African Petroleum
CORP LTD

HIGH IMPACT EXPLORATION

Annual Report and Accounts 2017

Introduction

African Petroleum is an independent oil and gas exploration Company led by an accomplished Board and management team, with substantial experience in oil and gas exploration, appraisal, development and production

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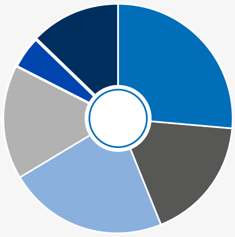
Highlights

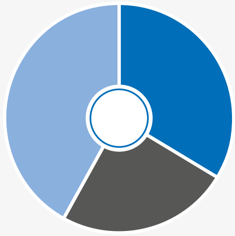
Geographical analysis of investors (%)

- Norway – 26.6
- Sweden – 17.3
- UK – 22.7
- Rest of Europe – 15.9
- North America – 4.9
- Rest of World – 12.6



Net unrisked mean prospective oil resources (bnbbls)

- Sierra Leone – 2.5
- Senegal – 1.8
- The Gambia – 3.1



Return to exploration drilling

- Ayamé-1X well drilled in Côte d'Ivoire with Ophir Energy
- First exploration well drilled since 2013
- Well was drilled in 2,835 metres of water using the West Saturn drill ship
- Gross well cost was less than US$20 million
- No significant hydrocarbons encountered

Sierra Leone extensions

- Collaborative work with the Sierra Leone Petroleum Directorate
- Entry into second extension periods for both SL-03-17 and SL-4A-17, with modified work programmes
- Independent Net Unrisked Prospective Resources (mean) upgraded to 2.5 billion barrels (77% increase from the last assessment)
- Farm-out process underway

Portfolio rationalisation

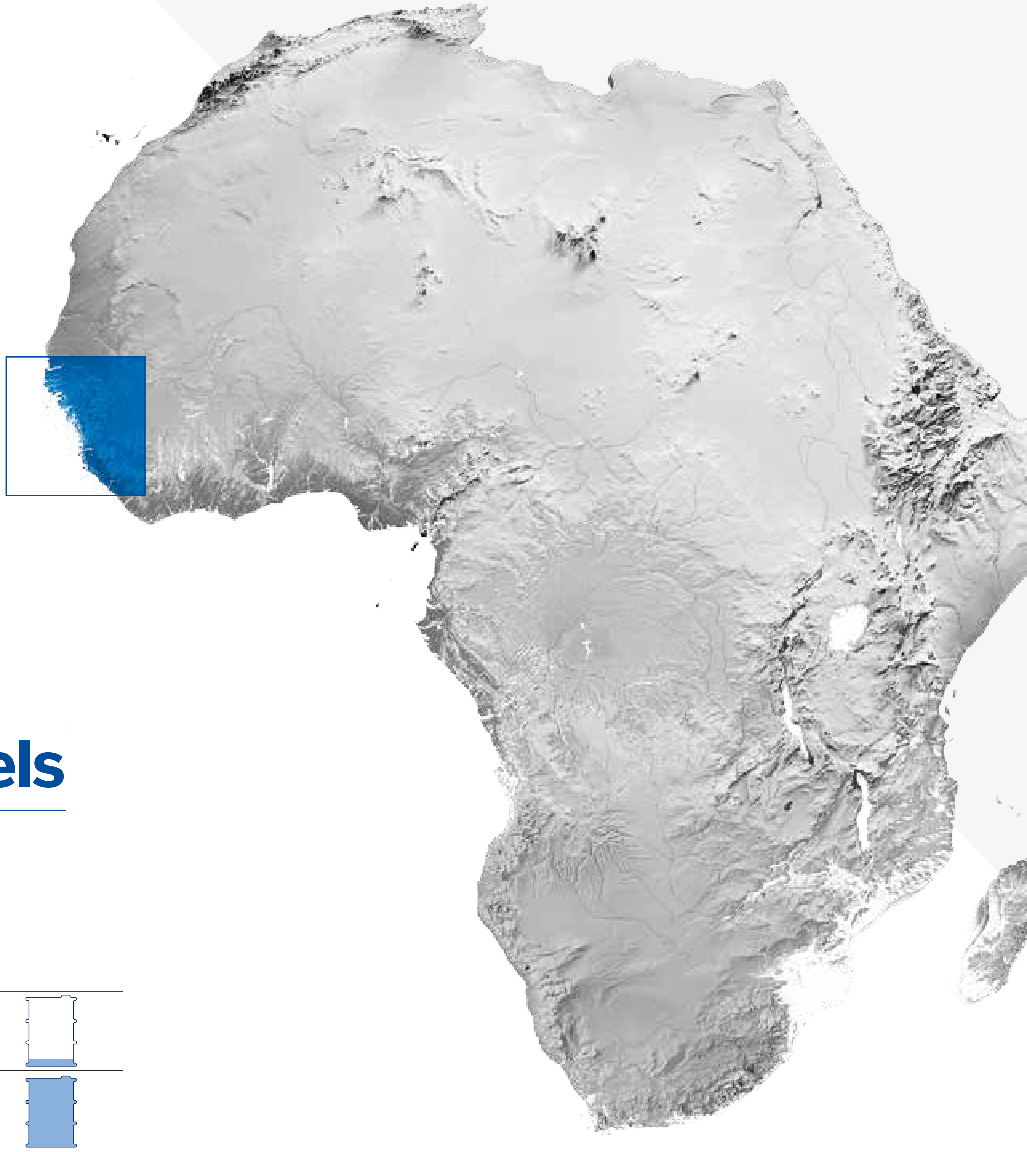
- Review of prospectivity on Côte d'Ivoire blocks undertaken
- Relinquished interests in blocks CI-509 and CI-513 and exited the country
- Prioritisation of assets with the most upside potential

Protecting our assets

- Company is determined to defend historical investments in The Gambia and Senegal
- Requests for arbitration in respect of licences A1 and A4 in The Gambia filed with ICSID in Q4 2017
- Rights reserved in relation to the ROP and SOSP PSCs in Senegal, and remain ready to invoke similar legal rights

What we do

The Company is a significant net acreage holder in **West Africa** with estimated net unrisked mean prospective oil resources of **7.4 billion barrels**



African Petroleum was founded in 2010 and has equity interests in six licences in three countries offshore West Africa: Sierra Leone, Senegal and The Gambia. The Company's assets are located in proven hydrocarbon basins, where several discoveries have been made in recent years, including significant discoveries by Cairn Energy and Kosmos in Senegal and Mauritania.

To date the Company has acquired more than 13,400km^2 of 3D seismic data and participated in the drilling of four exploration wells in the region.

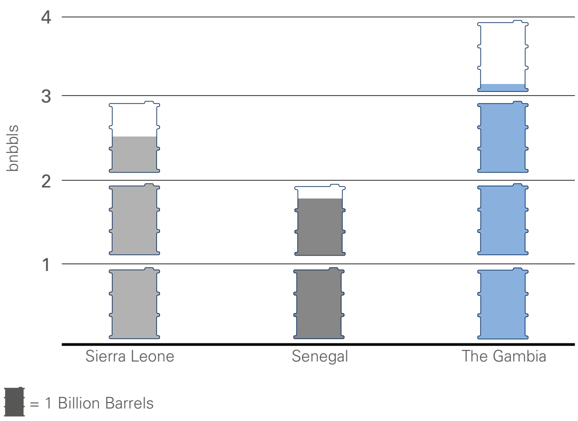
18,845km^2

Total net acreage held in six blocks in Sierra Leone, Senegal and The Gambia

7.4 Billion Barrels

Net mean prospective oil resources (independently assessed)

Oil distribution by country



Where we operate

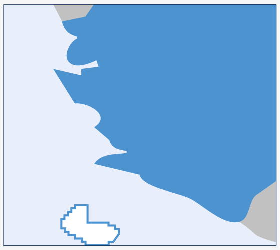
Sierra Leone

The Group holds a 100 per cent operating interest in licences SL-03-17 and SL-4A-17. The Company has acquired 3D seismic data over both licences. In 2011 the Company initiated an extensive 3D seismic survey covering 2,500km², and in 2014 a further 1,000km² of 3D seismic data was acquired over SL-4A-17. A number of significant prospects in the under explored deep water have been identified.

Net Offshore Acreage Position km²

Block SL-03-17	962
Block SL-4A-17	995

100%
operating interest



▶ See page **7** for more information

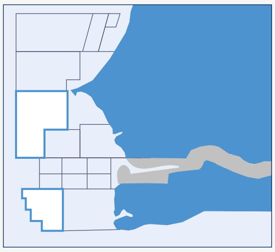
Senegal

The Group holds a 90 per cent operating interest in licences Rufisque Offshore Profond ('ROP') and Senegal Offshore Sud Profond ('SOSP'). African Petroleum has licensed over 10,000km² of 2D seismic data and 5,100km² 3D seismic data over both licences. Both licences are positioned in a high potential exploration area, as demonstrated by third party oil discoveries and successful appraisal wells drilled in the adjacent acreage by Cairn Energy.

Net Offshore Acreage Position km²

Block SOSP	4,895
Block ROP	9,321

90%
operating interest



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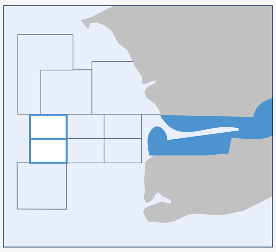
The Gambia

The Group holds a 100 per cent operating interest in licences A1 and A4. The Group has acquired 3D seismic data across both blocks and has found a number of analogue leads and prospects in its acreage similar to that of the recent discoveries and appraisal wells drilled by Cairn Energy in Senegal.

Net Offshore Acreage Position km²

Block A1	1,296
Block A4	1,376

100%
operating interest



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How we operate

Our technology

African Petroleum utilises the latest technology to identify and de-risk prospects ahead of the drill bit, and employs the latest equipment for its offshore drilling operations.

Seismic acquisition and processing

- High quality 3D seismic data acquisition from leading contractors
- PSDM volumes and reprocessing executed for several countries

Geological and geophysical interpretation

- State-of-the-art stratigraphic analyses & workflows
- Rock physics, forward modelling and attributes integrating latest well results
- Regional studies for reservoir distribution and quality
- 3D Basin modelling

Technologies utilised during drilling operations

- In deep water and remote locations, data is reliably obtained and transmitted to the drilling and G&G teams to facilitate rapid decision-making
- 6th & 7th generation semi-submersible rigs and drill ships
- Precise well design and rigorous execution
- Efficient high quality data gathering and evaluation

Partnerships

African Petroleum is a significant acreage holder in West Africa, with high equity positions in all of its licences, offering a unique opportunity to strategic partners to share risk and rewards.

This has been an eventful year in which African Petroleum reshaped its portfolio of assets and returned to drilling activity. The key focus throughout the year has been on protecting our licences in The Gambia and Senegal, in line with our contractual rights within our PSCs.

Whilst the situation with the Gambia and Senegal licences remains fluid and ultimately outside of our control, we have taken all proactive measures to safeguard our historic investment in these licences, remain resolute in our legal position regarding operatorship, and are cautiously optimistic that we will see positive developments in the current year.

Portfolio rationalisation

In the first half of the year, we were pleased to return to drilling activity as we participated in the Ayamé-1X exploration well in Côte d'Ivoire alongside our partner Ophir Energy who operated the well. Ultimately the well was unsuccessful and, following substantial technical analysis of the well results, we concluded in early 2018 that the remaining prospectivity of the CI-513 block did not represent a compelling enough investment opportunity to maintain our interest in the licence moving forwards and we duly did not proceed into the next phase of the PSC. We also decided to relinquish the CI-509 having been unable to find a partner for that licence with the current phase of the PSC. Whilst it was regrettable to exit Cote d'Ivoire, we have no doubt that it is the right decision for the Company and its shareholders as we prioritise our portfolio and focus our financial and human resources on the assets where we see the most upside potential moving forward. After a hiatus of five years without drilling, it was exciting for the Company to return to its essence of exploring high impact exploration targets.

Sierra Leone

A materially positive event within the year was the extension of our licences in Sierra Leone in December. By entering the second extension periods for both SL-03-17 and SL-4A-17, we retain material exposure to exciting licences in a region that is seeing increased industry interest as a result of improving market appetite for deep water exploration activity, and advancements in the technology that facilitates ultra-deep-water drilling at materially lower operating costs. Our renewed excitement about these licences was reinforced shortly after the extensions were granted, after an independent assessment of resources verified the high prospectivity of the licences. We are currently engaged in preliminary discussions with potentially interested parties and hope to progress those discussions towards a commercial outcome in the coming year as we seek a partner to share the risk and reward of these interesting licences.

Dispute provisions

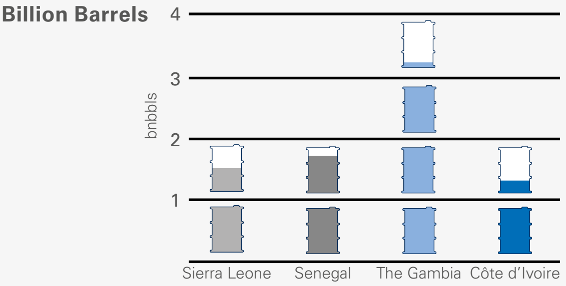
Following extensive and frustrating efforts throughout the year to progress discussions with the relevant authorities of The Gambia regarding the A1 and A4 licence terms and obligations, including what we deemed to be progressive meetings with President Barrow, we decided in October that it was necessary for African Petroleum to commence legal proceedings in order to protect our interests in these high value licences. As such, we lodged Requests for Arbitration with the International Centre for the Settlement of Investment Disputes ('ICSID') and we look forward to having our case addressed by independent mediators. Our view on our legal position, as defined by the contractual rights within our licences, is unwavering and we remain cautiously optimistic that any subsequent arbitration proceedings will find in our favour. That said, we reiterate our stance that we remain open to engaging in constructive dialogue with the Gambian authorities with a view to establishing a satisfactory solution that is in the interests of all parties.

The year saw frustrating developments with regards to our licences in Senegal. Prior to the expiry date in December of the current phase of our PSC for Senegal Offshore Sud Profond ('SOSP'), the Company lodged an application to enter into the second renewal phase of the contract with the request to make some amendments, namely to exchange the outstanding well commitment in the current phase for a 3D seismic acquisition programme, and to transfer this revised outstanding commitment to the second renewal phase. Despite proactively seeking clarification and acting in accordance with the terms of our PSC, African Petroleum did not receive any response, formal or otherwise, with regards to this application. Taking this into account, and media reports that Total had commenced seismic operations on our other licence in Senegal Rustique Offshore Profond ('ROP'), we decided that it would again be necessary to protect our investments through legal channels. Post year end, we engaged the services of a Paris-based law firm with extensive experience in this space, and formal notices of dispute were lodged with the Senegalese authorities in respect of the SOSP and ROP PSCs. As of the time of writing this report, we are nearing the deadline after which the dispute will be escalated to arbitration proceedings.

Our portfolio – evolution of estimated net unrisked prospective oil resources (ERC Equipoise, excluding Liberia)

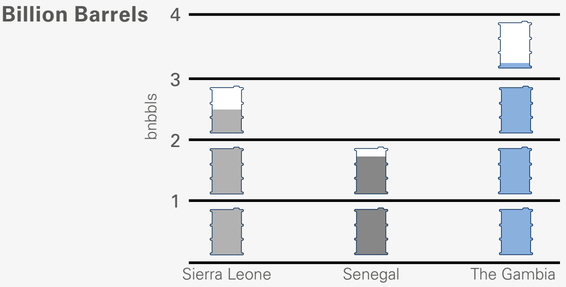
2015–2016

7.5



2017

7.4



= 1 Billion Barrels

It is certainly with regret that our prized assets in both Senegal and The Gambia have been shrouded in such uncertainty. The Company has invested a significant amount of capital into both countries and progressed the licences through technical work. We have also made significant efforts to bring in suitable partners for all of these licences and were successful in agreeing Heads of Terms across both countries, only for the uncertainty over licence extensions to derail formal conclusion of a commercial agreement. It is worth emphasising that our efforts to find partners to drill the prospects within these exciting licences were significantly hampered by severe market conditions for offshore exploration activity since 2014, as well as a change of administration in both countries which resulted in uncertainty and delays with regards to our progression of farmout negotiations.

What is certain though beyond a shadow of a doubt, is that we would not be progressing with arbitration proceedings if we did not feel that we had a strong case based on the legal rights of our PSCs. Furthermore, we would not be progressing down this route if we did not feel it was necessary and in the best interest of our Company and its shareholders. Whilst we fully appreciate the frustration and concern caused by the fluidity and uncertainty of these events, shareholders should rest assured that we have worked tirelessly to progress the discussions to a positive outcome, and will update our shareholders as and when there are material updates that we can provide to the market.

Outlook

Given the uncertain timings and outcomes for the disputes in Senegal and The Gambia, it is difficult for the Board to provide any sort of outlook with confidence. There are numerous scenarios that could play out in terms of resolution, and any positive outcome would represent a material catalyst for African Petroleum. The Company is well capitalised and has continued to focus on strict capital discipline to ensure the preservation of our ability to fund our legal disputes and progress our activities in Sierra Leone. We may also consider some new opportunities that require limited capital outlay but provide us with opportunities to add value through our technical capabilities.

The outcomes of the aforementioned disputes represent the most significant developments in the Company's history and we hope to report positive developments throughout the coming year. I thank the management team for their commitment and dedication in the face of such adversity, and I thank our shareholders for their support and patience.

David King
Chairman

Chief Executive's statement

The Board and management team remain determined to secure shareholder value from the Company's exploration portfolio by defending our investments in The Gambia and Senegal.

Highlights:

- Return to exploration drilling with the Ophir Energy operated Ayamé-1X well in block CI-513 in Côte d'Ivoire. Well was completed under budget but did not encounter significant hydrocarbons in the target reservoir.
- Proceeding into the 2nd extension period of the Sierra Leone licences SL-03-17 and SL-4A-17 with a modified work programme to allow for additional de-risking ahead of drilling commitment.
- Filing of requests for arbitration with ICSID to defend the Company's historical investment in the A1 and A4 licences of The Gambia.

2017 was a challenging year, which the Company entered into with high hopes given the schedule to return to exploration drilling in Côte d'Ivoire and significant apparent progress in our partnering strategy across The Gambia and Senegal licences.

As it transpired, the outcome of these activities in the course of the year tested our resilience and highlighted the inherent risks associated with exploration activity in emerging basins. The Ophir Energy operated Ayamé-1X well resulted in a dry hole, and the Company's partner-backed proposals in The Gambia and Senegal did not achieve timely government approvals in the context of increasing competition for our acreage from other companies.

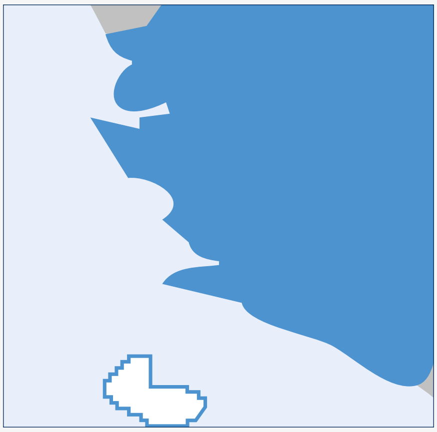
The Board and management team remain determined to secure shareholder value from the Company's exploration portfolio by defending our investments in The Gambia and Senegal. Requests for arbitration in respect of the dispute over the A1 and A4 licences in The Gambia were filed during the 4th quarter 2017. In Senegal, at the time of publication of this report, we await clarity regarding the government's position but remain ready to invoke similar legal rights in respect of our licences. Based upon the legal advice that we continue to receive regarding our position across these licences, we are confident that these steps are wholly appropriate, legally valid and will lead to a successful outcome for the Company. We are; however, pragmatic about the complexity, length and uncertain outlook of such processes, but remain steadfast in our belief that our decision to proceed along this path is in the best interest of our shareholders. Importantly, we are well funded to maintain this course until we achieve a satisfactory outcome. We remain open to meet with the respective governments to discuss a way forward that avoids the unnecessary waste inherent in these legal processes.

In Sierra Leone, as the year came to a close, the Company's collaborative work with the Petroleum Directorate was rewarded with agreements to proceed into the next licence period with modified work programmes. Our technical team are working on refining the description of the material exploration prospects we have identified in these blocks to support our partnering strategy. In parallel, the government of Sierra Leone are conducting a licensing round which has helped attract attention to the regional potential of the ultra-deep-water play both in our licence areas and surrounding open blocks.

Looking forward to the remainder of 2018 and beyond, the management team are focused on defending our legal rights in respect of The Gambia and Senegal, with the objective of securing a continuance of the Company's licence interests. We will progress our work in Sierra Leone in support of a decision point at the end of October regarding future drilling commitments. It is our hope that this decision can be made jointly with one or more partners that are willing to participate in this exciting large-scale exploration opportunity. While maintaining capital discipline in order to prioritise the above activities, the Company is actively considering new venture exploration opportunities and potential portfolio transactions with third parties. We look forward to reporting on our progress in all these areas in the coming months.

Jens Pace
Chief Executive Officer
African Petroleum Corporation Limited

Review of operations



1,957km²
Net Acreage

- 100% working interest in offshore licences SL-03-17 and SL-4A-17
- Significant 3D and 2D seismic data acquired over the licence area
- Entry into second extension periods for both blocks, with modified work programmes

2.5 Billion Barrels
Net Unrisked Mean Prospective Oil Resources

Sierra Leone Project:
Blocks SL-03-17 & SL-4A-17

Licence overview

In Sierra Leone, the Group holds a 100 per cent operated working interest in offshore licences SL-03-17 and SL-4A-17 (the 'Sierra Leone Licences'). African Petroleum was awarded a 100 per cent interest in SL-03-17 in April 2010, while licence SL-4A-17 was awarded as part of Sierra Leone's third offshore licensing round in 2012. The Group's Sierra Leone Licences cover a combined net acreage of 1,957km² and are located to the south of Freetown, offshore Sierra Leone.

In December 2017, the Group signed agreements with the Petroleum Directorate Sierra Leone to enter into the second extension periods of the SL-03-17 and SL-4A-17 licences and to modify the work programme obligations therein. The second extension period will expire on 23 April 2019 for the SL-03-17 licence and on 17 September 2019 for the SL-4A-17 licence should the Group commit, prior to 1 November 2018, to drilling one exploration well in each licence area during the remaining term of the respective licence.

The ultra-deep water (3,000–3,600 metres) setting of these licences has received limited industry interest during the low oil price environment in the last few years. However, the Group has recently experienced increased industry interest in this acreage due to technology improvements and cost reductions in ultra-deep-water drilling together with the materiality of the prospects identified by the Group on the licences. Accordingly, the Company is engaging in preliminary discussions with interested industry players with a view to potentially partnering on future activities relating to these licences.

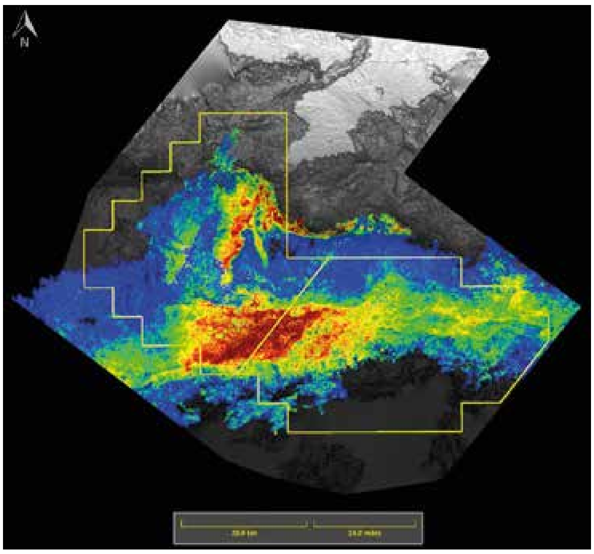
Licence activity

Since gaining operatorship of the Sierra Leone Licences, African Petroleum has acquired approximately 2,500km² of 3D seismic data over block SL-03-17 and approximately 1,000km² of 3D seismic data over block SL-4A-17. In addition, the Company has purchased regional 2D seismic data in western Sierra Leone.

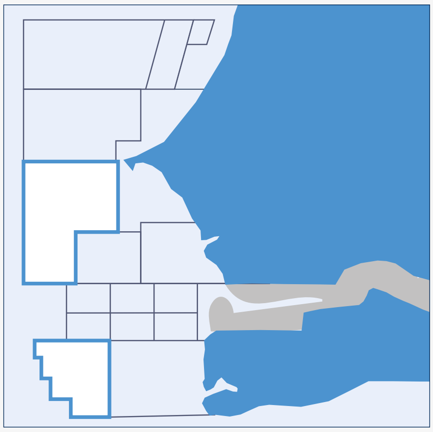
During the year the Group worked with ERC Equipoise to re-assess the prospective oil resources on the SL-03-17 and SL-4A-17 licences through the inclusion of two new material prospects: Leo and Vega. On 21 December 2017 the Company issued upgraded prospective resources for the Sierra Leone Licences:

Mean ('MMstb')		% Increase in Net Risked Prospective Oil Resources from March 2015 ERCE Letter
Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources	
2,530	394	76.6%

Key prospect amplitude map



Senegal Project:
Blocks ROP & SOSP



14,216km²

Net Acreage

- 90% working interest in offshore licences ROP and SOSP
- Multiple prospects analogous to Cairn Energy operated oil discoveries each approx. 1 billion barrels in place (with 3.5 bnbbls follow up potential)
- Basin opening Kosmos multi-TCF gas discoveries in Mauritania and Senegal in 2015–2016
- Despite media reports that Total has been issued a new PSC for ROP and is undertaking a seismic acquisition on the block, the Company continues to reserve its rights on the ROP block

1.8 Billion Barrels

Net Unrisked Mean Prospective Oil Resources

Licence overview

In Senegal, African Petroleum Senegal Limited holds a 90 per cent operated working interest in exploration blocks Rustique Offshore Profond ('ROP') and Senegal Offshore Sud Profond ('SOSP') (together the 'Senegal Licences'). The National Oil Company Petrosen, holds the remaining 10 per cent equity. The Company's Senegal Licences are located offshore southern and central Senegal, with a net acreage of 14,216km².

Licence activity

As part of the initial licence entry, the Company purchased 10,000km² of 2D seismic data over its Senegal Licences and compiled an extensive regional database. In addition, in May 2012, the Company completed a 3,600km² 3D seismic acquisition over the SOSP licence block. In the ROP block an existing seismic dataset (2007 vintage) covering 1,800km² was purchased from Petrosen and then reprocessed to enable better regional well ties and geological understanding. Several large Cretaceous turbidite fan 'leads' have already been identified, these have been matured to prospects as the reprocessed data has been evaluated and included in the updated ERC Equipoise letter released in March 2015. The independently assessed leads and prospects estimates the net unrisked mean prospective oil resources at 1,779MMStb.

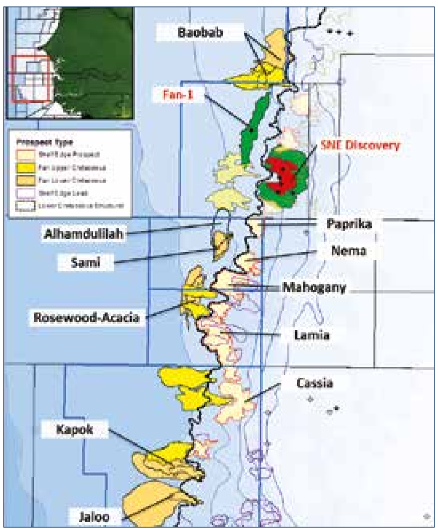
Current licence status

As announced on 18 December 2017, the term of the first renewal phase of the SOSP PSC expired on 15 December 2017. Prior to the expiry of the current phase, and in accordance with the terms of the PSC, the Company lodged an application ('PSC Application') to enter into the second renewal phase of the contract, and also requested to exchange the outstanding well commitment in the current phase for a 3D seismic acquisition programme, and to transfer this revised outstanding commitment to the second renewal phase. The Company has yet to receive any response to the PSC Application.

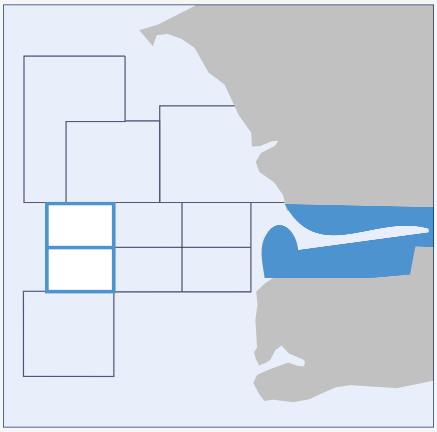
The Company notes recent media reports that Total has been issued a new PSC for ROP and is undertaking a seismic acquisition on the block. The Company continues to reserve its rights on the ROP block.

The Company has engaged the services of a Paris-based law firm to provide legal advice on the Company's contractual rights under the SOSP and ROP PSCs, and in January 2018 formal notices of dispute were lodged with the Senegalese authorities. In the event that the parties are unable to resolve the disputes then there are arbitration provisions within the PSCs that can be utilised by the Company in order to protect its interests.

Key African Petroleum prospects



The Gambia Project:
Blocks A1 & A4



2,672km²
Net Acreage

- 100% working interest in offshore licences A1 and A4
- Extensive 3D seismic acquired over A1 and A4
- Multiple prospects analogous to Cairn Energy operated FAN and SNE discoveries
- In October 2017, the Group initiated arbitration proceedings with ICSID to protect its interests in the A1 and A4 licences

3.1 Billion Barrels
Net Unrisked Mean Prospective Oil Resources

Licence overview

African Petroleum holds a 100 per cent operated working interest in offshore licences A1 and A4. The Company has completed a significant 3D seismic survey with data covering 2,500km^2 and has found a number of analagous leads and prospects in its acreage to that of the recent discoveries and appraisal wells drilled by Cairn Energy in Senegal.

The initial exploration phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The Company was unable to meet this drilling commitment and lodged a proposal with the Government of The Gambia regarding the transfer of the outstanding drilling commitment into the next phase of the licences (the first extension exploration period) and entry into the first extension exploration period on both licences.

Licence activity

The Company has identified leads and prospects in the Gambian Licences, many of which are on trend with the discoveries made at FAN and SNE by the Cairn Energy operated group in Senegal.

An assessment of prospective oil resources attributable to the Company's Gambian Licences by independent petroleum consultant ERC Equipoise estimates the net unrisked mean prospective oil resources at 3,079MMStb.

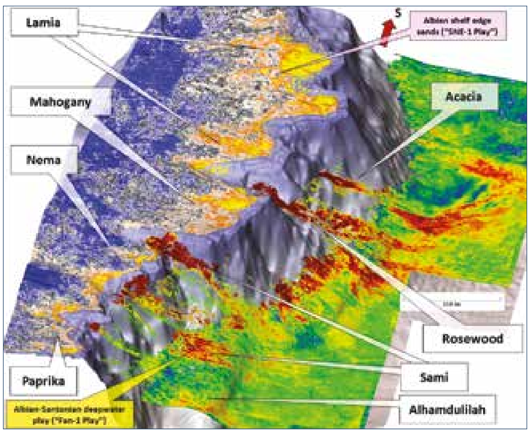
This part of the Atlantic Margin has become highly active with the recent exploration success of third party operators, namely Cairn Energy in Senegal and Kosmos in Senegal and Mauritania. A significant level of activity in the region is ongoing as both Cairn Energy and Kosmos continue successful multi-well exploration and appraisal programmes in the area.

Arbitration proceedings

As announced on 18 October 2017, the Company's wholly-owned subsidiaries African Petroleum Gambia Limited and APCL Gambia B.V. have lodged Requests for Arbitration documents with the International Centre for the Settlement of Investment Disputes ('ICSID') in order to protect its interests in the A1 and A4 licences in The Gambia.

The Company remains open to engaging in constructive dialogue with the Gambian authorities with a view to establishing a satisfactory solution that is in the interests of all parties.

View of The Gambia 3D from North



We remain well funded and can comfortably cover our legal costs associated with Senegal and The Gambia, whilst also funding the initial exploration activity in Sierra Leone.

2017 results overview

The Company's focus during 2017 was to fulfil the drilling commitment of the Ayamé-1X well in Côte d'Ivoire with our partner Ophir Energy, raise additional funds to enable the Company to strengthen its balance sheet and to take necessary actions in order to protect its interests in the high impact licences held in The Gambia and Senegal.

The 2017 loss after tax of US$35 million (2016: loss of US$2.6 million) included US$9.9 million of exploration and evaluation expenditure (2016: $8.9 million) and US$18.4 million of impairment charges (2016: US$8.9 million) – refer below for further details.

Private placements

On 23 January 2017 the Company completed a private placement to certain existing and new investors to raise NOK 26,675,000 (approximately US$3.1 million) (before costs) through the issue of 10,670,000 new fully paid ordinary shares at a price of NOK 2.50 per share.

On 12 May 2017 the Company completed a further private placement to certain existing and new investors to raise NOK 257,687,500 (approximately US$30 million) (before costs) through the issue of 33,250,000 new fully paid ordinary shares at a price of NOK 7.75 per share.

The proceeds from the two private placements were used to strengthen the Company's balance sheet and liquidity position, to fund the Company's ongoing exploration programme, including the Ayamé-1X exploration well drilled in Côte d'Ivoire in May 2017, as well as for working capital and for general corporate purposes.

Exploration & evaluation expenditure

During 2017, the Company returned to offshore drilling with the Ayamé-1X exploration well being spud on 29 April 2017 on the CI-513 licence (Ophir Energy (Operator) 45 per cent, African Petroleum 45 per cent, Petroci 10 per cent) in Côte d'Ivoire using the Seadrill West Saturn drillship. On 15 May 2017, the Company announced the Ayamé-1X well had reached total depth of 5,394 metres with no significant hydrocarbons being encountered, and the well was plugged and abandoned as a dry hole. The Company invested US$9.9 million during 2017 towards the drilling of the Ayamé-1X exploration well which fulfilled the work commitment in the current phase of the licence (2016: a credit amount of US$9.9 million for exploration and evaluation activities).

Impairments, other items and expenses

The Group recognised impairment charges of US$18.4 million during the year (2016: $8.6 million). US$8.6 million of the impairment charges were recognised in respect of exploration and evaluation expenditure in Côte d'Ivoire after consideration of several factors including ongoing discussions with partners, current tenure and future exploration commitments; US$9.8 million of the impairment charges were recognised in respect of exploration and evaluation expenditure in Senegal and The Gambia after consideration of several factors including ongoing discussions with potential partners, current tenure and future exploration commitments.

Other items for the year included US$0.1 million for net unrealised gains on fair value of financial liabilities (2016: US$0.4 million).

Other expenses incurred during the year totalled US$7 million (2016: US$4.2 million). Included in other expenses is employee benefits of US$4.4 million (2016: US$2.5 million) which includes a charge of US$1.7 million for share-based payments (2016: US$0.7 million) and US$1 million that was in relation to withheld salaries for the period December 2015 to April 2017, with the net amounts being re-invested by all Directors, senior management and staff in shares in the Company.

Also included in other expenses is consulting expenses of US$1.4 million (2016: US$0.9 million) which includes a charge of US$0.4 million in relation to legal fees and arbitration costs for Senegal and The Gambia.

Capital expenditure

During the year, the Group incurred exploration and evaluation expenditure of US$0.5 million invested in maintaining the licences through the payment of annual licence fees, surface rental fees and training and social welfare obligations in accordance with the various licence agreements (2016: US$5.9 million).

Listing on Oslo Axess, Norway

The Group maintains a primary listing on the Oslo Axess, a regulated market of the Oslo Børs where it has been listed since 28 May 2014.

Accounting policies
The Company is an Australian incorporated Company listed on the Oslo Axess, a regulated market of the Oslo Børs. The Group is required to comply with the requirements of the Australian 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 financial report also complies with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Substantial shareholdings
As at 30 April 2018, the Company has been notified of the following substantial holdings in the Company's ordinary share capital:

Shareholder	Number of Shares	% of Issued Capital
M&G Investment Mgmt	22,565,018	14.5
Nordnet Bank	20,840,863	13.4
Sarella Investments Limited	17,612,901	11.3

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 for at least 12 months from the date of this annual report.

Post year-end events
On 8 March 2018, the Company announced that the post-well analysis work of the Ayamé-1X exploration well had been completed and it was concluded that the remaining prospectivity of the CI-513 block did not represent an attractive investment opportunity that would justify continuing the licence. Therefore, the operator had given notice to the Côte d'Ivoire authorities that the partners will not proceed past the expiry of the current phase of the licence on 16 March 2018.

Financial strategy and outlook for 2018
During 2018, the financial strategy of the Company is to continue to protect our significant investments in The Gambia and Senegal by utilising the dispute resolution clauses of the respective contracts to their full extent. We have the necessary financial resources to pursue this course of action; however, we remain hopeful that the governments of The Gambia and Senegal will engage in constructive dialogue to establish a satisfactory solution that is in the interests of all parties. In the meantime, our operational focus will be on our two deep water Sierra Leone licences, an area that is seeing renewed industry interest and where a recent independent report highlighted the large prospectivity of our acreage. We remain well funded and can comfortably cover our legal costs associated with Senegal and The Gambia, whilst also funding the initial exploration activity in Sierra Leone.

Stephen West
Chief Financial Officer
African Petroleum Corporation Ltd

Board of Directors

David King
Non-executive Chairman

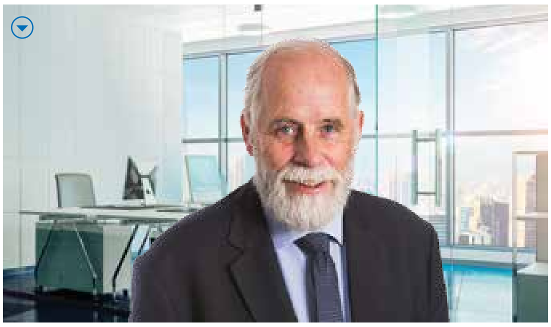
Qualifications
MSc in Geophysics from Imperial College, London, and a PhD in Seismology from the Australian National University, Canberra.

Dr King is a professional geoscientist and has over 35 years of experience in oil and gas and other natural resources industries. After an early career in research/academia, including two years as Research Fellow at the Norwegian Seismic Array facility at Kjeller, he has worked in oil and gas exploration in a wide range of countries. Dr King is currently Non-executive Chairman of three ASX listed companies: Galilee Energy Limited, Cellmid Limited and Litigation Capital Management Ltd. Dr King is a Fellow at the Australian Institute of Company Directors, the Australian Institute of Geoscientists, and Australasian Institute of Mining & Metallurgy.

Jens Pace
CEO & Executive Director

Qualifications
BSc in Geology and Oceanography from the University of Wales and an MSc in Geophysics from Imperial College, London.

Mr Pace is a professional geoscientist, who has had a career spanning over 30 years with BP and its heritage company Amoco. Mr Pace has worked on exploration and production projects in many basins across the world but has substantial experience of operating exploration and development projects in Africa. Mr Pace joined African Petroleum as Chief Operating Officer in October 2012 and was promoted to Chief Executive Officer in September 2015.



Bjarne Moe
Non-executive Director

Qualifications
Economics degree from the University of Oslo.

Mr Bjarne Moe has over 35 years of experience in the oil and gas industry including being the former Director General of the Oil and Gas Department of the Ministry of Petroleum, Norway. Since 2011, Mr Moe has been an advisor to the oil and gas industry and has had several large, international companies as clients.

Timothy Turner
Non-executive Director

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

Mr Turner is a senior partner with Australian accounting and advisory firm, HTG Partners. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner 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.

Stephen West
CFO & Executive Director

Qualifications
Qualified Chartered Accountant with BA of Commerce (Accounting and Business Law) from Curtin University of Technology in Australia.

Mr West has over 23 years of financial and corporate experience gained in public practice, oil and gas, mining and investment banking spanning Australia, United Kingdom, Europe, CIS and Africa. Mr West is currently Non-executive Chairman of ASX listed Zeta Petroleum plc. Mr West joined African Petroleum in October 2013.

Key management personnel

Michael Barrett
Exploration Director

Qualifications
BSc in Geology & Geophysics from Durham University and a MSc in Petroleum Geology & Geophysics from Imperial College, Royal School of Mines.

Mr Barrett has over 20 years global exploration experience from his career at Chevron, and Addax/Sinopec International. Michael has held a variety of technical roles covering exploration and new ventures, and was part of Chevron's global Exploration Review Team, specialising in Play and Prospect risk assessment, volumetric analysis, commercial evaluation and portfolio management. Michael also brings added strength to the team with his background in quantitative geophysics, stratigraphic interpretation workflows and 3D visualisation.

Chris Butler
Group Financial Controller

Qualifications
Qualified Chartered Accountant with BSc in Physics from University of Warwick.

Mr Butler is a qualified Chartered Accountant. Chris completed his ACA training with the London practice Bright Grahame Murray. Since joining African Petroleum in 2010, Chris has been responsible for all financial reporting obligations and petroleum cost reporting for the exploration licences held by the Group.

Directors' report

Your Directors present their report on African Petroleum Corporation Limited ('African Petroleum' or the 'Company') for the year ended 31 December 2017.

Directors

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

Dr David King	Non-executive Chairman
Mr Jens Pace	Executive Director and Chief Executive Officer
Mr Stephen West	Executive Director and Chief Financial Officer
Mr Bjarne Moe	Non-executive Director
Mr Timothy Turner	Non-executive Director
Mr Anthony Wilson	Non-executive Director, resigned 12 April 2018

Company Secretary

Ms Angeline Hicks

Principal activity

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

Review of operations

Corporate

Private placements

On 23 January 2017, the Company completed a private placement to certain existing and new investors to raise NOK 26,675,000 (approximately US$3.1 million) (before costs) through the issue of 10,670,000 new fully paid ordinary shares at a price of NOK 2.50 per share.

On 12 May 2017, the Company completed a further private placement to certain existing and new investors to raise NOK 257,687,500 (approximately US$30 million) (before costs) through the issue of 33,250,000 new fully paid ordinary shares at a price of NOK 7.75 per share.

The proceeds from the two private placements were used to strengthen the Company's balance sheet and liquidity position, to fund the Company's ongoing exploration programme, including the Ayamé-1X exploration well drilled in Côte d'Ivoire in May 2017, as well as for working capital and for general corporate purposes.

Change in auditor

On 19 January 2017, the Company appointed BDO Audit (WA) Pty Ltd ('BDO'), a member firm of BDO International Ltd, as auditor of the Company. BDO were selected to replace Ernst & Young as the Company's auditors for the financial year ending 31 December 2016 and subsequent financial years on the basis that BDO are more aligned to the Company's current operations and to the Company's continued strategy to reduce corporate costs.

Arbitration proceedings – The Gambia

On 18 October 2017, the Company announced that its wholly-owned subsidiaries African Petroleum Gambia Limited and APCL Gambia B.V. had lodged Requests for Arbitration ('RFA') documents with the International Centre for the Settlement of Investment Disputes ('ICSID') in order to protect its interests in the A1 and A4 licences in The Gambia, and that these RFAs had been registered and allocated case numbers by ICSID. On 26 March 2018, the tribunals for the two contractual cases were constituted; however, no arbitration hearings had yet taken place.

Operational updates

Farm-out update

African Petroleum seeks to build on the success of attracting Ophir Energy plc as a partner on the CI-513 Licence in Côte d'Ivoire in 2016 by forming other strategic partnerships to explore the Company's blocks in Senegal, The Gambia, and Sierra Leone. The strategy, supported by detailed technical work and prospect definition, is to use the significant equity held in this prospective portfolio to fund a high impact exploration drilling campaign.

On 18 April 2017, the Company announced that it had signed non-binding heads of terms ('Heads of Terms') and a binding exclusivity agreement ('Exclusivity Agreement') with a well-funded, listed oil and gas company with a strong track record in off-shore deep-water drilling. The Heads of Terms and Exclusivity Agreement provided a framework for the incoming third party to secure a 70 per cent operated interest in the Company's SOSP production sharing contract in Senegal and the A1 and A4 licences in The Gambia. In July 2017, the Company allowed the Exclusivity Agreement to lapse due to the dispute with the Gambian government in relation to its interests in the A1 and A4 licences.

At the date of this report the farm-out efforts for The Gambia and Senegal had been suspended due to commencement of arbitration proceedings against The Gambia and uncertainty around the status of the Senegal blocks. A farm-out process is underway with regards to the Company's SL-03-17 and SL-4A-17 licences in Sierra Leone.

Côte d'Ivoire – Ayamé-1X exploration well

On 29 April 2017, the Ayamé-1X exploration well was spud on the CI-513 licence (Ophir Energy (Operator) 45 per cent, African Petroleum 45 per cent, Petroci 10 per cent) in Côte d'Ivoire using the Seadrill West Saturn drillship. The Ayamé-1X well was targeting Santonian and Turonian turbidite channel complexes through a water depth of 2,835 metres.

On 15 May 2017, the Company announced that the Ayamé-1X exploration well had reached total depth of 5,394m True Vertical Depth Sub Sea. Oil shows were recorded in the target reservoirs but significant hydrocarbons were not encountered and the well was plugged and abandoned as a dry hole.

Ophir Energy completed the well safely and under budget with a final gross cost of approximately US$19 million.

Senegal blocks

SOSP

The term of the current first renewal phase of the Senegal Offshore Sud Profond ('SOSP') production sharing contract ('PSC') expired on 15 December 2017. Prior to the expiry of the current phase, and in accordance with the terms of the PSC, the Company lodged an application ('PSC Application') to enter into the second renewal phase of the contract, and also requested to exchange the outstanding well commitment in the current phase for a 3D seismic acquisition programme, and to transfer this revised outstanding commitment to the second renewal phase.

Both prior to and after lodgement of the PSC Application, the Company held several meetings with the relevant authorities in Senegal to discuss the Company's PSC Application. All of these meetings led the Company to believe that the PSC Application would be favourably considered prior to expiry of the current phase.

The Company has received no formal response to the PSC Application; however, at a meeting with the newly appointed Minister of Energy in late 2017, the Company was advised that all decisions pertaining to amendments to PSC's held by all companies in the country are being deferred until the new Petroleum Code is issued, which is expected to be in Q2 2018.

The Directors are disappointed and frustrated with the lack of formal response to the PSC Application and are reviewing options under the PSC in order to protect the Company's contractual rights and to expedite the decision-making process.

ROP

African Petroleum notes a press release by Total on 2 May 2017 where it stated that it had entered into an agreement with the Republic of Senegal that "…involves an exploration and production sharing agreement for the Rufisque Offshore Profond block". The Company reiterates its position that it holds a 90 per cent operated position in the ROP production sharing agreement ('ROP PSC'). Under the terms of the ROP PSC, the block remains active unless and until a termination procedure is enacted by the Republic of Senegal. To date, the Republic of Senegal has not validly enacted such termination procedure, and accordingly the Company reserves its rights under the ROP PSC.

Licence extensions – Sierra Leone

On 5 December 2017, the Company announced that its wholly-owned subsidiaries European Hydrocarbon Limited and African Petroleum Sierra Leone Limited ('Subsidiary Companies') had signed agreements with the Petroleum Directorate Sierra Leone to enter into the Second Extension Periods of the SL-03-17 and SL-4A-17 licences respectively, and to modify the work programmes for both licences during these periods.

The Second Extension Period will expire on 23 April 2019 for the SL-03-17 licence and on 17 September 2019 for the SL-4A-17 licence should the Subsidiary Companies commit, prior to 1 November 2018, to drilling one exploration well in each licence area during the remaining term of the respective licence. During 2018, the Subsidiary Companies will be utilising state-owned well and seismic data, together with existing seismic data, to further de-risk the licences prior to deciding to commit to the drilling of an exploration well on each licence (which must be drilled prior to expiry of the respective Second Extension Period, if the Subsidiary Companies commit to drilling).

Upgraded prospective resources – Sierra Leone

On 21 December 2017, the Company announced an update on behalf of its wholly-owned subsidiaries European Hydrocarbon Limited and African Petroleum Sierra Leone Limited to the prospective oil resources at the 100 per cent owned and operated licence blocks SL-03-17 and SL-4A-17 in Sierra Leone ('Sierra Leone Licences').

The Company engaged the independent petroleum consultant, ERC Equipoise Ltd ('ERCE'), to prepare an updated assessment of prospective oil resources attributable to the Company's Sierra Leone Licences (the 'ERCE Letter'). The ERCE Letter of prospective resources includes six undrilled prospects and estimates the net prospective oil resources relating to the Sierra Leone Licences as follows:

	Mean ('MMstb')		
Licences	Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources	% Increase in Net Risked Prospective Oil Resources from March 2015 ERCE Letter
SL-03-17 and SL-4A-17	2,530	394	76.6%

Exploration activities

The Group is an oil and gas exploration group currently focused on exploration offshore West Africa. The Company's assets are located in fast-emerging hydrocarbon basins. The Company has acquired more than 13,400km^2 of 3D seismic data on its existing and former licences and participated in the drilling of four exploration wells in West Africa. African Petroleum is a significant net acreage holder in West Africa with estimated net un-risked mean prospective resources of approximately 7.4 billion barrels. Table 1 below shows a detailed overview of the Group's licence interests.

Table 1: Summary of licences

Country	Licence	Operator	Working Interest	Grant Date	End Current Phase	Area km^2	Outstanding Commitments in Current Phase
Sierra Leone	SL-03-17	European Hydrocarbons Limited	100%[1]	Apr 2010	Apr 2019	962	Further geoscience and one contingent exploration well[2]
Sierra Leone	SL-4A-17	African Petroleum Sierra Leone Limited	100%[3]	Sep 2012	Sep 2019	995	Further geoscience and one contingent exploration well[2]
Senegal	Rufisque Offshore Profond	African Petroleum Senegal Limited	90%[4]	Oct 2011	Oct 2015[5]	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	African Petroleum Senegal Limited	90%[4]	Oct 2011	Dec 2017[6]	5,439	Further geoscience and one contingent exploration well
The Gambia	A1	African Petroleum Gambia Limited	100%[7]	Sep 2006	Sep 2016[8]	1,296	One exploration well to be drilled on either A1 or A4
The Gambia	A4	African Petroleum Gambia Limited	100%[7]	Sep 2006	Sep 2016[8]	1,376	See above

1 The State of Sierra Leone has a 10 per cent carried interest from the development stage.
2 Contingent on committing, prior to 1 November 2018, to drilling one exploration well.
3 The State of Sierra Leone has a 10 per cent carried interest from the development stage with an option to increase with another 5 per cent participating interest.
4 Société des Pétroles du Sénégal has an option to increase its 10 per cent interest to 20 per cent following exploitation authorisation.
5 The current phase of the ROP licence ended in October 2015; however, the Company has lodged a request for an extension with the Government of Senegal and under the terms of the licence, the block remains active until a termination procedure is enacted by the Republic of Senegal. To date, the Republic of Senegal has not validly enacted such termination procedure.
6 The current phase of the SOSP licence ended in December 2017; however, the Company lodged an application to enter the second renewal phase of the contract, and also requested to exchange the outstanding well commitment in the current phase for 3D seismic acquisition programme and transfer this revised outstanding commitment to the second renewal phase.
7 The Gambia National Oil Company has an option to acquire a 10 per cent participating interest in the licence from the development stage.
8 The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The status of these licences is currently in arbitration managed by the International Centre for the Settlement of Investment Disputes ('ICSID').

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

Senegal

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

The Gambia

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

Sierra Leone

Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Sierra Leone Licences and estimates the net unrisked mean prospective oil resources at 2,530MMStb.

Result

African Petroleum reported a loss after income tax of US$35,019,552 for the year ended 31 December 2017 (2016: US$2,617,616).

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

On 8 March 2018, the Company announced that the post-well analysis work of the Ayamé-1X exploration well had been completed and it was concluded that the remaining prospectivity of the CI-513 block did not represent an attractive investment opportunity that would justify continuing the licence. Therefore, the operator had given notice to the Côte d'Ivoire authorities that the partners will not proceed past the expiry of the current phase of the licence on 16 March 2018.

Likely developments and expected results

as discussed in detail under the Operational Update and Exploration Activities the Company will endeavour to continue its exploration activities and meet its obligations with respect to its interests in its West African projects.

Environmental regulation and performance

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with the relevant environmental regulations when carrying out any exploration work. There have been no significant known breaches of the Company's exploration licence 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

Dr David King	**Chairman**
Qualifications	Dr King graduated from the University of East Anglia with a BSc (Hons) in Class 1 Physics/Mathematics, holds a MSc and D.I.C. in Geophysics from the Imperial College, University of London and a PhD in Seismology from the Australian National University.
Experience	Dr King is a professional geoscientist and has over 35 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 Director of three ASX listed companies, oil and gas exploration company Galilee Energy Limited, biotechnology research and development company Cellmid Limited and Litigation Capital Management Ltd. In a long corporate career, he has also served as Managing Director of ASX listed gold producer North Flinders Mines, and CEO of oil & gas producers Beach Petroleum and Claremont Petroleum. He was more recently Chairman of ASX listed Robust Resources Limited, Chairman of AIM listed Tengri Resources, and Non-executive Director of ASX listed Republic Gold Limited. From 1974–76, Dr King was a Research Fellow with the Royal Norwegian Council for Scientific and Industrial Research ('NTNF'), working on the NORSAR seismic array. Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining & Metallurgy, a Fellow of the Australian Institute of Geoscientists, a member (and past President) of the Australian Society of Exploration Geophysicists, an active member of the Society of Exploration Geophysicists and a member of the Petroleum Exploration Society of Australia.
Interest in shares and options	As at the date of this report, Dr King holds 30,000 shares and 500,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022.
Jens Pace	**Executive Director and Chief Executive Officer**
Qualifications	Mr Pace holds a BSc in Geology and Oceanography from the University of Wales and an MSc in Geophysics from Imperial College, London.
Experience	Mr Pace has a geoscience background and exploration leadership experience gained over a 30-year career with BP and its heritage company Amoco. He joined African Petroleum as Chief Operating Officer in October 2012, and was appointed Chief Executive Officer by the Board in November 2015.
Interest in shares and options	As at the date of this report, Mr Pace holds 1,498,938 shares, 58,334 options with an exercise price of A$3.00 and an expiry date of 22 November 2018, 200,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 350,000 options with an exercise price of NOK 1.70 and an expiry date of 15 November 2020, 1,000,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020, 1,500,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022 and 50,000 performance rights subject to the Company securing a commercial discovery.

Information on Directors continued

Stephen West	**Executive Director and Chief Financial Officer**
Qualifications	Mr West is a qualified Chartered Accountant who holds a Bachelor of Commerce (Accounting and Business Law) from Curtin University of Technology in Australia.
Experience	Mr West has over 23 years of financial and corporate experience gained in public practice, oil and gas, mining and investment banking spanning Australia, United Kingdom, Europe, CIS and Africa. Mr West is currently Non-executive Chairman of ASX listed Zeta Petroleum plc (oil and gas exploration and production company).
Interest in shares and options	As at the date of this report, Mr West holds 1,377,544 shares, 58,334 options with an exercise price of A$3.00 and an expiry date of 22 November 2018, 100,000 options with an exercise price of A$2.40 and an expiry date of 3 June 2019, 200,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 270,000 options with an exercise price of NOK 1.70 and an expiry date of 15 November 2020, 1,000,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020 and 1,500,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022. Mr West's shares and some of the options are held in the name of Cresthaven Investments Pty Ltd, a company in which Mr West has an indirect beneficial interest.
Bjarne Moe	**Non-executive Director**
Qualifications	Degree in Economics from the University of Oslo.
Experience	Mr Moe has more than 35 years experience. He started out in the Ministry of Industry and was transferred to the Ministry of Petroleum and Energy when it was established in 1978. In 1988, Mr Moe was appointed Director General and head of the Oil and Gas department. Furthermore, Mr Moe has been a diplomat working for the Ministry of Foreign Affairs and been counsellor at the Norwegian embassy in Washington, D.C. and Mr Moe has further chaired several international commissions for solving questions regarding median line fields, and international gas and oil pipelines. He has also been heading delegations outside of Norway to solve specific questions and been a mediator for unitization of fields etc. Mr Moe has headed several delegations for OECD ('IEA') and has been a member of the Petroleum Price board for 15 years. Mr. Moe is currently Chairman of Consultor Energy AS, an energy advisory company.
Interest in shares and options	As at the date of this report, Mr Moe holds 10,000 shares, 50,000 options with an exercise price of NOK 4.00 and an expiry date of 28 April 2020, 200,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020 and 200,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022.
Timothy Turner	**Non-executive Director**
Qualifications	B.Bus, FCPA, CTA, Registered Company Auditor.
Experience	Mr Turner is senior partner with accounting and advisory Firm, HTG Partners. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner is also a Non-executive Director of ASX listed entities Cape Lambert Resources Limited and a Non-executive Director of NSX listed International Petroleum Limited.
Interest in shares and options	As at the date of this report, Mr Turner has an interest in 4,167 fully paid ordinary shares and 200,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022.
Anthony Wilson	**Non-executive Director (resigned 12 April 2018)**
Qualifications	Fellow of the Institute of Chartered Accountants in England and Wales, and Fellow of the Chartered Institute for Securities and Investment.
Experience	Mr Wilson has had a long career in a number of senior financial positions. Having qualified as a Chartered Accountant, Mr Wilson initially became a partner in general practice before moving into the investment banking sector initially with Wedd Durlacher Mordaunt & Co, the stockjobber, and then with BZW, the investment banking division of Barclays. Mr Wilson was Finance Director for BZW Securities and BZW Asset Management over a period of 10 years. Following BZW, Mr Wilson held various senior management roles, including as a Director for DAKS Simpson Group plc and as a Non-executive Director for Panceltica Holdings plc.
Interest in shares and options	As at the date of his resignation, Mr Wilson held 10,000 shares, 50,000 options with an exercise price of NOK 4.00 and an expiry date of 3 June 2019, 200,000 options with an exercise price of NOK 1.70 and an expiry date of 22 December 2020 and 200,000 options with an exercise price of NOK 7.75 and an expiry date of 31 May 2022.

Company Secretary

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

Meetings of Directors

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

	Directors' Meetings		Audit Committee Meetings		Continuous Disclosure Committee Meetings		Remuneration Committee Meetings	
Director	**Eligible to Attend**	**Attended**	**Eligible to Attend**	**Attended**	**Eligible to Attend**	**Attended**	**Eligible to Attend**	**Attended**
David King	3	3	1	–	–	–	–	–
Anders Bjarne Moe	3	3	1	1	–	–	–	–
Jens Pace	3	3	–	–	–	–	–	–
Timothy Turner	3	3	–	–	–	–	–	–
Stephen West	3	3	–	–	–	–	–	–
Anthony Wilson	3	2	1	1	–	–	–	–

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, thirteen circulating resolutions were authorised by the Board of Directors.

Indemnifying Directors and officers

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

Indemnification of auditors

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

Options

Unissued shares under option

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

Expiry Date	Exercise Price[1]	US$ Equivalent Exercise Price at 31 December 2017	Number Under Option[1]
15 November 2018	NOK 1.70	US$0.21	502,000
21 November 2018	A$3.00	US$2.34	58,334
22 November 2018	A$3.00	US$2.34	193,338
22 April 2019	A$3.00	US$2.34	17,501
3 June 2019	A$ 2.40	US$1.87	150,000
5 June 2019	A$3.00	US$2.34	20,000
15 December 2019	A$3.00	US$2.34	16,667
28 April 2020	NOK 4.00	US$0.49	1,627,000
15 November 2020	NOK 1.70	US$0.21	1,690,000
22 December 2020	NOK 1.70	US$0.21	2,900,000
11 January 2022	NOK 2.50	US$0.30	213,400
31 May 2022	NOK 7.75	US$0.94	5,750,000
TOTAL			**13,138,240**

Shares issued on the exercise of options

During the current year, 426,667 ordinary shares were issued on the exercise of options (2016: 73,333).

Proceedings on behalf of Company

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

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

Auditor's independence declaration

The auditor's independence declaration for the year ended 31 December 2017 has been received and can be found on page 21 of the annual report.

Non-audit services

Non-audit services were provided by the entity's auditor's BDO, as per Note 6(d). The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

Jens Pace
Director
London, 30 April 2018

Auditor's independence declaration

Declaration of independence by Phillip Murdoch to the Directors of African Petroleum Corporation Limited

As lead auditor of African Petroleum Corporation Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, 30 April 2018

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 per cent of the Board should be independent. Directors of the Company are considered to be independent when they are a Non-executive Director (i.e. not a member of management and have been for the preceding three years), hold less than 5 per cent of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr J Pace, Mr T Turner and Mr S West are not considered independent.

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

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

D King	4 years 6 months	Chairman
B Moe	3 years 6 months	Non-executive Director
J Pace	2 years 5 months	Executive Director
T Turner	10 years 9 months	Non-executive Director
S West	2 years 5 months	Executive Director
A Wilson (resigned 12 April 2018)	7 years 10 months	Non-executive Director

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

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$702,527 (A$900,000) per annum. The Board may award additional remuneration to Non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

Performance

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

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

Code of conduct

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for Directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements which includes highlighting situations which may constitute a conflict of interest for Directors. Directors have a responsibility to avoid any conflict from arising that could compromise their ability to perform their duties impartially. Any actual or potential conflicts of interest must be reported to the Board or superior.

Consolidated statement of comprehensive income

	Note	For the Year Ended 31 December 2017 US$	31 December 2016 US$
Continuing operations			
Revenue	6(a)	**228,692**	210,461
Exploration & evaluation expenditure		**(9,856,447)**	9,943,287
Impairment of exploration and evaluation expenditure	11	**(18,367,865)**	(8,949,626)
Consulting expenses		**(1,423,965)**	(860,541)
Compliance and regulatory expenses		**(242,759)**	(162,877)
Administration expenses		**(572,101)**	(724,561)
Employee benefits	6(c)	**(4,387,472)**	(2,505,712)
Travel expenses		**(476,776)**	(260,293)
Aircraft expenses		**–**	(9,328)
Depreciation & amortisation expense		**(3,387)**	(4,272)
Net unrealised gains on fair value of financial liabilities		**77,645**	414,927
Foreign exchange gain		**4,883**	298,537
Loss from continuing operations before income tax		**(35,019,552)**	(2,609,998)
Income tax expense	5	**–**	(7,618)
Loss for the year from continuing operations		**(35,019,552)**	(2,617,616)
Other comprehensive gains			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve			
Foreign exchange loss on translation of functional currency to presentation currency		**(33,930)**	(216,466)
Other comprehensive gains for the year, net of tax		**(33,930)**	(216,466)
Total comprehensive loss for the year		**(35,053,482)**	(2,834,082)
Loss for the year is attributable to:			
Non-controlling interest		**(399,488)**	(56,660)
Owners of the Parent		**(34,620,064)**	(2,560,956)
		(35,019,552)	(2,617,616)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		**(399,488)**	(56,660)
Owners of the Parent		**(34,653,995)**	(2,777,422)
		(35,053,482)	(2,834,082)
Loss per share attributable to members			
Basic and diluted loss per share	23	**(24.86) cents**	(2.40) cents

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

	Note	As at 31 December 2017 US$	As at 31 December 2016 US$
Assets			
Current assets			
Cash and cash equivalents	7	**13,186,482**	233,298
Trade and other receivables	8	**113,844**	199,223
Restricted cash	9	**902,937**	4,944,093
Prepayments		**125,748**	120,403
Total current assets		**14,329,011**	5,497,017
Non current assets			
Inventories		**1,006,908**	1,006,908
Property, plant and equipment	10	**3,743**	4,104
Exploration and evaluation expenditure	11	**9,107,859**	27,582,689
Total non-current assets		**10,118,510**	28,593,701
Total assets		**24,447,521**	34,090,718
Liabilities			
Current liabilities			
Trade and other payables	12	**13,288,671**	21,691,260
Provisions	13	**–**	–
Derivative financial liabilities	14	**–**	75,218
Total current liabilities		**13,288,671**	21,766,478
Total liabilities		**13,288,671**	21,766,478
Net assets		**11,158,850**	12,324,240
Equity			
Issued capital	15	**643,438,272**	611,455,218
Reserves	16	**21,252,947**	19,381,839
Accumulated losses		**(650,086,682)**	(615,466,618)
Parent interests		**14,604,537**	15,370,439
Non-controlling interests	17	**(3,445,687)**	(3,046,199)
Total equity		**11,158,850**	12,324,240

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

	Note	Issued Capital US$	Share-based Payment Reserve US$	Foreign Currency Translation Reserve US$	Accumulated Losses US$	Non-controlling Interest US$	Total US$
Balance at 1 January 2017		**611,455,218**	**31,579,327**	**(12,197,488)**	**(615,466,618)**	**(3,046,199)**	**12,324,240**
Loss for the year	16	**–**	**–**	**–**	**(34,620,064)**	**(399,488)**	**(35,019,552)**
Other comprehensive income: Foreign currency exchange differences arising on translation from functional currency to presentation currency		**–**	**–**	**(33,930)**	**–**	**–**	**(33,930)**
Total comprehensive loss for the year		**–**	**–**	**(33,930)**	**(34,620,064)**	**(399,488)**	**(35,053,482)**
Issue of capital		**31,791,816**	**–**	**–**	**–**	**–**	**31,791,816**
Exercise of share options	15	**191,238**	**–**	**–**	**–**	**–**	**191,238**
Share-based payments	16	**–**	**1,905,038**	**–**	**–**	**–**	**1,905,038**
Balance at 31 December 2017		**643,438,272**	**33,484,365**	**(12,231,418)**	**(650,086,682)**	**(3,445,687)**	**11,158,850**
For the year ended 31 December 2016							
Balance at 1 January 2016		611,439,967	30,906,853	(11,981,022)	(612,905,662)	(2,989,539)	14,470,597
Loss for the year	16	–	–	–	(2,560,956)	(56,660)	(2,617,616)
Other comprehensive income		–	–	(216,466)	–	–	(216,466)
Total comprehensive loss for the year		–	–	(216,466)	(2,560,956)	(56,660)	(2,834,082)
Exercise of share options	15	15,251	–	–	–	–	15,251
Share-based payments	16	–	672,474	–	–	–	672,474
Balance at 31 December 2016		611,455,218	31,579,327	(12,197,488)	(615,466,618)	(3,046,199)	12,324,240

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

	Note	For the Year Ended 31 December 2017 US$	31 December 2016 US$
Cash flows from operating activities			
Payments to suppliers and employees		**(22,200,485)**	(3,288,233)
Interest received		**9**	6,885
Finance costs		**(29,322)**	(37,089)
Other income		**197,804**	172,589
Net cash flows used in operating activities	7	**(22,031,994)**	(3,145,848)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**30,879**	2,500
Payment for plant and equipment		**(3,026)**	(4,337)
Payment for exploration and evaluation activities		**(1,037,835)**	(5,288,328)
Proceeds from farm-out of exploration and evaluation assets		**–**	6,339,480
Cash-backing security returned		**4,375,000**	6,000,000
Cash-backing security provided		**(333,844)**	(4,375,000)
Net cash from investing activities		**3,031,174**	2,674,315
Cash flows from financing activities			
Proceeds from issue of shares		**33,644,423**	–
Capital raising costs		**(1,852,606)**	–
Proceeds from exercise of share options		**191,238**	15,251
Net cash from financing activities		**31,983,055**	15,251
Net increase/(decrease) in cash and cash equivalents		12,982,235	(456,282)
Cash and cash equivalents at the beginning of the year		**233,298**	607,512
Net foreign exchange differences		**(29,051)**	82,068
Cash and cash equivalents at the end of year	7	**13,186,482**	233,298

The accompanying notes form part of these financial statements.

1. Corporate information

The financial report of the Company and its subsidiaries (together the 'Consolidated Entity') for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 30 April 2018.

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

2. Basis of preparation of annual report

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for the derivative financial liability, which has been measured at fair value.

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

Compliance statement

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 2017, the Consolidated Entity had net current assets of US$1,040,340 (31 December 2016: net current liabilities US$16,269,461), which includes cash and cash equivalents of US$13,186,482 (31 December 2016: US$233,298), and trade and other payables US$13,288,671 (31 December 2016: US$21,691,260).

As at 31 December 2017, other payables included US$7,707,097 for potential licence commitments on licences that are no longer held by the Consolidated Entity. Although disclosed within the financial statements as current liabilities due to the contractual terms of the agreements prior to their expiry, management expect to extinguish these liabilities through restructuring the Group and which is not expected to result in a net cash outflow. Management and the Directors are satisfied there are reasonable grounds to believe that the Consolidated Entity will be able to continue as a going concern. In forming this view, the Directors have considered the Consolidated Entity's current working capital position, underlying exploration projects and funding alternatives.

At the date of this report the corporate restructuring required to extinguish these liabilities has not commenced and whilst management and the Directors are confident regarding the successful completion of the restructure, the fact that the restructuring has not completed creates an uncertainty regarding the Group's ability to extinguish these liabilities. This condition indicates a material uncertainty that in the event that it is not solved through restructuring, may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not 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) New accounting standards and interpretations

New accounting standards and interpretations effective 1 January 2017

The Group has adopted all new and amended Australian Accounting Standards and Interpretations effective as of 1 January 2017. The application of these Accounting Standards and Interpretations had no material impact on the Group.

(b) Consolidation

The consolidated financial statements comprise the financial statements of African Petroleum Corporation Limited ('the Company') and its subsidiaries for the year ended 31 December 2017 (together the Group).

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(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 to use United States Dollars, being the functional currency of all major subsidiaries in the Group, as its presentation currency. Where the functional currencies of entities within the consolidated Group differ from United States Dollars, they have been translated into United States Dollars. The functional currency of African Petroleum Corporation Limited is Australian Dollars.

Transactions and balances

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

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

3. Summary of accounting policies continued

Translation of Group Companies' functional currency to presentation currency

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

(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) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

(h) Revenue
Revenues are recognised at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax/or Value Added Tax paid to taxation authorities.

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.

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

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

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

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

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

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

Provisions made in respect of employee benefits, which are not due to be settled within 12 months are determined using the projected unit credit method.

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

(l) Provisions
Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. Any present obligations where the payment is deemed less than probable but not remote have been disclosed as a contingent liability.

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

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

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

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

3. Summary of accounting policies continued

(n) 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 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.

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

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

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

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

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

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

(p) Financial instruments

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

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

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Derecognition

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

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

(q) Joint arrangements

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

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

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

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

4. Significant accounting judgements, estimates and assumptions

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

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

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

Exploration and evaluation expenditure

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided certain conditions listed in Note 3(g) are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. In the case of impairment during the exploration and evaluation phase, fair value less cost to sell is used as the recoverable amount to determine an impairment allowance for exploration and evaluation expenditure assets because the value in use of the assets is nil. The related carrying amounts are disclosed in Note 11.

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

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

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

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees, Directors and consultants by reference to the fair value of equity instruments at the date at which they are granted. The fair value of shares awarded is measured using the share price on the date the shares are granted. The fair value of options is determined on grant date using the Black-Scholes model. The related assumptions are detailed in Note 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.

Withholding taxes

The Consolidated Entity is subject to withholding taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and the probability of a pay out occurring. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the withholding tax provision in the period in which such determination is made (Note 13). In 2016, Management made a judgement that the chance of paying out historic withholding tax liabilities is no longer deemed probable but is not deemed remote. Therefore, management has released the historical provision and disclosed a contingent liability.

Inventory valuation

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

5. Income tax

	2017 US$	2016 US$
(a) The components of income tax expense comprise:		
Under provision in prior year	–	7,618
Current tax	–	7,618
(b) The prima facie tax on loss from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30 per cent (31 December 2016: 30 per cent)	**10,505,866**	783,000
Foreign tax rate adjustment	**(3,307,080)**	(228,527)
	7,198,786	554,473
Add/(less)		
Tax effect of		
– Tax effect of permanent differences	**(4,322)**	(3,832)
– Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(7,194,464)**	(543,023)
Income tax expense/(benefit)	–	7,618

Deferred tax assets have not been brought to account in respect of tax losses and unrecognised capital allowances because as at 31 December 2017 it is uncertain when future taxable amounts will be available to utilise those temporary differences and losses. As at 31 December 2017, the carried forward gross tax loss is US$601 million (2016: US$566 million).

6. Loss before income tax expense

	2017 US$	2016 US$
(a) Revenue		
Interest income	**9**	6,885
Other revenue	**228,683**	203,576
	228,692	210,461
(b) Expenses		
Depreciation & amortisation	**3,387**	4,272
Lease rental costs	**301,746**	373,775
Loss on disposal of property, plant & equipment	–	5,714
	305,133	383,761
(c) Employee remuneration		
Employee benefits expensed	**1,159,903**	1,074,606
Director's remuneration expensed	**1,495,060**	709,277
Share-based payments expensed (refer to Note 18)	**1,732,509**	721,829
	4,387,472	2,505,712
(d) Remuneration of auditors		
Paid or payable to BDO		
Audit or review of financial reports		
BDO (WA) Pty Ltd	**25,200**	25,324
BDO related practices	**112,800**	118,619
	138,000	143,943
Other non-assurance services		
BDO related practices	**15,651**	19,295
	153,651	163,238
Paid or payable to other audit firms		
Audit or review of financial reports	**18,210**	16,047
Other non-assurance services	**7,019**	7,096
	25,229	23,143

7. Cash and cash equivalents

	Note	2017 US$	2016 US$
Cash at bank and on hand		**13,186,482**	233,298
Reconciliation of net loss to net cash flows from operating activities			
Loss from ordinary activities		**(35,019,552)**	(2,617,616)
Adjusted for non-cash items:			
Impairment of exploration and evaluation expenditure	11	**19,012,665**	8,949,626
Provision for bank guarantee		**–**	6,000,000
Depreciation and loss on disposal of property, plant and equipment		**3,387**	4,272
Transfer of ownership of aircraft in settlement of outstanding fees		**–**	501,925
Share-based payments		**1,905,038**	742,474
Net foreign exchange differences		**(4,883)**	(298,537)
(Gain)/loss on disposal of plant property & equipment	10	**(30,879)**	3,214
Fair value movement in financial liability		**(75,218)**	(414,927)
Changes in net assets and liabilities, net of effects from acquisition of business combination:			
Decrease in trade and other receivables		**80,038**	25,159
Decrease in trade and other payables	12	**(7,902,590)**	(2,454,668)
Decrease in provisions	13	**–**	(13,586,770)
Net cash used in operating activities		**(22,031,994)**	(3,145,848)

8. Trade and other receivables

	2017 US$	2016 US$
Current		
Trade receivables	**6,142**	1,220,799
Other receivables	**107,702**	125,585
	113,844	1,346,384
Impairment allowance	**–**	(1,147,161)
	113,844	199,223
Loan receivable from Key Management Personnel[a]	**1,590,587**	1,454,859
Share-based payment liability	**(1,590,587)**	(1,454,859)
	–	–
Total trade and other receivables	**113,844**	199,223

(a) During 2012 and 2013, US$1,037,994 (£645,359) was loaned to former CEO Karl Thompson and US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Thompson and Mr Pace. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. On 4 April 2018, the Board agreed to extend the repayment date by a further three years. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. During the period, no interest was charged, so no further impairment was necessary. In previous years, interest was charged on the loans at 4 per cent. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. At 31 December 2017, the performance shares awarded to Mr Thompson have a market value of US$1,130 and the total limited recourse feature of the loan of US$991,502 (2016: US$906,895) has been recognised as a share-based payment liability. At 31 December 2017, the performance shares awarded to Mr Pace have a market value of US$376 and the total limited recourse feature of the loan of US$599,085 (2016: US$547,964) has been recognised as a share-based payment liability.

For terms and conditions relating to related party receivables, refer to Note 19.

Reconciliation of impairment allowance

	2017 US$	2016 US$
Balance at beginning of the year	**(1,147,161)**	(1,321,485)
Additions	**–**	–
Write-offs	**1,147,161**	174,324
Balance at end of the year	**–**	(1,147,161)

As at 31 December, the ageing analysis of trade receivables is as follows:

		Past Due but not Impaired				Past Due and Impaired
	Total US$	< 30 days	30-60 days	61-90 days	> 90 days	Specific
2017	**6,142**	**5,000**	**–**	**–**	**1,142**	**–**
2016	1,220,799	73,113	–	525	–	1,147,161

See Note 20 on credit risk, which describes how the Company manages and measures the credit quality of its receivables that are neither past due nor impaired.

Other receivables are neither past due or impaired.

9. Restricted cash

	2017 US$	2016 US$
Current		
Restricted cash	**902,937**	10,944,093
Provision[1]	**–**	(6,000,000)
	902,937	4,944,093

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

Restricted cash balances represent interest-bearing cash-backed security provided in relation to the Company's exploration programmes. The security deposits will be released upon achievement of certain drilling milestones. The classification of restricted cash balances as either current or non-current within the Statement of Financial Position is based on management's estimate of the timing of completion of seismic acquisition and drilling milestones and settlement of outstanding liabilities under licences.

10. Property, plant and equipment

	2017 US$	2016 US$
Plant and equipment		
Cost at beginning of the year	**1,498,383**	2,028,607
Additions at cost	**3,026**	4,337
Disposals	**(270,865)**	(534,561)
Cost at end of the year	**1,230,544**	1,498,383
Accumulated depreciation at beginning of the year	**(1,494,279)**	(2,018,854)
Depreciation expense	**(3,387)**	(4,272)
Depreciation on disposals	**(270,865)**	(528,847)
Accumulated depreciation at end of the year	**(1,226,801)**	(1,494,279)
Net book value at beginning of the year	**4,104**	9,753
Net book value at end of the year	**3,743**	4,104

11. Exploration and evaluation expenditure

i. Carrying value

	2017 US$	2016 US$
Opening balance	**27,582,689**	37,583,467
Exploration expenditure incurred	**537,835**	5,948,848
Impairment of exploration and evaluation expenditure[1,2,3]	**(19,012,665)**	(8,949,626)
Exploration expenditure farmed out[4]	**–**	(7,000,000)
	9,107,859	27,582,689

1 An impairment loss of US$8,550,000 (2016: US$301,846) was recognised in respect of exploration and evaluation expenditure in Côte d'Ivoire. This impairment loss amount was determined after consideration of several factors including ongoing discussions with potential partners, current tenure and future exploration commitments. The carrying value of exploration and evaluation of the affected area of interest was written-off to nil in the absence of future expected benefits.
2 An impairment loss of US$10,462,665 (2016: nil) was recognised in respect of exploration and evaluation expenditure in Senegal and The Gambia. This impairment loss amount was determined after consideration of several factors including ongoing discussions with potential partners, current tenure and future exploration commitments. The carrying value of exploration and evaluation of the affected area of interest was written-off to nil in the absence of future expected benefits.
3 An impairment loss of nil (2016: US$8,336,532) was recognised in respect of exploration and evaluation expenditure in Liberia, following the expiration of licences LB-08 and LB-09 during the year.
4 As part of the transaction to farm-out licence CI-513 in Côte d'Ivoire, Ophir Energy Plc agreed to reimburse past costs. The equity share of farmed-out capitalised past costs has been transferred to the Statement of Comprehensive Income and matched with the consideration.

ii. Licence overview and risk

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

Country	Licence	Carrying Value as at 31 December 2017/ USD 000 000	Operator	Working Interest	Grant Date	End Current Phase	Area km²	Outstanding Commitments in Current Phase
Sierra Leone	SL-03-17	2.0	European Hydrocarbons Limited	100%[1]	Apr 2010	Apr 2019	962	Further geoscience and one contingent exploration well[2]
Sierra Leone	SL-4A-17	7.1	African Petroleum Sierra Leone Limited	100%[3]	Sep 2012	Sep 2019	995	Further geoscience and one contingent exploration well[2]
Senegal	Rufisque Offshore Profond	–	African Petroleum Senegal Limited	90%[4]	Oct 2011	Oct 2015[5]	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	–	African Petroleum Senegal Limited	90%[4]	Oct 2011	Dec 2017[6]	5,439	Further geoscience and one contingent exploration well
The Gambia	A1	–	African Petroleum Gambia Limited	100%[7]	Sep 2006	Sep 2016[8]	1,296	One exploration well to be drilled on either A1 or A4
The Gambia	A4	–	African Petroleum Gambia Limited	100%[7]	Sep 2006	Sep 2016[8]	1,376	See above

1 The State of Sierra Leone has a 10 per cent carried interest from the development stage.
2 Contingent on committing, prior to 1 November 2018, to drilling one exploration well.
3 The State of Sierra Leone has a 10 per cent carried interest from the development stage with an option to increase with another 5 per cent participating interest.
4 Société des Pétroles du Sénégal has an option to increase its 10 per cent interest to 20 per cent following exploitation authorisation.
5 The current phase of the ROP licence ended in October 2015; however, the Company has lodged a request for an extension with the Government of Senegal and under the terms of the licence, the block remains active until a termination procedure is enacted by the Republic of Senegal. To date, the Republic of Senegal has not validly enacted such termination procedure.
6 The current phase of the SOSP licence ended in December 2017; however, the Company lodged an application to enter the second renewal phase of the contract, and also requested to exchange the outstanding well commitment in the current phase for a 3D seismic acquisition programme and transfer this revised outstanding commitment to the second renewal phase.
7 The Gambia National Oil Company has an option to acquire a 10 per cent participating interest in the licence from the development stage.
8 The current phase of the A1 and A4 licences required the Company to drill an exploration well on either of the licences no later than 1 September 2016. The status of these licences is currently in arbitration managed by the International Centre for the Settlement of Investment Disputes ('ICSID').

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

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

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

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

Sierra Leone
Independent petroleum consultant ERC Equipoise prepared an assessment of prospective oil resources attributable to the Company's Sierra Leone Licences and estimates the net unrisked mean prospective oil resources at 2,530MMStb.

12. Trade and other payables

	2017 US$	2016 US$
Trade payables[1]	**3,495,837**	10,522,608
Other payables[2,3]	**9,792,834**	11,168,652
	13,288,671	21,691,260

1 Trade payables includes US$1,008,147 (2016: US$1,008,147) for licence obligations that are in dispute as at the date of this report, and are unlikely to be settled until the dispute is resolved.
2 Other payables include US$7,707,097 (2016: US$7,707,097) for potential licence commitments on licences that are no longer held by the Company. Although disclosed within the financial statements as current liabilities due to contractual terms of the agreements prior to their expiry, management expect to extinguish these liabilities through restructuring the Group which is not expected to result in a net cash outflow.
3 Other payables include amounts accrued for licence rental, training and corporate social responsibility obligations.

13. Provisions

	2017 US$	2016 US$
Balance at beginning of the year	–	13,586,770
Additions	–	–
Reversals	–	(13,586,770)
Balance at the end of the year	–	–

The Company may be required to withhold payment on certain services provided by subcontractors. This amount may be due to the tax authorities and will be credited against the subcontractors own income tax liability. Upon initial recognition of this provision, the timing of these outflows was uncertain. During the previous year, the Company rationalised its licence portfolio and subsequently reassessed the possible exposure for withholding tax on exploration activities that had been recognised in the previous years. Due to the passage of time, the outflow is now considered remote, and disclosed as a contingent liability with the provision reversed (Note 22).

14. Financial liabilities

	2017 US$	2016 US$
Options granted in NOK	–	75,218

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

	31 December 2017		On Initial Recognition	
	Tranche 1	**Tranche 2**	Tranche 1	Tranche 2
Number of options (post consolidation)	–	–	13,586,600	580,215
Risk-free rate	–	–	3.05%	3.05%
Expected life of options	–	–	2.00 years	2.00 years
Share price at grant	–	–	NOK3.60	NOK3.40
Share price	–	–	NOK1.60	NOK1.60
Volatility	–	–	125%	125%

14. Financial liabilities continued

The fair value of the options has been estimated using market observable inputs and as such is categorised as Level 3 in the fair value hierarchy.

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

15. Issued capital

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	
	2017	2016
Balance at beginning of the year	**106,685,114**	106,611,781
Issue of shares pursuant to a capital raising	**43,920,000**	–
Issue of shares to staff and Directors	**4,423,765**	–
Exercise of share options	**437,567**	73,333
Balance at end of the year	**155,466,446**	106,685,114

Reconciliation of movements in issued capital

	2017 US$	2016 US$
Balance at beginning of the year	**611,455,218**	611,439,967
Issue of shares pursuant to a capital raising[1,2]	**33,111,648**	–
Capital raising costs[1,2]	**(1,852,606)**	–
Issue of shares to staff and Directors	**532,776**	–
Exercise of share options	**191,238**	15,251
Share capital at end of the year	**643,438,272**	611,455,218

1 During January 2017, the Company issued 10,670,000 shares at NOK2.50 each, raising NOK26,675,000 (US$3,195,988). Costs associated with the capital raising were US$168,612.
2 During May 2017, the Company issued 33,250,000 shares at NOK7.75 each, raising NOK257,687,500 (US$29,915,660). Costs associated with the capital raising were US$1,683,994.

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.

16. Reserves

Nature and purpose of reserves

Share-based payment reserve

The share-based payments reserve records options and share awards recognised as expenses, issued to employees, Directors and consultants. Refer to Note 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.

Accumulated losses

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

17. Non-controlling interest

	2017 US$	2016 US$
Non-controlling interests at the beginning of the year	(3,046,199)	(2,989,539)
Loss attributable to non-controlling interests	(399,488)	(56,660)
Non-controlling interests at the end of the year	(3,445,687)	(3,046,199)

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

	2017 US$	2016 US$
Current assets	–	10,039
Non-current assets	531,576	3,900,274
Current liabilities	(46,018,943)	(45,402,801)
Equity attributable to owners of the Company	(42,041,680)	(38,446,289)
Non-controlling interests	(3,445,687)	(3,046,199)

	2017 US$	2016 US$
Administration expenses	(200,721)	(105,533)
Exploration and evaluation expenditure	(356,883)	(461,070)
Impairment of exploration and evaluation expenditure	(3,437,274)	–
Loss for the year from continuing operations	(3,994,878)	(566,603)
Loss attributable to non-controlling interests	(399,488)	(56,660)

18. Share-based payments

	2017 US$	2016 US$
Options	1,834,624	742,474
Non-recourse loan	–	–
Total share-based payments expense	1,834,624	742,474

18. Share-based payments continued

Options

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

	2017			2016		
	Number of Options	**Weighted Average Exercise Price A$/NOK**	**Weighted Average Exercise Price Equivalent USD[1]**	Number of Options	Weighted Average Exercise Price A$/NOK	Weighted Average Exercise Price Equivalent USD[1]
Balance at beginning of the period	**8,059,578**			8,466,246		
Granted during the year (NOK)	**6,503,400**	**NOK7.22**	**US$0.88**	200,000	NOK1.70	US$0.21
Exercised during the year (NOK)	**(426,667)**	**NOK3.64**	**US$0.44**	(73,333)	NOK1.70	US$0.21
Lapsed during the year (A$)	**(479,181)**	**A$13.65**	**US$10.66**	(103,334)	A$3.66	US$2.86
Forfeited during the year (A$)	–	–	–	(83,334)	A$3.00	US$2.34
Forfeited during the year (NOK)	–	–	–	(346,667)	NOK3.34	US$0.41
Balance at end of the year (A$)	**474,730**	**A$3.92**	**US$3.06**	953,911	A$8.81	US$6.88
Balance at end of the year (NOK)	**13,182,400**	**NOK4.69**	**US$0.57**	7,105,667	NOK2.31	US$0.28
Total balance at end of the year	**13,657,130**			8,059,578		
Exercisable at end of the year (A$)	**474,730**	**A$3.92**	**US$3.06**	895,576	A$9.19	US$7.17
Exercisable at end of the year (NOK)	**13,182,400**	**NOK4.69**	**US$0.57**	6,072,334	NOK2.41	US$0.29
Exercisable at end of the year	**13,657,130**			6,967,910		

1 The US$ equivalent weighted average exercise price as at 31 December 2017.

The share options outstanding at the end of the period had a weighted average remaining contractual life of 2,020 days (2016: 1,167 days).

Options awarded in the current year

During the current year, 6,503,400 unlisted options were issued to staff, Directors and consultants of the Company and were not subject to any vesting conditions and vested immediately.

Grant Date	Expiry Date	Number of Options	Expected Life of Options (years)	Risk-Free Rate (%)	Volatility (%)	Dividend Yield (%)	Exercise Price NOK	Exercise Price Equivalent US$	Fair Value at Grant Date NOK	Fair Value at Grant Date US$
12 May 2017	28 Apr 2020	400,000	3	3.05	125	–	4.00	0.49	6.94	0.84
3 Jul 2017	31 May 2022	5,750,000	5	2.97	125	–	7.75	0.94	2.82	0.34
3 Jul 2017	11 Jan 2022	213,400	5	2.97	125	–	2.50	0.30	2.82	0.34
8 Sep 2017	15 Nov 2020	140,000	3	2.09	125	–	1.70	0.21	1.69	0.21

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

A total of US$1,834,624 was recognised for options awarded to staff, Directors and consultants of the Company, of this amount US$1,732,509 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income. US$102,115 has been recognised within the line item "Consulting expenses" within the Statement of Comprehensive Income.

The value of options capitalised during the period was nil (2016: nil).

The options issued to Directors, employees and consultants in the prior year are in recognition of services provided and to be provided in the future. Holders of options do not have any voting or dividend rights in relation to the options.

Options forfeited and lapsed during the current year

During the year, 479,181 unlisted options with various exercise prices of between A$9.00 and A$37.50 lapsed without being exercised.

Non-recourse loans

During the current year, an amount of nil (2016: nil) has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income in relation to loans made to Mr Thompson, a former Executive Director of the Company, and Mr Pace to cover tax payable on performance shares awarded to them. During 2012, loans were provided to Mr Thompson and Mr Pace to cover tax payable on performance shares awarded. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. Interest is charged on the loans at 4 per cent per annum. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. As at 31 December 2017, the Company has provided in full for the loans and associated interest, as the share price would be insufficient to cover the loans.

19. Related party information

Corporate structure

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

		% Equity Interest	
Name	Country of Incorporation	**2017**	2016
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[1]	Cayman Islands	**–**	100%
African Petroleum Sierra Leone Ltd	Cayman Islands	**100%**	100%
African Petroleum Senegal Ltd	Cayman Islands	**90%**	90%
African Petroleum Gambia Ltd	Cayman Islands	**100%**	100%
African Petroleum Côte d'Ivoire Ltd	Cayman Islands	**100%**	100%
African Petroleum (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbon (SL) Limited	Sierra Leone	**99.99%**	99.99%
African Petroleum Liberia Limited[1]	Liberia	**–**	100%
African Petroleum Côte d'Ivoire SAU	Côte d'Ivoire	**100%**	100%
African Petroleum Corporation (Services) Limited	United Kingdom	**100%**	100%
European Hydrocarbons Limited	United Kingdom	**100%**	100%
Regal Liberia Limited	United Kingdom	**100%**	100%
African Petroleum Limited	United Kingdom	**100%**	100%
African Petroleum Corporation Limited	United Kingdom	**100%**	100%
African Petroleum (Senegal) SAU	Senegal	**100%**	100%
APCL Gambia B.V.	Netherlands	**100%**	100%

1 During the year, several Group subsidiaries connected to the former Liberian operations were struck off and dissolved.

(a) Key management personnel

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

Mr Michael Barrett	Exploration Director
Mr Christopher Butler	Group Financial Controller

19. Related party information continued

Remuneration of key management personnel

2017	Short-term Benefits: Salary and Fees US$	Short-term Benefits: Salary to Purchase Shares[2] US$	Short-term Benefits: Other Cash Benefits[3] US$	Post Employment Benefits[1] US$	Share-based Payments[4]: Shares US$	Share-based Payments[4]: Options US$	Total US$
Directors							
D King	9,134	–	–	–	–	131,564	140,698
B Moe	11,081	–	–	–	–	57,144	68,225
J Pace	476,513	342,212	4,819	–	–	410,526	1,234,070
T Turner	9,207	–	–	–	–	52,625	61,832
S West	338,156	260,817	1,281	29,839	–	410,526	1,040,619
A Wilson	12,000	–	–	–	–	55,792	67,792
Subtotal	**856,091**	**603,029**	**6,100**	**29,839**	**–**	**1,118,177**	**2,613,236**
Key management							
M Barrett	374,117	268,870	3,784	–	–	270,083	916,854
C Butler	156,660	53,958	1,609	13,875	–	80,329	306,431
A Hicks	19,959	–	–	–	–	39,469	59,428
I Philliskirk[5]	–	61,034	–	–	–	21,831	82,865
Subtotal	**550,736**	**383,862**	**5,393**	**13,875**	**–**	**411,712**	**1,365,578**
Total	**1,406,827**	**986,891**	**11,493**	**43,714**	**–**	**1,529,889**	**3,978,814**

Notes
1. Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2. Contractual salary that had been withheld from UK staff during the period from December 2015 to April 2017 was finally paid in December 2017. The net amount due to staff was used to purchase shares in the Company at the closing rate of the prior day. The associated payroll taxes were settled in cash post year end.
3. Other cash benefits relate to health insurance benefits.
4. Share-based payments represent the value of options and performance shares that have been recognised during the current year.
5. Mr Philliskirk resigned on 7 September 2016.

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

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

Option holdings by Directors and other key management personnel

	Balance 1 January 2017	Options Acquired	Awarded as Remuneration	Options Exercised	Net Change Other	Balance 31 December 2017	Exercisable	Not Exercisable
Directors								
D King	–	–	500,000	–	–	500,000	500,000	–
B Moe	250,000	–	200,000	–	–	450,000	450,000	–
J Pace	1,625,000	–	1,500,000	–	–	3,125,000	3,125,000	–
T Turner	16,667	–	200,000	–	(16,667)	200,000	200,000	–
S West	1,758,758	–	1,500,000	–	(130,420)	3,128,338	3,128,338	–
A Wilson	250,000	–	200,000	–	–	450,000	450,000	–
Key management personnel								
M Barrett	1,055,833	–	1,000,000	–	(57,502)	1,998,331	1,998,331	–
C Butler	150,000	–	300,000	–	(10,000)	440,000	440,000	–
A Hicks	–	–	150,000	–	–	150,000	150,000	–
	5,106,258	**–**	**5,550,000**	**–**	**(214,589)**	**10,441,669**	**10,441,669**	**–**

Share holdings by Directors and other key management personnel

	Balance 1 January 2017	Shares Purchased	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 31 December 2017
Directors						
D King	30,000	–	–	–	–	**30,000**
B Moe	10,000	–	–	–	–	**10,000**
J Pace	33,334	1,465,604	–	–	–	**1,498,938**
T Turner	4,167	–	–	–	–	**4,167**
S West	260,850	1,116,694	–	–	–	**1,377,554**
A Wilson	10,000	–	–	–	–	**10,000**
Key management personnel						
M Barrett	–	1,151,667	–	–	–	**1,151,667**
C Butler	–	234,296	–	–	–	**234,296**
A Hicks	–	–	–	–	–	**–**
	348,351	**3,968,261**	**–**	**–**	**–**	**4,316,622**

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

	2017 US$	2016 US$
Loan receivable from key management personnel	**1,590,587**	1,454,859
Impairment allowance	**(1,590,587)**	(1,454,859)
Total receivables from related parties (Note 8)	**–**	–

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

(i) During 2012 and 2013, US$1,037,994 (£645,359) was loaned to former CEO Karl Thompson and US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Thompson and Mr Pace. The loans can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loans are discharged and the proceeds are to be applied to discharge the loans. During the period, no interest was recognised on the basis that it was not probable that the amounts would be received, therefore could not be recognised under revenue policy, so no further impairment was necessary. In previous years, interest was charged on the loans at 4 per cent. The loan agreements were approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loans, the Company will waive the remaining balance of the loans. At 31 December 2017, the performance shares awarded to Mr Thompson have a market value of US$1,130 and the total limited recourse feature of the loan of US$991,502 (2016: US$906,895) has been recognised as a share-based payment liability. At 31 December 2017, the performance shares awarded to Mr Pace have a market value of US$376 and the total limited recourse feature of the loan of US$599,085 (2016: US$547,964) has been recognised as a share-based payment liability.

19. Related party information continued

	2017 US$	2016 US$
Angeline Hicks (Company Secretary)	–	4,335
Orana Corporate	–	1,066
Total payables to related parties (Note 12)	–	5,401

(ii) During the year, nil was paid or was due and payable to Orana Corporate LLP for bookkeeping services (2016: US$8,515). As at 31 December 2017, nil was outstanding (2016: US$1,066). Orana Corporate LLP is controlled by close family of Director, Mr West.

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

	2017 US$	2016 US$
Dr King	**6,000**	49,736
Mr Moe	**6,000**	56,450
Mr Pace	**12,522**	5,647
Mr Turner	**859**	17,149
Mr West	–	–
Mr Wilson	**1,000**	12,000

20. Financial assets and financial liabilities

	2017 US$	2016 US$
Financial assets		
Cash and cash equivalents	**13,186,482**	233,298
Trade and other receivables	**113,844**	199,223
Restricted cash	**902,937**	4,944,093
	14,203,263	5,376,614
Financial liabilities		
Trade and other payables	**13,288,671**	21,691,260
Financial liabilities	–	75,218
	13,288,671	21,766,478

Financial risk management policies

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

Risk exposure and responses

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

The Company does not use any form of derivatives to hedge its financial risks. Exposure limits are reviewed by management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Treasury risk management

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

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

Financial risk exposure and management

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

Foreign currency risk

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

Equity price risk

The Group does not have a material exposure to market price risk arising from uncertainties about the future value of the Group's share price.

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:

	0 – 3 months US$	3 – 6 months US$	6 – 12 months US$	1 – 5 years US$	> 5 years US$	Total US$
2017						
Trade and other payables[1]	**13,288,671**	–	–	–	–	**13,288,671**
Derivative financial liabilities	–	–	–	–	–	–
2016						
Trade and other payables	21,691,260					21,691,260
Derivative financial liabilities	75,218	–	–	–	–	75,218

1 Trade and other payables include US$7,707,097 (2016: US$7,707,097) for potential licence commitments on licences that are no longer held by the Company. Although disclosed within the financial statements as current liabilities due to contractual terms of the agreements prior to their expiry. Management expect to extinguish these liabilities through restructuring the Group and which is not expected to result in a net cash outflow.

To satisfy the commitments and contingencies as detailed in Note 2 and Note 22, the Group will need significant funding to meet its explorations and drilling obligations. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of the Group's various licences when economically recoverable reserves are confirmed. Further details of the Group's liquidity strategies to meet its liquidity requirements are included in Note 2 Going Concern.

Credit risk

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

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

(i) Cash and cash equivalents

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

(ii) Trade and other receivables

Trade and other receivables as at the reporting date mainly comprise GST and short-term loans to be refunded to the Company. The Directors consider that the carrying amount of trade and other receivables approximates their fair value. All trade and other receivables as disclosed in Note 8 are not rated by any rating agencies.

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

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

21. Segment information

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

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

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

	2017 US$	2016 US$
Côte d'Ivoire	–	8,225,750
Gambia	–	6,380,591
Senegal	–	3,900,274
Sierra Leone	**9,107,859**	9,076,824
United Kingdom	**1,010,651**	1,010,262
	10,118,510	28,593,701

22. Commitments and contingencies

Commitments

Exploration commitments

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

	2017 US$	2016 US$
Within one year[1]	**41,583,021**	42,938,932
After one year but not more than five years	–	14,649,572
More than five years	–	–
	41,583,021	57,588,504

1 The commitment in Senegal includes US$40 million for an exploration well in each licence, however this assumes that the Company is successful in retaining the legal title for these licences and that the Company then drills these wells with 90 per cent equity.

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:

	2017 US$	2016 US$
Within one year	**15,820**	55,171

Contingencies

Withholding tax

Due to exploration operations in previous years the Company may be required to withhold payment on certain services provided by subcontractors. This amount may be due to the tax authorities and will be credited against the subcontractors own income tax liability. During the prior year, the Company rationalised its licence portfolio and along with considering the passage of time reassessed the possible exposure to the Company as a contingent liability. The maximum exposure for this liability is the provision that had been recognised in previous years (Note 13).

Staff remuneration

In the prior year, the Company disclosed a contingent liability of US$522,168 in relation to salary that had been unpaid between 1 December 2015 and 31 December 2016 from UK head office staff to aid the ongoing operations of the Company. During the year, the Company agreed to issue shares to the staff to settle this obligation.

23. Loss per share

	31 December 2017 US$	31 December 2016 US$
Loss attributable to ordinary shareholders		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic loss per share	**(34,620,064)**	(2,560,956)
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(34,620,064)**	(2,560,956)
	Number of Shares	
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	**139,248,783**	106,660,998

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 10,616,242 options as at 31 December 2017 (2016: 22,226,416 options). These options have not been included in the determination of basic loss per share because they are considered to be anti-dilutive.

24. Parent entity financial information

a) Summary financial information

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

	31 December 2017 US$	31 December 2016 US$
Statement of financial position		
Current assets	**51,306**	89,568
Non-current assets	**15,140,000**	20,363,641
Total assets	**15,191,306**	20,453,209
Current liabilities	**(157,296)**	(603,778)
Total liabilities	**(157,296)**	(603,778)
Net assets	**15,034,009**	19,849,431
Shareholders' equity		
Issued capital	**1,039,121,375**	1,007,138,321
Reserves	**(7,142,078)**	(12,462,573)
Accumulated losses	**(1,016,945,288)**	(974,826,317)
	15,034,009	19,849,431
Net (loss)/gain for the year	**(42,118,971)**	1,230,388
Total comprehensive (loss)/gain	**(42,118,971)**	1,230,388

b) Guarantees entered into by the Parent entity

As at 31 December 2017, the Parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries (31 December 2016: nil).

25. Standards 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 Company for the reporting period ended 31 December 2017 are set out below. The application of these Standards and Interpretations, once effective, will not have any impact on the Company other than disclosure.

Reference	Application Date of Standard	Application Date for Consolidated Entity
AASB 9 Financial Instruments	1 Jan 2018	1 Jan 2018
AASB 15 Revenue from Contracts with Customers	1 Jan 2018	1 Jan 2018
AASB 2017-1 Amendments to Australian Accounting Standards – Investments in Associates and Joint Ventures	1 Jan 2018	1 Jan 2018
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 Jan 2018	1 Jan 2018
AASB 16 Leases	1 Jan 2019	1 Jan 2019
AASB 17 Insurance Contracts	1 Jan 2021	1 Jan 2021
AASB 2017-2 Amendments to Australian Accounting Standards – Transfers of Investment Property	1 Jan 2018	1 Jan 2018

26. Events subsequent to reporting date

On 8 March 2018, the Company announced that the post-well analysis work of the Ayamé-1X exploration well had been completed and it was concluded that the remaining prospectivity of the CI-513 block did not represent an attractive investment opportunity that would justify continuing the licence. Therefore, the operator had given notice to the Côte d'Ivoire authorities that the partners will not proceed past the expiry of the current phase of the licence on 16 March 2018.

Directors' declaration

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

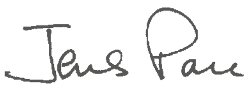
In the opinion of the Directors:

(a) the financial statements and notes of African Petroleum Corporation Limited for the year ended 31 December 2017 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of its financial position as at 31 December 2017 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.

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 2017.

Signed in accordance with a resolution of the Directors:



Jens Pace
Chief Executive Officer
London, 30 April 2018

Independent auditor's report

To the members of African Petroleum Corporation Limited

Report on the audit of the Financial Report

Opinion

We have audited the financial report of African Petroleum Corporation Limited (the 'Company') and its subsidiaries (the 'Group'), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the Directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and

(ii) complying with International Financial Reporting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern

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

Key audit matters

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

Recoverability of exploration and evaluation assets

Key audit matter	How the matter was addressed in our audit
At 31 December 2017 the carrying value of Exploration and Evaluation Assets was US$9.1 million (2016: US$27.5 million), as disclosed in Note 11 to the financial statements. As the carrying value of these Exploration and Evaluation Assets represent a significant asset to the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. As a result, the assets were required to be assessed for impairment indicators in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources.	Our procedures included, but were not limited to the following: • verifying documentation to support the extension to the Group's licensing agreements in Sierra Leone and confirmed the continued rights to explore in the relevant exploration areas; • verifying the latest competent persons report to support the potential for commercial discovery on the Sierra Leone assets; • challenging management as to whether the "drill or drop" provision included in the Production Sharing Agreement for licences held in Sierra Leone is deemed an indicator of impairment. We verified management's cash flow forecast which demonstrates an intention to continue to spend on the assets and that seismic interpretation is required before a "drill or drop" decision can be made; • verifying legal documentation to support the relinquishment of the CI-513 licence in Côte d'Ivoire and documentation to support the initiation of arbitration proceedings in Senegal and Gambia. Management has considered these to be indicators of impairment and fully impaired the assets; • assessing the adequacy of the related disclosure within Note 11 of the financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

Phillip Murdoch
Director
Perth, 30 April 2018

Unaudited additional shareholder information

Additional information – Oslo Axess

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

Nature of the business

The principal activity of the Company is oil and gas exploration and is outlined in the Directors' Report on page 14.

Working environment

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

During the year ended 31 December 2017 there were no staff injuries or accidents reported, and no illnesses suffered by staff that required extended absences from the workplace.

Workplace equality

African Petroleum is committed to workplace diversity which includes but is not limited to gender, age, ethnicity and cultural background. Where possible the Company fills employment positions with local skilled people. During 2017, all staff positions in our West African offices were held by local people.

Proportion of local West African employees:

	Actual	Objective
Organisation as a whole	58%	50%
Board	Nil	10%

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

Proportion of women:

	Actual	Objective
Organisation as a whole	8%	20%
Executive management team	Nil	20%
Board	Nil	20%

Significant direct and indirect shareholdings as at 29 March 2018

	Shareholder	Shares	%
1	M&G Investment Mgt	22,565,018	14.51
2	Nordnet Bank	18,387,604	11.83
3	Sarella Investments Ltd	18,012,901	11.59
4	Avanza Bank	6,308,942	4.06
5	Janus Henderson Investors	6,195,359	3.99
6	Danske Bank	4,505,101	2.90
7	Capital Research Global Investors	3,147,408	2.02
8	Dundee Securities	2,380,476	1.53
9	UBS	2,056,357	1.32
10	Mr Andreas Baksaas	1,900,000	1.22
11	Banque Heritage	1,842,104	1.18
12	Mr Jens Pace	1,498,938	0.96
13	Banca Credinvest	1,496,191	0.96
14	Avanza Pension	1,404,533	0.90
15	Mr Stephen West	1,377,544	0.89

Impact on the external environment

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with the relevant environmental regulations when carrying out any exploration work. There have been no significant known breaches of the Company's exploration licence conditions or any environmental regulations to which it is subject.

Going concern assumption

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

Risk assessment

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

Further details on the Company's financial risk management policies are set out in Note 20 to the audited financial statements.

Outlook

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

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

Rights and obligations of shareholders

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

a. the Company's share capital consists entirely of ordinary shares. Further details are set out in Note 15 to the audited financial statements. Over 96.95 per cent of the Company's ordinary shares are admitted for trading on the Oslo Axess (Norway);
b. there are no restrictions on the transfer of securities;
c. significant direct and indirect shareholdings are set out on page 54 of the annual report;
d. no holders of any securities have special control rights;
e. the Company does not operate an employee share scheme;
f. there are no restrictions on voting rights;
g. there are no agreements between shareholders which are known to the Company and which may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC;
h. the Company's Constitution provides that the Board of Directors shall have no fewer than three Directors and no more than 12 Directors. The Directors are elected by a general meeting of shareholders by ordinary resolution. Additionally, pursuant to Clause 13.4 of the Constitution, the Board of Directors may at any time appoint a person to be a Director, provided that the maximum number of Directors is not exceeded. Any such Director appointed will hold office until the next general meeting and will be eligible for re-election. At the Company's Annual General Meeting, one-third of the Directors for the time being, shall retire from office, provided always that no Director except a Managing Director shall hold office for a period in excess of three years without submitting himself for re-election. The Directors to retire at an Annual General Meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election. In the event of equal voting at a Director's meeting, the Chairman of the meeting shall have a second or casting vote providing there is more than two Directors competent to vote on the question. As the Company is incorporated in Australia, the Australian Corporations Act requires the Company to have at least two Directors that reside in Australia.
i. the Company may modify or repeal its constitution or a provision of its constitution by special resolution of shareholders;
j. pursuant to section 198A of the Australian Corporations Act, the business of a company is managed by or under the direction of the Board of Directors. Pursuant to Clause 2.2 of the Company's Constitution, the Board of Directors has the power to issue shares;
k. subject to the requirements in the Australian Corporations Act, the Company may purchase its own shares in accordance with the buy-back provisions of the Australian Corporations Act, on such terms and at such times as may be determined by the Directors from time to time and approved by the shareholders as required pursuant to the Australian Corporations Act. The Company is not entitled to hold its own shares, subject to exceptions set out in Section 259A of the Australian Corporations Act. Any shares repurchased by the Company will need to be cancelled;
l. there are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid;
m. there are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Corporate governance

The Board of Directors of African Petroleum is committed to administering its corporate governance policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with African Petroleum's needs. Given its Australian domicile and former NSX listing, the Company's corporate governance framework has been constructed in recognition of, and with regard to, the Australian Corporations Act; the ASX Corporate Governance Council's ('CGC') 'Principles of Good Corporate Governance and Best Practice Recommendations' (Recommendations) and CGC published guidelines; and an extensive range of varying legal, regulatory and governance requirements applicable to publicly listed companies in Australia. The Board of Directors supports the

Corporate governance continued

principles of effective corporate governance and is committed to adopting high standards of performance and accountability, commensurate with the size of the Company and its available resources. Accordingly, the Board of Directors has adopted corporate governance principles and practices designed to promote responsible management and conduct of the Company's business. The current corporate governance plan adopted by the Company is available on the Company's website at www.africanpetroleum.com.au.
The Company is in compliance with the NSX Corporate Governance Principles.

The Company's policies and practice for corporate governance are further outlined in the Company's Corporate Governance Statement on page 22 of the annual report.

Reporting – payments to government's statement

This country-by-country report has been developed to comply with the legal requirements in the Norwegian Security Trading Act ('Verdipapirhandelloven') § 5-5a, valid from 2014. The detailed regulation can be found in the regulation "Forskrift om land-for-land rapportering". In 2017, the Company was engaged in extracting activities encompassed by the legislation above in the following countries: Côte d'Ivoire, The Gambia, Senegal and Sierra Leone. This report discloses relevant payments to governments for extractive activities in the countries above, in addition to some contextual information as required by the regulation in the "Forskrift om land-for-land rapportering".

Basis for preparation

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

Definitions

Government – In the context of this report, a government means any national, regional or local authority of a country. It includes a department, agency or undertaking controlled by that authority.
Project – For this reporting a project is defined as an investment in a concession agreement.
Licence fees – Typically levied on the right to use a geographical area for exploration, development and production and include rental fees, area fees, entry fees, severance tax and concession fees and other considerations for licences and/or concessions. Administrative government fees that are not specifically related to the extractive sector, or to access extractive resources, are excluded.
Materiality – As per the "Forskrift om land-for-land rapportering" payments made as a single payment, or as a series of connected payments that equal or exceed Norwegian kroner ('NOK') 800.000 during the year are disclosed.
Reporting currency – Payments to governments are converted from the functional currency of each legal entity into the presentation currency, United States Dollars ('USD'). The payments for entities whose functional currencies are other than USD are converted into USD at the foreign exchange rate at the average annual rate.

Payments to governments and contextual information

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

Payments per Project

Project	Licence Fees /USD
CI509	Nil
CI513	325,000
Total Côte d'Ivoire	**325,000**
A01	2,208,393
A04	627,814
Total The Gambia	**2,836,207**
ROP	Nil
SOSP	Nil
Total Senegal	**Nil**
SL03	538,279
SL4A	639,400
Total Sierra Leone	**1,177,679**

Payments per Government

Government	Licence Fees /USD
Government 1 (Federal)	325,000
Government 2 (Municipality)	Nil
Government 3 (State-owned company)	Nil
Total Côte d'Ivoire	**325,000**
Government 1 (Federal)	2,836,207
Government 2 (Municipality)	Nil
Government 3 (State-owned company)	Nil
Total The Gambia	**2,836,207**
Government 1 (Federal)	Nil
Government 2 (Municipality)	Nil
Government 3 (State-owned company)	Nil
Total Senegal	**Nil**
Government 1 (Federal)	1,177,679
Government 2 (Municipality)	Nil
Government 3 (State-owned company)	Nil
Total Sierra Leone	**1,177,679**

Legal entities by country

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

Legal corporate structure of the Consolidated Entity during 2017 is set out below:

Name	Country of Incorporation	Ownership	Main Country of Operations	Employees[1]	Interest Paid to a Group Entity
African Petroleum Corporation Limited	Australia	n/a	United Kingdom	–	–
African Petroleum Corporation (Services) Limited	United Kingdom	100%	United Kingdom	5	–
African Petroleum Limited	United Kingdom	100%	United Kingdom	–	–
African Petroleum Corporation Limited	United Kingdom	100%	United Kingdom	–	–
African Petroleum Corporation Ltd	Cayman Islands	100%	United Kingdom	–	–
European Hydrocarbons Ltd	Cayman Islands	100%	United Kingdom	–	–
African Petroleum CI-513 Ltd	Cayman Islands	100%	United Kingdom	–	–
African Petroleum Liberia Ltd	Cayman Islands	100%	United Kingdom	–	–
Regal Liberia Limited	United Kingdom	100%	United Kingdom	–	–
Total employees in United Kingdom				**5**	**–**
African Petroleum Côte d'Ivoire Ltd	Cayman Islands	100%	Côte d'Ivoire	–	–
African Petroleum Côte d'Ivoire SAU	Côte d'Ivoire	100%	Côte d'Ivoire	2	–
Total employees in Côte d'Ivoire				**2**	**–**
African Petroleum Gambia Ltd	Cayman Islands	100%	The Gambia	2	–
APCL Gambia B.V.	Netherlands	100%	The Gambia	–	–
Total employees in The Gambia				**2**	**–**
African Petroleum Senegal Ltd	Cayman Islands	90%	Senegal	–	–
African Petroleum (Senegal) SAU	Senegal	100%	Senegal	2	–
Total employees in Senegal				**2**	**–**
African Petroleum Sierra Leone Ltd	Cayman Islands	100%	Sierra Leone	–	–
African Petroleum (SL) Limited	Sierra Leone	99.99%	Sierra Leone	1	–
European Hydrocarbon (SL) Limited	Sierra Leone	99.99%	Sierra Leone	–	–
European Hydrocarbons Limited	United Kingdom	100%	Sierra Leone	–	–
Total employees in Sierra Leone				**1**	**–**

1 Employees number is the average during the year.

Responsibility statement

We confirm that:

a. to the best of our knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the Group taken as a whole; and

b. that the Directors' Report together with the Additional Information – Olso Axess includes a fair review of the development and performance of the business and the position of African Petroleum Corporation Limited and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and

c. to the best of our knowledge, the country-by-country report for 2017 has been prepared in accordance with the Norwegian Security Trading Act Section 5-5a.

David King
Chairman of the Board

Bjarne Moe
Director of the Board

Timothy Turner
Director of the Board

Stephen West
CFO and Executive Director of the Board

Jens Pace
CEO and Executive Director of the Board

Corporate directory

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

Company Secretary
Angeline Hicks

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Stock exchange listing
Oslo Axess
Code: APCL

Open Market, Frankfurt Stock Exchange
Code: A1C1G9

Notes

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