated Limited and Zeta Petroleum plc and unlisted Norsve Resources plc.

Exploration Activities

The Group is an oil and gas exploration and development group currently focused on exploration offshore West Africa. Oil and gas activity in the region has grown significantly following the discovery of the Jubilee field offshore Ghana in 2007 which proved the presence of hydrocarbons in a previously under explored region.

The Group holds eight offshore exploration and production licences consisting of two licences in each of Côte d'Ivoire, Liberia, Senegal and Sierra Leone. The Group acts as operator of all its licences which cover a gross acreage of 32,020 km^2. Since acquiring its licence interests, the Group has performed an active work programme on all licences, including the acquisition of 3D seismic on a majority of its licences and the drilling of three wells on its 100 per cent owned LB-09 licence in Liberia. The Group is among the largest net acreage owners in West Africa, rivalling industry majors such as Anadarko Petroleum, Chevron Corporation and Tullow Oil. Going forward, the Group aims to continue its active operations in the area. 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	Start Current Phase	End Current Phase	Area km^2	Outstanding commitments in current phase
Liberia	LB-08	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,717	None
Liberia	LB-09	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,634	None
Côte d'Ivoire	CI-513	African Petroleum Cote d'Ivoire Limited	90%	Dec 2011	Dec 2011	Dec 2014	1,446	One exploration well
Côte d'Ivoire	CI-509	African Petroleum Cote d'Ivoire Limited	90%	Mar 2012	Mar 2012	Mar 2015	1,091	One exploration well
Senegal	Rufisque Offshore Profond	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2011	Oct 2015	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2011	Oct 2014	7,920	None
Sierra Leone	SL-03	European Hydrocarbons Limited	100%	Apr 2010	Apr 2010	Apr 2015	3,860	Further geoscience
Sierra Leone	SL-4A-10	African Petroleum Senegal Limited	100%	Sep 2012	Sep 2012	Sep 2015	1,995	One contingent exploration well

As part of the Group's business strategy it is actively exploring farm-out possibilities in the various countries of operation in order to reduce its working interest in some or all of its exploration licences. The farm-out process 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. The Group intends to fund its existing and future drilling commitments through such farm-out agreements.

The Group is actively in communication with several potential farm-in partners and will announce any material agreements to the market as they materialise.

Directors' Report (continued)

REVIEW OF OPERATIONS CONTINUED

Liberia

In Liberia, the Group is operator and holds a 100 per cent working interest in production sharing contracts over blocks LB-08 and LB-09 (the "Liberian Licences").

The Group has conducted a large work programme to date on the Liberian Licenses. In 2010, the Group completed the acquisition and processing of 5,100 km^2 of 3D seismic data over both licences. The interpretation of this data identified numerous prospects and leads in the Upper Cretaceous section. To date the Company has drilled three wells on block LB-09: Apalis-1, Narina-1 and Bee Eater-1. The Group completed reprocessing of all the 3D seismic data in September 2013 to improve image quality, and support the maturation of additional prospects and appraisal opportunities within the licences.

In September 2011, the Group completed drilling of its first exploration well, Apalis-1, on LB-09. The well encountered oil shows in several geological units including the shallower (Tertiary) and deeper (Cretaceous). Petrophysical analysis, and core samples from the well, indicated the presence of hydrocarbons and source rock intervals, confirming the critical components of a working hydrocarbon system, however no commercial quality reservoir with hydrocarbons was encountered.

The Narina-1 well was drilled on LB-09 in January 2012, targeting a major Turonian fan system. The well encountered a combined total of 31 metres of net oil pay in the primary objective Turonian and underlying Albian reservoirs with no oil water contacts observed. Oil was recovered from each of the Turonian and Albian reservoirs with gravities of 38 degrees API and 44 degrees API, respectively. Mobilities from formation pressure measurements and permeability from side-wall core measurements show the reservoirs to be of mixed quality, with the majority having relatively low permeability at this location. Pressure data from a combination of wells, indicates a projected oil water contact approximately 80 metres deeper than the lowest known oil in Narina-1.

The Group drilled its third well, Bee Eater-1, on LB-09 in January 2013. The well encountered oil bearing sandstones and hydrocarbon source rocks within the Cretaceous formation, however reservoir permeability over the hydrocarbon bearing section of the well were lower than anticipated. No oil samples or pressure information were recovered. Analysis of core samples taken from the oil bearing zone support an interpretation that poor reservoir quality was influenced by the location of the well within a bypass zone of sediment transport down a submarine canyon.

The Apalis-1 and, in particular, the Narina-1 and Bee Eater-1 wells have helped to de-risk the petroleum system for the Cretaceous play over the Liberian Licences. Work is ongoing to integrate well results into the Group's subsurface interpretation in order to mature the portfolio of exploration and appraisal opportunities. The Group is actively seeking a joint venture partner to fund the forward work programme for the Liberian Licences.

New 3D seismic is being considered for LB-09 to cover two exploration prospects (Narina West and Night Heron) near the Narina-1 well. This survey will incorporate lessons learned from seismic processing to date and will be acquired utilising state of the art technology. Detailed stratigraphic analysis and reservoir quality prediction from seismic are the ultimate goals to enable accurate well positioning and efficient development in the event of appraisal success. This high resolution new seismic dataset will assist in the rapid assessment of both of these prospects.

In LB-08, new seismic data is also being considered to cover three prospects (Lovebird, Darter and Turaco) in the southern corner of the licenced area. Encouraging amplitude support for reservoir and potentially hydrocarbons exists within the current reprocessed dataset. However, near surface effects (shallow slump zone "mass transport deposit") degrades seismic data quality. Investment in both of these 3D datasets will better delineate and further de-risk the prospects prior to drilling.

Côte d'Ivoire

In Côte d'Ivoire, the Group holds a 90 per cent working interest in offshore licences CI-509 and CI-513 (the "CI Licences"). The remaining 10 per cent carried interest is held by Petroci, the national oil company of Côte d'Ivoire. The Group was awarded CI-513 in December 2011 and CI-509 in March 2012. Block CI-509 covers 1,091 km^2 and block CI-513 covers 1,446 km^2, with a combined surface area of 2,538 km^2. Both of the CI Licences are currently in their first exploration period, which expires 19 December 2014 (CI-513) and 16 March 2015 (CI-509) respectively.

In October 2012, the Group acquired 4,200 km^2 of 3D seismic data over the CI Licences, fulfilling the seismic work commitments of the first exploration phase for both licences. Fast-track 3D seismic data was received in November 2012 while final 3D seismic processing for the entire survey was completed in June 2013. Interpretation work done to date has identified numerous significant prospects which have been subject to independent evaluation by ERC Equipoise. Subject to a successful farm-out of parts of the CI Licences interest, the Group currently plans to drill one well on CI-513 by December 2014 and CI-509 by March 2015.

Senegal
In Senegal, the Group, through its 90 per cent owned subsidiary African Petroleum Senegal, holds a 90 per cent operated working interest in exploration blocks Rufisque Offshore Profond ("ROP") and Senegal Offshore Sud Profond ("SOSP") (together the "Senegal Licences"). The Senegal Licenses are located offshore southern and central Senegal, covering a combined surface area of 18,277 km², with the remaining 10 per cent carried interest in the licenses held by Petrosen, the national oil company of Senegal. The Senegal Licences are currently in the first exploration period, which ends on 23 October 2015 for both licences.

To date, the Group has acquired 2D and 3D seismic over the licence blocks and is currently maturing prospects towards drilling.

The Group has licenced over 10,000 km² of 2D seismic data over the Senegal Licences to compile an extensive regional database. In May 2012, the Group further completed a 3,600 km² 3D seismic data acquisition over the SOSP licence block. Fast-track 3D seismic data was received in July 2012, and initial prospects and leads have been identified. The final 3D data over SOSP has been received and is currently being interpreted. In addition, 1,500 km² of 3D data over the ROP licence block is currently being reprocessed ready for final interpretation during 2014. The evaluation of the prospectivity of the Senegal Licences will be influenced by the results of exploration drilling by other operators in adjacent acreage during 2014.

Sierra Leone
In Sierra Leone, the Group holds 100 per cent operated working interest in offshore licences SL-03 and SL-4A-10 (the "Sierra Leone Licences"). The Group was awarded a 100 per cent interest in SL-03 in April 2010 which is currently in its initial exploration period, while license SL-4A-10 was awarded as part of Sierra Leone's third offshore licensing round in 2012 and is currently in the initial exploration period. The Sierra Leone Licenses cover a total area of 5,855 km² and are located to the south of Freetown, offshore Sierra Leone.

The Company has acquired 3D seismic data covering the SL-03 and 2D seismic data over the SL-4A-10 licence and is currently performing extensive geological and geophysical work on both blocks to mature drilling candidates.

On SL-03, the Group acquired an extensive 3D seismic survey covering approximately 2,500 km² in September 2011 which was completed by TGS-Nopec and a fast-track interpretation was received in January 2012. Prospects are currently being matured based on the final 3D data.

Following discussions with the Government of Sierra Leone, the Group received a two-year extension to the first exploration period for SL-03 on 23 September 2013, extending the first exploration period on the block to April 2015.

On SL-4A-10, the Group has interpreted existing 2D seismic data and has identified a number of promising prospects for verification. TGS-Nopec acquired a multi-client 3D seismic survey over parts of SL-4A-10 in October 2011, which the Group is considering to licence for further geological and geophysical work subject to a successful farm-out of parts of the Sierra Leone licences.

RESULT
African Petroleum reported a loss after income tax of US$88,229,784 for the year ended 31 December 2013 (2012: loss of US$40,431,908).

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
Corporate
Share Consolidation
Following shareholder approval at a General Meeting of Shareholders on 8 January 2014, the Company completed a share consolidation, which was effective 3 February 2014. All securities, including ordinary shares on issue and all options on issue, were consolidated on the following basis:
(a) Every three shares consolidated into one share; and
(b) Every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE CONTINUED

Appointment of New Chief Executive Officer

On 3 February 2014, the Company announced the appointment of Dr Stuart Lake as Chief Executive Officer effective 1 February 2014.

Dr Lake has over 27 years of experience in a wide variety of roles in international oil and gas companies including the Hess Corporation, four years in the Apache Corporation overseeing Global New Ventures and later Exploration/Exploitation activity in Argentina and over 19 years in Shell, where he was Vice President Exploration for Shell, Russia and held a wide variety of positions in both Exploration and Production throughout the world.

Most recently, Dr Lake spent over four years at Hess Corporation. As Vice President of Exploration, he was directly responsible for Exploration New Ventures globally, re-establishing a proactive basin master approach to Exploration New Ventures which led to significant strategic partnerships that secured Hess a competitive position enabling Hess's entry into Kurdistan and other positions in West Africa and the Gulf of Mexico. Prior to that, he was Vice President Exploration for Europe, Africa, Middle East, Russia and South America directing more than 30 discoveries in Russia and leading the highly successful exploration campaign in Ghana that resulted in seven consecutive hydrocarbon discoveries and the subsequent submission of the appraisal plans for those discoveries.

Dr Lake has demonstrated himself to be a proven oil finder, maintaining a high 85% geological success rate in all three companies, based on drilling over 300 wells in 11 countries over his 27 year career. He has a BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England supervised by Professor J. F. Dewey. Dr Lake also remains on the Advisory Board of the Energy and Geoscience Institute (E.G.I.) at the University of Utah.

Mr Karl Thompson stepped down from the role of Chief Executive Officer and resigned from the Board on 1 February 2014.

A$20 Million Share Placement

On 24 February 2014, the Company announced it had received firm commitments for a placing of 83,334,000 new fully paid ordinary shares ("Placing Shares") at A$0.24 per Share with institutional and sophisticated investors, to raise a total of A$20,000,160 before costs ("Placing").

The Placing Shares will, when issued, rank pari passu in all respects with the existing issued ordinary shares of African Petroleum. The Company intends to use the net proceeds of the Placing for maintaining its West African licences in good order and for general working capital purposes.

The Placing is taking place in two tranches. On 4 March 2014 the Company announced that it had completed the issue of the first tranche of 37,852,000 Placing shares. The second tranche of the Placing, comprising 45,482,000 Placing shares is subject to shareholder approval which is being sought at the general meeting of shareholders on 2 April 2014.

Intention to List

On 24 February 2014, the Company announced its intention to seek a potential listing on a recognised European stock exchange, in addition to seeking a listing on the ASX (Australian Stock Exchange).

Operational

Liberia

On 5 February 2014, the Company announced that European Hydrocarbons Limited, a wholly owned subsidiary of African Petroleum Corporation Limited received approval from the Board of Directors of NOCAL for a two year extension to the second exploration period for both LB-08 and LB-09 until 11 June 2016. Accordingly, the LB-08 second exploration period two well commitment has been moved to the third exploration period.

The Gambia

In 2010 African Petroleum Gambia Limited, a wholly owned subsidiary of the Company, acquired through a farm-in agreement a 60 per cent interest in Gambian Licences A1 and A4 ("Gambian Licences") from Buried Hill which retained a 40 per cent interest in the Gambian Licences. The first exploration period for the Gambian Licences expired on 31 December 2013. Despite efforts by African Petroleum Gambia in 2013 to secure an extension of the first exploration period or to defer the drilling commitment in Licence A1 to the second exploration period, the Government of the Republic of Gambia ("Gambian Government") purported to terminate the Gambian Licences by letters dated 3 January 2014. The Gambian Government also notified African Petroleum Gambia in its letters of 3 January 2014 that all other obligations due to the Gambian Government should be fulfilled as required by the Gambian Licences. African Petroleum Gambia has disputed the purported termination and is actively seeking to persuade the Gambian Government to agree a basis for the continuation of the Gambian Licences. Disputes under the Gambian Licences are subject to resolution by confidential arbitration at ICSID.

African Petroleum Gambia has received unquantified claims from Buried Hill in relation to the Gambian Government's purported termination of the Gambian Licences. Buried Hill has alleged that it has suffered loss as a result of African Petroleum Gambia's breach of the 2010 farm-in agreement. African Petroleum Gambia rejects Buried Hill's claims and if the dispute cannot be amicably resolved any remaining issues will be resolved by confidential ICC arbitration.

No other event has arisen between 31 December 2013 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

INFORMATION ON DIRECTORS

Charles Matthews	**Chairman**, appointed 10 October 2013
Qualifications	Mr Matthews holds a BSc in Geography and Oceanography from the University of Wales, as well as an MBA from Cranfield Business School and a Strategic Marketing qualification from Harvard Business School.
Experience	Mr Matthews has over 10 years' experience in chairman and director positions, having been on the board of a number of listed manufacturing and technology companies, including FTSE 250 LSE listed company FKI Plc. He has previously held senior management positions at Cosworth Group, Rolls Royce and Bentley Motor Cars, and has served as a Member of the Vickers Group Executive Board. He is currently Chairman of LSE listed Porvair Plc, a specialist filtration technologies business in the aerospace and general engineering sectors.
Interest in Shares and Options	As at 31 December 2013, Mr Matthews does not hold any shares or options.
Dr Stuart Lake	**Executive Director and Chief Executive Officer**, appointed 1 February 2014
Qualifications	Dr Lake holds a BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England supervised by Professor J F Dewey. Dr Lake also remains on the Advisory Board of the Energy and Geoscience Institute (E.G.I) at the University of Utah.
Experience	Dr Lake has over 27 years of experience in a wide variety of roles in international oil and gas companies including the Hess Corporation, four years in the Apache Corporation overseeing Global New Ventures and later Exploration/Exploitation activity in Argentina and over 19 years in Shell, where he was Vice President Exploration for Shell, Russia and held a wide variety of positions in both Exploration and Production throughout the world.
Interest in Shares and Options	On appointment, Dr Lake does not hold any shares or options.

Directors' Report (continued)

INFORMATION ON DIRECTORS CONTINUED

Mark Ashurst	**Executive Director**, resigned as Chief Financial Officer on 1 October 2013
Qualifications	BA (Hons) Law; Barrister; Fellow of the Institute of Chartered Accountants in England and Wales
Experience	Mr Ashurst graduated from Sheffield University with a degree in law and is a qualified Barrister and Chartered Accountant. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr Ashurst has been employed as a senior investment banker with a broad range of corporate finance and broking skills gained from over 20 years in the City of London. Institutions Mr Ashurst has worked for include BZW, Hoare Govett and Canaccord Adams. He has advised both UK and overseas listed companies and has significant expertise in Initial Public Offerings, fund raising and mergers and acquisitions.
Interest in Shares and Options	Mr Ashurst holds 2,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Gibril Bangura	**Non-Executive Director**
Qualifications	Arts and Business Management, Junior College Atlanta
Experience	Mr Bangura is an Executive Director of African Minerals Limited and the General Manager of all of African Mineral Limited's Sierra Leone subsidiaries. He is the former Financial Controller of Regent Star International, and Deputy General Manager and Director of Bond Tak Mining Company.
Interest in Shares and Options	Mr Bangura holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Jeffrey Couch	**Non-Executive Director**
Qualifications	Bachelor of Law
Experience	Mr Jeffrey Couch is Managing Director and Head of Investment and Corporate Banking Europe for BMO Capital Markets, a leading North American financial services provider. Previously, he was Head of Business Development and M&A at Eurasian Natural Resources Corporation PLC. Mr Couch is a qualified Canadian lawyer, and attended the University of Western Ontario Business School and Osgoode Hall Law School in Canada. He has over 15 years of investment banking and capital markets experience having worked for Kleinwort Benson, Citigroup (Salomon Brothers) and Credit Suisse. He has extensive experience in the natural resources sector having advised and raised capital for clients globally, with a particular focus in emerging markets and Africa.
Interest in Shares and Options	Mr Couch has an interest in 443,700 fully paid ordinary shares. Mr Couch also holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
David King	**Non-Executive Director**, appointed 1 July 2013
Qualifications	MSc in Geophysics from Imperial Collage, London, PhD in Seismology from the Australian National University, Canberra
Experience	Dr David 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. Dr King is currently non-executive Chairman of two ASX listed companies; gold exploration company Robust Resources Limited, and biotechnology research and development company, Cellmid Limited. He is also a non-executive director of ASX listed Republic Gold Limited, a gold exploration and development company with assets in Mozambique, and a Director of unlisted Shale Oil/Gas explorer Tamboran Resources. 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.

James Smith	Non-Executive Director
Qualifications	MSc in Petroleum Geology (Geophysics option), BSc (Hons) in Geological Geophysics, Fellow of Geological Society
Experience	Mr James Smith is a senior oil and gas executive with a strong earth science background. Mr Smith has over 20 years of experience in the oil and gas industry, predominantly in Africa and Middle East exploration. He is currently Vice President Exploration of Orca Exploration Inc., an international oil and gas company listed on the TSX venture exchange. He previously served as New Venture and Project Leader for Chevron Corporation in Africa and the Middle East and more recently was Vice President Exploration of Pan-Ocean Energy Corporation Limited. At Pan-Ocean, he was instrumental in the rapid development of the company's portfolio of onshore and offshore oil assets in Gabon that were sold in 2006. He was a Non-Executive Director of Canoro Resources until 2 July 2010.
Interest in Shares and Options	Mr Smith holds 1,000,000 options with an exercise price of A$0.55 and 250,000 options with an exercise price of A$1.00. All options have an expiry date of 31 July 2017.

Timothy Turner	Non-Executive Director
Qualifications	B.Bus, FCPA, FTIA, Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia
Experience	Mr Turner is senior partner with accounting firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner also has in excess of 21 years' experience in new ventures, capital raisings and general business consultancy. Mr Turner is also a Non-Executive Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	Mr Turner has an interest in 125,000 fully paid ordinary shares at the date of this report. Mr Turner holds 500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

Anthony Wilson	Non-Executive Director
Qualifications	Fellow of the Institute of Chartered Accountants in England and Wales, and Fellow of the Chartered Institute for Securities and Investment
Experience	Mr Wilson has had a long career in a number of senior financial positions. Having qualified as a Chartered Accountant, Mr Wilson initially became a partner in general practice before moving into the investment banking sector initially with Wedd Durlacher Mordaunt & Co, the stockjobber, and then with BZW, the investment banking division of Barclays. Mr Wilson was Finance Director for BZW Securities and BZW Asset Management over a period of 10 years. Following BZW, Mr Wilson held various senior management roles as a director for DAKS Simpson Group plc and Panceltica Holdings plc. Mr Wilson is currently a Director of LondonPharma Ltd.
Interest in Shares and Options	Mr Wilson holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

Frank Timis	**Non-Executive Chairman**, resigned 10 October 2013
Experience	Mr Timis is a successful resource entrepreneur. He has interests in numerous resource companies listed in London and Australia and in assets worldwide. Mr Timis has raised over US$4 billion on the financial markets worldwide and is Chairman of African Minerals Limited, an AIM listed mineral exploration company with significant interests in Sierra Leone. Mr Timis is also a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	At the date of resignation, Mr Timis had an interest in 630,816,987 fully paid ordinary shares.

Directors' Report (continued)

INFORMATION ON DIRECTORS CONTINUED

Antony Sage	**Non-Executive Deputy Chairman**, resigned 30 June 2013
Qualifications	B.Com, FCPA, CA, FTIA
Experience	Mr Sage has in excess of 24 years' experience in the fields of corporate advisory services, funds management and capital raising. Mr Sage is based in Western Australia and has been involved in the management and financing of listed mining companies for the last 16 years. Mr Sage is also Executive Chairman of ASX listed entities Cape Lambert Resources Limited and Cauldron Energy Limited and is Non-Executive Chairman of ASX listed International Goldfields Limited, FE Limited, Kupang Resources Limited, Global Strategic Metals NL, Matrix Metals Limited and NSX listed International Petroleum Limited.
Interest in Shares and Options	As at 30 June 2013, when Mr Sage resigned as Non-Executive Chairman he had an interest in 10,509,325 fully paid ordinary shares and 2,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Karl Thompson	**Executive Director and Chief Executive Officer,** resigned 1 February 2014
Qualifications	BSC Geology, MSC Geophysics
Experience	Mr Thompson is an accomplished petroleum explorationist with 28 years of technical, operational and managerial experience in the exploration and development of hydrocarbons with major multinational and independent energy companies. He has established a track record as a successful oil finder and commercial acquisitions of new venture oil and gas assets as well as corporate takeovers. He spent 18 years with Chevron Corporation where he was Exploration and Production Director as well as Strategic Planning Manager involved in a number of successful oil discoveries and developments as well as new venture acquisitions. Following a successful career with Chevron he started his petroleum consultancy working with companies in West Africa assisting with further hydrocarbon discoveries and new venture acquisitions. He has extensive experience in Europe, Africa and the Middle East working with major multinational companies and new start up AIM exploration companies as well National Oil companies.
Interest in Shares and Options	Mr Thompson holds 3,275,000 fully paid ordinary shares as at the date of resignation. Mr Thompson also holds 3,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Alan Watling	**Non-Executive Director**, resigned 1 July 2013
Experience	Mr Watling has nearly 30 years of experience in the iron ore industry and has held senior positions in multinational companies with focuses on heavy haul rail, port and mine operations, including Rio Tinto, Fortescue Metals and African Minerals Limited.
Interest in Shares and Options	Upon resignation Mr Watling held 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

COMPANY SECRETARY

Claire Tolcon has over 16 years' experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company and has a Bachelor of Law and Bachelor of Commerce (Accounting) degree and has completed a Graduate Diploma of Applied Finance with FINSIA and a Graduate Diploma of Corporate Governance with Chartered Secretaries of Australia Ltd.

REMUNERATION REPORT (AUDITED)

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

Details of Directors and key management personnel

(i) Directors

Mark Ashurst	Executive Director and Chief Financial Officer, resigned as Chief Financial Officer 1 October 2013
Gibril Bangura	Non-Executive Director
Jeffrey Couch	Non-Executive Director
David King	Non-Executive Director, appointed 1 July 2013
Charles Matthews	Chairman, appointed 10 October 2013
Antony Sage	Non-Executive Deputy Chairman, resigned 30 June 2013
James Smith	Non-Executive Director
Karl Thompson	Executive Director and Chief Executive Officer, resigned 1 February 2014
Frank Timis	Non-Executive Chairman, resigned 10 October 2013
Timothy Turner	Non-Executive Director
Alan Watling	Non-Executive Director, resigned 1 July 2013
Anthony Wilson	Non-Executive Director

(ii) Other Key Management Personnel

Michael Barrett	Director of Business Development
Phil Church	Director of Drilling, resigned 30 April 2013
Jens Pace	Chief Operating Officer
Pierre Raillard	General Manager – West Africa, resigned 31 December 2013
Adrian Robinson	Director of Exploration, resigned 1 May 2013
Claire Tolcon	Company Secretary
Stephen West	Finance Director, appointed 1 October 2013

Other than the resignation of Mr Thompson and appointment of Dr Lake as Executive Director and Chief Executive Officer of the Company on 1 February 2014, there were no other changes to key management personnel after the reporting date and before the date of the financial report was authorised for issue.

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

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

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

All remuneration paid to Directors is valued at the cost to the Company. Options are valued using the Black-Scholes methodology. Performance shares are valued using the share price on grant date.

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board as a whole determine payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of cash fees that can be paid to Non-Executive Directors is US$798,543 (A$900,000) or such other amount approved by shareholders. Fees for Non-Executive Directors are not performance related.

The Board exercises its discretion in determining remuneration linked to performance of key management personnel. Issues of options and performance shares to key management personnel contain vesting conditions, as deemed appropriate. Given the early stage of the Company's key exploration projects, these vesting conditions are related principally to the expansion of the Company's exploration asset portfolio and the commercial discovery of hydrocarbons. At times, options are awarded with no performance conditions attached, instead vesting on certain service period milestones being reached, in order to retain talented executives. Bonuses are awarded, subject to the approval of the Remuneration Committee, based on assessment of performance and other discretionary factors.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

Company performance and shareholder wealth

Below is a table summarising key performance and shareholder wealth statistics for the Company over the last five financial periods.

Financial period	Consolidated loss after tax US$	Loss per share pre share consolidation US$	Loss per share post share consolidation[2] US$
6 months ended 30 June 20101	(23,076,789)	(2.95) cents	(8,85) cents
6 months ended 31 December 2010	(14,524,092)	(1.08) cents	(3.24) cents
31 December 2011	(19,019,539)	(1.26) cents	(3.78) cents
31 December 2012	(40,431,908)	(2.43) cents	(7.29) cents
31 December 2013	(88,229,784)	(5.20) cents	(15.59) cents

1 On 28 June 2010, African Petroleum Corporation Limited completed the acquisition of 100% of Cayman Islands incorporated African Petroleum Corporation Limited ("APCL"). In accordance with AASB 3 "Business Combinations", APCL was deemed to be the accounting acquirer in the business combination. Consequently, the transaction was accounted for as a reverse acquisition. On 29 January 2010, European Hydrocarbons Limited ("EHL") became a legal subsidiary of APCL. This business combination was also accounted for as a reverse acquisition. Consequently, EHL was regarded as the accounting acquirer. Accordingly, the consolidated financial statements for the period ended 30 June 2010 were prepared as a continuation of the business and operations of EHL. The results for the year ended 30 June 2009 are for African Petroleum Corporation Limited prior to the reverse acquisition in 2010.

2 Following shareholder approval at a General Meeting of Shareholders on 8 January 2014, the Company completed a share consolidation, which was effective 3 February 2014. All securities, including ordinary shares on issue and all options on issue, were consolidated on the following basis:
(a) every three shares consolidated into one share; and
(b) every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.
The loss per share post consolidation above, has been calculated based on the weighted average number of ordinary shares outstanding during the period of 565,144,637 ordinary shares.

Director and key management remuneration for the years ended 31 December 2013 and 31 December 2012

2013	Short-Term Benefits: Salary and fees	Short-Term Benefits: Other cash benefits[2]	Short-Term Benefits: Cash bonus[3]	Post Employment Benefits[1] US$	Share-based payments: Shares[4]	Share-based payments: Other[5]	Share-based payments: Cash bonus[3]	Total US$	Performance Related
Directors									
M Ashurst[6]	518,023	27,017	–	76,333	–	–	–	**621,373**	–
G Bangura	46,323	–	–	–	–	–	–	**46,323**	–
J Couch	46,323	–	–	–	–	–	–	**46,323**	–
D King[7]	31,365	–	–	–	–	–	–	**31,365**	–
C Matthews[8]	48,320	–	–	–	–	–	–	**48,320**	–
A Sage[9]	72,380	–	–	–	–	–	–	**72,380**	–
J Smith	171,112[10]	–	–	–	–	–	–	**171,112**	–
K Thompson	814,035	1,216,476	–	81,043	(326,036)[11]	–	886,210	**2,671,728**	–
F Timis[12]	120,633	126,282	–	–	–	–	–	**246,915**	–
T Turner	46,323	–	–	–	–	–	–	**46,323**	–
A Watling[13]	23,162	–	–	–	–	–	–	**23,162**	–
A Wilson	46,323	–	–	–	–	–	–	**46,323**	–
	1,984,322	**1,369,775**	**–**	**157,376**	**(326,036)**	**–**	**886,210**	**4,071,647**	
Key management									
M Barrett	367,316	50,085	–	58,490	–	223,114	–	**699,005**	32
P Church[14]	198,931	144	–	19,596	–	(290,263)	–	**(71,592)**	–
J Pace	518,023	15,575	–	51,573	209,689	1,822,650	604,927	**3,222,437**	63
P Raillard[15]	321,424	38,997	–	32,651	–	(141,442)	–	**251,630**	–
A Robinson[16]	150,816	79,940	–	18,757	–	(211,925)	–	**37,588**	–
C Tolcon	92,820	–	–	–	–	4,220	–	**97,040**	–
S West[17]	97,258	1,227	–	9,768	–	25,794	–	**134,047**	–
Total	**3,730,910**	**1,555,743**	**–**	**348,211**	**(116,347)**	**1,432,148**	**1,491,137**	**8,441,802**	

For executives who were appointed or resigned during the year, the remuneration reflected above is that from date of appointment or to date of resignation.

Notes
1 Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2 Other cash benefits relate to rental assistance, health insurance benefits and termination payouts.
3 Cash bonuses include sign on bonuses, discretionary bonuses awarded based on assessment of performance.
4 Share-based payments represent the value of options and performance shares that have been recognised during the current year.
5 Relates to non-recourse loans of US$1,118,618 to Mr Thompson granted in two instalments (6 September 2012 and 30 January 2013) and US$675,891 to Mr Pace granted on 9 October 2013, accounted for as a share-based payment. See Note 8 to the Financial Statements.
6 Mr Ashurst resigned as Chief Financial Officer on 1 October 2013.
7 Mr King was appointed as a Non-Executive Director on 1 July 2013.
8 Mr Matthews was appointed Chairman on 10 October 2013.
9 Mr Sage resigned as Non-Executive Chairman on 30 June 2013. Mr Sage's fees include US$24,127 (A$25,000) as payment for consultancy services provided by Mr Sage to the Company.
10 Includes US$46,323 (A$48,000) Non-Executive Director fees and US$124,789 (£80,084) as payment for consulting services provided by Mr Smith to the Company.
11 Relates to the re-estimate of the vesting date on Mr Thompson's performance shares.
12 Mr Timis resigned as Non-Executive Chairman on 10 October 2013.
13 Mr Watling has resigned as Non-Executive Director on 1 July 2013.
14 Mr Church resigned as Director of Exploration on 30 April 2013. All unvested options held by Mr Church were recognised as a reversal of share-based payments through Employee Remuneration within the Statement of Comprehensive Income.
15 Mr Raillard resigned as General Manager – West Africa on 31 December 2013. All unvested options held by Mr Raillard were recognised as a reversal of share-based payments through Employee Remuneration within the Statement of Comprehensive Income. A termination payment of £20,100 (US$32,861) was paid to Mr Raillard on resignation.
16 Mr Robinson resigned as Director of Exploration on 1 May 2013. All unvested options held by Mr Robinson were recognised as a reversal of share-based payments through Employee Remuneration within the Statement of Comprehensive Income. A termination payment of £30,000 (US$46,521) was paid to Mr Robinson on resignation.
17 Mr West was appointed Finance Director on 1 October 2013.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

***Director and key management remuneration for the years ended 31 December 2013 and 31 December 2012** continued*

	Short-Term Benefits				Share-based payments[2]			
2012	Salary and fees US$	Other cash benefits[2] US$	Cash bonus[3] US$	Post Employment Benefits[1] US$	Shares[4] US$	Options US$	Total US$	Performance Related %
Directors								
M Ashurst	356,702	42,987	–	35,670	–	656,664	**1,092,023**	–
G Bangura	49,700	–	–	–	–	262,666	**312,366**	–
J Couch	49,700	–	–	–	–	262,666	**312,366**	–
A Sage	103,541	–	–	–	–	525,331	**628,872**	–
J Smith	263,768[7]	–	–	–	–	574,306	**838,074**	–
F Timis	155,309	153,793	–	–	–	–	**309,102**	–
K Thompson	792,670	139,824	–	79,267	421,925	919,329	**2,353,015**	18
T Turner	49,700	–	–	–	–	131,333	**181,033**	–
A Watling[5]	49,700	–	–	–	–	262,666	**312,366**	–
A Wilson	49,700	–	–	–	–	262,666	**312,366**	–
	1,920,490	**336,604**	**–**	**114,937**	**421,925**	**3,857,627**	**6,651,583**	
Key management								
M Barrett	269,631	1,529	198,130	26,963	–	596,801	**1,093,054**	40
P Church	285,361	–	399,744	28,536	–	154,219	**867,860**	54
J Pace[6]	140,727	2,464	–	14,073	2,052,589	997,365	**3,207,218**	51
P Raillard	289,920	4,520	78,265	28,992	–	280,137	**681,834**	40
A Robinson	279,732	11,405	39,974	27,973	–	106,097	**465,181**	21
C Tolcon	109,709	–	15,533	–	–	12,425	**137,667**	20
Total	**3,295,570**	**356,522**	**731,646**	**241,474**	**2,474,514**	**6,004,671**	**13,104,397**	

For executives who were appointed or resigned during the year, the remuneration reflected above is that from date of appointment or to date of resignation.

Notes

1. Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2. Share-based payments represent the value of options and performance shares that have been recognised during the current year.
3. Other cash benefits relate to rental assistance and health insurance benefits.
4. Cash bonuses include sign on bonuses and discretionary bonuses awarded based on assessment of performance.
5. Mr Watling elected for his fees to be paid to a charity of his choice.
6. Mr Pace was appointed Chief Operating Officer on 1 October 2012.
7. Includes US$49,700 (A$48,000) Non-Executive Director fees and US$214,068 (£134,639) as payment for consulting services provided by Mr Smith to the Company.

Additional disclosures relating to options

Options awarded, vested and lapsed during the year

The table below discloses the number of share options granted to Directors and key management personnel as remuneration during the current year as well as the number of options that vested or lapsed during the year.

Share options do not carry any voting or dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

2013	Year	Options awarded during the year No.	Award date	Fair value per option at award date A$	Vesting date	Exercise price A$	Expiry date	Vested during the current year No.	Forfeited during the current year No.	Lapsed during the current year No.
Key management personnel										
M Barrett	2013	583,333	20 Sep 2013	0.13[1]	1 Jan 2014	0.102	20 Sep 2018	–	–	–
	2013	583,333	20 Sep 2013	0.13[1]	1 Jan 2015	0.102	20 Sep 2018	–	–	–
	2013	583,334	20 Sep 2013	0.13[1]	31 Mar 2014*	0.102	20 Sep 2018	–	–	–
	2011	1,000,000	12 Aug 2011	0.26[3]	8 Apr 2013	0.304	17 Jan 2017	666,667	–	–
	2011	350,000	20 Dec 2011	0.26[3]	8 Apr 2013	0.304	17 Jan 2017	350,000	–	–
P Church[9]	2011	350,000	20 Dec 2011	0.26[3]	**	0.304	17 Jan 2017	–	350,000	–
	2011	1,000,000	23 Jun 2011	0.26[3]	2011 & 2012	0.304	17 Jan 2017	–	416,667	–
J Pace[10]	2012	2,500,000	1 Oct 2012	1.10[5]	14 Feb 2013	1.006	17 Jan 2017	500,000	–	–
P Raillard[11]	2011	1,350,000	22 Nov 2011	0.31[7]	16 Jan & 14 Feb 2013	0.304	17 Jan 2017	375,000	975,000	–
A Robinson[12]	2011	350,000	20 Dec 2011	0.26[3]	**	0.304	17 Jan 2017	–	350,000	–
	2010	1,000,000	1 Dec 2010	0.26[3]	2011 – 2013	0.304	17 Jan 2017	83,333	250,000	–
S West[13]	2013	583,334	1 Oct 2013	0.10[8]	1 Oct 2014	0.102	21 Nov 2018	–	–	–
	2013	583,333	1 Oct 2013	0.10[8]	1 Oct 2015	0.102	21 Nov 2018	–	–	–
	2013	583,333	1 Oct 2013	0.10[8]	1 Oct 2016	0.102	21 Nov 2018	–	–	–

Value of options awarded, exercised and lapsed during the year

2013	Value of options granted during the year US$	Value of options exercised during the year US$	Value of options forfeited during the year US$	Value of options forfeited during the year US$	Remuneration consisting of share options for the year %
Key management personnel					
M Barrett	230,906	–	–	–	32
P Church[9]	–	–	371,603	–	–
J Pace	–	–	–	–	57
P Raillard[11]	–	–	295,649	–	–
A Robinson[12]	–	–	263,231	–	–
C Tolcon	–	–	–	–	4
S West[13]	170,092	–		–	19

Notes

* Estimated date vesting condition will occur.

** All unvested options lapse on date of resignation of holder.

1 The equivalent US$ fair value per option at award date is equal to US$0.13

2 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.09

3 The equivalent US$ fair value price per option at award date is equal to US$0.26

4 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.27

5 The equivalent US$ fair value per option at award date is equal to US$1.12

6 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.89

7 The equivalent US$ fair value per option at award date is equal to US$0.31

8 The equivalent US$ fair value per option at award date is equal to US$0.10

9 Mr Church resigned on 30 April 2013.

10 During 2012, Mr Jens was issued 2,500,000 options which were subject to vesting conditions. 500,000 options vested during the current year, and the remaining 2,000,000 options were cancelled and replaced with 1,750,000 options. Refer to the table below for details of options cancelled and replaced for Directors and key management personnel.

11 Mr Raillard resigned on 31 December 2013.

12 Mr Robinson resigned on 1 May 2013.

13 Mr West was appointed Finance Director on 1 October 2013.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

Number and value of options cancelled and replaced during the year

On 20 September 2013, 3,025,000 employee options were cancelled and replaced whereby the number of options was increased to 4,950,000 options, the exercise price of the options was reduced to A$0.10, the expiry dates were extended to 22 November 2018, and the various vesting conditions were altered. The fair value of the unvested 3,025,000 original options has been fully recognised on replacement date. The fair value of the 4,950,000 replacement options awarded has also been recognised, taking into consideration the estimated vesting date of the revised milestones. Of the 3,025,000 employee held options that were replaced during the current year, the following were held by Directors and key management personnel:

2013	Original options prior to cancellation No.	Replacement options No.	Grant date	Fair value of replacement options A$	Original expiry date	Revised expiry date	Total fair value of replacement options recognised in the current year US$
Key management							
J Pace	2,000,000	1,750,000	20 Sep 2013	0.131	8 Jan 2018	20 Sep 2018	124,029

Notes
1 The equivalent US$ fair value is equal to US$0.13

The share price on the replacement date (20 September 2013) was A$0.15 (US$0.14).

There were no other alterations to the terms and conditions of options awarded as remuneration to Directors and key management personnel since their award date, during the current year, other than disclosed in the table above.

For details on the valuation of options, including models and assumptions used, please refer to Note 18.

Loans to directors and key management personnel and their related parties

(i) Details of aggregate of loans to directors and key management personnel and their related parties:

2013	Balance as at beginning of year US$	Additional loan made during the year US$	Interest charged US$	Interest not charged US$	Balance as at end of year US$
Directors					
K Thompson	853,215	200,658	40,916	–	1,118,618
Key management personnel					
J Pace	636,249	–	25,123	–	675,891

(ii) Terms and conditions of loans to directors and key management personnel and their related parties:

Directors and key management personnel are charged interest at the concessional rate of 4% per annum, accrued monthly. The average official rate of interest from HM Revenue & Customs in the UK during the year was 4%.

During the prior year, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$200,658 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$40,916 (£26,139) of interest recognised during the current year (2012: US$11,221 (£6,946)). The Loan Agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share-based payment and an amount of US$886,210 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

During the prior year, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$25,123 (£16,047) of interest recognised during the current year (2012: US$5,752 (£3,561)).

The loan agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share based payment and an amount of US$604,927 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

Service Agreements

Mr Mark Ashurst – Executive Director and Chief Financial Officer (resigned as Chief Financial Officer 1 October 2013)

Mr Ashurst's role as Executive Director and Chief Financial Officer is governed by a contract between the Company and Mr Ashurst. The agreement stipulates the following terms and conditions:

(a) Rate: Mr Ashurst's fee of £350,000 per annum was reduced to £280,000 on 1 October 2013. Mr Ashurst's fee is subject to annual review by the board and is settled in Great British pounds with the US$ equivalent for 2013 equal to US$518,023.
(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Ashurst meeting annual targets set at the commencement of each year. No bonus was awarded to Mr Ashurst during the current year (2012: nil).
(c) Options: the Company did not award Mr Ashurst any options during the current year (2012: nil). Currently Mr Ashurst holds 2,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
(d) Termination: if either party wish to terminate the employment, it should give to the other six months notice in writing.

Mr Gibril Bangura – Non-Executive Director

Mr Bangura's role as Non-Executive Director is governed by an agreement between the Company and Mr Bangura. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Bangura and reviewed annually by the Board. Mr Bangura's fee is settled in US$, with US$46,323 paid to him during the year. In addition, Mr Bangura is to be reimbursed for all reasonable expenses incurred in the performance of his duties.
(b) Options: the Company did not award Mr Bangura any options during the current year (2012: nil). Currently, Mr Bangura holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017.
(c) Termination: this agreement will cease in the event that Mr Bangura gives notice to the board of his resignation as a Director, he resigns by rotation and is not re-elected as a Director by the shareholders of the Company.

Mr Jeffrey Couch – Non-Executive Director

Mr Couch's role as Non-Executive Director is governed by an agreement between the Company and Mr Couch. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Couch and reviewed annually by the Board. Mr Couch's fee is settled in US$, with US$46,323 paid to him during the year. In addition, Mr Couch is to be reimbursed for all reasonable expenses incurred in the performance of his duties.
(b) Options: the Company did not award Mr Couch any options during the current year (2012: nil). Mr Couch currently holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017.
(c) Termination: this agreement will cease in the event that Mr Couch gives notice to the board of his resignation as a Director, he resigns by rotation and is not re-elected as a Director by the shareholders of the Company.

Dr David King – Non-Executive Director, appointed 1 July 2013

Dr King's role as Non-Executive Director is governed by an agreement between the Company and Dr King. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$65,000 per annum is payable to Dr King and reviewed annually by the Board. Dr King's fee is settled in Great British Pounds with the US$ equivalent for 2013 equal to US$31,365. In addition, Dr King is to be reimbursed for all reasonable expenses incurred in the performance of his duties.
(b) Options: the Company did not award Dr King any options during the current year.
(c) Termination: this agreement will cease in the event that Dr King gives notice to the board of his resignation as a Director, he resigns by rotation and is not re-elected as a Director by the shareholders of the Company.

Directors’ Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

Service Agreements continued

Mr Charles Matthews – Chairman, appointed 10 October 2013

Mr Matthew’s role as Chairman is governed by a contract between the Company and Mr Matthews. The agreement stipulates the following terms and conditions:

(a) Rate: on appointment Mr Matthews was paid a fee of £100,000 per annum, and on 1 November 2013 it was increased to £120,000 per annum. Mr Matthews annual fee is reviewed annually by the Board and is settled in Great British Pounds, with the US$ equivalent for 2013 equal to US$48,320. In addition, Mr Matthews is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

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

(c) Options: the Company did not award Mr Matthews any options during the current year. Mr Matthews does not currently hold any options. Mr Matthews will be issued 1,000,000 options, which shall be exercisable at the issue price on listing on the Australian Stock Exchange, upon listing. These options shall expire five years from the date of issue, and are subject to shareholder approval at the Company’s annual general meeting or other general meeting.

Mr Antony Sage – Non-Executive Deputy Chairman (resigned 30 June 2013)

Mr Sage’s role as Non-Executive Deputy Chairman is governed by a contract between the Company and Mr Sage. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$100,000 per annum to be payable to Okewood Pty Ltd and reviewed bi-annually by the Board. Mr Sage’s fee is settled in Australian dollars, with the US$ equivalent for 2013 equal to US$48,253. In addition, an amount of A$25,000 (US$24,127) was paid to Mr Sage for consultancy services provided to the Company for the current year (2012: nil).
In addition, Mr Sage is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Termination: this agreement may be terminated by the Company in a number of circumstances including:
 (i) failure to comply with lawful directions given by the Company through the Board;
 (ii) failure to produce the services to a satisfactory standard which continues unremedied for 10 business days after written notice of failure has been given;
 (iii) a serious or consistent breach of any of the provisions of the consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 days; and
 (iv) Mr Sage being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

(c) Options: the Company did not award Mr Sage any options during the current year (2012: nil). Upon resignation, Mr Sage held 2,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

Mr James Smith – Non-Executive Director

Mr Smith’s role as Non-Executive Director is governed by an agreement between the Company and Mr Smith. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Smith and reviewed annually by the Board. Mr Smith’s fee is settled in US$, with US$46,323 paid to him during the year. In addition, Mr Smith is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company awarded Mr Smith 250,000 options during the prior year. These options have an exercise price of A$1.00 and an expiry date of 31 July 2017. Mr Smith also holds a further 1,000,000 options. These options have an exercise price of A$0.55 and an expiry date of 31 July 2017.

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

(d) An amount of £80,084 (US$124,789) was paid to Mr Smith for consultancy services provided to the Company for the current year (2012: £134,639 (US$214,068).

Mr Karl Thompson – Executive Director and Chief Executive Officer (resigned 1 February 2014)

Mr Thompson's role as Executive Director and Chief Executive Officer is governed by a contract between the Company and Mr Thompson. The agreement stipulates the following terms and conditions:

(a) Rate: Mr Thompson's fee of £550,000 per annum was reduced to £440,000 per annum on 1 October 2013. Mr Thompson's fee is subject to annual review by the board. Mr Thompson's fee is settled in Great British pounds with the US$ equivalent for 2013 equal to US$814,035.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Thompson meeting annual targets set at the commencement of each year. No bonus was awarded to Mr Thompson during the current year (2012: nil).

(c) Options: the Company did not award Mr Thompson any options during the current year (2012: nil). Mr Thompson holds 3,500,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017.

(d) Shares: 3,275,000 fully paid shares will be issued to Mr Thompson upon the Company securing a commercial discovery. As at 31 December 2013, this performance milestone has not yet occurred. A value of US$326,036 has been reversed in the current year in relation to these performance shares, as a result of the expected vesting date being re estimated as at year end (2012: US$421,925 expense recognised). These options are forfeited on Mr Thompson's resignation on 1 February 2014. Mr Thompson holds a further 3,275,000 fully paid shares.

(e) Termination: if either party wish to terminate the employment, it should give to the other six months notice in writing.

Mr Frank Timis – Non-Executive Chairman (resigned 10 October 2013)

Mr Timis' role as Non-Executive Chairman was governed by a contract between the Company and Mr Timis. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$150,000 per annum to be payable to Mr Timis and reviewed annually by the Board. Mr Timis' fee is settled in Great British pounds, with the US$ equivalent for 2013 equal to US$120,633. In addition, Mr Timis is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

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

(c) Options: the Company did not award Mr Timis any options during the current year (2012: nil). Upon resignation, Mr Timis did not hold any options.

Mr Timothy Turner – Non-Executive Director

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

(a) Rate: a fee of A$48,000 per annum is payable to CRMS and reviewed bi-annually by the Board. Mr Turner's fee is settled in Australian Dollars, with the US$ equivalent for 2013 equal to US$46,323. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Termination: this agreement may be terminated by the Company in a number of circumstances including:
   (i) failure to comply with lawful directions given by the Company through the Board;
   (ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;
   (iii) a serious or persistent breach of any of the provisions of the Non-Executive Director consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 days; and
   (iv) Mr Turner being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

(c) Options: the Company did not award Mr Turner any options during the current year (2012: nil). Mr Turner holds 500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

Mr Anthony Wilson – Non-Executive Director

Mr Wilson's role as Non-Executive Director is governed by an agreement between the Company and Mr Wilson. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Wilson and reviewed annually by the Board. Mr Wilson's fee is settled in US$ and US$46,323 was paid to him during the year. In addition, Mr Wilson is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award any options to Mr Wilson in the current year (2012: nil). Mr Wilson holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017.

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

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

Service Agreements continued

Mr Alan Watling – Non-Executive Director (resigned 1 July 2013)

Mr Watling's role as Non-Executive Director is governed by an agreement between the Company and Mr Watling. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Watling and reviewed annually by the Board. Mr Watling's fee is settled in Australian Dollars, with the US$ equivalent for 2013 equal to US$23,162. Mr Watling has elected for his annual fee to be paid to a charity of his choice. In addition, Mr Watling is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award Mr Watling any options during the current year (2012: nil). Upon resignation, Mr Watling held 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017.

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

Michael Barrett – Exploration Director

Mr Barrett's role as Exploration Director is governed by an agreement between the Company and Mr Barrett. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £225,000 per annum was payable to Mr Barrett up until 8 April 2013, whereby it was increased to £275,000 until 1 October 2013 and then reduced to £220,000. Mr Barrett's fee is reviewed annually by the Board and is settled in Great British pounds, with the US$ equivalent for 2013 equal to US$367,316.

(b) Options: the Company awarded 1,750,000 options to Mr Barrett during the current year. The options have an exercise price of A$0.10 and an expiry date of 22 November 2018. The options are subject to the following vesting conditions:
   (i) 583,333 options will be exercisable on 1 January 2014;
   (ii) 583,334 options will be exercisable on 1 January 2015; and
   (iii) 583,334 options will be exercisable on the completion of a farm-in or joint venture contract.

   The company issued 375,000 options to Mr Barrett during the prior year which vested on issue, and a further 1,350,000 during 2011 which were subject to various vesting conditions. On 8 April 2013 all unvested options (1,016,667 options) were deemed vested upon Mr Barrett's promotion to Exploration Director.

(c) A discretionary bonus of up to £180,000 (US$296,784) can be paid to Mr Barrett. A further bonus of £110,000 can be paid to Mr Barrett upon the completion of a farm in or joint venture contract, as determined by the Board's Remuneration Committee. During the current year no bonus was paid to Mr Barrett. During the prior year, £125,000 (US$198,130) bonus was paid to Mr Barrett following successful drilling of the Narina-1 well.

(d) Termination: this agreement will cease in the event that either party gives to the other three months notice of termination.

Phil Church – Director of Drilling (resigned 30 April 2013)

Mr Church's role as Director of Drilling is governed by an agreement between the Company and Mr Church. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £220,000 per annum is payable to Mr Church and reviewed annually by the Board. Mr Church's fee is settled in Great British pounds, with the US$ equivalent equal to US$198,931 per annum.

(b) Options: the Company did not award any options to Mr Church during the current year (2012: nil). On resignation, Mr Church held 353,333 vested options which have an exercise price of A$0.30 and an expiry date of 17 January 2017. A total of 766,667 unvested options lapsed on resignation.

(c) A discretionary bonus of up to £180,000 (US$296,784) can be paid to Mr Church per year. During the current year no bonus was paid to Mr Church. During the prior year, £250,000 (US$399,744) bonus was paid to Mr Church following successful drilling of the Narina-1 well. A amount of £55,000 (US$85,288) was paid to Mr Church in lieu of the remaining period of notice pursuant to Mr Church's Service Agreement, being the sum of three month's salary, less income tax and National Insurance contributions.

(d) Termination: this agreement will cease in the event that either party gives to the other three months notice of termination.

Jens Pace – Chief Operating Officer

Mr Pace's role as Chief Operating Officer is governed by an agreement between the Company and Mr Pace. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £350,000 per annum was payable to Mr Pace until 20 September 2013 at which time the Board revised his fee to £280,000 per annum. Mr Pace's fee is reviewed annually by the Board. Mr Pace's fee is settled in Great British pounds, with the US$ equivalent for 2013 equal to US$518,023.

(b) Options: the Company awarded Mr Pace 2,500,000 options during the prior year. The options had an exercise price of A$1.00 and an expiry date of 17 January 2017 and vested upon the following conditions being met, on the assumption that Mr Pace remained employed by the Company:

    (i) 1,000,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Pace's start date (1 October 2012);
    (ii) 1,000,000 options will be exercisable in two equal tranches of 500,000 following the completion of the Company's third and fourth wells; and
    (iii) 500,000 options will be exercisable on the earlier of the completion of the Company's fifth well or the signing of a joint venture or farm-in agreement.

    On 20 September 2013, Mr Pace's 2,000,000 unvested options described above, were replaced with 1,750,000 options with an exercise price of A$0.10, an expiry date of 20 September 2018 and exercisable upon the following vesting conditions, on the assumption that Mr Pace remains employed by the Company:

    (i) 583,333 options will be exercisable on 1 January 2014;
    (ii) 583,333 options will be exercisable on 1 January 2015; and
    (iii) 583,334 options will be exercisable on the completion of a farm-in or joint venture contract.

(c) Shares: the Company issued 1,000,000 fully paid shares to Mr Pace upon his commencement date (1 October 2012) with the Company. US$1,246,320 has been expensed in the prior year with respect to these shares. A further 1,500,000 shares will be issued upon the Company securing a commercial discovery. As at 31 December 2013, this performance milestone has not yet occurred. US$209,689 has been recognised in the current year in relation to these performance shares (2012: US$806,269).

(d) A discretionary bonus of up to £525,000 (US$865,620) can be paid to Mr Pace. A further bonus of £140,000 can be paid to Mr Pace upon the completion of a farm in or joint venture contract, as determined by the Board's Remuneration Committee. During the current year, no bonus was paid to Mr Pace (2012: nil).

(e) Termination: this agreement will cease in the event that either party gives to the other six months notice of termination.

Pierre Raillard - General Manager – West Africa (resigned 31 December 2013)

Mr Raillard's role as General Manager – West Africa is governed by an agreement between the Company and Mr Raillard. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £205,000 per annum is payable to Mr Raillard and reviewed annually by the Board. Mr Raillard's fee is settled in Great British Pounds, with the US$ equivalent for 2013 equal to US$321,424.

(b) Options: the Company did not award any options to Mr Raillard during the current year (2012: nil). At the time of resignation, Mr Raillard held 375,000 vested options with an exercise price of A$0.30 and an expiry date of 17 January 2017. 975,000 unvested options lapsed on resignation.

(c) A signing bonus of £50,000 has been agreed with Mr Raillard, with 50% payable on commencement date (US$38,639) and the remaining 50% payable after 3 months of service with the Company (US$39,626). These bonuses have been paid in full during the prior year.

(d) A discretionary bonus of up to £190,000 (US$313,272) can be paid to Mr Raillard. During the current year, a £20,100 (US$32,861) termination payment was made to Mr Raillard (2012: nil).

(e) Termination: this agreement will cease in the event that either party gives to the other 3 three months notice of termination.

Adrian Robinson – Director of Exploration (resigned 1 May 2013)

Mr Robinson's role as Director of Exploration is governed by an agreement between the Company and Mr Robinson. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £200,000 per annum is payable to Mr Robinson and reviewed annually by the Board. Mr Robinson's fee is settled in Great British pounds, with the US$ equivalent for 2013 equal to US$181,830.

(b) Options: the Company did not award any options to Mr Robinson during the current year (2012: nil). At the time of resignation, Mr Robinson held 600,000 vested options with an exercise price of A$0.30 and an expiry date of 17 January 2017. 600,000 unvested options lapsed on resignation.

(c) A discretionary bonus of up to £180,000 (US$296,784) can be paid to Mr Robinson per year. During the current year no discretionary bonus was paid (2012: £25,000 (US$39,974)). During the current year a termination payment of £50,000 (US$77,535) was paid to Mr Robinson.

(d) Termination: this agreement will cease in the event that either party gives to the other three months notice of termination.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) CONTINUED

Service Agreements continued

Stephen West – Finance Director (appointed 1 October 2013)

Mr West's role as Finance Director is governed by an agreement between the Company and Mr West. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £240,000 per annum is payable to Mr West and reviewed annually by the Board. Mr West's fee is settled in Great British pounds, with the US$ equivalent for 2013 equal to US$97,258.

(b) Options: during the current year, 1,750,000 options were awarded to Mr West with an exercise price of A$0.10 and an expiry date of 21 November 2018. The options are subject to the following vesting conditions, on the assumption that Mr West remains employed by the Company:
   (i) 583,333 options vest on Mr West's first anniversary of employment with the Company;
   (ii) 583,333 options vest on Mr West's second anniversary of employment with the Company; and
   (iii) 583,334 options vest on Mr West's third anniversary of employment with the Company.

(c) A discretionary bonus of up to £240,000 (US$395,712) can be paid to Mr West per year. During the current year no bonus was paid to Mr West.

(d) Termination: this agreement will cease in the event that either party gives to the other three months notice of termination.

Claire Tolcon – Company Secretary

The engagement conditions of contractor Claire Tolcon were approved by the Board on commencement of her engagement with a fee of A$4,000 per month plus GST for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of A$1,460 per day. Ms Tolcon's fee was settled in Australian dollars, with the US$ equivalent for 2013 equal to US$92,820. A discretionary bonus of A$15,000 (US$15,533) was paid to Ms Tolcon during the prior year following successful drilling of the Narina-1 well.

The Company did not award any options to Ms Tolcon during the current year (2012: nil). Ms Tolcon currently holds 75,000 options with an exercise price of A$0.30 and an expiry date of 17 January 2017. These options vest upon the Company securing a commercial discovery.

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
Mark Ashurst	4	4	–	–	–	–	–	–
Gibril Bangura	4	1	–	–	–	–	–	–
Jeffrey Couch	4	4	5	4	–	–	–	–
David King[1]	1	1	–	–	–	–	–	–
Charles Matthews[2]	–	1	–	1	–	–	–	–
Antony Sage[3]	3	1	–	–	–	–	–	–
James Smith	4	3	–	–	–	–	–	–
Karl Thompson	4	4	–	–	–	–	–	–
Frank Timis[4]	4	4	–	–	–	–	–	–
Timothy Turner	4	2	–	–	–	–	–	–
Alan Watling[5]	3	2	–	–	–	–	–	–
Anthony Wilson	4	4	5	5	–	–	–	–

1 Mr King was appointed Non-Executive Director on 1 July 2013.
2 Mr Matthews was appointed as Chairman on 10 October 2013.
3 Mr Sage resigned as Non-Executive Deputy Chairman on 30 June 2013.
4 Mr Timis resigned as Non-Executive Chairman on 10 October 2013.
5 Mr Watling resigned as Non-Executive Director on 1 July 2013.

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, 11 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.

OPTIONS

Unissued Shares under Option

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

Expiry Date	Exercise Price A$	Number Under Option[1]
10 April 2015	1.25[2]	1,000,000
10 April 2015	1.50[3]	500,000
10 April 2015	1.75[4]	500,000
10 April 2015	2.00[5]	500,000
30 June 2015	0.55[6]	8,916,524
17 January 2017	0.30[7]	6,878,334
17 January 2017	1.00[8]	391,667
17 January 2017	1.25[2]	75,000
27 March 2017	0.30[7]	10,000
27 March 2017	0.55[6]	275,000
27 March 2017	1.00[8]	20,000
31 July 2017	0.55[6]	13,700,000
31 July 2017	1.00[8]	250,000
8 January 2018	1.00[8]	500,000
8 January 2018	1.25[2]	66,666
22 November 2018	0.10[9]	7,000,000
22 November 2018	0.10[9]	1,750,000

1 On 8 January 2014, shareholders approved the consolidation of every three options into one option and the exercise price be increased by a multiple of three. The number of options detailed above is prior to this consolidation of capital (effective 3 February 2014).
2 The US$ equivalent exercise price as at 31 December 2013 is US$1.11
3 The US$ equivalent exercise price as at 31 December 2013 is US$1.33
4 The US$ equivalent exercise price as at 31 December 2013 is US$1.55
5 The US$ equivalent exercise price as at 31 December 2013 is US$1.77
6 The US$ equivalent exercise price as at 31 December 2013 is US$0.49
7 The US$ equivalent exercise price as at 31 December 2013 is US$0.27
8 The US$ equivalent exercise price as at 31 December 2013 is US$0.89
9 The US$ equivalent exercise price as at 31 December 2013 is US$0.09

Shares issued on the exercise of options

During the current year no ordinary shares were issued on the exercise of options (31 December 2012: 4,692,302 ordinary shares).

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 party to any such proceedings during the year.

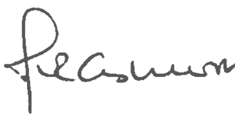
AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 31 December 2013 has been received and can be found on page 49 of the annual report.

NON-AUDIT SERVICES

Non-audit services were provided by the entity's auditor's Ernst & Young, as per Note 6(f). 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.



Mark Ashurst
Director
London, 14 March 2014

Auditor's Independence Declaration
to the Directors of African Petroleum Corporation Limited

In relation to our audit of the financial report of African Petroleum Corporation Limited for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

DS Lewsen
Partner
14 March 2014

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DL:DR:AFRICAN PETROLEUM:039

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.

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 (not a member of management and have been for the preceding three 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 K Thompson and Mr M Ashurst are not considered independent.

Up until 10 October 2013, the role of Chairman was discharged by Mr F Timis who was not considered to be independent, however, he was deemed by the Board to be the most appropriate person to fulfil the role. From 10 October 2013, the role of Chairman was performed by Mr C Matthews who is considered to be independent.

Corporate Governance Statement (continued)

THE BOARD OF DIRECTORS CONTINUED

Chairman Mr C. Matthews (appointed 10 October 2013) and Non-Executive Directors Mr G. Bangura, Mr J Couch, Mr D. King (appointed 1 July 2013), Mr T. Turner, Mr J Smith, Mr A. Wilson and Mr A. Watling (resigned 1 July 2013), were considered to have been independent throughout the year or since their appointment (as applicable).

The role and responsibilities of the Chief Executive Officer throughout the financial year ended 31 December 2013 were discharged by Executive Director, Mr K Thompson. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Mr K Thompson was the most appropriate person to fulfil the role.
On 1 February 2014, Mr K Thompson resigned from his position as Chief Executive Officer of the Company and Dr Stuart Lake assumed this position.

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

M. Ashurst	3 years 8 months	Executive Director
G. Bangura	3 years 8 months	Non-Executive Director
J. Couch	3 years 7 months	Non-Executive Director
D. King	6 months	Non-Executive Director
C. Matthews	3 years	Chairman
J. Smith	3 years 2 months	Non-Executive Director
K. Thompson	3 years 8 months (resigned 1 Feb 2014)	Executive Director
T. Turner	6 years 9 months	Non-Executive Director
A. Wilson	3 years 8 months	Non-Executive Director
S. Lake	0 months (appointed 1 Feb 2014)	Executive Director

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

Remuneration arrangements

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

The total maximum remuneration of Non-Executive Directors, which may only be varied by Shareholders in general meeting, is an aggregate amount of US$798,543 (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 has 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.

Statement of Comprehensive Income

	Note	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Continuing operations			
Revenue	6(a)	**2,793,952**	3,910,713
Aircraft expenses	6(b)	**(3,748,329)**	(4,075,508)
Depreciation expense	6(d)	**(1,698,750)**	(1,293,967)
Impairment of exploration and evaluation expenditure	12	**(31,220,749)**	–
Impairment of consumable spares	12	**(3,840,625)**	–
Rig demobilisation/cancellation costs	12	**(3,753,407)**	–
Loss on disposal of consumable spares	12	**(4,547,505)**	
Impairment of aircraft		**(1,707,839)**	–
Impairment of related party loans & deposits		**(12,918,951)**	–
Consulting expenses		**(7,621,676)**	(6,289,414)
Compliance and regulatory expenses		**(792,184)**	(412,294)
Administration expenses		**(3,043,599)**	(5,337,503)
Employee benefits	6(e)	**(11,194,043)**	(17,627,434)
Travel expenses		**(1,838,168)**	(3,875,460)
Occupancy costs		**(2,258,739)**	(1,773,280)
Foreign exchange losses	6(c)	**(555,304)**	(3,651,518)
Finance costs		**(283,868)**	(6,243)
Loss from continuing operations before income tax		**(88,229,784)**	(40,431,908)
Income tax expense	5	**–**	–
Loss for the year, attributable to the members		**(88,229,784)**	(40,431,908)
Other comprehensive gains / (losses)			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve			
Foreign exchange gain / (loss) on translation of functional currency to presentation currency	15	**(137,900)**	4,205,596
Items that will not be reclassified to profit and loss:			
Other comprehensive gains / (losses) for the year, net of tax		**(137,900)**	4,205,596
Total comprehensive loss for the year		**(88,367,684)**	(36,226,312)
Loss for the year is attributable to:			
Non-controlling interest		**(126,428)**	(149,778)
Owners of the parent		**(88,103,356)**	(40,282,130)
		(88,229,784)	(40,431,908)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		**(126,428)**	(149,778)
Owners of the parent		**(88,241,256)**	(36,076,534)
		(88,367,684)	(36,226,312)
Loss per share attributable to members			
Basic/diluted loss per share (pre consolidation)	24	**(5.20) cents**	(2.43) cents
Basic/diluted loss per share (post consolidation)	24	**(15.59) cents**	(7.29) cents

The accompanying notes form part of these financial statements.

Statement of Financial Position

	Note	31 December 2013 US$	As at 31 December 2012 US$
Assets			
Current assets			
Cash and cash equivalents	7	**7,914,218**	52,598,909
Trade and other receivables	8	**7,709,077**	16,505,979
Restricted cash	9	**12,074,205**	50,113,629
Prepayments	10	**1,265,752**	10,303,371
Total current assets		**28,963,252**	129,521,888
Non-current assets			
Property, plant and equipment	11	**3,157,835**	6,993,178
Restricted cash	9	**–**	22,500,000
Exploration and evaluation expenditure	12	**403,272,803**	354,822,592
Intangible assets	11(a)	**352,158**	–
Total non-current assets		**406,782,796**	384,315,770
Total assets		**435,746,048**	513,837,658
Liabilities			
Current liabilities			
Trade and other payables	13	**32,384,373**	25,684,709
Total current liabilities		**32,384,373**	25,684,709
Total liabilities		**32,384,373**	25,684,709
Net assets		**403,361,675**	488,152,949
Equity			
Issued capital	14	**575,911,770**	575,911,770
Reserves	15	**17,282,038**	13,843,528
Accumulated losses	16	**(189,570,901)**	(101,467,545)
Parent interests		**403,622,907**	488,287,753
Non-controlling interests	17	**(261,232)**	(134,804)
Total equity		**403,361,675**	488,152,949

The accompanying notes form part of these financial statements.

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Statement of Changes In Equity

	Note	Ordinary share capital US$	Share-based payment reserve US$	Accumulated losses US$	Foreign currency translation reserve US$	Non-controlling interest US$	Total US$
Balance at 1 January 2013		**575,911,770**	**25,794,821**	**(101,467,545)**	**(11,951,293)**	**(134,804)**	**488,152,949**
Loss for the year	16,17	**–**	**–**	**(88,103,356)**	**–**	**(126,428)**	**(88,229,784)**
Other comprehensive income: Foreign currency exchange differences arising on translation from functional currency to presentation currency	15	**–**	**–**	**–**	**(137,900)**	**–**	**(137,900)**
Total comprehensive loss for the year		**–**	**–**	**(88,103,356)**	**(137,900)**	**(126,428)**	**(88,367,684)**
Transactions with owners in their capacity as owners: Share-based payments	15	**–**	**3,576,410**	**–**	**–**	**–**	**3,576,410**
Balance at 31 December 2013		**575,911,770**	**29,371,231**	**(189,570,901)**	**(12,089,193)**	**(261,232)**	**403,361,675**

	Note	Ordinary share capital US$	Share-based payment reserve US$	Accumulated losses US$	Foreign currency translation reserve US$	Non-controlling interest US$	Total US$
Balance at 1 January 2012		488,152,298	15,370,398	(61,185,415)	(16,156,889)	14,974	426,195,366
Loss for the year	16,17	–	–	(40,282,130)	–	(149,778)	(40,431,908)
Other comprehensive income: Foreign currency exchange differences arising on translation from functional currency to presentation currency	15	–	–	–	4,205,596	–	4,205,596
Total comprehensive gain / (loss) for the year		–	–	(40,282,130)	4,205,596	(149,778)	(36,226,312)
Transactions with owners in their capacity as owners:							
Issue of capital – capital raising	14	84,176,764	–	–	–	–	84,176,764
Exercise of options	14	2,336,388	–	–	–	–	2,336,388
Share-based payments	14,15	1,246,320	10,424,423	–	–	–	11,670,743
Balance at 31 December 2012		575,911,770	25,794,821	(101,467,545)	(11,951,293)	(134,804)	488,152,949

The accompanying notes form part of these financial statements.

Statement of Cash Flows

	Note	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Cash flows from operating activities			
Payments to suppliers and employees		**(32,587,150)**	(24,748,045)
Rental income		**1,441,628**	2,609,536
Interest received		**151,174**	1,103,146
Finance costs		**(73,947)**	(6,243)
Net cash flows used in operating activities	**7(b)**	**(31,068,295)**	(21,041,606)
Cash flows from investing activities			
Payment for plant, equipment and aircraft		**(275,907)**	(2,224,813)
Payment for exploration and evaluation activities		**(75,246,602)**	(177,360,330)
Cash received for sale of consumable spares		**2,975,913**	–
Payment of deposit to related party		**(1,235,000)**	–
Loan to related parties		**(1,296,782)**	(1,741,930)
Loan repaid by related parties		**1,060,456**	–
Increase in cash backing security provided for drilling operations & seismic data acquisition		**–**	(79,940,523)
Cash backing security returned		**60,452,997**	46,672,050
Net cash used in investing activities		**(13,564,925)**	(214,595,546)
Cash flows from financing activities			
Proceeds from issue of shares	**14**	**–**	90,352,471
Capital raising costs	**14**	**–**	(3,839,319)
Net cash from financing activities		**–**	86,513,152
Net decrease in cash and cash equivalents		**(44,633,220)**	(149,124,000)
Cash and cash equivalents at the beginning of the year		**52,598,909**	204,529,028
Net foreign exchange differences		**(51,471)**	(2,806,119)
Cash and cash equivalents at the end of the year	**7(a)**	**7,914,218**	52,598,909

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

The financial report of the Company and its subsidiaries (together the "Consolidated Entity") for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors on 14 March 2014.

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 National Stock Exchange of Australia (code: AOQ).

2. BASIS OF PREPARATION OF ANNUAL REPORT

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

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

Compliance with IFRS

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

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 2013, the Consolidated Entity had net current liabilities of $3,421,121 (2012: net current assets of $103,837,179). The cash and restricted cash position at 31 December 2013 was $19,988,423 (2012: $125,212,538). However, the ability of the Consolidated Entity to continue its operations is dependent on the Consolidated Entity obtaining independent shareholder approval for the issue of 45,482,000 shares, at A$0.24 per share, via an Extraordinary General Meeting to be held on or about 2 April 2014. The shares will rank pari passu in all respects with the existing issued ordinary shares.

Should the Consolidated Entity not achieve the matter set out above, there is uncertainty whether it would continue as a going concern and therefore whether it would realise its assets 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.

3. SUMMARY OF ACCOUNTING POLICIES

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

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

(a) Changes in accounting policy and other disclosures

New Accounting Standards and Interpretations

The Group has adopted all new and amended Australian Accounting Standards and Interpretations effective as of 1 January 2013, including:

- AASB 10 Consolidated Financial Statements, AASB 127 Separate Financial Statements
- AASB 11 Joint Arrangements, AASB 128 Investments in Associates and Joint Ventures
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 19 Employee Benefits (Revised 2011)
- AASB 2011-9 Amendments to Australia Standards – Presentation of Other Comprehensive Income

Notes to the Consolidated Financial Statements
(continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

The adoption of the standards or interpretations is described below:

AASB 10 Consolidated Financial Statements and AASB 127 Separate Financial Statements

AASB 10 establishes single control model that applies to all entities including special purpose entities. AASB 10 replaces the parts of previously existing AASB 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in AASB 10, all three criteria must be met, including:

- 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.

The application of AASB 10 had no impact on the consolidation of investments held by the Group.

AASB 11 Joint Arrangements and AASB 128 Investment in Associates and Joint Ventures

AASB 11 replaces AASB 131 Interests in Joint Ventures and Interpretation 113 Jointly-controlled Entities - Non-monetary Contributions by Ventures.

AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

The Group's interest in the Gambia Project is classified as a joint operation under AASB 10. Following the impairment of the Gambia Licences, the Group's share of the joint operation's assets and liabilities are not significant as at 31 December 2013.

Accordingly, the application of AASB 11 did not have a significant impact on the Group.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in AASB 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. New disclosures are provided in Note 19.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance under Australian Accounting Standards for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards. AASB 13 defines fair value as an exit price. As a result of the guidance in AASB 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. AASB 13 also requires additional disclosures.

Application of AASB 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Additional details are also provided in Note 23.

AASB 2011-9 Presentation of Items of Other Comprehensive Income – Amendments to AASB 101

The amendments to AASB 101 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g. net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

AASB 119 Employee Benefits (Revised 2011)

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

The change in distinction between short-term and other long-term employee benefits did not have a significant 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 2013 are set out below. The Group is still in the process of determining the impact of the new Standards and Interpretations.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2011-4	Amendments to Australian Accounting Standards to *Remove Individual Key Management Personnel Disclosure Requirements* AASB 124	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	1 January 2014
AASB 2012-3	Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014
Interpretation 21	*Levies*	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	1 January 2014

Notes to the Consolidated Financial Statements
(continued)

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

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below: a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2017.	I January 2017	1 January 2017
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 January 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting AASB 139	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	1 January 2014

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.	1 January 2014	1 January 2014
Annual Improvements 2010–2012 Cycle	Annual Improvements to IFRSs 2010–2012 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: ▸ IFRS 2 - Clarifies the definition of vesting conditions and market condition and introduces the definition of performance condition and service condition. ▸ IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. ▸ IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' assets, the entity's assets. ▸ IAS 16 & IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.	1 July 2014	1 January 2015
Annual Improvements 2010–2012 Cycle (continued)	Annual Improvements to IFRSs 2010–2012 Cycle	▸ IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1 July 2014	1 January 2015
Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: ▸ IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. ▸ IAS 40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3.	1 July 2014	1 January 2015
AASB 1031	*Materiality*	The revised AASB 1031 is an interim standard that cross-references to other Standards and the F*ramework (*issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	1 January 2014	1 January 2014

Notes to the Consolidated Financial Statements
(continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

The consolidated financial statements comprise the financial statements of African Petroleum Corporation Limited ("AOQ" or "the Company") and its subsidiaries for the year ended 31 December 2013 (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; and
- 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.

(c) Segment reporting

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

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

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

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

(d) Foreign currency translation

Functional and presentation currency

The Company has elected United States Dollars as its presentation currency. Where the functional currencies of entities within the consolidated group differ from United States Dollars, they have been translated into United States Dollars. The functional currency of African Petroleum Corporation Limited is Australian Dollars. The Company is listed on an Australian stock exchange, National Stock Exchange ("NSX").

Transactions and balances

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

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Translation of Group Companies' functional currency to presentation currency

On consolidation, the assets and liabilities of foreign operations are translated into 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.

(e) 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.

(f) 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.

(g) Property, plant and equipment

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

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

Notes to the Consolidated Financial Statements
(continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)
(g) Property, plant and equipment continued
Depreciation

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

The depreciation rates used for each class of depreciable assets are:
- Plant and equipment 20% – 33%
- Aircraft 10%

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

(h) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

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

(i) it is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or

(ii) exploration and evaluation activities are continuing in an area of interest but at reporting date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

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

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

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

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

(j) Revenue

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

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

Interest

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

Rental income

Rental income arises from leasing the corporate aircraft and is accounted for on an accrual basis.

(k) 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.

(l) Other taxes

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

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

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

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

(m) Earnings per share

(i) Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the year.
(ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements
(continued)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(n) 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 measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

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

(o) Trade and other payables

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

(p) Provisions

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

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

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

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

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

(q) Contributed equity

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

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

(r) 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.

The non-recourse loans to Directors and employees to cover tax payable on performance shares awarded is accounted for and classified as a share-based payment.

(s) Business Combinations

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

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

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

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

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 periods.

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(i) are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. The related carrying amounts are disclosed in Note 12.

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

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

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees, Directors and consultants by reference to the fair value of equity instruments at the date at which they are granted. The fair value 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 18. 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.

Notes to the Consolidated Financial Statements
(continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

Income taxes

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

The Consolidated Entity has not recognised any deferred tax assets relating to carried forward tax losses or temporary differences as there is no certainty that sufficient future taxable incomes will be generated to utilise such losses and temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

5. INCOME TAX

	2013 US$	2012 US$
(a) The components of income tax expense comprise:		
Current tax	**–**	–
Deferred tax	**–**	–
	–	–
(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 2012: 30%)	**26,468,935**	12,129,572
Foreign tax rate adjustment	**(638,005)**	(2,323,924)
	25,830,930	9,805,648
Add/(less)		
Tax effect of		
– Tax effect of permanent differences	**(1,433,207)**	(3,211,891)
– Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(24,397,723)**	(6,593,757)
Income tax expense / (benefit)	**–**	–

Deferred tax assets have not been brought to account in respect of tax losses and temporary differences because as at 31 December 2013 it is not probable that future taxable amounts will be available to utilise those temporary differences and losses.

6. LOSS BEFORE INCOME TAX EXPENSE

	2013 US$	2012 US$
(a) Revenue		
Interest income	**534,889**	1,082,549
Rental income[1]	**1,856,973**	2,703,164
Other revenue	**402,090**	125,000
	2,793,952	3,910,713

1 During the prior year, the Consolidated Entity purchased a corporate aircraft. The aircraft is leased to related parties and generated US$1,856,973 external revenue for the year ended 31 December 2013 (2012: US$2,703,164).

	2013 US$	2012 US$
(b) Aircraft expenses	**3,748,329**	4,075,508

Aircraft expenses have been restated for the year ended 31 December 2012, with US$4,075,508 that was previously included in travel expenses.

	2013 US$	2012 US$
(c) Net foreign currency losses		
Net foreign currency losses	**(555,304)**	(3,651,518)

The functional currency of the legal parent entity of the Consolidated Entity, African Petroleum Corporation Limited ("African Parent") is Australian Dollars ("AUD"). The presentation currency of the Consolidated Entity is United States Dollars ("USD"). Consequently, the financial statements of African Parent are produced in AUD and translated into USD. During the prior year, the Consolidated Entity completed a capital raising of A$85 million (before costs). African Parent used the capital raising proceeds to purchase USD which it held in various term deposits and call accounts ("USD deposits"). As at 31 December 2012, African Parent has recognised the difference between the AUD equivalent of the USD deposits at the time they were acquired and the AUD equivalent of the USD deposits at 31 December 2012 as an unrealised foreign currency exchange loss.

	2013 US$	2012 US$
(d) Depreciation	**1,698,750**	1,293,967
Lease rental costs	**1,124,060**	1,464,778
(e) Employee remuneration		
Employee benefits expensed	**5,360,928**	4,131,265
Director's remuneration expensed	**3,255,424**	1,825,426
Share-based payments expensed	**2,577,691**	11,670,743
	11,194,043	17,627,434
Employee benefits capitalised	**2,840,400**	6,012,125

	2013 US$	2012 US$
(f) Remuneration of auditors		
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**200,590**	107,280
Ernst & Young related practices	**306,543**	207,841
Other non-assurance services	**45,239**	20,224
	552,372	335,345

Notes to the Consolidated Financial Statements
(continued)

7. CASH AND CASH EQUIVALENTS

	2013 US$	2012 US$
Cash at bank and on hand	**7,914,218**	46,957,077
Term deposits[1]	**–**	5,641,832
	7,914,218	52,598,909

1 Term deposits held as at 31 December 2012 were up to 90 days bearing interest up to 3.31%.

(a) Reconciliation of cash and cash equivalents

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

	2013 US$	2012 US$
Cash and cash equivalents	**7,914,218**	52,598,909
(b) Reconciliation of net loss to net cash flows from operating activities		
Loss from ordinary activities	**(88,229,784)**	(40,431,908)
Adjusted for non-cash items:		
Depreciation and loss on disposal of property, plant and equipment	**2,051,258**	1,293,967
Share-based payments	**5,067,547**	11,670,743
Unrealised foreign exchange gain / (losses)	**(195,799)**	7,001,315
Interest and commitment fee capitalised on loan to related parties	**(490,942)**	(443,552)
Impairment of related party loans & deposits	**12,918,951**	–
Impairment of aircraft	**1,707,839**	–
Impairment of exploration and evaluation expenditure	**31,220,749**	–
Impairment of consumable spares	**3,840,625**	
Rig demobilisation/cancellation costs (settled with consumable spares)	**3,753,407**	–
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Decrease in trade and other receivables	**156,223**	1,192,041
Increase in trade and other payables	**(2,868,369)**	(1,324,212)
Net cash used in operating activities	**(31,068,295)**	(21,041,606)

(c) Non-Cash Activities

No significant non-cash investing or financing transactions occurred during the year ended 31 December 2013.

8. TRADE AND OTHER RECEIVABLES

	2013	2012

	US$	US$
Current		
Trade receivables	**2,109,039**	1,283,172
Loans receivable from related parties	**1,862,157**	12,623,041
Other receivables	**3,737,881**	2,599,766
	7,709,077	16,505,979

Further information on loans receivable from related parties:

(a) During the prior year, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$200,658 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$40,916 (£26,139) of interest recognised during the current year (2012: US$11,221 (£6,946)). The Loan Agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share-based payment and an amount of US$886,210 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

(b) During the prior year, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$25,123 (£16,047) of interest recognised during the current year (2012: US$5,752 (£3,561)). The loan agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share based payment and an amount of US$604,927 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

(c) In May 2011, the Company provided a US$10 million loan facility to a Director-related entity, International Petroleum Limited (IPL). During 2011, the loan facility was fully drawn down. Under the terms of the facility agreement, the amounts drawn down are required to be repaid in full by the earlier of:

- 31 December 2013;
- receipt by IPL of A$45,000,000 pursuant to the terms of an arrangement with another company;
- the date IPL completes a raising of funds by way of a public offering in shares in the capital of the borrower on NSX; and
- the date IPL is listed on an alternative stock exchange, as part of a fundraising.

Interest is receivable on amounts drawn down under the facility at the cash rate plus 3%. Interest earned on the facility for the current year is US$324,903 (2012: US$318,552). The Company is also entitled to a commitment fee of US$250,000 for the provision of the facility and a further US$225,000 for extension of the repayment date. As at 31 December 2013, the total amount receivable from IPL in relation to this loan facility is US$11,304,365 (31 December 2012: US$10,879,462).

In order to secure the payment and performance of its obligations, IPL has agreed to assign and charge in favour of the Company the following collateral:

- all allocations and distributions of income, cash flow and profits and payments arising from IPL's right, title and interest in production sharing contracts ("Contracts") between the Republic of Niger and IPL over the four petroleum licence blocks known as Manga-1, Manga-2, Aorak and Tenere Ouest; and
- rights to receive all proceeds from the sale or transfer of IPL's interest in the Contracts.

During October 2013, IPL announced that it had entered into binding conditional terms sheets for the sale of its Russian and Kazakhstan assets for cash consideration of US$60 million. However, due to the current financial position of IPL and notwithstanding the security held, the Company has recognised an impairment provision for the outstanding balance of the IPL loan facility of US$11,304,365. This impairment loss may be reversed if IPL executes a strategic transaction or a sale of assets, such that their liquidity facilitates repayment of the loan.

Notes to the Consolidated Financial Statements
(continued)

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Further, IPL granted the Company for a period of 6 months, commencing 17 April 2013, the sole and exclusive right, but not the obligation, to acquire up to 100% of IPL's rights and obligations under the exploration and production sharing contracts for Manga-1, Manga-2, Aborak and Tenere West Blocks in the Republic Niger.

As a condition of exclusivity, the Company paid a good faith deposit of US$1,235,000. As the exclusivity period has now expired, IPL is obligated to refund the deposit, without interest, to the Company.

Due to the current financial position of IPL and notwithstanding the security held, the Company has recognised an impairment provision for the outstanding balance of the deposit with IPL of US$1,235,000. This impairment loss may be reversed if IPL executes a strategic transaction or a sale of assets, such that their liquidity facilitates repayment of the deposit.

During the year ended 31 December 2013, a further US$379,586 was advanced to IPL to cover employee costs in relation to work on the exploration and production sharing contracts in the republic Niger. The Company has recognised an impairment provision for this amount.

9. RESTRICTED CASH

	2013 US$	2012 US$
Current		
Restricted cash	**12,074,205**	50,113,629
Non-current		
Restricted cash	**–**	22,500,000
	12,074,205	72,613,629

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.

10. PREPAYMENTS

	2013 US$	2012 US$
Prepayments related to exploration activities	**367,340**	9,071,009
Other prepayments	**898,412**	1,232,362
	1,265,752	10,303,371

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$	Plant & equipment US$	Aircraft US$	Total US$
31 December 2013				
Cost	**1,056,158**	**3,107,470**	**3,626,191**	**7,789,819**
Accumulated depreciation and impairment	**–**	**(2,085,793)**	**(2,546,191)**	**(4,631,984)**
	1,056,158	**1,021,677**	**1,080,000**	**3,157,835**
31 December 2012				
Cost	1,056,158	4,329,244	3,606,759	8,992,161
Accumulated depreciation	–	(1,367,240)	(631,743)	(1,998,983)
	1,056,158	2,962,004	2,975,016	6,993,178

(a) Reconciliations

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

	2013 US$	2012 US$
Freehold land		
Balance at beginning of the year	**1,056,158**	1,056,158
Additions at cost	**–**	–
Balance at end of the year	**1,056,158**	1,056,158
Plant and Equipment		
Balance at beginning of the year	**2,962,004**	1,632,305
Additions at cost	**212,423**	2,477,167
Depreciation expense	**(1,423,119)**	(933,967)
Disposals	**(352,509)**	(213,501)
Transfer	**(377,122)**	
Balance at end of the year	**1,021,677**	2,962,004
Aircraft		
Balance at beginning of the year	**2,975,016**	3,373,868
Additions at cost	**19,432**	–
Depreciation expense	**(206,609)**	(360,000)
Impairment	**(1,707,839)**	–
Disposals	**–**	(38,852)
Balance at end of the year	**1,080,000**	2,975,016
Total property, plant and equipment	**3,157,835**	6,993,178

	2013 US$	2012 US$
Intangible Assets		
Balance at beginning of the year	**–**	**–**
Transfer	**377,122**	
Additions at cost	**44,058**	**–**
Depreciation expense	**(69,022)**	**–**
Balance at end of the year	**352,158**	**–**
Total intangible assets	**352,158**	**–**

Notes to the Consolidated Financial Statements
(continued)

12. EXPLORATION AND EVALUATION EXPENDITURE

	2013 US$	2012 US$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	**403,272,803**	354,822,592
Reconciliation		
Opening balance	**354,822,592**	173,899,527
Exploration expenditure incurred	**94,788,410**	180,923,065
Impairment of exploration and evaluation expenditure[1]	**(31,220,749)**	–
Impairment of consumable spares[2]	**(3,840,625)**	–
Consumable spares disposed of on the settlement of a claim[3]	**(3,753,407)**	–
Disposal of consumable spares[4]	**(7,523,418)**	–
	403,272,803	354,822,592

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

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

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

1 An impairment loss of US$31,220,749 has been recognised in respect of exploration and evaluation expenditure relating to the Gambian Licences that have not been extended into the next exploration phase.
2 An impairment loss of US$3,840,625 has been recognised in respect of consumable spares on hand.
3 In recognition of a claim in relation to drilling operations settled in July 2013 with consumable spares.
4 US$7,523,418 of consumable spares was disposed of during the current year.

13. TRADE AND OTHER PAYABLES

	2013 US$	2012 US$
Trade payables	**6,062,585**	4,114,090
Withholding tax[1]	**13,551,667**	10,508,920
Other payables[2]	**11,278,984**	11,061,699
Share-based payments liability[3]	**1,491,137**	–
	32,384,373	25,684,709

1 An accrual for withholding tax in relation to the Company's exploration activities has been recognised in the current period. 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.
2 Other payables include amounts accrued for in respect of seismic data interpretation and drilling costs.
3 Share-based payments liability relating to Director loans as disclosed in Note 8.

14. ISSUED CAPITAL

	Number of fully paid ordinary shares 2013	2012
Fully paid ordinary shares	**575,911,770**	575,911,770

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

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

Reconciliation of movement in shares on issue

	Number of fully paid ordinary shares 2013	2012
Balance at beginning of the year	**1,695,433,051**	1,626,777,749
Issue of shares pursuant to a capital raising	–	62,963,000
Issue of shares pursuant to share-based payment arrangements	–	1,000,000
Issue of shares on the exercise of options	–	4,692,302
Balance at end of the year	**1,695,433,051**	1,695,433,051

Reconciliation of movements in issued capital

	2013 US$	2012 US$
Fair value of issued share capital at beginning of the year	**575,911,770**	488,152,298
Issue of shares pursuant to a capital raising	–	88,016,083
Capital raising costs	–	(3,839,319)
Issue of shares pursuant to share-based payment arrangements	–	1,246,320
Issue of shares on the exercise of options	–	2,336,388
Share capital at end of the year	**575,911,770**	575,911,770

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.

Notes to the Consolidated Financial Statements
(continued)

15. RESERVES

	2013 US$	2012 US$
Share-based payment reserve		
Balance at beginning of the year	**25,794,821**	15,370,398
Issue of options pursuant to share-based payment arrangements	**3,576,410**	10,424,423
Balance at end of the year	**29,371,231**	25,794,821
Foreign currency translation reserve		
Balance at beginning of the year	**(11,951,293)**	(16,156,889)
Foreign currency exchange differences arising on translation of functional currency to presentation currency	**(137,900)**	4,205,596
Balance at end of the year	**(12,089,193)**	(11,951,293)
Total reserves	**17,282,038**	13,843,528

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 18 for further details.

Foreign currency translation reserve

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

The functional currency of the legal parent of the Consolidated Entity, African Petroleum Corporation Limited ("African Parent") is Australian Dollars ("AUD"). African Parent's accounts are stated in AUD. On translation of African Parent's accounts to the Consolidated Entity's presentation currency of United States Dollars (US$), an unrealised foreign currency exchange loss of US$305,993 has been recognised in the Foreign Currency Translation Reserve in the current year (2012: unrealised foreign currency exchange gain US$4,285,606). A number of other entities within the Consolidated Entity have functional currencies other than US$. On translation of the accounts of these entities to the Consolidated Entity's presentation currency, an unrealised foreign currency exchange gain of US$168,093 has been recognised in the Foreign Currency Translation Reserve in the current year (2012: unrealised foreign currency loss of US$80,010).

16. ACCUMULATED LOSSES

	2013 US$	2012 US$
Accumulated losses at beginning of the year	**(101,467,545)**	(61,185,415)
Loss attributable to the members of the entity	**(88,103,356)**	(40,282,130)
Accumulated losses at end of the year	**(189,570,901)**	(101,467,545)

17. NON-CONTROLLING INTEREST

Non-controlling interests at the beginning of the year	**(134,804)**	14,974
Loss attributable to non-controlling interests	**(126,428)**	(149,778)
Non-controlling interests at the end of the year	**(261,232)**	(134,804)

18. SHARE-BASED PAYMENTS

Shares

Non-recourse loans

During the current year, an amount of US$1,491,137 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income in relation to loans made to Mr Thompson and Mr Pace to cover tax payable on performance shares awarded to them (2012: nil). Refer to Note 8 for details.

Shares awarded in prior years

On 1 October 2012, 1,000,000 ordinary shares were awarded to Mr Pace, Chief Operating Officer upon commencement with the Company, in line with the terms of his employment contract. The fair value of the share-based payment was US$1,246,320 (A$1,200,000).

Mr Pace was also awarded 1,500,000 performance shares which will vest upon the Company securing a commercial discovery. The fair value of the shares at grant date was US$1,867,554 (A$1,800,000). As at 31 December 2013, this performance milestone has not yet occurred. US$209,689 has been recognised in the current year in relation to these awards within the line item "Employee remuneration" within the Statement of Comprehensive Income (2012: US$806,269).

During 2011, 6,550,000 performance shares were awarded to Mr Thompson. On 18 August 2011, 3,275,000 fully paid ordinary shares were issued to Mr Thompson following the spudding of the Company's first off-shore well, pursuant to the terms of his employment contract. The fair value of the share-based payment was US$3,467,480 (A$3,275,000). The remaining 3,275,000 performance shares will be issued to Mr Thompson when the Company secures a commercial discovery. As at 31 December 2013, this performance milestone has not yet occurred. A value of US$326,036 has been reversed in the current year in relation to these performance shares within the line item "Employee remuneration" within the Statement of Comprehensive Income, as a result of the expected vesting date being re-estimated as at year end (2012: US$421,925 expense recognised). These options are forfeited on Mr Thompson's resignation on 1 February 2014.

Options

Options awarded in the current year

During the current year, 3,800,000 unlisted options have been issued to Directors, employees and consultants of the Company (2012: 6,960,000 unlisted options). A total of US$3,692,756 has been recognised for the current year in relation to awards issued in the current and prior years (2012: US$9,196,228). Of this amount US$1,202,900 has been recognised within the line item "Employee remuneration" and US$2,489,856 has been recognised within the line item "Consulting expenses" within the Statement of Comprehensive Income.

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
21 Nov 2013	1,750,000	0.10[1]	22 Nov 2018	0.10	0.10
20 Sep 2013	2,050,000	0.10[1]	22 Nov 2018	0.13	0.13
	3,800,000				

1 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.09

The weighted average fair value of the options granted during the current year is A$0.12 (2012: A$1.12). Options were priced using the Black-Scholes option pricing model. Expected volatility used is 125% and is based on the historical volatility. No allowance has been made for the effects of early exercise.

The fair value of options that have not vested which have not been recognised in the statement of comprehensive income for the current year but which are expected to vest is US$602,758 (2012: US$6,654,508).

The value of options capitalised during the period was nil (2012: nil).

The options issued to Directors, employees and consultants in the current 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.

Notes to the Consolidated Financial Statements
(continued)

18. SHARE-BASED PAYMENTS (CONTINUED)

Options awarded in the prior year

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
5 Jan 2012	300,000	0.30[1]	17 January 2017	0.35	0.36
9 Jan 2012	250,000	0.30[1]	17 January 2017	0.35	0.36
12 Jan 2012	350,000	0.30[1]	17 January 2017	0.35	0.36
6 Feb 2012	250,000	0.30[1]	17 January 2017	0.47	0.51
16 Feb 2012	50,000	0.30[1]	27 March 2017	0.64	0.69
22 Feb 2012	400,000	0.30[1]	17 January 2017	1.42	1.52
9 Mar 2012	200,000	1.00[2]	17 January 2017	1.31	1.39
12 Mar 2012	400,000	1.00[2]	17 January 2017	1.36	1.44
15 Mar 2012	125,000	0.55[4]	27 March 2017	1.52	1.60
16 Mar 2012	60,000	1.00[2]	27 March 2017	1.80	1.89
16 Mar 2012	150,000	0.55[4]	27 March 2017	1.86	1.95
19 Mar 2012	400,000	1.00[2]	17 January 2017	1.75	1.85
15 May 2012	300,000	1.00[2]	17 January 2017	1.25	1.25
25 May 2012	250,000	1.00[2]	31 July 2017	1.28	1.25
1 Jun 2012	600,000	1.25[3]	17 January 2017	1.17	1.14
19 Jun 2012	2,500,000	1.00[2]	8 January 2018	1.10	1.12
28 Jun 2012	300,000	1.25[3]	8 January 2018	1.09	1.09
16 Jul 2012	50,000	1.25[3]	8 January 2018	1.08	1.11
17 Jul 2012	25,000	1.25[3]	17 January 2017	1.15	1.18
	6,960,000				

1 The equivalent US$ exercise price per option at 31 December 2012 is equal to US$0.31
2 The equivalent US$ exercise price per option at 31 December 2012 is equal to US$1.04
3 The equivalent US$ exercise price per option at 31 December 2012 is equal to US$1.30
4 The equivalent US$ exercise price per option at 31 December 2012 is equal to US$0.57

Options forfeited during the current year

During the current year 5,618,332 unlisted options with various exercise prices of between A$0.30 and A$1.25 lapsed upon resignation of certain employees of the Company. An expense of US$2,131,869 has been reversed within the line item "Employee remuneration" in the Statement of Comprehensive Income, in recognition of unvested options that have been forfeited as a result of the holders ceasing to be employed with the Company as at the end of the current year (2012: nil).

Options replaced or modified in the current year

On 20 September 2013, 3,025,000 employee options were cancelled and replaced with 4,950,000 options. The exercise price of the options was reduced to A$0.10 and the various vesting conditions and expiry dates were extended to 22 November 2018. The fair value of the 3,025,000 original options has been fully recognised on modification date, plus the fair value of the 4,950,000 replacement options awarded has also been recognised, taking into consideration the estimated vesting date of the revised milestones. An amount of US$502,052 has been recognised in respect of the 4,950,000 replacement options for the current year within the line item "Employee remuneration" in the Statement of Comprehensive Income.

On 11 April 2013, 8,916,524 unlisted options exercisable at A$0.55 per option with an expiry date of 30 June 2013 were modified whereby the expiry date was extended for a further two years, to 30 June 2015. An amount of US$978,487 has been recognised in respect of these options for the current year within the line item "Consultancy expenses" in the Statement of Comprehensive Income.

Also on this date, 2,500,000 unlisted options with an expiry date of 30 June 2013 were modified with the expiry date being extended to 10 April 2015. Of these options, 1,000,000 are exercisable at A$1.25 per option; 500,000 exercisable at A$1.50 per option; 500,000 exercisable at A$1.75 per option and 500,000 exercisable at $2.00 per option. These options will vest on reaching the exercise price(s) for a minimum of 10 trading days in a particular month. The options that have not vested at any time shall automatically vest upon a change of control in sale of more than 50% of issued share capital (fully diluted) of the Company. An amount of US$1,511,369 has been recognised in respect of these options for the current year within the line item "Consultancy expenses" in the Statement of Comprehensive Income.

Options modified in the prior year

On 25 May 2012, shareholder approval was obtained to modify the expiry date of all Director held options from 31 July 2013 to 31 July 2017. An amount of US$3,545,987 being the increase in the fair value of all Director held options, has been expensed in the prior year in respect of the change in expiry date and therefore increase to the fair value of all Director held options. Refer to the Directors' Remuneration Report for further information on modifications to Director held options during the prior year.

The following shows the model inputs for the options granted and outstanding at 31 December 2013:

Expiry Date	Exercise Price A$	Number Under Option	Dividend Yield (%)	Risk Free Rate (%)	Expected life of Options (years)	Share price at grant date A$	Share price at grant date US$
10 April 2015	1.25[1]	1,000,000	–	2.80	2	0.23	0.24
10 April 2015	1.50[2]	500,000	–	2.80	2	0.23	0.24
10 April 2015	1.75[3]	500,000	–	2.80	2	0.23	0.24
10 April 2015	2.00[4]	500,000	–	2.80	2	0.23	0.24
30 June 2015	0.55[5]	8,916,524	–	2.80	2	0.23	0.24
17 January 2017	0.30[6]	6,878,334	–	3.23 – 3.93	5	0.30 – 1.51	0.30 – 1.62
17 January 2017	1.00[9]	391,667	–	2.77 – 3.90	5	1.45 – 1.96	1.52 – 2.07
17 January 2017	1.25[1]	75,000	–	2.26 – 2.40	5	1.38 – 1.39	1.35 – 1.41
27 March 2017	0.30[6]	10,000	–	3.59	5	0.70	0.75
27 March 2017	0.55[5]	275,000	–	3.89 – 3.90	5	1.65 – 2.00	1.73 – 2.09
27 March 2017	1.00[7]	20,000	–	3.89	5	2.00	2.10
31 July 2017	0.55[5]	13,700,000	–	2.61	6	1.45	1.41
31 July 2017	1.00[7]	250,000	–	2.61	5	1.45	1.41
8 January 2018	1.00[7]	500,000	–	2.48	6	1.25	1.26
8 January 2018	1.25[1]	66,666	–	2.38 – 2.51	5	1.25	1.26 – 1.28
22 November 2018	0.10[8]	7,000,000	–	3.28	5	0.15	0.14
22 November 2018	0.10[8]	1,750,000	–	3.23	5	0.12	0.11
Total		**42,333,191**					

1 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$1.11
2 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$1.33
3 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$1.55
4 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$1.77
5 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.49
6 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.27
7 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.89
8 The equivalent US$ exercise price per option at 31 December 2013 is equal to US$0.09

Notes to the Consolidated Financial Statements
(continued)

18. SHARE-BASED PAYMENTS (CONTINUED)

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

	2013		2012	
	Number of Options	Weighted Average Exercise Price A$	Number of Options	Weighted Average Exercise Price A$
Balance at beginning of the period	**39,726,524**	**0.54**[1]	37,458,826	0.456
Granted during the year	**6,300,000**	**0.10**[2]	6,960,000	0.867
Exercised during the year	**–**	**–**	(4,692,302)	0.478
Cancelled during the year	**(3,025,000)**	**0.89**[3]	–	–
Replacement options granted during the year	**4,950,000**	**0.10**[2]	–	–
Forfeited during the year	**(5,618,333)**	**0.49**[4]	–	–
Balance at end of the year	**42,333,191**	**0.49**[4]	39,726,524	0.549
Exercisable at end of the year	**30,458,190**	**0.52**[5]	27,854,858	0.5110

The share options outstanding at the end of the period had a weighted average exercise price of A$0.52 (2012: A$0.54) and the weighted average remaining contractual life was 1,164 days (2012: 1,281 days).

1 The US$ equivalent weighted average exercise price as at 31 December 2013 is equal to US$0.48
2 The US$ equivalent weighted average exercise price as at 31 December 2013 is equal to US$0.09
3 The US$ equivalent weighted average exercise price as at 31 December 2013 is equal to US$0.79
4 The US$ equivalent weighted average exercise price as at 31 December 2013 is equal to US$0.43
5 The US$ equivalent weighted average exercise price as at 31 December 2013 is equal to US$0.46
6 The US$ equivalent weighted average exercise price as at 31 December 2012 is equal to US$0.46
7 The US$ equivalent weighted average exercise price as at 31 December 2012 is equal to US$0.89
8 The US$ equivalent weighted average exercise price as at 31 December 2012 is equal to US$0.49
9 The US$ equivalent weighted average exercise price as at 31 December 2012 is equal to US$0.56
10 The US$ equivalent weighted average exercise price as at 31 December 2012 is equal to US$0.53

19. RELATED PARTY INFORMATION

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

(a) Ultimate parent

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

(b) Corporate Structure

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

Name	Country of incorporation	% Equity interest	
		2013	2012
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 Ltd	Cayman Islands	**100%**	100%
African Petroleum Sierra Leone Ltd	Cayman Islands	**100%**	100%
European Hydrocarbons Ghana Ltd	Cayman Islands	**100%**	100%
African Petroleum Senegal Ltd	Cayman Islands	**90%**	90%
African Petroleum Gambia Ltd	Cayman Islands	**100%**	100%
African Petroleum Guinea Ltd	Cayman Islands	**100%**	100%
African Petroleum Cote d'Ivoire Ltd	Cayman Islands	**100%**	100%
African Petroleum (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbons (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbons (Ghana) Limited	Ghana	**95%**	95%
African Petroleum Liberia Limited	Liberia	**100%**	100%
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire SAU	**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 (Guinea) SARL	Guinea	**100%**	100%
African Petroleum (Senegal) SAU	Senegal	**100%**	100%

Notes to the Consolidated Financial Statements
(continued)

19. RELATED PARTY INFORMATION (continued)

(c) Key management personnel

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

(i) Remuneration of key management personnel

	2013 US$	2012 US$
Short-term employee benefits	**5,286,653**	4,383,738
Post-employment benefits	**348,211**	241,474
Share-based payments	**2,806,938**	8,479,185
Total compensation	**8,441,802**	13,104,397

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

	Balance 1 January 2013	Balance held on appointment	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2013
Directors						
M Ashurst	–	–	–	–	–	–
G Bangura	–	–	–	–	–	–
J Couch	443,700	–	–	–	–	443,700
D King[1]	–	–	–	–	–	–
C Matthews[2]	–	–	–	–	–	–
A Sage[3]	10,509,325	–	–	–	(10,509,325)	–
J Smith	–		–	–	–	–
K Thompson	3,275,000	–	–	–	–	3,275,000
F Timis[4]	630,816,987	–	–	–	(630,816,987)	–
T Turner	125,000	–	–	–	–	125,000
A Watling[5]	–	–	–	–	–	–
A Wilson	–	–	–	–	–	–
Key management personnel						
M Barrett	–	–	–	–	–	–
P Church[6]	–	–	–	–	–	–
J Pace	1,000,000	–	–	–	–	1,000,000
P Raillard[7]	–	–	–	–	–	–
A Robinson[8]	–	–	–	–	–	–
C Tolcon	158,000	–	–	–	–	158,000
	646,328,012	**–**	**–**	**–**	**(641,326,312)**	**5,001,700**

1 Dr King was appointed as Non-Executive Director on 1 July 2013.
2 Mr Matthews was appointed as Chairman on 10 October 2013.
3 Mr Sage resigned as Non-Executive Deputy Chairman on 30 June 2013.
4 Mr Timis resigned as Non-Executive Chairman on 10 October 2013.
5 Mr Watling resigned as Non-Executive Director on 1 July 2013.
6 Mr Church resigned as Director of Drilling on 30 April 2013.
7 Mr Raillard resigned as General Manager – West Africa on 31 December 2013.
8 Mr Robinson resigned as Director of Exploration on 1 May 2013.

	Balance 1 January 2012	Balance held on appointment	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2012
Directors						
M Ashurst	–	–	–	–	–	–
G Bangura	–	–	–	–	–	–
J Couch	443,700	–	–	–	–	443,700
A Sage	10,509,325	–	–	–	–	10,509,325
J Smith	–		–	–	–	–
K Thompson	3,275,000	–	–	–	–	3,275,000
F Timis	630,816,987	–	–	–	–	630,816,987
T Turner	125,682	–	–	–	(682)	125,000
A Watling	–	–	–	–	–	–
A Wilson	–	–	–	–	–	–
Key management personnel						
M Barrett	–	–	–	–	–	–
P Church	–	–	–	230,000	(230,000)	–
J Pace[1]	–	–	1,000,000	–	–	1,000,000
P Raillard	–	–	–	–	–	–
A Robinson	–	–	–	150,000	(150,000)	–
C Tolcon	–	–	–	200,000	(42,000)	158,000
	645,170,694	**–**	**1,000,000**	**580,000**	**(422,682)**	**646,328,012**

1 Mr Pace was appointed as Chief Operating Officer on 1 October 2012.

Notes to the Consolidated Financial Statements
(continued)

19. RELATED PARTY INFORMATION (CONTINUED)

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

	Balance 1 January 2013	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2013
Directors						
M Ashurst	2,500,000	–	–	–	–	2,500,000
G Bangura	1,000,000	–	–	–	–	1,000,000
J Couch	1,000,000	–	–	–	–	1,000,000
D King[1]	–	–	–	–	–	–
C Matthews[2]	–	–	–	–	–	–
A Sage[3]	2,000,000	–	–	–	(2,000,000)	–
J Smith	1,250,000	–	–	–	–	1,250,000
K Thompson	3,500,000	–	–	–	–	3,500,000
F Timis	–	–	–	–	–	–
T Turner	500,000	–	–	–	–	500,000
A Watling[4]	1,000,000	–	–	–	(1,000,000)	–
A Wilson	1,000,000	–	–	–	–	1,000,000
Key management personnel				–		
M Barrett	1,725,000	–	1,750,000	–	–	3,475,000
P Church[5]	1,120,000	–	–	–	(1,120,000)	–
J Pace[6]	2,500,000	–	–	–	(250,000)	2,250,000
P Raillard[7]	1,350,000	–	–	–	(1,350,000)	–
A Robinson[8]	1,200,000	–	–	–	(1,200,000)	–
C Tolcon	75,000	–	–	–	–	75,000
	21,720,000	**–**	**1,750,000**	**–**	**(6,920,000)**	**16,550,000**

1 Dr King was appointed a Non-Executive Director on 1 July 2013.
2 Mr Matthews was appointed as Chairman on 10 October 2013.
3 Mr Sage resigned as Non-Executive Deputy Chairman on 30 June 2013.
4 Mr Watling resigned as Non-Executive Director on 1 July 2013.
5 Mr Church resigned as Director of Drilling on 30 April 2013 at which date 766,667 unvested options were forfeited. Mr Church held 353,333 vested options on resignation.
6 On 20 September 2013, Mr Pace's 2,000,000 unvested options with an exercise price of A$1.00 and expiry date of 8 January 2018 were modified to 1,750,000 options with an exercise price of A$0.10 and expiry date of 22 November 2018. These options are subject to various vesting conditions.
7 Mr Raillard resigned as General Manager – West Africa on 31 December 2013 at which date 975,000 unvested options were forfeited. Mr Raillard held 375,000 vested options on resignation.
8 Mr Robinson resigned as Director of Exploration on 1 May 2013 at which date 600,000 unvested options were forfeited. Mr Robinson held 600,000 vested options on resignation.

	Balance 1 January 2012	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2012
Directors						
M Ashurst	2,500,000	–	–	–	–	2,500,000
G Bangura	1,000,000	–	–	–	–	1,000,000
J Couch	1,000,000	–	–	–	–	1,000,000
A Sage	2,000,000	–	–	–	–	2,000,000
J Smith	1,000,000	–	250,000	–	–	1,250,000
K Thompson	3,500,000	–	–	–	–	3,500,000
F Timis	–	–	–	–	–	–
T Turner	500,000	–	–	–	–	500,000
A Watling	1,000,000	–	–	–	–	1,000,000
A Wilson	1,000,000	–	–	–	–	1,000,000
Key management personnel				–		
M Barrett	1,350,000	–	375,000	–	–	1,725,000
P Church	1,350,000	–	–	(230,000)	–	1,120,000
J Pace[1]	–	–	2,500,000	–	–	2,500,000
P Raillard	1,350,000	–	–	–	–	1,350,000
A Robinson	1,350,000	–	–	(150,000)	–	1,200,000
C Tolcon	275,000	–	–	(200,000)	–	75,000
	19,175,000	**–**	**3,125,000**	**(580,000)**	**–**	**21,720,000**

1 Mr Pace was appointed as Chief Operating Officer on 1 October 2012.

Refer to Note 18 for performance shares issued to Directors and key management personnel.

Transactions and period-end balances with related parties:

(i) In May 2011, the Company provided a US$10 million loan facility to a Director related entity, International Petroleum Limited (IPL). During 2011, the loan facility was fully drawn down. Under the terms of the facility agreement, the amounts drawn down are required to be repaid in full by the earlier of:

- 31 December 2013;
- receipt by IPL of A$45,000,000 pursuant to the terms of an arrangement with another company;
- the date IPL completes a raising of funds by way of a public offering in shares in the capital of the borrower on NSX; and
- the date IPL is listed on an alternative stock exchange, as part of a fundraising.

Interest is receivable on amounts drawn down under the facility at the cash rate plus 3%. Interest earned on the facility for the current year is US$324,903 (2012: US$318,552). The Company is also entitled to a commitment fee of US$250,000 for the provision of the facility and a further US$225,000 for extension of the repayment date, of which US$100,000 has been recognised in the current (2012: US$125,000). As at 31 December 2013, the total amount receivable from IPL in relation to this loan facility is US$11,304,365 (31 December 2012: US$10,879,462).

In order to secure the payment and performance of its obligations, IPL has agreed to assign and charge in favour of the Company the following collateral:

- all allocations and distributions of income, cash flow and profits and payments arising from IPL's right, title and interest in production sharing contracts ("Contracts") between the Republic of Niger and IPL over the four petroleum licence blocks known as Manga-1, Manga-2, Aorak and Tenere Ouest; and
- rights to receive all proceeds from the sale or transfer of IPL's interest in the Contracts.

During October 2013, IPL announced that it had entered into binding conditional terms sheets for the sale of its Russian and Kazakhstan assets for cash consideration of US$60 million. However, due to the current financial position of IPL and notwithstanding the security held, the Company has considered it prudent to recognise an impairment provision for the outstanding balance of the IPL loan facility of US$11,304,365. This impairment loss may be reversed if IPL executes a strategic transaction or a sale of assets, such that their liquidity facilitates repayment of the loan.

Further, IPL granted the Company for a period of six months, commencing 17 April 2013, the sole and exclusive right, but not the obligation, to acquire up to 100% of IPL's rights and obligations under the exploration and production sharing contracts for Manga-1, Manga-2, Aborak and Tenere West Blocks in the Republic Niger.

As a condition of exclusivity, the Company paid a good faith deposit of US$1,235,000. As the exclusivity period has now expired, IPL is obligated to refund the deposit, without interest, to the Company.

Due to the current financial position of IPL and notwithstanding the security held, the Company has considered it prudent to recognise an impairment provision for the outstanding balance of the deposit with IPL of US$1,235,000. This impairment loss may be reversed if IPL executes a strategic transaction or a sale of assets, such that their liquidity facilitates repayment of the deposit.

During the year ended 31 December 2013, a further US$379,586 was advanced to IPL to cover employee costs in relation to work on the exploration and production sharing contracts in the republic Niger. The Company has recognised an impairment provision for this amount.

(ii) An aggregate amount of US$56,278 was paid to Cape Lambert Resources Limited (Cape Lambert), for reimbursement of employee, consultancy and occupancy costs (2012: US$58,068). Mr Sage and Mr Turner are directors of Cape Lambert.

(iii) During the year US$589,184 was paid, or was due and payable by African Minerals Engineering Ltd and its subsidiaries for rental of the Company's corporate jet (2012: US$1,056,078). As at 31 December 2013 US$474,912 was outstanding (2012: US$157,675). Mr Timis and Mr Bangura are directors of African Minerals Engineering Ltd.

(iv) During the year US$850,912 was paid, or was due and payable by Pan African Minerals Services Ltd and its subsidiaries (2012: US$1,336,412) for rental of the Company's corporate jet. As at 31 December 2013 US$1,305,543 amount was outstanding (2012: nil). Mr Timis, Mr Bangura and Mr Ashurst are directors of Pan African Minerals Services Ltd.

(v) During the year US$388,720 was paid, or was due and payable by Mr Timis for personal use of the Company's corporate jet (2012: US$322,079). As at 31 December 2013 US$65,300 was outstanding (2012: US$322,079). This amount has been received subsequent to year end.

Notes to the Consolidated Financial Statements
(continued)

19. RELATED PARTY INFORMATION (CONTINUED)

(vi) During the prior year, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$200,658 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$40,916 (£26,139) of interest recognised during the current year (2012: US$11,221 (£6,946)). The Loan Agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share-based payment and an amount of US$886,210 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

(vii) During the prior year, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan 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 loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$25,123 (£16,047) of interest recognised during the current year (2012: US$5,752 (£3,561)). The loan agreement was 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 loan, the Company will waive the remaining balance of the loan. The limited recourse feature of the loan has been accounted for as a share-based payment and an amount of US$604,927 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

(viii) As at 31 December, the following amounts were payable to Directors of the Company or their nominees:

	2013 US$	2012 US$
CRMS which is an entity controlled by Mr Turner	**3,904**	4,148
Mr Bangura	**7,098**	4,148
Mr Couch	**21,295**	–
Mr Matthews	**16,488**	–
Mr Smith	**3,549**	–
Mr Watling	**–**	24,890

20. 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 the Board (Chief Operating Decision Makers) 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.

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

	2013 US$	2012 US$
Australia	**–**	1,289
Côte d'Ivoire	**51,492,185**	65,832,588
Gambia	**133,053**	28,378,936
Ghana	**–**	42,421
Liberia	**291,028,434**	226,788,421
Senegal	**37,951,679**	35,191,236
Sierra Leone	**24,064,321**	23,597,948
United Kingdom	**2,113,124**	4,413,623
Other	**–**	69,308
	406,782,796	384,315,770

21. EVENTS SUBSEQUENT TO REPORTING DATE

Corporate

Share Consolidation

Following shareholder approval at a General Meeting of Shareholders on 8 January 2014, the Company completed a share consolidation, which was effective 3 February 2014. All securities, including ordinary shares on issue and all options on issue, were consolidated on the following basis:

(a) Every three shares consolidated into one share; and
(b) Every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.

Appointment of New Chief Executive Officer

On 3 February 2014, the Company announced the appointment of Dr Stuart Lake as Chief Executive Officer effective 1 February 2014.

Dr Lake has over 27 years of experience in a wide variety of roles in international oil and gas companies including the Hess Corporation, four years in the Apache Corporation overseeing Global New Ventures and later Exploration/Exploitation activity in Argentina and over 19 years in Shell, where he was Vice President Exploration for Shell, Russia and held a wide variety of positions in both Exploration and Production throughout the world.

Most recently, Dr Lake spent over four years at Hess Corporation. As Vice President of Exploration, he was directly responsible for Exploration New Ventures globally, re-establishing a proactive basin master approach to Exploration New Ventures which led to significant strategic partnerships, that secured Hess a competitive position enabling Hess's entry into Kurdistan and other positions in West Africa and the Gulf of Mexico. Prior to that, he was Vice President Exploration for Europe, Africa, Middle East, Russia and South America directing more than 30 discoveries in Russia and leading the highly successful exploration campaign in Ghana that resulted in seven consecutive hydrocarbon discoveries and the subsequent submission of the appraisal plans for those discoveries.

Dr Lake has demonstrated himself to be a proven oil finder, maintaining a high 85% geological success rate in all three companies, based on drilling over 300 wells in 11 countries over his 27 year career. He has a BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England supervised by Professor J. F. Dewey. Dr Lake also remains on the Advisory Board of the Energy and Geoscience Institute (E.G.I.) at the University of Utah.

Mr Karl Thompson stepped down from the role of Chief Executive Officer and resigned from the Board on 1 February 2014.

A$20 Million Share Placement

On 24 February 2014, the Company announced it had received firm commitments for a placing of 83,334,000 new fully paid ordinary shares ("Placing Shares") at A$0.24 per Share with institutional and sophisticated investors, to raise a total of A$20,000,160 before costs ("Placing").

The Placing Shares will, when issued, rank pari passu in all respects with the existing issued ordinary shares of African Petroleum. The Company intends to use the net proceeds of the Placing for maintaining its West African licences in good order and for general working capital purposes.

The Placing is taking place in two tranches. On 4 March 2014, the Company announced that it had completed the issue of the first tranche of 37,852,000 Placing shares. The second tranche of the Placing, comprising 45,482,000 Placing shares is subject to shareholder approval which is being sought at the general meeting of shareholders on 2 April 2014.

Intention to List

On 24 February 2014, the Company announced its intention to seek a potential listing on a recognised European stock exchange, in addition to seeking a listing on ASX (Australian Stock Exchange).

Operational

Liberia

On 5 February 2014, the Company announced that European Hydrocarbons Limited, a wholly owned subsidiary of African Petroleum Corporation Limited received approval from the Board of Directors of NOCAL for a two-year extension to the second exploration period for both LB-08 and LB-09 until 11th June 2016. Accordingly, the LB-08 second exploration period two well commitment has been moved to the third exploration period.

Notes to the Consolidated Financial Statements
(continued)

21. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)
Gambia
In 2010, African Petroleum Gambia Limited, a wholly owned subsidiary of the Company, acquired through a farm-in agreement a 60 per cent interest in Gambian Licences A1 and A4 ("Gambian Licences") from Buried Hill which retained a 40 per cent interest in the Gambian Licences. The first exploration period for the Gambian Licences expired on 31 December 2013. Despite efforts by African Petroleum Gambia in 2013 to secure an extension of the first exploration period or to defer the drilling commitment in Licence A1 to the second exploration period, the Government of the Republic of Gambia ("Gambian Government") purported to terminate the Gambian Licences by letters dated 3 January 2014. The Gambian Government also notified African Petroleum Gambia in its letters of 3 January 2014 that all other obligations due to the Gambian Government should be fulfilled as required by the Gambian Licences. African Petroleum Gambia has disputed the purported termination and is actively seeking to persuade the Gambian Government to agree a basis for the continuation of the Gambian Licences. Disputes under the Gambian Licences are subject to resolution by confidential arbitration at ICSID.

African Petroleum Gambia has received unquantified claims from Buried Hill in relation to the Gambian Government's purported termination of the Gambian Licences. Buried Hill has alleged that it has suffered loss as a result of African Petroleum Gambia's breach of the 2010 farm-in agreement. African Petroleum Gambia rejects Buried Hill's claims and if the dispute cannot be amicably resolved any remaining issues will be resolved by confidential ICC arbitration.

No other event has arisen between 31 December 2013 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

22. COMMITMENTS AND CONTINGENCIES
Exploration commitments
The Company has entered into obligations in respect of its exploration projects. Outlined below are the minimum expenditures required as at 31 December are as follows:

	2013 US$	2012 US$
Within one year	**40,507,191**	69,643,755
After one year but not more than five years	**66,610,540**	120,514,672
More than five years	**–**	–
	107,117,731	190,158,427

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:

	2013 US$	2012 US$
Within one year	**120,488**	585,625
Later than one year and not later than five years	**72,209**	2,679,132
Later than five years	**–**	–
	192,697	3,264,757

Contingent liabilities
Senegal Project
The Company has a US$10 million minimum work commitment guarantee on exploration Block Rufisque Offshore Profond ("ROP") and a US$10 million minimum work commitment guarantee on exploration Block Senegal Offshore Sud Profond ("SOSP"). As at 31 December 2013, the Company has met its US$10 million work commitment on SOSP and has a remaining exposure of US$2,038,778 on ROP.

Sierra Leone Project
The Company has a US$10 million work commitment guarantee on exploration Block SL-04A. As at 31 December 2013 the Company has an outstanding exposure of US$8,344,606.

23. FINANCIAL RISK MANAGEMENT

Financial risk management policies

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

Risk exposure and responses

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

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

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

Treasury risk management

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

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

Financial risk exposure and management

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

Interest rate risk

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

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

	2013 US$	2012 US$
Financial assets		
Cash and cash equivalents	**7,914,218**	52,601,143
Related party loans receivable	**1,862,157**	12,623,041
Restricted cash	**–**	72,613,629
Financial liabilities		
Borrowings	**–**	–
	9,776,375	137,837,813

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Notes to the Consolidated Financial Statements
(continued)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk *(continued)*

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

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

	Post tax profitUS$ higher / (lower)		Other comprehensive income higher / (lower)	
	2013 US$	2012 US$	2013 US$	2012 US$
Consolidated Entity				
+1% 100 basis points (2012: 100 basis points)	97,764	1,378,378	–	–
-1% 100 basis points (2012: 100 basis points)	(97,764)	(1,378,378)	–	–

The movements in profit are due to higher / lower interest earned from variable rate cash balances. A sensitivity analysis of 100 basis points has been used as this is considered reasonable given the current level of the USD interest rate (2012: 100 basis points).

Foreign currency risk

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

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

At reporting date, the Consolidated Entity had the following exposure to United States Dollars and Great British Pounds that is not designated in cash flow hedges, refer to Note 6(c) for more information:

	2013 US$	2012 US$
Financial assets		
Cash and cash equivalents – US$ (Parent entity)	**3,327,311**	13,406,468
Cash and cash equivalents – £ (subsidiaries)	**767,532**	2,338,952
Loan receivable – US$ (Parent entity)	**–**	10,879,462

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

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

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2013 US$	2012 US$	2013 US$	2012 US$
Consolidated Entity				
US$ to A$ + 10% (2012: 10%)	**332,731**	2,128,593	**–**	–
US$ to A$ - 10% (2012: 10%)	**(332,731)**	(2,128,593)	**–**	–
US$ to £ + 10% (2012: 10%)	**76,753**	233,895	**–**	–
US$ to £ - 10% (2012: 10%)	**(76,753)**	(233,895)	**–**	–

A sensitivity analysis of 10% has been used as this is considered reasonable given the anticipated fluctuations in the exchange rates. The same analysis has been used for 2012.

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:

2013	6 months or less US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	**30,893,236**	**–**	**–**	**–**	**30,893,236**

2012	6 months or less US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	25,684,709	–	–	–	25,684,709

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.

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

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

Fair value

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

Notes to the Consolidated Financial Statements
(continued)

24. LOSS PER SHARE

	31 December 2013 US$	31 December 2012 US$
(a) Basic loss per share		
Overall operations (pre consolidation)	**(5.20) cents**	(2.43) cents
Overall operations (post consolidation)[1]	**(15.59) cents**	(7.29) cents
(b) Diluted loss per share		
Overall operations (pre consolidation)	**(5.20) cents**	(2.43) cents
Overall operations (post consolidation)[1]	**(15.59) cents**	(7.29) cents
(c) Reconciliation of loss used in calculating loss per share		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic loss per share	**(88,103,356)**	(40,282,130)
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(88,103,356)**	(40,282,130)
	Number of shares 2013	**Number of shares 2012**
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share		
Pre consolidation	**1,695,433,051**	1,656,974,838
Post consolidation[1]	**565,144,637**	552,324,946
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive loss per share		
Pre consolidation	**1,695,433,051**	1,656,974,838
Post consolidation[1]	**565,144,637**	552,324,946

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 42,333,191 options as at 31 December 2013 (2012: 39,726,524 options). These options have not been included in the determination of basic loss per share because they are considered to be anti-dilutive.

1 Following shareholder approval at a General Meeting of Shareholders on 8 January 2014, the Company completed a share consolidation, which was effective 3 February 2014. All securities, including ordinary shares on issue and all options on issue, were consolidated on the following basis:
(a) every three shares consolidated into one share; and
(b) every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.

25. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	31 December 2013 US$	31 December 2012 US$
Statement of financial position		
Current assets	**74,108,885**	36,212,401
Non-current assets	**957,479,277**	937,620,390
Total assets	**1,031,588,162**	973,832,791
Current liabilities	**(952,061)**	(176,498)
Total liabilities	**(952,061)**	(176,498)
Shareholders' equity		
Issued capital	**971,594,874**	971,594,874
Reserves	**58,793,078**	55,522,662
Accumulated gains / (losses)	**248,149**	(53,461,243)
	1,030,636,101	973,656,293
Net gain / (loss) for the year	**53,709,393**	(13,674,090)
Total comprehensive loss	**53,403,400**	(9,388,484)

(b) Guarantees entered into by the parent entity

Senegal Project

The Company has a US$10 million minimum work commitment guarantee on exploration Block Rufisque Offshore Profond ("ROP") and a US$10 million minimum work commitment guarantee on exploration Block Senegal Offshore Sud Profond ("SOSP").

Sierra Leone Project

The Company has a US$10m parent entity guarantee on exploration Block SL-04A.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current year (31 December 2012: nil).

Directors' Declaration

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

In the opinion of the Directors:

(a) the financial statements and notes of African Petroleum Corporation Limited for the year ended 31 December 2013 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2013 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 2013.

Signed in accordance with a resolution of the Directors:

Mark Ashurst
Director
London, 14 March 2014

Independent Auditor's Report to the Members
of African Petroleum Corporation Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of African Petroleum Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity compromising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

INDEPENDENCE

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Directors' report.

OPINION

In our opinion:

(a) the financial report of African Petroleum Corporation Limited is in accordance with the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 in the financial report. The conditions as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the Directors' report for the year ended 31 December 2013. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Independent Auditor's Report to the Members
of African Petroleum Corporation Limited (continued)

OPINION

In our opinion, the Remuneration Report of African Petroleum Corporation Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

DS Lewsen
Partner
Perth
14 March 2014

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DL:DR:AFRICAN PETROLEUM:038

Additional Shareholder Information

ADDITIONAL STOCK EXCHANGE INFORMATION

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

The Company's registered and principal place of business is 32 Harrogate Street, West Leederville, Western Australia 6007 Australia.

SHAREHOLDING

The distribution of members and their holdings of equity securities in the Company as at 3 March 2014 were as follows:

Category (size of holding)	Holders	Units
1 – 1,000	526	155,023
1,001 – 5,000	163	447,335
5,001 – 10,000	30	228,516
10,001 – 100,000	50	2,011,870
100,001 – over	58	600,153,892
Total	**827**	**602,996,636**

EQUITY SECURITIES

There are 827 shareholders, holding 602,996,636 fully paid ordinary shares.

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

The number of ordinary shareholdings holding less than a marketable parcel is 591.

OPTIONS

The Company currently has the following options on issue:

(a) 4,566,672 unlisted options exercisable at A$1.65 expiring on 31 July 2017;
(b) 2,972,175 unlisted options exercisable at A$1.65 expiring on 30 June 2015;
(c) 2,292,784 unlisted options exercisable at A$0.90 expiring on 17 January 2017 (subject to vesting conditions);
(d) 6,667 unlisted options exercisable at A$3.00 each on or before 27 March 2017;
(e) 3,334 unlisted options exercisable at A$0.90 each on or before 27 March 2017;
(f) 91,667 unlisted options exercisable at A$1.65 each on or before 27 March 2017;
(g) 83,334 unlisted options exercisable at A$3.00 each on or before 31 July 2017;
(h) 130,557 unlisted options exercisable at A$3.00 each on or before 17 January 2017;
(i) 25,001 unlisted options exercisable at A$3.75 each on or before 17 January 2017;
(j) 166,667 unlisted options exercisable at A$3.00 each on or before 8 January 2018;
(k) 22,223 unlisted options exercisable at A$3.75 each on or before 8 January 2018;
(l) 833,334 unlisted options exercisable at various prices on or before 10 April 2015 (subject to vesting conditions);
(m) 2,916,672 unlisted options exercisable at A$0.30 on or before 22 November 2018 (subject to various vesting conditions).

VOTING RIGHTS

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

Options do not carry a right to vote.

Additional Shareholder Information (continued)

SUBSTANTIAL HOLDERS

The names of the substantial shareholders notified to the Company in accordance with section 671B of the Corporations Act as at 3 March 2014 (and the shareholding they held at the time of their notification to the Company) are as follows (the figures are post consolidation):

Fully paid ordinary shareholders	Number	% of held Issued Capital
1. Sarella Investments Limited	210,272,329	34.87
2. M&G Investment Funds	66,986,178	11.11
3. Dundee Corporation	45,792,088	7.59
4. The Capital Group of Companies Inc	41,769,488	6.93

20 LARGEST SHAREHOLDERS

The names of the 20 largest fully paid ordinary shareholders as at 3 March 2014 are as follows:

Name	Number of Fully Paid Ordinary Shares Held	% of held Issued Capital
1. SARELLA INVESTMENTS LIMITED	210,272,329	34.87
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	170,849,217	28.33
3. CITICORP NOMINEES PTY LIMITED	97,919,940	16.24
4. NATIONAL NOMINEES LIMITED	32,372,532	5.37
5. JP MORGAN NOMINEES AUSTRALIA LIMITED	18,144,648	3.01
6. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	12,740,259	2.11
7. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	11,112,198	1.84
8. JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	6,121,221	1.02
9. MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	5,922,999	0.98
10. HIBURG INTERNATIONAL LIMITED	4,258,854	0.71
11. DALSIN HOLDINGS LIMITED	4,008,090	0.66
12. MR ANTONY WILLIAM PAUL SAGE <EGAS SUPERANNUATION FUND A/C>	2,760,275	0.46
13. CS FOURTH NOMINEES PTY LTD	2,742,153	0.45
14. NED GOODMAN INVESTMENT COUNSEL LIMITED	1,959,749	0.33
15. PATICOA NOMINEES PTY LTD <UNPAID A/C>	1,637,000	0.27
16. FITEL NOMINEES LIMITED	1,389,526	0.23
17. CARRYTAGE HOLDINGS LTD	1,333,334	0.22
18. PERSHING AUSTRALIA NOMINEES PTY LTD <DJ CARMICHAEL ACCOUNT>	1,248,119	0.21
19. MR KARL THOMPSON	1,091,667	0.18
20. LAMINGTON CAPITAL INC	1,076,113	0.18
	588,960,223	**97.67**

Schedule of Exploration Assets

KEY ASSETS

Tenement	Holder/Applicant	Interest Held
OFFSHORE LIBERIA		
BLOCK LB-08	European Hydrocarbons Limited[1]	100%
BLOCK LB-09	European Hydrocarbons Limited[1]	100%
OFFSHORE SIERRA LEONE		
BLOCK SL-03	European Hydrocarbons Limited	100%
BLOCK SL-4A-10	African Petroleum Sierra Leone Limited	100%
OFFSHORE SENEGAL		
BLOCK RUFISQUE PROFOND	African Petroleum Senegal Limited	90%
BLOCK SUD PROFOND	African Petroleum Senegal Limited	90%
OFFSHORE COTE D'IVOIRE		
BLOCK CI-513	African Petroleum Cote d'Ivoire Limited	90%
BLOCK CI-509	African Petroleum Cote d'Ivoire Limited	90%

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

NON-CORE ASSETS

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

Corporate Directory

DIRECTORS
Charles Matthews, Chairman
Dr Stuart Lake, Chief Executive Officer (appointed 1 February 2014)
Mark Ashurst
Gibril Bangura
Jeffrey Couch
Dr David King
James Smith
Timothy Turner
Anthony Wilson

COMPANY SECRETARY
Claire Tolcon

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STOCK EXCHANGE LISTING
National Stock Exchange of Australia
Code: AOQ

Notes

Notes

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