African Petroleum Corporation Limited

(ABN 87 125 419 730)

Annual Financial Report for the year ended 31 December 2012

CONTENTS

Corporate Directory	*2*
Directors' Report	*3*
Auditor's Independence Declaration	*25*
Corporate Governance Statement	*26*
Statement of Comprehensive Income	*31*
Statement of Financial Position	*32*
Statement of Changes in Equity	*33*
Statement of Cash Flows	*35*
Notes to the Financial Statements	*36*
Directors' Declaration	*70*
Independent Auditor's Report to the Members	*71*
Additional Shareholder Information	*73*
Schedule of Exploration Assets	*75*

CORPORATE DIRECTORY

DIRECTORS

Frank Timis - Chairman
Antony Sage – Deputy Chairman
Karl Thompson – Chief Executive Officer
Mark Ashurst – Chief Financial Officer
Gibril Bangura
Jeffrey Couch
James Smith
Timothy Turner
Alan Watling
Anthony Wilson

COMPANY SECRETARY

Claire Tolcon

PRINCIPAL & REGISTERED OFFICE

32 Harrogate Street
West Leederville
Western Australia 6007
Telephone: +61 8 9388 0744
Facsimile: +61 8 9382 1411

AUDITORS

Ernst & Young
11 Mounts Bay Road
Perth
Western Australia 6000
Telephone: +61 8 9429 2222
Facsimile: +61 8 9429 2436

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth
Western Australia 6000
Telephone: +61 8 9332 2000
Facsimile: +61 8 9323 2033

STOCK EXCHANGE LISTING

National Stock Exchange
Code: AOQ

DIRECTORS' REPORT

Your Directors present their report on African Petroleum Corporation Limited ("African Petroleum" or the "Company") for the year ended 31 December 2012.

OFFICERS

Directors
The names of Directors in office during the whole of the year and up to the date of this report:

Mr Frank Timis	Non-Executive Chairman
Mr Antony Sage	Non-Executive Deputy Chairman
Mr Karl Thompson	Executive Director and Chief Executive Officer
Mr Mark Ashurst	Executive Director and Chief Financial Officer
Mr Gibril Bangura	Non-Executive Director
Mr Jeffrey Couch	Non-Executive Director
Mr James Smith	Non-Executive Director
Mr Timothy Turner	Non-Executive Director
Mr Alan Watling	Non-Executive Director
Mr Anthony Wilson	Non-Executive Director

Company Secretary
Ms Claire Tolcon

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

REVIEW OF OPERATIONS

CORPORATE

Director options
On 25 May 2012, shareholder approval was obtained to modify the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

Removal of listing conditions
On 22 June 2012, the NSX removed nine out of ten of the conditions that were imposed on the Company upon it being admitted onto the official list of the NSX. The remaining condition is that the Company lodge quarterly activities and cash flow reports.

Release of escrowed shares
On 30 June 2012, 633,035,487 shares were released from escrow, and are now freely tradable.

Memorandum of Understanding – PetroChina International Investment Company
On 16 July 2012, the Company announced that African Petroleum had entered into a Memorandum of Understanding (MOU) with PetroChina International Investment Company Limited ("PetroChina"), a subsidiary of China National Petroleum Corporation. The MOU gave PetroChina an exclusive period to agree an investment in up to 20% of Liberia Block LB-09 and up to 20% in one or more of the Company's other exploration Blocks. This exclusive period expired on 31 August 2012. Notwithstanding, the Company is continuing its negotiations in good faith with PetroChina in a positive manner regarding the parameters of an investment in the Company's projects. Any investment made by PetroChina will be at a value to be agreed and will be subject to receiving appropriate governmental, regulatory and other third party consents.

Capital raising
On 30 July 2012, the Company completed a share placement to institutions and sophisticated investors of 62,963,000 fully paid ordinary shares at an issue price of A$1.35 per share, raising A$85,000,050 (US$88,016,083) before costs. Capital raising costs amounted to US$3,839,319.

Appointment of Chief Operating Officer

On 1 October 2012, Mr Jens Pace was appointed Chief Operating Officer of the Company. Mr Pace is a highly regarded geoscientist, who has had a successful career at BP Exploration Operating Company Limited ("BP"), and its heritage company Amoco (UK) Exploration Company, spanning over 30 years. Mr Pace has held senior positions at BP for over 10 years, gaining substantial exploration and production experience in Africa, namely: Algeria, Angola, Congo, Gabon and Libya, having also extended experience in Europe, Russia and Trinidad. He has contributed to a number of BP's exploration discoveries over his career. Most recently, Mr Pace managed a very large and active exploration portfolio for BP in North Africa. Additionally, Mr Pace has gained highly sought after experience in the areas of field development and as a commercial manager, dealing with national oil companies and African governments. Mr Pace holds a BSc in Geology and Oceanography from the University of Wales and an MSc in Geophysics from Imperial College, London.

EXPLORATION ACTIVITIES

Liberia Project

African Petroleum holds a 100 per cent interest in Blocks LB-08 and LB-09, located offshore Liberia ("Liberian Project" or "Blocks LB-08 and LB-09"), covering a combined surface area of 5,381 sq km.

In 2010, African Petroleum completed the acquisition and interpretation of 5,100 sq km of 3D seismic survey over Blocks LB-08 and LB-09. The evaluation of the 3D seismic data identified more than 40 prospects and leads in the Upper Cretaceous section.

In September 2011, the Company announced that it had completed drilling African Petroleum's first well (Apalis-1) on Block LB-09, offshore Liberia. Apalis-1 encountered oil shows in several geological units including the shallower (Tertiary) and deeper (Cretaceous) and petrophysical analysis indicated the presence of hydrocarbons and source rock intervals. The geological and geophysical data confirmed the critical components of a working hydrocarbon system.

Having confirmed a working hydrocarbon system with Apalis-1, the Company spudded Narina-1, its second well on Block LB-09 in January 2012. The well was targeting a major Turonian fan system.

In 21 February 2012, African Petroleum announced a significant oil discovery at Narina-1. The well encountered net oil pay in the primary objective Turonian and Albian reservoirs with no oil water contacts.

The Narina discovery confirmed the prospectivity of the "Narina-Bee Eater fan system" which extends over a prospective area of 300 sq km. The Bee Eater-1 well was planned to further explore this system. In December 2012, an independent Competent Persons report by ERC Equipoise estimated total mean recoverable unrisked prospective resources of 840 MMstb for the Narina-Bee Eater fan system. ERC Equipoise estimated a total estimated mean recoverable unrisked prospective resources of 2396 MMstb in additional LB-08 and LB-09 prospects. (Source: ERC Equipoise Limited independent report "Prospective Resources for Liberia Blocks LB-08 and LB-09", January 2013).

Post year end, the Company spudded its third well, Bee Eater-1 on 4 January 2013. On 20 February 2013, the Company announced a discovery at Bee-Eater-1. Oil bearing Turonian sandstone was found, but reservoir permeabilities over the hydrocarbon bearing section of the well were lower than anticipated. The extension of the Turonian oil play from the Narina-1 discovery towards Bee Eater-1 was viewed as a significant milestone in determining the oil-bearing part of the 300 sq km Turonian fan. Bee Eater-1 was additionally designed to target the potential of two deeper prospective zones in the Cenomanian and Albian. Oil bearing sandstone was encountered in both zones, and no oil water contacts or water bearing sands were found.

The Bee Eater-1 well has proven prospective hydrocarbon systems in the Turonian, Cenomanian and Albian. African Petroleum will incorporate the well results into the exploration prospect portfolio for Liberia, and prepare follow on drilling locations for both Blocks LB-08 and LB-09.

Cote d'Ivoire Project

African Petroleum holds a 90 per cent interest in Blocks CI-509 and CI-513, offshore western Cote d'Ivoire. The remaining 10 per cent carried interest is held by the national oil company of Cote d'Ivoire, Petroci. Block CI-509 covers 1,091 sq km and Block CI-513 covers 1,440 sq km, with a combined surface area of 2,531 sq km.

African Petroleum acquired a 4,200 sq km proprietary 3D seismic survey over Blocks CI-513, CI-509 and neighbouring Block CI-508 between April and October 2012, using the "BGP Prospector". The fast-track 3D seismic data was received in November 2012 and is currently being interpreted. Final 3D seismic processing for the entire survey will be completed by May 2013. The acquisition and processing of the 3D seismic data over Block CI-508 is being completed on behalf of Vitol and partners, subject to a cost sharing agreement.

The existing 2D seismic dataset and fast-track 3D seismic data shows encouraging submarine fan leads and prospects over Blocks CI-513 and CI-509 and has confirmed the presence of major turbidite fan systems. These prospects will be matured during 2013, and the Company currently plans to drill one well on each Block CI-513 and CI-509 in late 2013 or early 2014, targeting deepwater Upper Cretaceous submarine fans.

Sierra Leone Project
African Petroleum holds 100 per cent interest over Blocks SL-03 and SL-4A-10, offshore Sierra Leone.

The Company was awarded 100 per cent of Block SL-03 (covering 3,860 sq km) in February 2011. The acquisition of an extensive 3D seismic survey covering approximately 2,500 sq km was completed by TGS-Nopec in September 2011 and a fast-track volume was received in January 2012. The Company has completed an initial prospectivity assessment on the fast-track volume and have identified Turonian to Campanian-aged prospective channel systems, located 70-100 km west of the Jupiter, Mercury and Venus discoveries. These promising prospects are currently being matured on the final 3D data, which was received in the fourth quarter 2012. The Company expects to be ready to drill a prospect in Block SL-03 during 2014.

Block SL-4A-10, offshore Sierra Leone, covering 1,995 sq km, was awarded as part of Sierra Leone's third offshore licencing round in 2012. The Company has already identified a number of promising prospects for verification on the licenced 2D seismic data. The multi-client 3D seismic data that was acquired by TGS-Nopec over part of Block SL-4A-10 in October 2011, will shortly be licenced by the Company.

Gambia Project
African Petroleum holds a 60 per cent operating interest over Blocks A1 and A4, covering a combined total area of 2,668 sq km offshore The Gambia. The remaining 40 per cent interest is held by Buried Hill, via a farm-in agreement.

The Company completed the acquisition of 2,500 sq km of 3D seismic data over Blocks A1 and A4 in December 2010. The processed 3D seismic data was received in June 2011 on which more than 30 exploration prospects and leads, including five different play types were identified. The four-way dip closed Alhamdullilah structure has been confirmed, which extends over an area of 24 sq km, with five mapped reservoirs and a gross thickness of 1,000 metres. There are potential mean unrisked recoverable prospective undiscovered resources of approximately 500 million barrels (Source: ERC Equipoise independent review of African Petroleum, April 2011).

Other play types in Block A1 and A4 include stratigraphically-trapped fans and slope channel complexes of Turonian-Campanian age, Upper Jurassic and lower Cretaceous karstified reef build-ups and four-way closures and eroded shelf clastics onlapping the shelf edge.

Following the acquisition of the 3D seismic data, detailed mapping of the Alhamdullilah prospect has been completed, targeting a series of stacked submarine fan complexes. A well location (AH-1) has been agreed and well planning is underway. The Company plans to drill AH-1 in 2,300 metres of water depth and target multiple reservoirs within the structural closure, to a total depth of 6,300 metres. The Company is now planning to drill AH-1 during the second half of 2013, subject to confirming a farm-in partner.

Senegal Project
African Petroleum holds a 90 per cent operating interest in exploration blocks Rufisque Offshore Profond ("ROP") and Senegal Offshore Sud Profond ("SOSP"), offshore southern and central Senegal, covering a combined surface area of 18,277 sq km, with the remaining 10 per cent carried interest being held by Petrosen, the national oil company of Senegal.

African Petroleum has licenced over 10,000 km of 2D seismic data over both of the Senegal Blocks to compile an extensive regional database. In May 2012, Dolphin Geophysical Limited completed a 3,600 sq km 3D seismic data over the SOSP block. Fast-track 3D seismic data was received in July 2012, and initial prospects and leads have been identified. The final 3D data over SOSP is due in March 2013. In addition, 1,500 sq km of 3D data over the ROP block is currently being reprocessed ready for final interpretation in the third or fourth quarter of 2013. The Company hopes to be in a position to drill a well in Senegal during 2014.

RESULT

African Petroleum reported a loss after income tax of US$40,431,908 for the year ended 31 December 2012 (2011: loss of US$19,091,539).

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 SUBSEQUENT TO THE REPORTING PERIOD

On 20 February 2013, the Company announced a discovery at African Petroleum's third well, Bee-Eater-1. The well was designed to test the Turonian fan, located in the Liberian Project, by way of a large step out of 9.5 km west of the original Narina-1 oil discovery. Reservoir permiabilities over the hydrocarbon bearing section of the well were lower than anticipated and further investigation is underway.

No other event has arisen between 31 December 2012 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

INFORMATION ON DIRECTORS

Frank Timis	*Non-Executive Chairman*
Experience	Mr Timis is a successful resource entrepreneur. He has interests in numerous resource companies listed in London and Australia and in assets worldwide. Mr Timis has raised over US$4 billion on the financial markets worldwide and is Chairman of African Minerals Limited, an AIM listed mineral exploration company with significant interests in Sierra Leone. Mr Timis is also a Non-Executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	At the date of this report, Mr Timis has an interest in 630,816,987 fully paid ordinary shares.
Antony Sage	*Non-Executive Deputy Chairman*
Qualifications	B.Com, FCPA, CA, FTIA
Experience	Mr Sage has in excess of 24 years' experience in the fields of corporate advisory services, funds management and capital raising. Mr Sage is based in Western Australia and has been involved in the management and financing of listed mining companies for the last 16 years. Mr Sage is also Executive Chairman of ASX listed entities Cape Lambert Resources Limited and Cauldron Energy Limited and is Non-Executive Chairman of ASX listed International Goldfields Limited, FE Limited, Kupang Resources Limited, Global Strategic Metals NL, Matrix Metals Limited and NSX listed International Petroleum Limited.
Interest in Shares and Options	Mr Sage has an interest in 10,509,325 fully paid ordinary shares at the date of this report. Mr Sage holds 2,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Karl Thompson	*Executive Director and Chief Executive Officer*
Qualifications	BSC Geology, MSC Geophysics
Experience	Mr Thompson is an accomplished petroleum explorationist with 28 years of technical, operational and managerial experience in the exploration and development of hydrocarbons with major multinational and independent energy companies. He has established a track record as a successful 'oil finder' and commercial acquisitions of new venture oil and gas assets as well as corporate takeovers. He spent 18 years with Chevron Corporation where he was Exploration and Production Director as well as Strategic Planning Manager involved in a number of successful oil discoveries and developments as well as new venture acquisitions. Following a successful career with Chevron he started his petroleum consultancy working with companies in West Africa assisting with further hydrocarbon discoveries and new venture acquisitions. He has extensive experience in Europe, Africa and the Middle East working with major multinational companies and new start up AIM exploration companies as well National Oil companies.
Interest in Shares and Options	Mr Thompson holds 3,275,000 fully paid ordinary shares at the date of this report. Mr Thompson also holds 3,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

INFORMATION ON DIRECTORS (continued)

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

INFORMATION ON DIRECTORS (continued)

James Smith	*Non-Executive Director*
Qualifications	MSc in Petroleum Geology (Geophysics option), BSc (Hons) in Geological Geophysics, Fellow of Geological Society
Experience	Mr James Smith is a senior oil and gas executive with a strong earth science background. Mr Smith has over 20 years of experience in the oil and gas industry, predominantly in Africa and Middle East exploration. He is currently Vice President Exploration of Orca Exploration Inc., an international oil and gas company listed on the TSX venture exchange. He previously served as New Venture and Project Leader for Chevron Corporation in Africa and the Middle East and more recently was Vice President Exploration of Pan-Ocean Energy Corporation Limited. At Pan-Ocean, he was instrumental in the rapid development of the company's portfolio of onshore and offshore oil assets in Gabon that were sold in 2006. He was a Non-Executive Director of Canoro Resources until 2 July 2010.
Interest in Shares and Options	Mr Smith holds 1,000,000 options with an exercise price of A$0.55 and 250,000 options with an exercise price of A$1.00. All options have an expiry date of 31 July 2017.
Timothy Turner	*Non-Executive Director*
Qualifications	B.Bus, FCPA, FTIA, Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia.
Experience	Mr Turner is senior partner with accounting firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner also has in excess of 21 years' experience in new ventures, capital raisings and general business consultancy. Mr Turner is also a non-executive Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and a non-executive Director of NSX listed International Petroleum Limited.
Interest in Shares and Options	Mr Turner has an interest in 125,000 fully paid ordinary shares at the date of this report. Mr Turner holds 500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.
Alan Watling	*Non-Executive Director*
Experience	Mr Watling has nearly 30 years of experience in the iron ore industry and has held senior positions in multinational companies with focuses on heavy haul rail, port and mine operations, including Rio Tinto, Fortescue Metals and African Minerals Limited.
Interest in Shares and Options	Mr Watling holds 1,000,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017.

INFORMATION ON DIRECTORS (continued)

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

COMPANY SECRETARY

Claire Tolcon has over 15 years' of experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company and has a Bachelor of Laws and Bachelor of Commerce (Accounting) degree and has completed a Graduate Diploma of Applied Finance with FINSIA and a Graduate Diploma of Corporate Governance with Chartered Secretaries of Australia Ltd.

REMUNERATION REPORT (audited)

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

Remuneration policy

Details of key management personnel

(i) Directors

Frank Timis	Non-Executive Chairman
Antony Sage	Non-Executive Deputy Chairman
Karl Thompson	Executive Director and Chief Executive Officer
Mark Ashurst	Executive Director and Chief Financial Officer
Gibril Bangura	Non-Executive Director
Jeffrey Couch	Non-Executive Director
James Smith	Non-Executive Director
Timothy Turner	Non-Executive Director
Alan Watling	Non-Executive Director
Anthony Wilson	Non-Executive Director

(ii) Other Key Management Personnel

Michael Barrett	Director of Business Development
Phil Church	Director of Drilling
Jens Pace	Chief Operating Officer (appointed 1 October 2012)
Pierre Raillard	General Manger – West Africa
Adrian Robinson	Director of Exploration
Claire Tolcon	Company Secretary

There are no other specified key management personnel of the Company.

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

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

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

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

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board as a whole determine payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of cash fees that can be paid to Non-Executive Directors is US$933,390 (A$900,000) or such other amount approved by shareholders. Fees for Non-Executive Directors are not performance related.

The Board exercises its discretion in determining remuneration linked to performance of key management personnel. Issues of options to key management personnel contain vesting conditions. Given the early stage of the Company's key exploration projects, these vesting conditions are related principally to the expansion of the Company's exploration asset portfolio and the commercial discovery of hydrocarbons.

Company performance and shareholder wealth

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

Financial period	**Consolidated loss after tax US$**	**Loss per share US$**
30 June 2009 [1]	(883,502)	(4.88) cents
6 months ended 30 June 2010 [1]	(23,076,789)	(2.95) cents
6 months ended 31 December 2010	(14,524,092)	(1.08) cents
31 December 2011	(19,019,539)	(1.26) cents
31 December 2012	(40,431,908)	(2.43) cents

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

The table below sets out the remuneration paid to the directors and key management personnel of African Petroleum for the year ended 31 December 2012.

	Short Term Benefits			Post Employment Benefits[1]	Share-based payments[2]			Performance Related	Percentage of total remuneration that consists of options
	Salary and fees	Other cash benefits[6]	Cash bonus[3]		Shares	Options	Total		
	US$	US$	US$	US$	US$	US$	US$	%	%
Directors									
F Timis	155,309	153,793	-	-	-	-	**309,102**	-	-
A Sage	103,541	-	-	-	-	525,331	**628,872**	-	84
K Thompson	792,670	139,824	-	79,267	421,925	919,329	**2,353,015**	18	39
M Ashurst	356,702	42,987	-	35,670	-	656,664	**1,092,023**	-	60
G Bangura	49,700	-	-	-	-	262,666	**312,366**	-	84
J Couch	49,700	-	-	-	-	262,666	**312,366**	-	84
J Smith	263,768[7]	-	-	-	-	574,306	**838,074**	-	69
T Turner	49,700	-	-	-	-	131,333	**181,033**	-	73
A Watling[4]	49,700	-	-	-	-	262,666	**312,366**	-	84
A Wilson	49,700	-	-	-	-	262,666	**312,366**	-	84
	1,920,490	**336,604**	**-**	**114,937**	**421,925**	**3,857,627**	**6,651,583**	6	**58**
Key management									
M Barrett	269,631	1,529	198,130	26,963	-	596,801	**1,093,054**	40	55
P Church	285,361	-	399,744	28,536	-	154,219	**867,860**	54	18
J Pace[5]	140,727	2,464	-	14,073	2,052,589	997,365	**3,207,218**	51	31
P Raillard	289,920	4,520	78,265	28,992	-	280,137	**681,834**	40	41
A Robinson	279,732	11,405	39,974	27,973	-	106,097	**465,181**	21	23
C Tolcon	109,709	-	15,533	-	-	12,425	**137,667**	20	9
Total	**3,295,570**	**356,522**	**731,646**	**241,474**	**2,474,514**	**6,004,671**	**13,104,397**	**26**	46

1 Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2 Share-based payments represent the value of options and performance shares that have been recognised during the current year.
3 Cash bonuses include sign on bonuses and discretionary bonuses awarded based on assessment of performance. For further information regarding cash bonuses refer to page 16.
4 Mr Watling has elected for his fees to be paid to a charity of his choice.
5 Mr Pace was appointed Chief Operating Officer on 1 October 2012.
6 Other cash benefits relate to rental assistance and health insurance benefits.
7 Includes US$49,700 (A$48,000) non-executive director fees and US$214,068 (£134,639) as payment for consulting services provided by Mr Smith to the Company.

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

	Short Term Benefits			Post Employment Benefits[1]	Share-based payments[2]			Performance Related	Percentage of total remuneration that consists of options
	Salary and fees	Other cash benefits	Cash bonus[3]		Shares	Options	Total		
	US$	US$	US$	US$	US$	US$	US$	%	%
Directors									
F Timis	397,690[4]	-	-	-	-	-	**397,690**	-	-
A Sage	103,229	-	-	-	-	-	**103,229**	-	-
K Thompson	601,717	-	-	65,551	5,913,793	1,606,118	**8,187,179**	72	20
M Ashurst	260,708	-	-	34,062	-	803,059	**1,097,829**	-	73
G Bangura	50,235	-	-	-	-	-	**50,235**	-	-
J Couch	51,280	-	-	-	-	-	**51,280**	-	-
J Smith	46,330	-	-	-	-	-	**46,330**	-	-
T Turner	49,551	-	-	-	-	-	**49,551**	-	-
A Watling[5]	-	-	-	-	-	-	-	-	-
A Wilson	51,526	-	-	-	-	-	**51,526**	-	-
	1,612,266	**-**	**-**	**99,613**	**5,913,793**	**2,409,177**	**10,034,849**	**59**	**24**
Key management									
M Barrett[7]	85,731	89,296	77,266	8,241	-	239,391	**499,925**	41	48
P Church[6]	136,402	-	159,070	14,063	-	596,057	**905,592**	59	66
P Raillard[8]	-	-	-	-	-	-	**-**	-	-
A Robinson	270,290	-	225,887	31,437	-	578,792	**1,106,406**	42	52
C Tolcon	108,252	-	-	-	-	27,957	**136,209**	2	21
Total	**2,212,941**	**89,296**	**462,223**	**153,354**	**5,913,793**	**3,851,374**	**12,682,981**	**27**	**30**

1 Post-employment benefits consist of superannuation and pension contributions made by the Consolidated Entity.
2 Share based payments represent the value of options and performance shares that have been recognised during the current year.
3 Cash bonuses include sign on bonuses and discretionary bonuses awarded based on assessment of performance.
4 Includes US$158,706 (A$150,000) non-executive director fees and US$238,984 as payment for consulting services provided by Mr Timis to the Company.
5 Mr Watling has elected for his fees to be paid to a charity of his choice.
6 Appointed on 23 May 2011.
7 Appointed on 12 August 2011. Other cash benefits relates to relocation costs of US$28,153 and US$61,143 (CHF 54,375) paid to cover amounts due by Mr Barrett to his previous employer.
8 Appointed on 22 November 2011, commenced employment on 16 January 2012. Mr Raillard is eligible to a £50,000 signing bonus, with £25,000 payable on commencement of employment and the remaining £25,000 payable 3 months later. Mr Raillard has been issued 1,350,000 options with an exercise price of A$0.30 and expiry date of 17 January 2017. The fair value of these options is US$419,498. These options are all subject to vesting conditions.

Options recognised as part of remuneration for the year ended 31 December 2012

3,125,000 options were issued as part of remuneration of directors and key management personnel during the year ended 31 December 2012. Options awarded to Mr Smith and Mr Barrett were in recognition of work completed on the Narina-1 well and therefore vested on issue. Options awarded to Mr Pace are subject to vesting conditions.

	Terms and Conditions for each grant during the year								Options vested during the current year	
	Options awarded during the current year	Options awarded during the prior year	Grant date	Fair value per option at grant date A$	Exercise price A$	Expiry date	First exercise date	Last exercise date	Number	%
Executive directors										
J Smith	250,000	-	25 May 2012	A$1.28[1]	A$1.00[8]	31 Jul 2017	25 May 2012	31 Jul 2012	250,000	100
Key management										
M Barrett	250,000	-	6 Feb 2012	A$0.47[3]	A$0.30[4]	17 Jan 2017	6 Feb 2012	17 Jan 2017	250,000	100
	125,000	-	15 Mar 2012	A$1.52[5]	A$0.55[6]	27 Mar 2017	15 Mar 2012	27 Mar 2017	125,000	100
	-	1,000,000	12 Aug 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	21 Feb 2012	17 Jan 2017	333,333	33
	-	350,000	20 Dec 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	30 Apr 2013	17 Jan 2017	-	-
P Church	-	350,000	20 Dec 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	30 Apr 2013	17 Jan 2017	-	-
	-	1,000,000	23 Jun 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	23 Jun 2011	17 Jan 2017	333,333	33
J Pace	2,500,000	-	1 Oct 2012	A$1.10[7]	A$1.00[8]	17 Jan 2017	20 Feb 2013	8 Jan 2018	-	-
P Raillard	-	1,350,000	22 Nov 2011	A$0.31[10]	A$0.30[4]	17 Jan 2017	16 Jan 2013	17 Jan 2017	-	-
A Robinson	-	350,000	20 Dec 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	30 Apr 2013	17 Jan 2017	-	-
	-	1,000,000	1 Dec 2010	A$0.26[2]	A$0.30[4]	17 Jan 2017	1 Dec 2010	17 Jan 2017	83,333	8
C Tolcon	-	75,000	20 Dec 2011	A$0.26[2]	A$0.30[4]	17 Jan 2017	30 Apr 2013	17 Jan 2017	-	-

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

[1] The equivalent US$ fair value per option at award date is equal to US$1.25

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

[3] The equivalent US$ fair value per option at award date is equal to US$0.51

[4] The equivalent US$ exercise price per option at 31 December 2012 is equal to US$0.31

[5] The equivalent US$ fair value per option at award date is equal to US$1.60

[6] The equivalent US$ exercise price per option at 31 December 2012 is equal to US$0.57

[7] The equivalent US$ fair value per option at award date is equal to US$1.12

[8] The equivalent US$ exercise price per option at 31 December 2012 is equal to US$1.04

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

Value and number of options awarded, exercised and lapsed during the year ended 31 December 2012

2012	Value of options granted during the current year US$	Value of options exercised during the current year US$	Number of options granted during the current year	Number of options exercised/shares issued during the current year	Amount paid per share A$
Executive directors					
J Smith	311,640	-	250,000	-	
Key management					
M Barrett	326,185	-	375,000	-	
P Church	-	172,500	-	230,000	0.30[2]
J Pace[1]	2,788,339	-	2,500,000	-	
P Raillard	-	-	-	-	
A Robinson	-	115,500	-	150,000	0.30[2]
C Tolcon		58,000	-	200,000	0.30[2]
Total	**3,426,164**	**346,000**	**3,125,000**	**580,000**	

[1] Appointed on 1October 2012 as Chief Operating Officer. Mr Pace has been issued 2,500,000 options with an exercise price of A$1.00 and expiry date of 17 January 2017. The fair value of these options is US$2,788,339. These options are subject to vesting conditions.

[2] The US$ equivalent amount paid per share is US$0.31.

Options modified during the year ended 31 December 2012

On 25 May 2012, shareholder approval was obtained to modify the expiry date of all Director held options from 31 July 2013 to 31 July 2017. The increase in fair value as a result of the extension to the expiry date has been recognised in the current period.

2012	Number of options modified	Date of modification	Fair value of options directly prior to modification	Fair value of options directly after modification	Original expiry date	Revised expiry date	Total increase in fair value of options recognised in the current year
Executive directors							
A Sage	2,000,000	25 May 2012	A$1.061	A$1.33[2]	31 Jul 13	31 Jul 17	525,331
K Thompson	3,500,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	919,329
M Ashurst	2,500,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	656,664
G Bangura	1,000,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	262,666
J Couch	1,000,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	262,666
J Smith	1,000,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	262,666
T Turner	500,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	131,333
A Watling	1,000,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	262,666
A Wilson	1,000,000	25 May 2012	A$1.06[1]	A$1.33[2]	31 Jul 13	31 Jul 17	262,666
	13,500,000						**3,545,987**

[1] The equivalent US$ fair value is equal to US$1.03 [2] The equivalent US$ fair value is equal to US$1.29

The share price on the modification date (25 May 2012) was A$1.45 (US$1.41).

Service Agreements

Mr Frank Timis – Non-Executive Chairman

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

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$150,000 per annum to be payable Mr Timis and reviewed annually by the Board. Mr Timis' fee is settled in Great British pounds, with the US$ equivalent for 2012 equal to US$155,565. In addition, Mr Timis is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Termination: this agreement may be terminated by the Company in a number of circumstances, including:

(i) either party providing the other with three months written notice of termination;

(ii) failure to produce services to a satisfactory standard, in accordance with the provisions of the contract;

(iii) an event of gross and wilful misconduct, which continues remedied for 15 business days after written notice has been given; or

(iv) Mr Timis becomes subject to bankruptcy proceedings.

(c) Options: the Company did not award Mr Timis any options during the current year (2011: nil). Mr Timis does not currently hold any options.

Mr Antony Sage – Non-Executive Deputy Chairman

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

The agreement stipulates the following terms and conditions:

(d) Rate: a fee of A$100,000 per annum to be payable to Okewood Pty Ltd and reviewed bi-annually by the Board. Mr Sage's fee is settled in Australian dollars, with the US$ equivalent for 2012 equal to US$103,541. In addition, Mr Sage is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(e) Termination: this agreement may be terminated by the Company in a number of circumstances including:

(i) failure to comply with lawful directions given by the Company through the Board;

(ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;

(iii) a serious or consistent breach of any of the provisions of the consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and

(iv) Mr Sage being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

(f) Options: the Company did not award Mr Sage any options during the current year (2011: nil). Mr Sage currently holds 2,000,000 options. These options have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

Mr Karl Thompson – Executive Director and Chief Executive Officer

Mr Thompson's role as Executive Director and Chief Executive Officer is governed by a contract between the Company and Mr Thompson.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £500,000 per annum is payable to Mr Thompson and subject to annual review by the board. Mr Thompson's fee is settled in Great British pounds with the US$ equivalent for 2012 equal to US$792,670.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Thompson meeting annual targets set at the commencement of each year.

(c) Options: the Company did not award Mr Thompson any options during the current year (2011: 2,000,000 options). All options held have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

(d) Shares: the Company issued 3,275,000 fully paid shares to Mr Thompson in the prior year. The shares were in recognition of the Company spudding it's first well. A further 3,275,000 will be issued upon Company securing a commercial discovery. As at 31 December 2012, this performance milestone has not yet occurred. US$421,925 has been recognised in the current year in relation to these performance shares (2011: US$2,446,313).

Mr Mark Ashurst – Executive Director and Chief Financial Officer

Mr Ashurst's role as Executive Director and Chief Financial Officer is governed by a contract between the Company and Mr Ashurst.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £225,000 per annum is payable to Mr Ashurst and subject to annual review by the board. Mr Ashurst's fee is settled in Great British pounds with the US$ equivalent for 2012 equal to US$356,702.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Ashurst meeting annual targets set at the commencement of each year.

(c) Options: the Company did not award Mr Ashurst any options during the current year (2011: 1,000,000 options). Currently Mr Ashurst holds 2,500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

Mr Gibril Bangura – Non-Executive Director

Mr Bangura's role as Non-Executive Director is governed by an agreement between the Company and Mr Bangura.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Bangura and reviewed annually by the Board. Mr Bangura's fee is settled in US$, with US$49,700 paid to him during the year. In addition, Mr Bangura is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award Mr Bangura any options during the current year (2011: nil). Mr Bangura holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

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

Mr Jeffrey Couch – Non-Executive Director

Mr Couch's role as Non-Executive Director is governed by an agreement between the Company and Mr Couch.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Couch and reviewed annually by the Board. Mr Couch's fee is settled in US$, with US$49,700 paid to him during the year. In addition, Mr Couch is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award Mr Couch any options during the current year (2011: nil). Mr Couch holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

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

Mr James Smith – Non-Executive Director

Mr Smith's role as Non-Executive Director is governed by an agreement between the Company and Mr Smith.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Smith and reviewed annually by the Board. Mr Smith's fee is settled in US$, with US$49,700 paid to him during the year. In addition, Mr Smith is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company awarded Mr Smith 250,000 options during the current year (2011: nil). These options have an exercise price of A$1.00 and an expiry date of 31 July 2017. Mr Smith also holds a further 1,000,000 options. These options have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

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

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

Mr Timothy Turner – Non-Executive Director

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

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to CRMS and reviewed bi-annually by the Board. Mr Turner's fee is settled in Australian Dollars, with the US$ equivalent for 2012 equal to US$49,700. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Termination: this agreement may be terminated by the Company in a number of circumstances including:

 (i) failure to comply with lawful directions given by the Company through the Board;

 (ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;

 (iii) a serious or persistent breach of any of the provisions of the Non-Executive Director consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and

 (iv) Mr Turner being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

(c) Options: the Company did not award Mr Turner any options during the current year (2011: nil). Mr Turner holds 500,000 options with an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

Mr Alan Watling – Non-Executive Director

Mr Watling's role as Non-Executive Director is governed by an agreement between the Company and Mr Watling.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Watling and reviewed annually by the Board. Mr Watling's fee is settled in Australian Dollars, with the US$ equivalent for 2012 equal to US$49,700. Mr Watling has elected for his annual fee to be paid to a charity of his choice. In addition, Mr Watling is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award Mr Watling any options during the current year (2011: nil). Mr Watling holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

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

Mr Anthony Wilson – Non-Executive Director

Mr Wilson's role as Non-Executive Director is governed by an agreement between the Company and Mr Wilson.

The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Wilson and reviewed annually by the Board. Mr Wilson's fee is settled in US$ and US$49,700 was paid to him during the year. In addition, Mr Wilson is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award any options to Mr Wilson in the current year (2011: nil). Mr Wilson holds 1,000,000 options which have an exercise price of A$0.55 and an expiry date of 31 July 2017. On 25 May 2012, shareholding approval was obtained to extend the expiry date of all Director held options from 31 July 2013 to 31 July 2017.

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

Michael Barrett – Director of Business Development

(a) Rate: a fee of £180,000 per annum is payable to Mr Barrett and reviewed annually by the Board. Mr Barrett's fee is settled in Great British pounds, with the US$ equivalent for 2012 equal to US$269,631.

(b) Options: the Company awarded 375,000 options to Mr Barrett during the current year, all of which vested on issue (2011: 1,350,000 options). In total, Mr Barrett holds 1,725,000 options of which 1,600,000 options have an exercise price of A$0.30 and an expiry date of 17 January 2017, and 125,000 options have an exercise price of A$0.55 and an expiry date of 27 March 2017. These options will vest upon the following conditions being met, on the assumption that Mr Barrett remains employed by the Company:

   (i) 250,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Barrett's start date (5 September 2011).

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

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

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

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

(c) A discretionary bonus of up to £180,000 (US$290,754) can be paid to Mr Barrett. During the current year, £125,000 (US$198,130) bonus was paid to Mr Barrett following successful drilling of the Narina 1 well. No further amount will be paid in respect of the 2012 bonus.

Phil Church – Director of Drilling

(a) Rate: a fee of £180,000 per annum is payable to Mr Church and reviewed annually by the Board. Mr Church's fee is settled in Great British pounds, with the US$ equivalent equal to US$285,361 per annum.

(b) Options: the Company did not award any options to Mr Church during the current year (2011: 1,350,000 options). These options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options will vest upon the following conditions being met, on the assumption that Mr Church remains employed by the Company:

(i) 250,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Church's start date (27 June 2011).

(ii) 250,000 options will be exercisable following the completion of the first well.

(iii) 250,000 options will be exercisable following the completion of the second well.

(iv) 250,000 options will be exercisable in the event of hydrocarbons in any of the Company's wells drilled in 2011 or later, if drilling is delayed for valid internal or external reasons.

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

(c) A discretionary bonus of up to £180,000 (US$290,754) can be paid to Mr Church. During the current year, £250,000 (US$399,744) bonus was paid to Mr Church following successful drilling of the Narina 1 well. During the prior year, £50,000 (US$78,140) bonus was paid to Mr Church following the successful drilling of the Apalis well. No further amount will be paid in respect of the 2012 bonus.

Jens Pace – Chief Operating Officer (appointed 1 October 2012)

(a) Rate: a fee of £350,000 per annum is payable to Mr Pace and reviewed annually by the Board. Mr Pace's fee is settled in Great British pounds, with the US$ equivalent for 2012 equal to US$565,366.

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

(i) 1,000,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Pace's start date (1 October 2012).

(ii) 1,000,000 options will be exercisable in two equal tranches of 500,000 following the completion of the Company's third and fourth wells.

(iii) 500,000 options will be exercisable on the earlier of the completion of the Company's fifth well or the signing of a joint venture or farm-in agreement.

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

(d) A discretionary bonus of up to £525,000 (US$848,033) can be paid to Mr Pace. During the current year, no bonus was paid to Mr Pace. No further amount will be paid in respect of the 2012 bonus.

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

(a) Rate: a fee of £190,000 per annum is payable to Mr Raillard and reviewed annually by the Board. Mr Raillard's fee is settled in Great British Pounds, with the US$ equivalent for 2012 equal to US$289,920.

(b) Options: the Company did not award any options to Mr Raillard during the current year (2011: 1,350,000 options). The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options will vest upon the following conditions being met, on the assumption that Mr Raillard remains employed by the Company:

(i) 450,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Raillard's start date (16 January 2012).

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

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

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

(d) A discretionary bonus of up to £190,000 (US$306,907) can be paid to Mr Raillard. During the current year, no bonus was paid to Mr Raillard. No further amount will be paid in respect of the 2012 bonus.

Adrian Robinson – Director of Exploration

(a) Rate: a fee of £180,000 per annum is payable to Mr Robinson and reviewed annually by the Board. Mr Robinson's fee is settled in Great British pounds, with the US$ equivalent for 2012 equal to US$279,732.

(b) Options: the Company did not award any options to Mr Robinson during the current year (2011: 350,000 options). The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options will vest upon the commercial discovery of hydrocarbons in any of the Company's wells.

Mr Robinson was awarded 1,000,000 options during 2010. The options have an exercise price of A$0.30 and an expiry date of 17 January 2017. These options will vest upon the following conditions being met, on the assumption that Mr Robinson remains employed by the Company:

(i) 250,000 options will be exercisable over a three year basis, one third on each anniversary from Mr Robinson's start date (1 December 2010).

(ii) 250,000 options will be exercisable following the completion of the first well.

(iii) 250,000 options will be exercisable following the completion of the second well.

(iv) 250,000 options will be exercisable in the event of hydrocarbons in any of the Company's wells drilled in 2011 or later, if drilling is delayed for valid internal or external reasons.

(c) A signing bonus of US$30,936 (£20,000) has been paid to Mr Robinson in the prior year, plus a further US$38,670 (£25,000) was also paid during the prior year.

(d) A discretionary bonus of up to £180,000 (US$290,754) can be paid to Mr Robinson. During the current year £25,000 (US$39,974) was paid to Mr Robinson in recognition of his services to the Company (2011: US$156,281 (£100,000)). No further amount will be paid in respect of the 2012 bonus.

Claire Tolcon – Company Secretary

The engagement conditions of contractor Claire Tolcon were approved by the Board on commencement of her engagement with a fee of A$4,000 per month plus GST for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of A$1,460 per day. Ms Tolcon's fee was settled in Australian dollars, with the US$ equivalent for 2012 equal to US$109,709. A discretionary bonus of A$15,000 (US$15,533) was also paid to Ms Tolcon during the current year following successful drilling of the Narina 1 well (2011: nil bonus).

The Company did not award any options to Ms Tolcon during the current year (2011: 75,000 options). Ms Tolcon currently holds 75,000 options with an exercise price of A$0.30 and an expiry date of 17 January 2017. These options vest upon the Company securing a commercial discovery.

End of Remuneration Report

MEETINGS OF DIRECTORS

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

Director	Directors' Meetings		Audit Committee Meetings		Continuous Disclosure Committee Meetings		Remuneration Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Frank Timis	4	4	-	-	-	-	-	-
Antony Sage	4	2	2	-	7	7	-	-
Mark Ashurst	4	4	-	-	7	7	-	-
Gibril Bangura	4	1	-	-	-	-	-	-
Jeffrey Couch	4	3	2	2	7	7	-	-
James Smith	4	4	-	-	7	7	-	-
Karl Thompson	4	3	-	-	-	-	-	-
Timothy Turner	4	4	-	-	7	7	-	-
Alan Watling	4	3	-	-	-	-	-	-
Anthony Wilson	4	4	2	2	7	7	-	-

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

INDEMNIFYING DIRECTORS AND OFFICERS

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

OPTIONS

Unissued Shares under Option

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

Expiry Date	Exercise Price	Number Under Option
30 June 2013	A$0.55[1]	8,916,524
31 July 2013	A$0.55[1]	200,000
17 January 2017	A$0.30[2]	11,700,000
17 January 2017	A$1.00[3]	1,300,000
17 January 2017	A$1.25[4]	625,000
27 March 2017	A$0.30[2]	50,000
27 March 2017	A$0.55[1]	275,000
27 March 2017	A$1.00[3]	60,000
31 July 2017	A$0.55[1]	13,500,000
31 July 2017	A$1.00[3]	250,000
1 January 2018	A$1.00[3]	2,500,000
1 January 2018	A$1.25[4]	350,000

[1] The US$ equivalent exercise price as at 31 December 2012 is US$0.57
[2] The US$ equivalent exercise price as at 31 December 2012 is US$0.31
[3] The US$ equivalent exercise price as at 31 December 2012 is US$1.04
[4] The US$ equivalent exercise price as at 31 December 2012 is US$1.30

Shares issued on the exercise of options

During the current year 4,692,302 ordinary shares were issued on the exercise of options (31 December 2011: nil).

PROCEEDINGS ON BEHALF OF COMPANY

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

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 31 December 2012 has been received and can be found on page 25 of the annual report.

NON AUDIT SERVICES

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

Karl Thompson

Karl Thompson
Director

Perth, 13 March 2013

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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

In relation to our audit of the consolidated financial report of African Petroleum Corporation Limited and its controlled entities for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
13 March 2013

The Board of Directors of African Petroleum Corporation Limited (**Company**) is responsible for establishing the corporate governance framework of the Company having regard to the Corporations Act 2001 (Cth) and applicable Listing Rules.

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

The current corporate governance plan is posted in a dedicated corporate governance information section of the Company's website at www.africanpetroleum.com.au

Summary of corporate governance practices

The Company's main corporate governance policies and practices are outlined below.

The Board of Directors

The Company's Board of Directors is responsible for overseeing the activities of the Company. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the Company's shareholders.

The Board is responsible for the strategic direction, policies, practices, establishing goals for management and the operation of the Company.

The Board assumes the following responsibilities:

(a) appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
(b) driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
(c) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
(d) approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
(e) approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
(f) approving the annual, half yearly and quarterly accounts;
(g) approving significant changes to the organisational structure;
(h) approving the issue of any shares, options, equity instruments or other securities in the Company;
(i) ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
(j) recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
(k) meeting with the external auditor, at their request, without management being present.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

(a) the composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction; and
(b) the principal criterion for the appointment of new Directors is their ability to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. The majority of the Board is to be comprised of non-executive directors and where appropriate, at least 50% of the Board should be independent. Directors of the Company are considered to be independent when they are a non-executive director (ie not a member of management and have been for the preceding 3 years), hold less than 5% of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably by perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr F. Timis (Non-Executive Chairman), Mr A. Sage (Non-Executive Deputy Chairman), Mr K. Thompson and Mr M. Ashurst are not considered independent.

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

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

The role and responsibilities of the Chief Executive Officer are discharged by Executive Director, Mr K Thompson. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Mr K Thompson is the most appropriate person to fulfil the role.

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

F. Timis	2 years 8 months	Non-Executive Chairman
A. Sage	5 years 9 months	Non-Executive Deputy Chairman
K. Thompson	2 years 8 months	Executive Director
M. Ashurst	2 years 8 months	Executive Director
G. Bangura	2 years 8 months	Non-Executive Director
J. Couch	2 years 7 months	Non-Executive Director
J Smith	2 years 2 months	Non-Executive Director
T. Turner	5 years 9 months	Non-Executive Director
A. Wilson	2 years 8 months	Non-Executive Director
A. Watling	2 years 8 months	Non-Executive Director

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

Remuneration arrangements

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

The total maximum remuneration of non-executive Directors, which may only be varied by Shareholders in general meeting, is an aggregate amount of US$933,390 (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, individual directors of senior management took place during the year.

Code of Conduct

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements.

Internal Audit and Risk Committee

The Company has appointed an audit and risk committee. The members of the committee throughout the year were:

- Anthony Wilson (Chairman);
- Jeffrey Couch; and
- Tony Sage.

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

The Committee has specific powers delegated under the Company's Audit and Risk Committee Charter. The charter sets out the Audit and Risk Committee's function, composition, mode of operation, authority and responsibilities.

External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Remuneration Committee

The Board has established a Remuneration Committee with specific powers delegated under the Company's Remuneration Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities. The members of the committee throughout the year were:

- Mark Ashurst (Chairman);
- Jeffrey Couch
- Tony Sage; and
- James Smith.

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

Continuous Disclosure Policy

The Company has adopted a policy concerning continuous disclosure. The policy outlines the disclosure obligations of the Company as required under the Corporations Act and the applicable Listing Rules. The Company is committed to:

(a) complying with the general and continuous disclosure principles contained in the Corporations Act and applicable Listing Rules;
(b) preventing the selective or inadvertent disclosure of material price sensitive information;
(c) ensuring shareholders and the market are provided with full and timely information about the Company's activities; and
(d) ensuring that all market participants have equal opportunity to receive externally available information issued by the Company.

Nominated Advisor

In accordance with the rules of NSX, the Company has appointed Steinepreis Paganin Lawyers and Consultants as its nominated advisor (**NOMAD**). Steinepreis Paganin are consulted and advise on announcements issued by the Company that are price sensitive.

Continuous Disclosure Committee

In accordance with its existing corporate governance policies, the Company has established a Continuous Disclosure Committee which prepares (in conjunction with other relevant parties including technical consultants) and recommends all announcements for final approval and sign off by Mr A. Sage (Deputy Chairman). In the case of price sensitive announcements the NOMAD reviews and approves the announcement before being released to the exchange.

This committee and the NOMAD (together with other relevant parties including technical consultants) complement and strengthen the continuous disclosure policy currently in place.

The members of the Continuous Disclosure Committee are:
Mr A. Sage (Chairman);
Mr M. Ashurst;
Mr J. Couch;
Mr J Smith;
Mr T. Turner; and
Mr A. Wilson.

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

A quarterly declaration is made by the Chairman, Deputy Chairman (Chairman of the Continuous Disclosure Committee) and Chief Executive Officer certifying that the Board has reviewed the Company's operations during the quarter and declares that, in the opinion of the Board, there are no issues that require additional disclosure by the Company and that the market is fully informed in accordance with the Company's continuous disclosure obligations under the Listing Rules in respect of the prospects and activities of the Company.

Risk Management Program

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed. The Board and senior management are committed to managing risks in order to both minimise uncertainty and to maximise its business opportunities. The function and responsibility for maintaining the Company's risk management systems is delegated to the Company's Audit and Risk Committee.

Further information regarding the risk management program can be found in the Corporate Governance Plan available on the Company's website.

Securities Trading Policy

The Company has developed a policy for the sale and purchase of its securities. This policy details and explains the relevant Corporation Act provisions applicable to inside trading and imposes constraints on directors and senior executives of the Company dealing in securities of the Company. It also imposes disclosure requirements on Directors.

Under the Company's Securities Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

In addition, Directors and senior executives may not trade in securities during designated "Blackout Periods" without the prior written consent from the Board or Chairman in the circumstances of "severe financial hardship" or other exceptional circumstances. The "Blackout Periods" are:

- within the period of one (1) month prior to the release of annual or half yearly results; and
- if there is in existence price sensitive information that has not been disclosed because of an NSX exception.

Before commencing to trade, a Director or senior executive must obtain the approval of the Chairman (in the case of a Director) or the Chief Executive Officer or Chairman (in the case of a senior executive) of their intention to do so.

As required by the NSX Listing Rules, the Company notifies the NSX of any transaction conducted by a Director in the securities of the Company.

Shareholder Communication

The Company has adopted a shareholder communication strategy to set out the Company's policy for communicating with its shareholders.

The purpose of the policy is to ensure the Company deals fairly, transparently and promptly with its current and prospective shareholders, encourages and facilitates active participation by shareholders at shareholder meetings and deals promptly with shareholder enquiries.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December 2012 US$	31 December 2011 US$
Continuing operations			
Revenue	**6(a)**	**3,910,713**	4,060,311
Depreciation expense	**6(c)**	**(1,293,967)**	(558,803)
Consulting expenses		**(6,289,414)**	(4,410,460)
Compliance and regulatory expenses		**(412,294)**	(486,594)
General administration expenses		**(5,337,503)**	(2,471,360)
Travel expenses		**(7,950,968)**	(6,250,800)
Employee remuneration	**6(d)**	**(17,627,434)**	(16,581,150)
Net foreign currency gains / (losses)	**6(b)**	**(3,651,518)**	9,035,637
Finance costs		**(6,243)**	(443)
Other expenses		**(1,773,280)**	(1,355,877)
Loss from continuing operations before income tax		**(40,431,908)**	(19,019,539)
Income tax expense	**5**	**-**	-
Loss for the year, attributable to the members		**(40,431,908)**	(19,019,539)
Other comprehensive gains / (losses)			
Foreign exchange gain / (loss) on translation of functional currency to presentation currency	**16**	**4,205,596**	(14,026,613)
Other comprehensive losses for the year, net of tax		**4,205,596**	(14,026,613)
Total comprehensive loss for the year		**(36,226,312)**	(33,046,152)
Loss for the year is attributable to:			
Non-controlling interest		**(149,778)**	(21,031)
Owners of the parent		**(40,282,130)**	(18,998,508)
		(40,431,908)	(19,019,539)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		**(149,778)**	(21,031)
Owners of the parent		**(36,076,534)**	(33,025,121)
		(36,226,312)	(33,046,152)
Loss per share attributable to members			
Basic/diluted loss per share	**25**	**(2.43) cents**	(1.26) cents

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012 US$	31 December 2011 US$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**7**	**52,598,909**	204,529,028
Trade and other receivables	**8**	**16,505,979**	11,708,489
Restricted cash	**9**	**50,113,629**	28,087,489
Prepayments	**10**	**10,303,371**	7,725,138
TOTAL CURRENT ASSETS		**129,521,888**	252,050,144
NON CURRENT ASSETS			
Trade and other receivables	**8**	**-**	4,454,203
Property, plant and equipment	**11**	**6,993,178**	6,062,331
Restricted cash	**9**	**22,500,000**	11,250,614
Exploration and evaluation expenditure	**12**	**354,822,592**	173,899,527
TOTAL NON CURRENT ASSETS		**384,315,770**	195,666,675
TOTAL ASSETS		**513,837,658**	447,716,819
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	**13**	**25,684,709**	21,521,453
TOTAL CURRENT LIABILITIES		**25,684,709**	21,521,453
TOTAL LIABILITIES		**25,684,709**	21,521,453
NET ASSETS		**488,152,949**	426,195,366
EQUITY			
Issued capital	**15**	**575,911,770**	488,152,298
Reserves	**16**	**13,843,528**	(786,491)
Accumulated losses	**17**	**(101,467,545)**	(61,185,415)
Parent interests		**488,287,753**	426,180,392
Non-controlling interests	**18**	**(134,804)**	14,974
TOTAL EQUITY		**488,152,949**	426,195,366

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

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

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

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

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

		For the year ended	
	Note	**31 December 2012 US$**	**31 December 2011 US$**
Cash flows from operating activities			
Payments to suppliers and employees		**(24,748,045)**	(27,251,433)
Rental income		**2,609,536**	1,367,371
Interest received		**1,103,146**	1,343,718
Finance costs		**(6,243)**	(443)
Net cash flows used in operating activities	**7(b)**	**(21,041,606)**	(24,540,787)
Cash flows from investing activities			
Payment for plant, equipment and aircraft		**(2,224,813)**	(4,394,864)
Payment for land		**-**	(1,056,158)
Payment for exploration and evaluation activities		**(177,360,330)**	(104,378,760)
Loan to related parties		**(1,741,930)**	(10,000,000)
Increase in cash backing security provided for drilling operations & seismic data acquisition		**(79,940,523)**	(39,235,612)
Cash backing security returned		**46,672,050**	-
Net cash used in investing activities		**(214,595,546)**	(159,065,394)
Cash flows from financing activities			
Proceeds from issue of shares	**15**	**90,352,471**	270,549,011
Capital raising costs	**15**	**(3,839,319)**	(10,988,851)
Net cash from financing activities		**86,513,152**	259,560,160
Net increase / (decrease) in cash and cash equivalents		**(149,124,000)**	75,953,979
Cash and cash equivalents at the beginning of the year		**204,529,028**	135,451,410
Net foreign exchange differences		**(2,806,119)**	(6,876,361)
Cash and cash equivalents at the end of year	**7(a)**	**52,598,909**	204,529,028

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 2012 was authorised for issue in accordance with a resolution of the directors on 13 March 2013.

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

2. BASIS OF PREPARATION OF ANNUAL REPORT

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

The financial report is presented in United States dollars.

Compliance with IFRS

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

Going concern

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

The Consolidated Entity recently concluded a drilling campaign at its third well, Bee-Eater-1, being funded from cash resources from previous equity raisings. The Consolidated Entity will continue to conduct further exploration and evaluation programs.

As at 31 December 2012, the Consolidated Entity had net current assets of $103,837,179 (2011: $230,528,691). The cash and restricted cash position at 31 December 2012 was $125,212,538 (2011: $243,867,131). However, the ability of the Consolidated Entity to continue its planned exploration and evaluation activities is dependent on the Consolidated Entity raising additional capital within the next 12 months. At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Consolidated Entity will be able to raise additional capital, in order to enable it to meet its obligations as and when they fall due. If required, additional capital will be raised by way of either a share placement or strategic transaction, such as a farm-in on one of the Consolidated Entity's exploration projects.

Should the Consolidated Entity not achieve the matters set out above, there is uncertainty whether it would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report. This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

3. SUMMARY OF ACCOUNTING POLICIES

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

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

(a) Changes in accounting policy and other disclosures

New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year. From 1 January 2012, the Consolidated Entity has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 January 2012. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity. The Consolidated Entity has not elected to early adopt any new standards or amendments.

Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the reporting period ended 31 December 2012 are set out below. The Group is still in the process of determining the impact of the new Standards and Interpretations.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 January 2013
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 11	*Joint Arrangements*	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 January 2013
AASB 12	*Disclosure of Interests in Other Entities*	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 January 2013
AASB 13	*Fair Value Measurement*	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 January 2013
AASB 119	*Employee Benefits*	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2012-2	Amendments to Australian Accounting Standards – *Disclosures – Offsetting Financial Assets and Financial Liabilities*	AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 January 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1) • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 1053	*Application of Tiers of Australian Accounting Standards*	This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this standard) (b) The Australian Government and State, Territory and Local governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1 and 2012-7.	1 July 2013	1 January 2014
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014

(b) Consolidation

The consolidated financial statements comprise the financial statements of African Petroleum Corporation Limited ("AOQ" or "the Company") and its subsidiaries for the year ended 31 December 2012 (together the Group).

Subsidiaries are all of those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by African Petroleum Corporation Limited are accounted for at cost in the separate financial statements of the Parent less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portioin of the cash-generating unit retained.

Non-controlling interests are allocated their share of net profit after tab in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the Parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in ownership interest of a subsidiary that does not result in a loss of control, is accounted for as a equity transaction.

(c) Segment reporting

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

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

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

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

(d) Foreign currency translation

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

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

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

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

Translation of Group Companies' functional currency to presentation currency
On consolidation, the assets and liabilities of foreign operations are translated into dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due to it according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the amount expected to be received. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the Statement of Comprehensive Income.

(g) Property, plant and equipment

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

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

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

The depreciation rates used for each class of depreciable assets are:

- Plant and equipment 20% - 33%
- Aircraft 10%

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

(h) Exploration and evaluation expenditure

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

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

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

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

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

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

(i) Revenue

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

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

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

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

(i) Income tax

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

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

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

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

(j) Other taxes

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

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

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

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

(k) Earnings per share

(i) Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(l) Employee Benefits

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

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

Provisions made in respect of employee benefits which are not due to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

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

(m) Trade and other payables

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

(n) Provisions

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

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

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

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

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

(o) Contributed equity

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

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

(p) Share-based payments

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

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

(q) Business Combinations

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

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

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

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

(r) Interest in jointly controlled assets

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidated method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

The Group's share of intra-group balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture are eliminated on consolidation. Losses on transactions are recognised immediately if there is evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint 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. The related carrying amounts are disclosed in Note 12.

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

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

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

value of shares awarded is measured using the share price on the date the shares are granted. The fair value of options is determined on grant date using the Black-Scholes model. The related assumptions are detailed in Note 19. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Income taxes

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

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

	2012 US$	**2011 US$**
5. INCOME TAX		
(a) The components of income tax expense comprise:		
Current tax	**-**	-
Deferred tax	**-**	-
	-	-
(b) The prima facie tax on profit/(loss) from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax (expense)/benefit on loss from ordinary activities before income tax at 30% (31 December 2011: 30%)	**12,129,572**	5,705,862
Foreign tax rate adjustment	**(2,323,924)**	(1,429,846)
	9,805,648	4,276,016
Add/(less)		
Tax effect of		
- Tax effect of permanent differences	**(3,211,891)**	(3,371,376)
- Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(6,593,757)**	(904,640)
Income tax expense / (benefit)	**-**	-

Deferred tax assets have not been brought to account in respect of tax losses and temporary differences because as at 31 December 2012 it is not probable that future taxable amounts will be available to utilise those temporary differences and losses.

6. LOSS BEFORE INCOME TAX EXPENSE

	2012 US$	2011 US$
(a) REVENUE		
Interest income	**1,082,549**	1,540,247
Rental income [1]	**2,703,164**	1,367,371
Other revenue	**125,000**	1,152,693
	3,910,713	4,060,311

[1] During the prior year, the Consolidated Entity purchased a corporate jet. The jet is leased to related parties and generated US$2,703,164 external revenue for the year ended 31 December 2012 (2011: US$1,367,371).

	2012 US$	2011 US$
(b) NET FOREIGN CURRENCY GAINS / (LOSSES)		
Net foreign currency gains/(losses)	**(3,651,518)**	**9,035,637**

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

	2012 US$	2011 US$
(c) EXPENSES		
Depreciation	**1,293,967**	558,803
Lease rental costs	**1,464,778**	1,246,479
(d) EMPLOYEE REMUNERATION		
Employee benefits expensed	**4,131,265**	3,575,350
Director's remuneration expensed	**1,825,426**	1,761,430
Share based payments expensed	**11,670,743**	11,244,370
	17,627,434	16,581,150
Employee benefits capitalised	**6,012,125**	2,342,791
(e) REMUNERATION OF AUDITORS		
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**107,280**	96,872
Ernst & Young related practices	**207,841**	227,652
Other non-assurance services	**20,224**	-
	335,345	324,524

	2012 US$	2011 US$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**46,957,077**	199,276,799
Term deposits [1]	**5,641,832**	5,252,229
	52,598,909	204,529,028

[1] Term deposits up to 90 days bearing interest up to 3.31% (2011: 5.54%).

(a) Reconciliation of cash and cash equivalents

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

	2012 US$	2011 US$
Cash and cash equivalents	**52,598,909**	204,529,028

	2012 US$	2011 US$
b) Reconciliation of net loss to net cash flows from operating activities		
Loss from ordinary activities	**(40,431,908)**	(19,019,539)
Adjusted for non-cash items:		
Depreciation	**1,293,967**	558,803
Share based payments	**11,670,743**	11,244,370
Unrealised foreign exchange gain / (losses)	**7,001,315**	(7,135,330)
Interest and commitment fee capitalised on loan to related party	**(443,552)**	(435,209)
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Decrease in trade and other receivables	**1,192,041**	(11,181,494)
Increase in trade and other payables	**(1,324,212)**	1,427,612
Net cash provided by / (used) in operating activities	**(21,041,606)**	(24,540,787)

(c) Non-Cash Activities

During the current year, 6,960,000 unlisted options have been issued to directors, employees and consultants of the Company (31 December 2011: 11,975,000 unlisted options). US$9,196,228 has been expensed in the current year in relation to options granted (31 December 2011: US$5,330,577).

On 1 October 2012, 1,000,000 ordinary shares were awarded to Jens Pace, Chief Operating Officer upon commencement with the Company, in line with the terms of his employment contract. US$1,246,320 has been expensed with respect to these shares. Jens Pace was also awarded 1,500,000 performance shares which will vest upon the Company securing a commercial discovery. As at 31 December 2012, this performance milestone has not yet occurred. US$806,269 has been recognised in the current year in relation to these awards.

In the prior year, 6,550,000 performance shares were awarded to Karl Thompson. On 18 August 2011, 3,275,000 fully paid ordinary shares were issued to Karl Thompson following the spudding of the Company's first off-shore well, pursuant to the terms of his employment contract. The remaining 3,275,000 performance shares will be issued to Karl Thompson when the Company secures a commercial discovery. As at 31 December 2012, this performance milestone has not yet occurred. US$421,925 has been recognised in the current year in relation to these performance shares (2011: US$2,446,313).

	2012 US$	2011 US$
8. TRADE AND OTHER RECEIVABLES		
CURRENT		
GST / VAT recoverable	**346,350**	-
Loans receivable from related parties [1]	**12,623,041**	10,435,209
Other receivables	**3,536,588**	1,273,280
	16,505,979	11,708,489
NON CURRENT		
GST / VAT recoverable	**-**	4,430,187
Other receivables	**-**	24,016
	-	4,454,203

Trade and other receivables are neither past due or impaired.

[1] In May 2011, the Company provided a US$10 million loan facility to a director related entity. During 2011, the loan facility was fully drawn down. Under the terms of the facility agreement, the amounts drawn down are required to be repaid in full by 31 March 2013.

Interest is receivable on amounts drawn down under the facility at the cash rate plus 3%. The facility is secured by a fixed and floating charge. Interest earned on the facility for the current year is US$318,552 (2011: US$185,910). The Company is also entitled to a commitment fee of US$250,000 for the provision of the facility and a further US$125,000 for extension of the repayment date.

During the year, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged or the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$11,221 (£6,946) of interest recognised during the current year. The Loan Agreement was approved by the Board of Directors as being on arm's length terms.

During the year US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged or the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$5,752 (£3,561) of interest recognised during the current year. The Loan Agreement was approved by the Board of Directors as being on arm's length terms.

	2012 US$	2011 US$
9. RESTRICTED CASH		
CURRENT		
Restricted cash	**50,113,629**	28,087,489
NON-CURRENT		
Restricted cash	**22,500,000**	11,250,614
	72,613,629	39,338,103

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

10. PREPAYMENTS

	2012 US$	**2011 US$**
Prepayments related to exploration activities	**9,071,009**	7,150,672
Other prepayments	**1,232,362**	574,466
	10,303,371	7,725,138

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$	**Plant & equipment US$**	**Aircraft US$**	**TOTAL US$**
31 December 2012				
Cost	**1,056,158**	**4,329,244**	**3,606,759**	**8,992,161**
Accumulated depreciation	**-**	**(1,367,240)**	**(631,743)**	**(1,998,983)**
	1,056,158	**2,962,004**	**2,975,016**	**6,993,178**
31 December 2011				
Cost	1,056,158	2,065,578	3,645,611	6,767,347
Accumulated depreciation	-	(433,273)	(271,743)	(705,016)
	1,056,158	1,632,305	3,373,868	6,062,331

(a) Reconciliations

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

	2012 US$	2011 US$
Freehold land		
Balance at beginning of the year	**1,056,158**	-
Additions at cost	**-**	1,056,158
Balance at end of the year	**1,056,158**	1,056,158
Plant and Equipment		
Balance at beginning of the year	**1,632,305**	551,324
Additions at cost	**2,477,167**	1,368,041
Depreciation expense	**(933,967)**	(287,060)
Disposals	**(213,501)**	-
Balance at end of the year	**2,962,004**	1,632,305
Aircraft		
Balance at beginning of the year	**3,373,868**	-
Additions at cost	**-**	3,026,823
Transfer from prepayments	**-**	618,788
Depreciation expense	**(360,000)**	(271,743)
Disposals	**(38,852)**	-
Balance at end of the year	**2,975,016**	3,373,868
Total property, plant and equipment	**6,993,178**	6,062,331

12. EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest in exploration and evaluation phases	**354,822,592**	173,899,527
Reconciliation		
Opening balance	**173,899,527**	52,199,175
Exploration expenditure incurred	**180,923,065**	113,172,171
Exploration expenditure – recouped	**-**	(5,000,000)
Issue of shares to acquire exploration assets	**-**	13,528,181
	354,822,592	173,899,527

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

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

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

13. TRADE AND OTHER PAYABLES

	2012 US$	2011 US$
Trade payables	**4,114,090**	11,402,224
Withholding tax [1]	**10,508,920**	-
Other payables [2]	**11,061,699**	10,119,229
	25,684,709	21,521,453

[1] An accrual for withholding tax in relation to the Company's exploration activities has been recognised in the current period. The Company is required to withhold payment on services provided by subcontractors. This amount is due to the tax authorities and will be credited against the subcontractors own income tax liability.

[2] Other payables include amounts accrued for in respect of seismic data interpretation and drilling costs.

14. INTEREST IN JOINTLY CONTROLLED ASSET

On 23 August 2010, African Petroleum's wholly owned subsidiary, African Petroleum Gambia Limited ("African Petroleum Gambia"), entered into an agreement with Buried Hill Gambia BV ("Buried Hill") to acquire (via farm-in) a 60% equity interest in two off-shore Gambian exploration licences, Alhamdulilah Licence Block A1 and Licence Block A4 ("Licence Blocks") ("Agreement").

Under the Agreement, African Petroleum Gambia has assumed the operatorship of the Licence Blocks, which cover a combined total area of 2,668km^2 off-shore Gambia and is required to pay 80% of the forward costs incurred on the two blocks from execution of the Agreement to the end of the initial exploration period. In addition, to earn the 60% legal and beneficial interest in the Licence Blocks, African Petroleum Gambia has:

- assumed responsibility for all of Buried Hill's corporate licence guarantees, amounting to US$8,000,000 (refer to note 26); and
- paid Buried Hill's data fees payable to the Government of The Republic of the Gambia, amounting to US$750,000.

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

In the event that the exploration period is mutually extended beyond 31 December 2013 on either of the Licence Blocks, African Petroleum Gambia is required to pay 60% of Buried Hill's past costs, which amount to approximately US$22.9 million.

The joint venture does not have any revenues or expenses for the year ended 31 December 2012 (2011: nil). The Consolidated Entity's interests in the assets and liabilities as at 31 December 2012, which is proportionally consolidated in the consolidated financial statements, are as follows:

	2012 US$	2011 US$
Share of the joint venture's statement of financial position:		
Current assets	**470,569**	175,190
Non-current assets	**25,903,385**	17,473,110
Current liabilities	**(432,009)**	(287,956)
Equity	**25,941,945**	17,360,344

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

	2012 US$	2011 US$
15. ISSUED CAPITAL		
Fully paid ordinary shares	**575,911,770**	488,152,298

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

	2012	2011
	Number of fully paid ordinary shares	
Balance at beginning of the year	**1,626,777,598**	1,340,502,598
Issue of shares pursuant to a capital raising	**62,963,000**	250,000,000
Issue of shares pursuant to share based payment arrangements	**1,000,000**	36,275,000
Issue of shares on the exercise of options	**4,692,302**	-
Balance at end of the year	**1,695,432,900**	1,626,777,598

Reconciliation of movements in issued capital

	2012 US$	2011 US$
Fair value of issued share capital at beginning of the year	**488,152,298**	211,596,478
Issue of shares pursuant to a capital raising	**88,016,083**	270,549,011
Capital raising costs	**(3,839,319)**	(10,988,851)
Issue of shares pursuant to share based payment arrangements	**1,246,320**	16,995,660
Issue of shares on the exercise of options	**2,336,388**	-
Share capital at end of the year	**575,911,770**	488,152,298

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.

	2012 US$	2011 US$
16. RESERVES		
Share-based payment reserve		
Balance at beginning of the year	**15,370,398**	7,593,509
Issue of options pursuant to share based payment arrangements	**10,424,423**	7,776,889
Balance at end of the year	**25,794,821**	15,370,398
Foreign currency translation reserve		
Balance at beginning of the year	**(16,156,889)**	(2,130,276)
Foreign currency exchange differences arising on translation of functional currency to presentation currency	**4,205,596**	(14,026,613)
Balance at end of the year	**(11,951,293)**	(16,156,889)
Total reserves	**13,843,528**	**(786,491)**

Nature and purpose of reserves

Share-based payment reserve
The share based payments reserve records options and share awards recognised as expenses, issued to employees, directors and consultants. Refer to note 19 for further details.

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

The functional currency of the legal parent of the Consolidated Entity, African Petroleum Corporation Limited ("African Parent") is Australian Dollars ("AUD"). African Parent's accounts are stated in AUD. On translation of African Parent's accounts to the Consolidated Entity's presentation currency of United States Dollars (US$), an unrealised foreign currency exchange gain of US$4,285,606 has been recognised in the Foreign Currency Translation Reserve in the current year (2011: unrealised foreign currency exchange loss US$13,651,648). A number of other entities within the Consolidated Entity have functional currencies other than US$. On translation of the accounts of these entities to the Consolidated Entity's presentation currency, an unrealised foreign currency exchange loss of US$80,010 has been recognised in the Foreign Currency Translation Reserve in the current year (2011: unrealised foreign currency loss of US$374,965).

	2012 US$	2011 US$
17. ACCUMULATED LOSSES		
Accumulated losses at beginning of the year	**(61,185,415)**	(42,186,907)
Loss attributable to the members of the entity	**(40,282,130)**	(18,998,508)
Accumulated losses at end of the year	**(101,467,545)**	(61,185,415)
18. NON-CONTROLLING INTEREST		
Accumulated losses at the beginning of the year	**14,974**	36,005
Loss attributable to non-controlling interests	**(149,778)**	(21,031)
Non-controlling interests at the end of the year	**(134,804)**	14,974

19. SHARE BASED PAYMENTS

Shares

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

Jens Pace was also awarded 1,500,000 performance shares which will vest upon the Company securing a commercial discovery. As at 31 December 2012, this performance milestone has not yet occurred. US$806,269 has been recognised in the current year in relation to these awards. The fair value of the shares at grant date is US$1,867,554 (A$1,800,000).

Shares awarded in the prior year
On 9 March 2011, 6,500,000 ordinary shares were issued to African Oil Investing SARL ("African Oil") in consideration for the evaluation of a series of new exploration ventures in West Africa including securing the farm-in by the Company of Gambian exploration licences, in accordance with the terms of an agreement between the Company and African Oil. The shares were subject to a voluntary escrow restriction of 6 months from the date of issue. The fair value of the share based payment is US$5,811,989 (A$5,785,000).

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

In the prior year, 6,550,000 performance shares were awarded to Mr Thompson. On 18 August 2011, 3,275,000 fully paid ordinary shares were issued to Mr Thompson following the spudding of the Company's first off-shore well, pursuant to the terms of his employment contract. The fair value of the share based payment was US$3,467,480 (A$3,275,000). The remaining 3,275,000 performance shares will be issued to Mr Thompson when the Company secures a commercial discovery. As at 31 December 2012, this performance milestone has not yet occurred. US$421,925 has been recognised in respect of these performance shares for the current year (2011: US$2,446,313).

Options

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

Options awarded in the current year

During the current period the following options were issued:

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
5 Jan 2012	300,000	0.30[1]	17 January 2017	0.35	0.36
9 Jan 2012	250,000	0.30[1]	17 January 2017	0.35	0.36
12 Jan 2012	350,000	0.30[1]	17 January 2017	0.35	0.36
6 Feb 2012	250,000	0.30[1]	17 January 2017	0.47	0.51
16 Feb 2012	50,000	0.30[1]	26 March 2017	0.64	0.69
22 Feb 2012	400,000	0.30[1]	17 January 2017	1.42	1.52
9 Mar 2012	200,000	1.00[2]	17 January 2017	1.31	1.39
12 Mar 2012	400,000	1.00[2]	17 January 2017	1.36	1.44
15 Mar 2012	125,000	0.55[4]	26 March 2017	1.52	1.60
16 Mar 2012	60,000	1.00[2]	26 March 2017	1.80	1.89
16 Mar 2012	150,000	0.55[4]	26 March 2017	1.86	1.95
19 Mar 2012	400,000	1.00[2]	17 January 2017	1.75	1.85
15 May 2012	300,000	1.00[2]	17 January 2017	1.25	1.25
25 May 2012	250,000	1.00[2]	31 July 2017	1.28	1.25
1 Jun 2012	600,000	1.25[3]	17 January 2017	1.17	1.14
19 Jun 2012	2,500,000	1.00[2]	8 January 2018	1.10	1.12
28 Jun 2012	300,000	1.25[3]	8 January 2018	1.09	1.09
16 Jul 2012	50,000	1.25[3]	8 January 2018	1.08	1.11
17 Jul 2012	25,000	1.25[3]	17 January 2017	1.15	1.18
	6,960,000				

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

Options awarded in the prior year

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

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

During the prior year the following options were issued:

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
13 Jan 2011	440,000	0.30[1]	17 January 2017[1]	0.84	0.82
13 Jan 2011	440,000	0.30[1]	17 January 2017[1]	0.81	0.81
19 Jan 2011	200,000	0.55[4]	31 July 2013	0.79	0.79
1 Apr 2011	200,000	0.30[1]	17 January 2017[1]	0.92	0.95
13 Apr 2011	150,000	0.30[2]	17 January 2017[2]	0.86	0.90
27 May 2011	3,000,000	0.55[4]	31 July 2013	0.76	0.80
13 Jun 2011	100,000	0.30[1]	17 January 2017[1]	0.64	0.70
23 Jun 2011	1,000,000	0.30[1]	17 January 2017[1]	0.74	0.77
12 Aug 2011	1,000,000	0.30[1]	17 January 2017[1]	0.55	0.56
22 Nov 2011	1,350,000	0.30[3]	17 January 2017	0.31	0.31
20 Dec 2011	4,095,000	0.30[3]	17 January 2017	0.26	0.25

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

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

3 The equivalent US$ exercise price as at 31 December 2012 is US$0.31.

4 The equivalent US$ exercise price as at 31 December 2012 is US$0.56.

The fair value of options which has been recognised in the statement of comprehensive income for the current year is US$9,196,228 (2011: 5,330,577). The fair value of options that have not vested have not been recognised in the statement of comprehensive income for the current year but which are expected to vest is US$6,654,508 (2011: US$3,353,723).

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

The weighted average fair value of the options granted during the current year is A$1.12 (2011: A$0.40). Options were priced using the Black-Scholes option pricing model. Expected volatility used is 125% and is based on the historical volatility. No allowance has been made for the effects of early exercise.

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

Expiry Date	Exercise Price	Number Under Option	Dividend Yield (%)	Risk Free Rate (%)	Expected life of Options (years)	Share price at grant date A$	Share price at grant date US$
30 June 2013	A$0.55[1]	8,916,524	-	4.47	3	0.55	0.47
31 July 2013	A$0.55[1]	200,000	-	5.16	2	1.01	1.01
17 January 2017	A$0.30[2]	11,700,000	-	2.26-5.26	5-6	0.30-1.51	0.30-1.61
17 January 2017	A$1.00[3]	1,300,000	-	2.77-3.90	5	1.45-1.96	1.45-2.07
17 January 2017	A$1.25[4]	625,000	-	2.26-2.40	5	1.25-1.39	1.28-1.35
27 March 2017	A$0.30[2]	50,000	-	3.59	5	0.70	0.74
27 March 2017	A$0.55[1]	275,000	-	3.89-3.90	5	1.65-2.00	1.71-2.10
27 March 2017	A$1.00[3]	60,000	-	3.89	5	2.00	2.10
31 July 2017	A$0.55[1]	13,500,000	-	2.61	5	1.45	1.41
31 July 2017	A$1.00[3]	250,000	-	2.61	5	1.45	1.41
8 January 2018	A$1.00[3]	2,500,000	-	2.48	5	1.25	1.26
8 January 2018	A$1.25[4]	350,000	-	2.38-2.51	5	1.25	1.26

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

The value of options capitalised during the period was nil (2011: nil).

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

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of the period	**37,458,826**	**A$0.45[1]**	25,483,826	A$0.52[6]
Granted during the year	**6,960,000**	**A$0.86[2]**	11,975,000	A$0.30[7]
Exercised during the year	**(4,692,302)**	**A$0.47[3]**	-	-
Forfeited during the year	**-**	**-**	-	-
Balance at end of the year	**39,726,524**	**A$0.54[4]**	37,458,826	A$0.45[8]
Exercisable at end of the period	**27,854,858**	**A$0.51[5]**	29,062,159	A$0.50[9]

The share options outstanding at the end of the period had a weighted average exercise price of A$0.54 (2011: A$0.45) and the weighted average remaining contractual life was 1,281 days (2011: 962 days).

1 The US$ equivalent weighted average exercise price is equal to US$0.46
2 The US$ equivalent weighted average exercise price is equal to US$0.89
3 The US$ equivalent weighted average exercise price is equal to US$0.49
4 The US$ equivalent weighted average exercise price is equal to US$0.56
5 The US$ equivalent weighted average exercise price is equal to US$0.53
6 The US$ equivalent weighted average exercise price is equal to US$0.53
7 The US$ equivalent weighted average exercise price is equal to US$0.31. Of the total options granted during the period 3,180,000 options were originally granted at an exercise price of A$0.55 and 150,000 options were originally granted at an exercise price of A$1.00. On 20 December 2011the exercise price was modified to A$0.30.
8 The US$ equivalent weighted average exercise price is equal to US$0.46.
9 The US$ equivalent weighted average exercise price is equal to US$0.51

20. RELATED PARTY INFORMATION

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

(a) Ultimate parent

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

(b) Corporate Structure

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

Name	Country of incorporation	% Equity interest 2012	2011
Parent entity: African Petroleum Corporation Limited	Australia		
African Petroleum Corporation Ltd	Cayman Islands	**100%**	100%
European Hydrocarbons Ltd	Cayman Islands	**100%**	100%
African Petroleum Liberia Ltd	Cayman Islands	**100%**	100%
African Petroleum Ltd	Cayman Islands	**100%**	100%
African Petroleum Sierra Leone Ltd	Cayman Islands	**100%**	100%
European Hydrocarbons Ghana Ltd	Cayman Islands	**100%**	100%
African Petroleum Senegal Ltd	Cayman Islands	**90%**	90%
African Petroleum Gambia Ltd	Cayman Islands	**100%**	100%
African Petroleum Guinea Ltd	Cayman Islands	**100%**	100%
African Petroleum Cote d'Ivoire Ltd	Cayman Islands	**100%**	100%
African Petroleum (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbons (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbons (Ghana) Limited	Ghana	**95%**	95%
African Hydrocarbons Ghana Limited	Ghana	**91%**	91%
African Petroleum Liberia Limited	Liberia	**100%**	100%
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire SAU	**100%**	100%
African Petroleum Corporation (Services) Limited	United Kingdom	**100%**	100%
European Hydrocarbons Limited	United Kingdom	**100%**	100%
Regal Liberia Limited	United Kingdom	**100%**	100%
African Petroleum Limited	United Kingdom	**100%**	100%
African Petroleum Corporation Limited	United Kingdom	**100%**	100%
African Petroleum (Guinea) SARL	Guinea	**100%**	**100%**

(c) Key management personnel

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

(i) Remuneration of key management personnel

	2012 US$	2011 US$
Short-term employee benefits	**4,383,738**	2,764,460
Post-employment benefits	**241,474**	153,354
Share based payments	**8,479,185**	9,765,167
Total compensation	**13,104,397**	12,682,981

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

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

[1] Appointed on 1 October 2012.

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

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

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

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

[1] Appointed 1 October 2012.

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

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

Refer to Note 19 for performance shares issued to key management personnel.

Transactions and period end balances with related parties:

(i) In May 2011, the Company provided a US$10 million loan facility to a director related entity. During 2011, the loan facility was fully drawn down. Under the terms of the facility agreement, the amounts drawn down are required to be repaid in full by 31 March 2013.

Interest is receivable on amounts drawn down under the facility at the cash rate plus 3%. The facility is secured by a fixed and floating charge. Interest earned on the facility for the current year is US$318,552 (2011: US$185,910). The Company is also entitled to a commitment fee of US$250,000 for the provision of the facility and a further US$125,000 for extension of the repayment date.

(ii) An aggregate amount of US$58,068 was paid, or was due and payable to Cape Lambert Resources Limited ('Cape Lambert'), for reimbursement of employee, consultancy and occupancy costs (2011: US$12,000). Mr Sage and Mr Turner are directors of Cape Lambert.

(iii) During the prior year US$51,423 was paid to PG Partnerships Pty Ltd, an entity related to Mr Sage for the corporate boxes at the Perth Glory football matches. There were no transactions with PG Partnerships Pty Ltd for the current year.

(iv) During the year US$1,056,078 was paid, or was due and payable by African Minerals Engineering Ltd for rental of the Company's corporate jet (2011: US$325,930). As at 31 December 2012 US$157,675 was outstanding (2011: US$235,093). Mr Timis and Mr Bangura are directors of African Minerals Engineering Ltd. Also, during the year, US$1,336,412 was paid, or was due and payable by Pan African Minerals Services Ltd (2011: US$321,954) for rental of the Company's corporate jet. As at 31 December 2012 no amount was outstanding (2011: US$27,336). Mr Timis, Mr Bangura and Mr Ashurst are directors of Pan African Minerals Services Ltd. During the year US$322,079 was paid, or was due and payable by Mr Timis for personal use of the Company's corporate jet (2011: US$51,162). As at 31 December 2012 US$322,079 was outstanding (2011: nil). This amount has been received subsequent to year end.

(v) During the year US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to the Mr Thompson. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged or the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$11,221 (£6,946) of interest recognised during the current year. The Loan Agreement was approved by the Board of Directors as being on arm's length terms.

(vi) During the year US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to the Mr Pace. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged or the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$5,752 (£3,561) of interest recognised during the current year. The Loan Agreement was approved by the Board of Directors as being on arm's length terms.

(vii) During the year US$710,959 was paid, or was due and payable to African Minerals Limited for office rental costs (2011: US$630,000). As at 31 December 2012, US$57,000 was outstanding (2011: US$473,451). Mr Timis and Mr Bangura are directors of African Minerals Limited.

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

	2012 US$	2011 US$
CRMS which is an entity controlled by Mr Turner	**4,148**	4,070
Mr Bangura	**4,148**	4,070
A Watling	**24,890**	4,070

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 the Board (Chief Operating Decision Makers) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

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

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

	2012 US$	2011 US$
Australia	**1,289**	1,562
United Kingdom	**4,413,623**	9,103,068
Ghana	**42,421**	40,885
Sierra Leone	**23,597,948**	1,269,782
Gambia	**28,378,936**	23,259,227
Liberia	**226,788,421**	128,756,885
Cote d’Ivoire	**65,832,588**	16,430,895
Senegal	**35,191,236**	16,706,683
Other	**69,308**	97,688
	384,315,770	195,666,675

22. EVENTS SUBSEQUENT TO REPORTING DATE

On 20 February 2013, the Company announced a discovery at African Petroleum’s third well, Bee-Eater-1. The well was designed to test the Turonian fan, located in the Liberian Project, by way of a large step out of 9.5 km west of the original Narina-1 oil discovery. Reservoir permiabilities over the hydrocarbon bearing section of the well were lower than anticipated and further investigation is underway.

No other event has arisen between 31 December 2012 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

23. COMMITMENTS AND CONTINGENCIES

Exploration commitments

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

	2012 US$	2011 US$
Within one year	**69,643,755**	73,485,735
After one year but not more than five years	**120,514,672**	57,184,750
More than five years	**-**	-
	190,158,427	130,670,485

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:

	31 December 2012 US$	31 December 2011 US$
Within 1 year	**585,625**	-
Later than 1 year and not later than 5 years	**2,679,132**	-
Later than 5 years	**-**	-
	3,264,757	-

Contingent liabilities

Gambian Project (joint venture)

In the event that the exploration period at blocks A1 and A4 located offshore Gambia is mutually extended beyond 31 December 2013 on either of the blocks, the Company will be required to pay 60% of its joint venture partner's past costs, which amount to approximately US$22.9 million.

24. FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

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

Risk exposure and responses

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

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

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

Treasury Risk Management

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

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

Financial Risk Exposure and Management

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

Interest rate risk

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

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

	2012 US$	2011 US$
Financial assets		
Cash and cash equivalents	**52,601,143**	204,434,090
Related party loans receivable	**12,623,041**	10,435,209
Restricted cash	**72,613,629**	39,338,103
Financial liabilities		
Borrowings	**-**	-
	137,837,813	254,207,402

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

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

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

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2012 US$	2011 US$	2012 US$	2011 US$
Consolidated Entity				
+1% 100 basis points (2011: 200 basis points)	**1,378,378**	5,084,148	**-**	-
-1% 100 basis points (2011: 200 basis points)	**(1,378,378)**	(5,084,148)	**-**	-

The movement in profit are due to higher / lower interest earned from variable rate cash balances. A sensitivity analysis of 100 basis points has been used as this is considered reasonable given the current level of the US$ interest rate (2011: 200 basis points).

Foreign currency risk

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

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

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

	2012 US$	2011 US$
Financial assets		
Cash and cash equivalents – US$ (Parent entity)	**13,406,468**	178,948,769
Cash and cash equivalents - £ (subsidiaries)	**2,338,952**	1,032,394
Loan receivable – US$ (Parent entity)	**10,879,462**	10,435,209

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

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

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	2012	**2011**	**2012**	**2011**
	US$	**US$**	**US$**	**US$**
Consolidated Entity				
US$ to A$ + 10% (2011: 10%)	**2,128,593**	18,938,398	**-**	-
US$ to A$ - 10% (2011: 10%)	**(2,128,593)**	(18,938,398)	**-**	-
US$ to £ + 10% (2011: 10%)	**233,895**	103,239	**-**	-
US$ to £ - 10% (2011: 10%)	**(233,895)**	(103,239)	**-**	-

A sensitivity analysis of 10% has been used as this is considered reasonable given the anticipated fluctuations in the exchange rates. The same analysis has been used for 2011.

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:

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

2011	**6 months or less US$**	**6 – 12 months US$**	**1 – 5 years US$**	**Greater than 5 years US$**	**Total US$**
Trade and other payables	**21,521,453**	**-**	**-**	**-**	**21,521,453**

Credit risk

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

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

(i) Cash and cash equivalents

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

(ii) Trade and other receivables

Trade and other receivables as at the reporting date mainly comprise GST and short term loans to be refunded to the Company. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

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

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

Fair value

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

25. LOSS PER SHARE

	31 December 2012 US$	**31 December 2011 US$**
(a) Basic loss per share		
Overall operations	**(2.43) cents**	(1.26) cents
(b) Diluted loss per share		
Overall operations	**(2.43) cents**	(1.26) cents
(c) Reconciliation of loss used in calculating loss per share		
Loss from continuing operations attributable to the ordinary equity holders used in calculating basic loss per share	**(40,282,130)**	(18,998,508)
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(40,282,130)**	(18,998,508)
	Number of shares	
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	**1,656,974,838**	1,509,877,666
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive loss per share	**1,656,974,838**	1,509,877,666

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 39,726,524 options as at 31 December 2012 (2011: 37,458,826 options). These options have not been included in the determination of basic loss per share because they are considered to be anti-dilutive.

26. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

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

	31 December 2012 US$	31 December 2011 US$
Statement of financial position		
Current assets	**36,212,401**	199,235,588
Non current assets	**937,620,390**	681,842,007
Total assets	**973,832,791**	881,077,595
Current liabilities	**(176,498)**	(118,314)
Total liabilities	**(176,498)**	(118,314)
Shareholders' equity		
Issued capital	**971,594,874**	883,835,402
Reserves	**55,522,662**	36,911,032
Accumulated losses	**(53,461,243)**	(39,787,153)
	973,656,293	880,959,281
Net gain / (loss) for the year	**(13,674,090)**	4,680,969
Total comprehensive loss	**(9,388,484)**	(9,027,360)

b) Guarantees entered into by the parent entity

On the 1 October 2010, the parent entity guaranteed $8,000,000 to the Republic of The Gambia for the corporate licenses for Alhamdulilah Block A1 and A4, as part of the farm-in agreement to acquire a 60% interest in the license blocks. This guarantee is still in place as at 31 December 2012.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current period (31 December 2011: nil).

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of African Petroleum Corporation Limited for the year ended 31 December 2012 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(iii) complying with International Financial Reporting Standards as disclosed in Note 2.

(b) subject to the achievement of matters disclosed in Note 2 (Going Concern), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the year ended 31 December 2012.

Signed in accordance with a resolution of the Directors:

Karl Thompson

Karl Thompson
Director

Perth, 13 March 2013

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Independent auditor's report to the members of African Petroleum Corporation Limited

Report on the financial report

We have audited the accompanying financial report of African Petroleum Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of African Petroleum Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i). giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of African Petroleum Corporation Limited for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2. As a result of the matters discussed, there is material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

Ernst & Young

Lewsen

D S Lewsen
Partner
Perth
13 March 2013

Additional Stock Exchange Information

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

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

Shareholding

The distribution of members and their holdings of equity securities in the Company as at 22 February 2013 were as follows:

Category (size of holding)	Holders	Units
1- 1,000	323	145,921
1,001- 5,000	257	536,810
5,001 – 10,000	90	820,336
10,001- 100,000	76	2,475,004
100,001 – over	61	1,691,454,980
Total	**807**	**1,695,433,051**

Equity Securities

There are 807 shareholders, holding 1,695,433,051 fully paid ordinary shares.

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

The number of ordinary shareholdings holding less than a marketable parcel is 426.

Options

The Company currently has the following options on issue:

(a) 8,916,524 unlisted options exercisable at A$0.55 expiring on 30 June 2013;
(b) 13,700,000 unlisted options exercisable at A$0.55 expiring on 31 July 2017;
(c) 11,700,000 unlisted options exercisable at A$0.30 expiring on 17 January 2017 (subject to vesting conditions);
(d) 60,000 unlisted options exercisable at A$1.00 each on or before 27 March 2017 (subject to vesting conditions);
(e) 50,000 unlisted options exercisable at A$0.30 each on or before 27 March 2017 (subject to vesting conditions);
(f) 275,000 unlisted options exercisable at A$0.55 each on or before 27 March 2017 (subject to vesting conditions);
(g) 250,000 unlisted options exercisable at A$1.00 each on or before 31 July 2017 (subject to vesting conditions);
(h) 1,300,000 unlisted options exercisable at A$1.00 each on or before 17 January 2017 (subject to vesting conditions);
(i) 625,000 unlisted options exercisable at A$1.25 each on or before 17 January 2017 (subject to vesting conditions);
(j) 2,500,000 unlisted options exercisable at A$1.00 each on or before 8 January 2018 (subject to vesting conditions);
(k) 350,000 unlisted options exercisable at A$1.25 each on or before 8 January 2018 (subject to vesting conditions)

Voting Rights

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

Options do not carry a right to vote.

Substantial holders

The names of the substantial shareholders notified to the Company in accordance with section 671B of the Corporations Act as at 22 February 2013 are as follows:

	Fully paid ordinary shareholders	Number	% of held Issued Capital
1	Sarella Investments Limited	630,816,987	37.21
2.	The Capital Group of Companies Inc	173,312,377	10.22
3.	M&G Investments Funds	117,606,417	6.94
4	Dundee Corporation	90,959,683	5.37

20 largest shareholders

The names of the 20 largest fully paid ordinary shareholders as at 22 February 2013 are as follows:

	Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1.	SARELLA INVESTMENTS LIMITED	630,816,987	37.21
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	474,513,340	27.99
3.	CITICORP NOMINEES PTY LIMITED	203,422,244	12.00
4.	NATIONAL NOMINEES LIMITED	156,951,528	9.26
5.	JP MORGAN NOMINEES AUSTRALIA LIMITED	78,529,621	4.63
6.	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	22,680,000	1.34
7.	BNP PARIBAS NOMS PTY LTD <DRP>	16,468,279	0.97
8.	CS FOURTH NOMINEES PTY LTD	13,383,084	0.79
9.	DALSIN HOLDINGS LIMITED	12,024,268	0.71
10.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	11,983,974	0.71
11.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	9,963,235	0.59
12.	MR ANTONY WILLIAM PAUL SAGE <EGAS SUPERANNUATION FUND A/C>	8,280,825	0.49
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	7,974,665	0.47
14.	NED GOODMAN INVESTMENT COUNSEL LIMITED	5,879,246	0.35
15.	PERSHING AUSTRALIA NOMINEES PTY LTD <DJ CARMICHAEL ACCOUNTS>	3,744,357	0.22
16.	MR KARL THOMPSON	3,275,000	0.19
17.	LAMINGTON CAPITAL INC	3,228,339	0.19
18.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,793,463	0.16
19.	FITEL NOMINEES LIMITED	2,665,828	0.16
20.	DOLVEN HOLDINGS LIMITED	2,404,854	0.14
		1,670,983,137	**98.56**

SCHEDULE OF EXPLORATION ASSETS

Key Assets

TENEMENT	HOLDER/ APPLICANT	INTEREST HELD
OFFSHORE THE GAMBIA		
BLOCK A1	African Petroleum Gambia Limited	60%
BLOCK A4	African Petroleum Gambia Limited	60%
OFFSHORE LIBERIA		
BLOCK 8	European Hydrocarbons Limited[1]	100%
BLOCK 9	European Hydrocarbons Limited[1]	100%
OFFSHORE SIERA LEONE		
BLOCK 03	European Hydrocarbons Limited	100%
BLOCK 04-10	African Petroleum Sierra Leone Limited	100%
OFFSHORE SENEGAL		
BLOCK RUFISQUE PROFOND	African Petroleum Senegal Limited	90%
BLOCK SUD PROFOND	African Petroleum Senegal Limited	90%
OFFSHORE COTE D'IVOIRE		
BLOCK CI-513	African Petroleum Cote d'Ivoire Limited	90%
BLOCK CI-509	African Petroleum Cote d'Ivoire Limited	90%

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

Non-Core assets
The Company does not have a direct ownership interest in any mineral tenements.