African Petroleum
CORP LTD

Annual Report and Accounts 2014

African Petroleum holds a significant West African acreage position with prospective oil resources in excess of 12.5 billion barrels

Contents

During 2014

Achieving Milestones

African Petroleum Corporation Limited ("African Petroleum" or the "Company"), an independent oil and gas company operating 10 licences in five countries offshore West Africa, has made considerable progress in all areas of the business during 2014. The Company has delivered on corporate and operational objectives set out in 2014, significantly the successful listing on Oslo Axess, the reinstatement of the Company's Gambian licences, and the signing of a farm-out agreement and non-binding term sheet to farm-out interests in Liberia and Côte d'Ivoire. African Petroleum is in a strong position as it prepares for a drilling campaign in 2015 that will look to unlock the potential of its West African assets and move into the next phase of delivery and growth.

90-100%
working interest & operator

Discoveries
by third parties in adjacent acreage

Excellent
fiscal terms

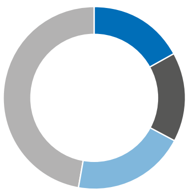
New European Stockmarket Listing

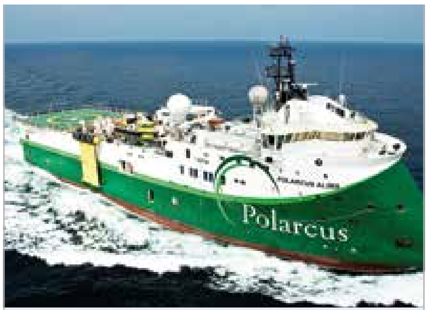
On 28 May 2014, African Petroleum successfully completed an initial public offering and listing of the Company's shares on the Oslo Axess, with the first day of trading on 30 May 2014

- Oslo Axess is a more accessible market for institutions and retail investors
- Oslo Axess provides suitable liquidity levels for trading in African Petroleum's shares
- There is a supportive and active retail market trading regularly on the Oslo Axess

GEOGRAPHICAL ANALYSIS OF INVESTORS

- UK
- North America
- Europe
- Rest of the World





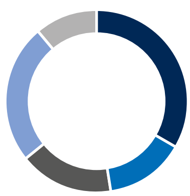
Material Growth in our Inventory

Upgraded prospective resources in all of the Company's licences in 2014 and Q1 2015

- Three significant discoveries made by third parties in adjacent acreage
- Upgrades to prospective resources in Côte d'Ivoire, following the 2014 Total discovery, demonstrates reduced risk in the Company's acreage
- Update to prospective resouces in The Gambia and initial assessment of Senegal licences following two discoveries made in adjacent acreage during 2014
- Unrisked portfolio has more than quadrupled in the last four years

NET UNRISKED MEAN PROSPECTIVE OIL RESOURCES (bnbbls)

- Liberia – 4.2
- Senegal – 1.8
- Côte d'Ivoire – 2.1
- The Gambia – 3.1
- Sierra Leone – 1.4



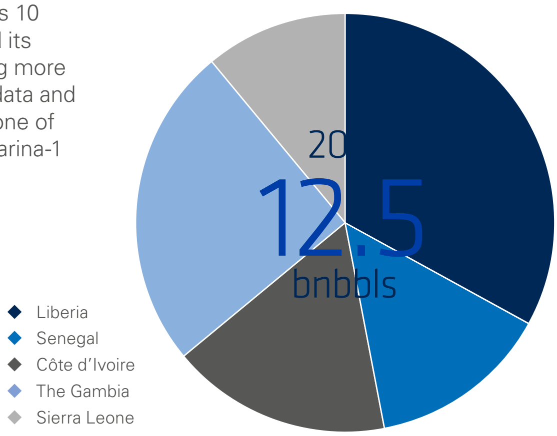
At a glance

African Petroleum listed on the Oslo Axess (APCL) and the National Stock Exchange of Australia (AOQ), is an independent oil and gas exploration company led by an experienced Board and management team, with substantial experience in oil and gas exploration, appraisal, development and production.
The Company is a significant net acreage holder in West Africa with estimated net unrisked mean prospective oil resources in excess of 12.5 billion barrels.

African Petroleum is an independent oil and gas exploration company with 10 licences in five countries offshore West Africa (Côte d'Ivoire, Liberia, Senegal, The Gambia and Sierra Leone). The Company's assets are located in proven hydrocarbon basins, where several discoveries have been made in recent years, including significant discoveries during 2014 by Total in Côte d'Ivoire and Cairn Energy in Senegal.

The Company continues to achieve key operational milestones across its 10 licences, having rapidly matured its exploration portfolio by acquiring more than 18,500km² of 3D seismic data and drilling three exploration wells, one of which was an oil discovery at Narina-1 in Liberia.

African Petroleum is the largest net acreage holder in the West African Transform Margin, alongside industry majors such as: Anadarko Petroleum, Chevron Corporation, ExxonMobil, Total, and Lukoil. The Company has mean prospective oil resources in excess of 12.5 billion barrels (ERC Equipoise Competent Persons Report April 2014 in conjunction with ERCE Audit January 2015 and ERCE Letters March 2015).



3
material discoveries each around one billion barrels in place during 2014 in acreage adjacent to African Petroleum

3-5
wells planned during 2015 in acreage adjacent to African Petroleum

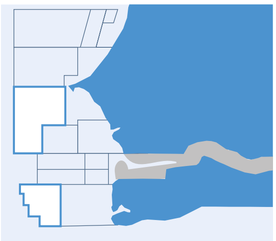
40%+
reduction in rig rates during 2015*

*based on quotes received

During 2014, three "material" discoveries were made by third parties in acreage adjacent to African Petroleum's. In April 2014, Total announced an oil discovery at Saphir-1XB in its Côte d'Ivoire licence CI-514. Additionally, Cairn Energy (operator) announced two discoveries in its Senegal acreage at wells FAN-1 (October 2014) and SNE-1 (November 2014). Initial analysis of the SNE-1 well, as reported by Cairn Energy, showed 95 metres gross oil bearing column with a gas cap. FAR Ltd, Cairn Energy's partner reported "each of FAN-1 and SNE-1 has the potential to be a large, stand-alone commercial development". IHS reported the SNE-1 discovery as the biggest exploration oil discovery globally of 2014.

Senegal

The Group holds a 90% operating interest in licences Rufisque Offshore Profond (ROP) and Senegal Offshore Sud Profond (SOSP). African Petroleum has licenced over 10,000km² of 2D seismic data and 5,100km² 3D seismic data over both licences. Both licences are positioned in a high potential frontier exploration area, as demonstrated by the two third party oil discoveries in the adjacent acreage during 2014.

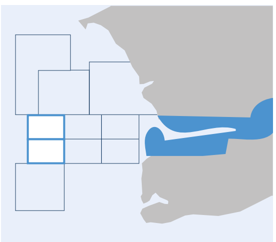


NET ACREAGE POSITION IN DEEP-WATER KM²

Block ROP	9,321
Block SOSP	4,895

The Gambia

The Group holds a 100% operating interest in licences A1 and A4. The Group has acquired 3D seismic data across both blocks and has found a number of analogue leads and prospects in its acreage to that of the recent FAN-1 and SNE-1 discoveries made by Cairn Energy in Senegal. The Group is currently evaluating drilling options for a potential drill campaign in 2016.



NET ACREAGE POSITION IN DEEP-WATER KM²

Block A1	1,296
Block A4	1,376

Sierra Leone

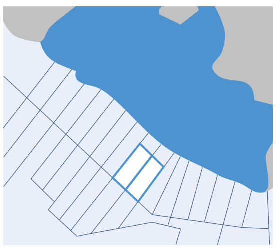
The Group holds a 100% operating interest in licences SL-03 and SL-4A-10. The Company has acquired 3D seismic data over both licences. In 2011 the Company initiated an extensive 3D seismic survey covering 2,500km²,and in 2014 further 3D seismic data was acquired over SL-4A-10. A number of significant prospects in the under explored deep water have been identified.

NET ACREAGE POSITION IN DEEP-WATER KM²

Block SL-03	3,860
Block SL-4A-10	1,995

Liberia

The Group holds a 100% operating interest in offshore licences LB-08 and LB-09. The Company has completed the acquisition and processing of 5,100km² of 3D seismic data over both licences. To date, the Company has drilled three wells on block LB-09, one of which was a discovery.
In December 2014, the Group entered into a non-binding term sheet with an independent oil and gas company to farm-out a 50% net participating interest in LB-08.

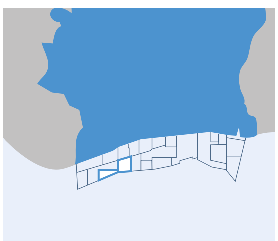


NET ACREAGE POSITION IN DEEP-WATER KM²

Block LB-08	2,717
Block LB-09	2,634

Côte d'Ivoire

The Group holds a 90% operating interest in offshore licences CI-509 and CI-513. The Company has completed the acquisition of 4,200km² of 3D seismic data over both licences and currently plans to drill one well on CI-513 by December 2015 and one well on CI-509 by March 2016. In July 2014, the Group announced that it had entered into an agreement with Buried Hill Africa Limited to farm-out a 10% interest in Block CI-509. Completion of the farm-out agreement is subject to the satisfaction or waiving of certain conditions.



NET ACREAGE POSITION IN DEEP-WATER KM²

Block CI-509	982
Block CI-513	1,301

Chairman's statement

Significant corporate & operational milestones achieved

Since assuming the position of Chairman at African Petroleum in October 2013, I have been delighted to see a number of significant corporate and operational milestones achieved. Over the past 12 months, our priorities have been to consolidate our position and build on the Company's reputation as a fast moving explorer in both emerging and frontier basins in West Africa.

Strategic priorities for 2014 saw the Company's Board and management focus on securing a European Listing, and the acquisition of additional 3D seismic data, further regional analysis, an independent assessment of the Company's prospective resources and making significant steps towards securing a partner in one or more of the Company's licences. With a renewed emphasis on capital discipline and having achieved essential objectives, African Petroleum is in a strong position as it enters 2015.

European Listing

African Petroleum's listing on the Oslo Axess in May 2014 was an important and pivotal move for the Company. Oslo Axess is a more accessible market for institutions and retail investors, and it provides suitable liquidity levels for trading in African Petroleum's shares. The active retail market in Norway, whom have shown considerable support since our listing, have extensive knowledge of the oil and gas market and have demonstrated an appetite for medium risk, high reward investments.

$38.7m
Cash raised since 1 Jan 2014

In addition to opening the door to new investment, African Petroleum was attracted to the Norwegian Code of Practice for Corporate Governance and the emphasis that is put on transparency and accountability. Through the Oslo listing, and the implementation of a strong corporate governance framework, the Company has strengthened confidence in African Petroleum from shareholders, employees and other stakeholders. The governance framework serves as a system of structures, rights, duties and obligations by which the Company is controlled and I, as Chairman, oversee. Key to the framework is the understanding that good corporate governance does not just exist in principle, but is part of the business plan and the Company continues to communicate with stakeholders. The Board of Directors continues to understand and appropriately monitor the Company's financial, strategic and operational exposure, it collaborates regularly with management in assessing tolerance to risk and ensuring alignment with strategic priorities. Ultimately, good corporate governance brings better performance and promotes quality decision-making in the best interest of all stakeholders.

Strategic Partnerships

The Company has effectively communicated the high value of its portfolio, endorsed by the Competent Persons Report, to third parties. It has seen significant interest from potential partners to farm-in to one or more of its licences, particularly following the three discoveries made in acreage adjacent to African Petroleum's during 2014. There is no doubt that, given the proximity to our acreage, these discoveries have materially improved African Petroleum's chance of success. The quality of the Company's acreage is in our opinion world-class and, despite the current industry backdrop, there remains an industry appetite for high quality opportunities.

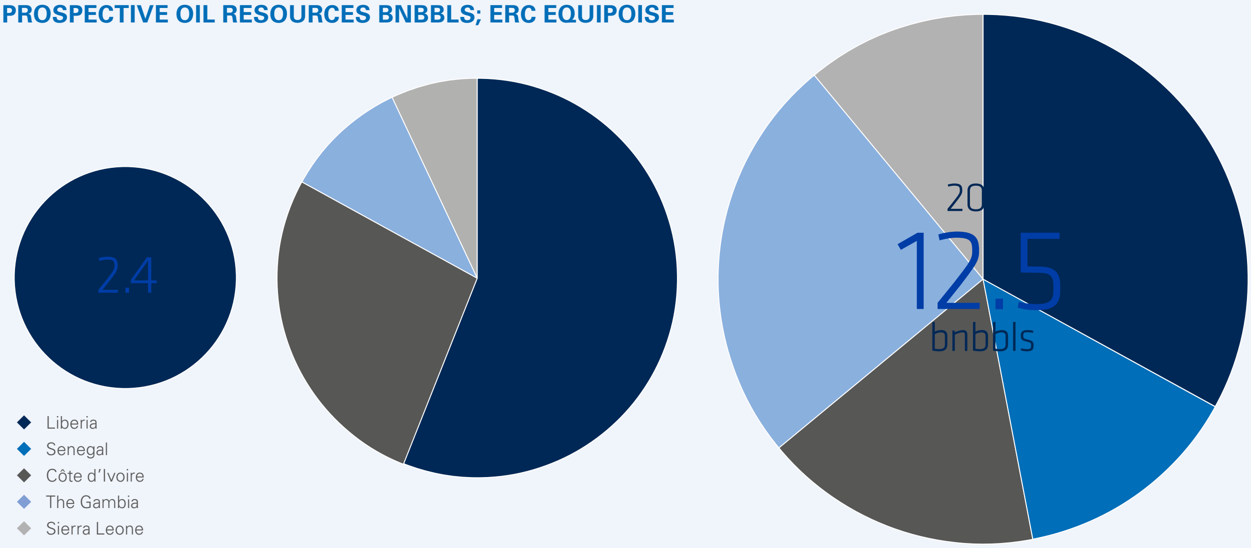
Macro Challenges and Opportunities

When the price of oil began to fall in the second half of 2014, companies were faced with different challenges and opportunities. Undeniably, African Petroleum has seen challenges during this downturn, most notably the timing uncertainty caused by the rapid decline of the oil price as the industry assessed the impact that the new pricing would have on the budgets available for exploration activity. However, the Company has equally been faced with a number of significant opportunities. Most notably, the Company has seen prices of exploration campaigns fall enormously. Given where African Petroleum is within its development cycle,we are of the opinion that the opportunities presented by the new oil price environment outweigh the challenges and we will seek to capitalise on these newly presented opportunities as we move forward.

Whilst we are comfortable that we are currently operating well within the financial parameters of a company of our size and status, we are mindful of the industry backdrop and therefore a key priority for the year ahead will be managing our finances effectively. We continue to manage finances and prioritise our portfolio to see whether costs can be reduced to ensure we are running the Company in the most cost efficient manner possible. This process will continue in earnest.

Whilst the sub-surface news last year was positive, contrastingly we witnessed the devastating outbreak of Ebola and unfortunately the epidemic continues in varying intensities in West Africa. Fortunately, as a result of swift and effective measures to safeguard our staff in the affected countries, none of our employees were infected and the outbreak has actually had a very minimal impact on our business as a whole. Our CSR work will continue in 2015 with the aim to protect the local environment and to have a positive impact on the communities and areas in which we operate.

OUR PORTFOLIO - GROWTH OF ESTIMATED 2015 NET UNRISKED PROSPECTIVE OIL RESOURCES BNBBLS; ERC EQUIPOISE



- Material growth in our prospect inventory since 2011
- Three discoveries made by others during 2014, two discoveries in Senegal and one in Côte d'Ivoire
- Currently reassessing risk on portfolio after recent discoveries by third parties during 2014
- Significant potential value creation

The composition of the Board has evolved further over the last year and the Company continues to benefit from a balanced Board with an impressive combination of industry and capital markets experience. Following our successful listing on Oslo Axess, Bjarne Moe was appointed as a Norwegian Non-Executive Director on 16 June 2014. Additional Board changes saw James Smith step down as Non-Executive Director on 1 August 2014 and at the same time Mark Ashurst assumed the position of Non-Executive Director of the Board, stepping down from his role as Executive Director.

We would like to thank our host governments and the countries where we operate for their continued support of African Petroleum. The Company recently received extensions in a number of its licences, this emphasises both the strength of our relationships as well as the pragmatism of these governments. We are all working towards the same goal and our company hopes to play a key role in helping these countries realise their full hydrocarbon potential.

Finally, I wish to take this opportunity to thank the team of African Petroleum for their commitment and efforts over the last year, and to thank shareholders for their continued support and backing during what has been a busy and progressive period for the Company. I believe the wheels are in motion to transform the Company in 2015 and I look forward to reporting our progress in the coming year.

Charles Matthews, OBE

Non-Executive Chairman

African Petroleum Corporation Ltd

Chief Executive's statement

It has been a year of progress for us as we continue to build our reputation as a fast moving explorer in both emerging and frontier basins

February 2015 marked the end of my first anniversary as Chief Executive Officer at African Petroleum and the achievement of objectives we set out a year earlier.

Meeting the Objectives

Strategic Success

The past 12 months has seen the establishment of a new senior management team, a strengthened Board and enhanced corporate governance in conjunction with the implementation of a revised strategy and plan, a new listing on a reputed European exchange, and a continued emphasis on creating sustainable value for our stakeholders.

As part of the new plan, we raised approximately US$26 million in 2014, mainly with blue chip institutional investors, and successfully listed on the Oslo Axess, with the first day of trading on 30 May 2014. It had always been our intention to seek a listing on a mature international exchange and become more accessible to a wider investor market. We are confident that Oslo Axess has provided this access and the listing represents a significant and successful evolution of the Company.

African Petroleum continues to focus on bringing strategic partners into our highly prospective assets. By year-end, we had successfully announced the agreement of terms of two such partnerships - both agreements we expect to finalise in the first half of 2015.

Operational Overview

Operationally, we completed a seismic survey over Sierra Leone licence SL-4A-10, acquired new PSDM data in Côte d'Ivoire, and reprocessed 3D seismic in Senegal. In addition, we completed many seismic data and well trades throughout the year with other third party operators in adjacent acreage, ahead of our upcoming planned drill campaigns.

The Gambian Licence Blocks A1 and A4 were re-instated in November 2014, with the revision of the initial exploration period now due to expire in September 2016. We were delighted that the Government of the Republic of The Gambia reinstated the licences, particularly in light of the recent oil discoveries made in neighbouring Senegal by Cairn Energy and partners.

Three "material" discoveries made along the margin in 2014, (Total in Côte d'Ivoire at Saphir-1XB and the Cairn Energy operated consortium in Senegal at FAN-1 and SNE-1), were reported as cumulatively over several billion barrel in place-sized discoveries. These oil discoveries have had a valuable impact on discussions with potential farm-in partners, they have materially improved our chances of success for exploration and our understanding of the acreage has been greatly enhanced. Our well obligations in 2015-2016 are located adjacent to these "material" discoveries and bear many analogies to them.

In Q1 2015, ERC Equipoise upgraded the Company's prospective resources and we saw sizable uplifts, with ERC Equipoise now estimating the Company's net unrisked mean prospective oil resources in excess of 12.5 billion barrels. These are highly material numbers and highlight the opportunity and potential value locked into our assets. It is now our task and intention to demonstrate how we will unlock this value on behalf of our shareholders.

The Ebola Virus epidemic in West Africa continues to have a devastating affect on several West African countries. African Petroleum implemented precautionary measures to ensure the safety of its staff, in Sierra Leone and Liberia, and worked with host government officials to see how strategic social investments could be leveraged to combat Ebola. Our thoughts remain with our colleagues and the people of West Africa during this extremely difficult time.

The Way Ahead
De-risking through partnerships and technical progress

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

In July 2014, the Company signed a farm-out agreement (subject to certain conditions) on Block CI-509, and in December 2014 African Petroleum signed a non-binding term sheet for its Liberian Licence LB-08; both agreements are important steps and a positive result for the Company when taking into consideration the impact that declining oil price had on the industry late last year. We remain in active, productive and advanced discussions with a number of potential industry partners and despite the challenging industry backdrop, we are confident that we can conclude some of these discussions on favourable terms in H1 2015.

The fall in oil price in the latter half of 2014 has obviously impacted sentiment with regards to global exploration; however, we believe that the industry will continue to explore the best regions in the world and in that regard, we are confident that exploration of the West Africa Transform Margin will remain active going forwards. Indeed, now is the time to explore on a value basis, given the fall in both seismic and drilling rig rates, in many areas a fall of over 50% has been reported. In addition, production (on success) will be delivered in four to five years and at a very different, likely higher, oil price. Most critically, our break-even economics show that even in the current price environment, our projects can remain commercial upon meeting certain 'commercial' thresholds.

Poised for growth and success in 2015 and 2016

African Petroleum has a unique opportunity to become a leading independent exploration company through its highly prospective acreage offshore West Africa. There is real potential for value creation, each of our prospects selected for drilling have robust economics even at lower oil prices. Undoubtedly, significant value will be added to the Company upon finalising a farm-in deal and identifying single irreducible risk prospects, however, the real value can be realised when we drill these prospects. If they are successful, we have many lookalikes in our licences which can be immediate follow-ups to a de-risked portfolio. It is this potential that excites us most; we have a broad array of prospects that, on success, can be drilled at low risk and rapidly increasing value.

Plans for our 2015/16 exploration campaign have begun, with multiple prospects identified and wellheads ordered, we are in a strong position and confident that 2015 and 2016 will be transformational years for us. Our long-term strategy is simple: to safely find oil, commercialise it rapidly and expand our footprint (both as a low cost operator and non-operator), whilst using our highly skilled and experienced team, leveraging the latest technology and maintaining our nimble low cost base.

We are privileged to have an experienced Board and management team, who have excellent relationships with host governments and are fully focused on creating sustained shareholder value.

In 2014, we laid the foundations from which we can deliver long-term growth and we enter 2015 with confidence and optimism that we shall successfully deliver this growth on behalf of our shareholders and host governments.

Yours sincerely

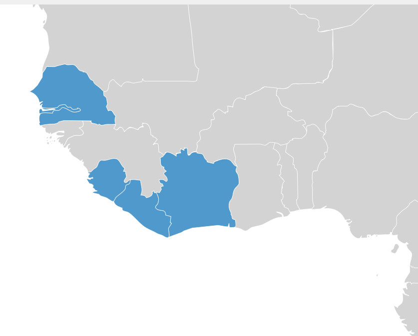
Dr Stuart Lake
CEO & Executive Director,
African Petroleum Corporation Ltd

Our business model

African Petroleum's strategy is to create, add and realise value for shareholders

Obtain exploration rights

- Exploration licences acquired between 2008 – 2012
- Early mover licence terms with high contractor share of production
- Excellent host government relationships



Exploration

- Active exploration campaigns since 2011
- Over 18,500km^2 3D seismic acquired over Company's licences
- Three wells drilled, one of which was a discovery
- Significant discoveries made by third parties in adjacent acreage during 2014
- Drilling programmes scheduled for Q4 2015 & 2016

$145m
invested in G&G (excluding wells)

Strategic partnering

- Seeking strategic partners to share risk and reward
- Leverage high equity in African Petroleum's acreage
- Recent farm-outs in the region imply high gross block values
- Farm-out agreement signed for Company licence CI-509
- Non-binding term sheet signed for Company licence LB-08
- Advanced discussions with a number of potential partners

High gross block value

Drilling

- Proven deep-water operator with one discovery
- Offset wells by third parties which further de-risks prospects
- Drill future wells with strategic partners
- Reduced operating costs in current oil markets, presents a significant cost-saving opportunity for African Petroleum
- Execute exploration programme for 30 – 40% less cost than 12 months ago – be countercyclical
- Assuming fully funded drilling programme, average two wells per year from 2016, with one well planned in 2015
- Safely find commercial hydrocarbon pools

$40m
per well on current rig rate quotes

Commercialisation

- Exploration is a core component to our portfolio, and upon success creates options to either monetise assets or maximise value further down the life cycle chain
- Assuming exploration success, target for first oil in 2020
- Assess reservoir productivity and ultimate oil recovery with smart wells and an optimal appraisal programme
- Favourable contract terms and low development/operating costs provide robust development economics even in this current low price environment
- Seek to develop further strategic alliances with third parties
- Bring in experienced deepwater operators to lead developments upon exploration success to first oil
- All commercial options will be considered, including full sale, to further farm-out of the appraisal and development plan

First oil 2020
assuming exploration success

Value to shareholders

- Maximise shareholder value through portfolio optimisation
- Continued portfolio rationalisation
- Each prospect selected for drilling has robust economics, even at lower oil prices
- If wells are successful, African Petroleum has many lookalikes in its licences which can be immediate lower risk follow ups
- Continued management of growth expectations, risk management and returns on capital
- Building shareholder value through selectively bringing the best economic projects into production upon exploration success
- Real potential for value creation
- Focused on drilling high impact, cost efficient wells that deliver the most value
- Continue to build industry leading exploration portfolio
- Build foundation to develop a strong balance sheet that delivers longer term value to shareholders

Maximise
shareholder value

Our strategic focus

Building shareholder value

VISION

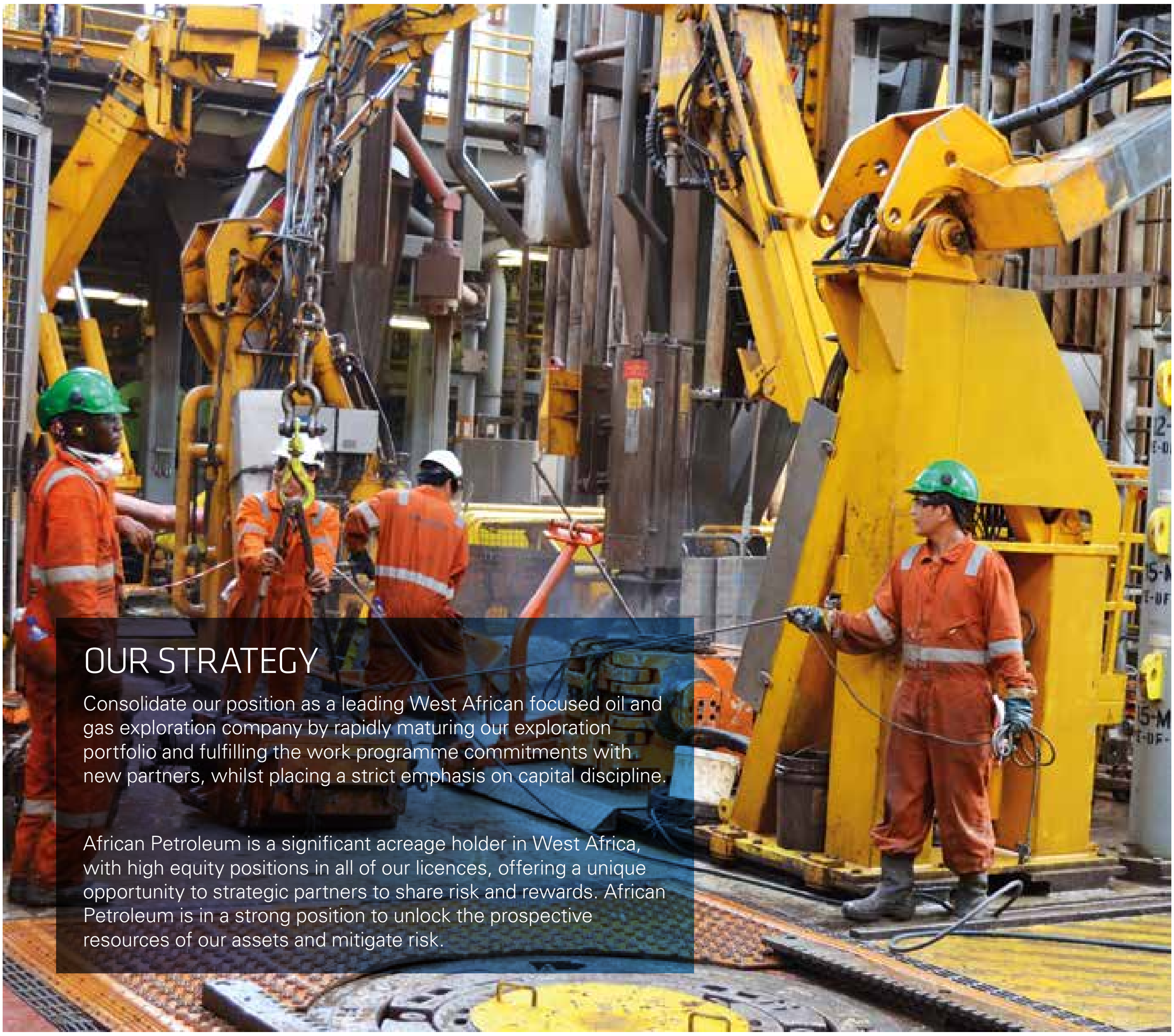
To be the leading independent oil and gas exploration company of choice.

MISSION

Finding and exploiting commercial hydrocarbon deposits, whilst generating sustainable benefits for local communities and minimising our environmental footprint.

COMMITMENT

To create shared and enduring value for all stakeholders.



OUR STRATEGY

Consolidate our position as a leading West African focused oil and gas exploration company by rapidly maturing our exploration portfolio and fulfilling the work programme commitments with new partners, whilst placing a strict emphasis on capital discipline.

African Petroleum is a significant acreage holder in West Africa, with high equity positions in all of our licences, offering a unique opportunity to strategic partners to share risk and rewards. African Petroleum is in a strong position to unlock the prospective resources of our assets and mitigate risk.

1 YEAR OBJECTIVE

Partnering

African Petroleum's strategic priorities for the coming year are to secure a farm-in partner in one or more of its licences and commence a high-impact exploration programme in the Company's offshore acreage. African Petroleum is in a strong position to leverage learning's from third party drilling activity in adjacent acreage during 2014. With three significant discoveries in neighbouring licences, exploration risk in African Petroleum acreage has been reduced.

The Company intends to complete a wider regional analysis, seismic depth migration in core assets pre drill and further upgrade its prospective resource numbers.

African Petroleum continues to work towards maximising its external relations through efficient and proactive engagement with stakeholders. During 2015 the Company intends to execute a number of CSR programmes in our countries of operation.

3 YEAR OBJECTIVE

Drill our exploration acreage

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

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

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

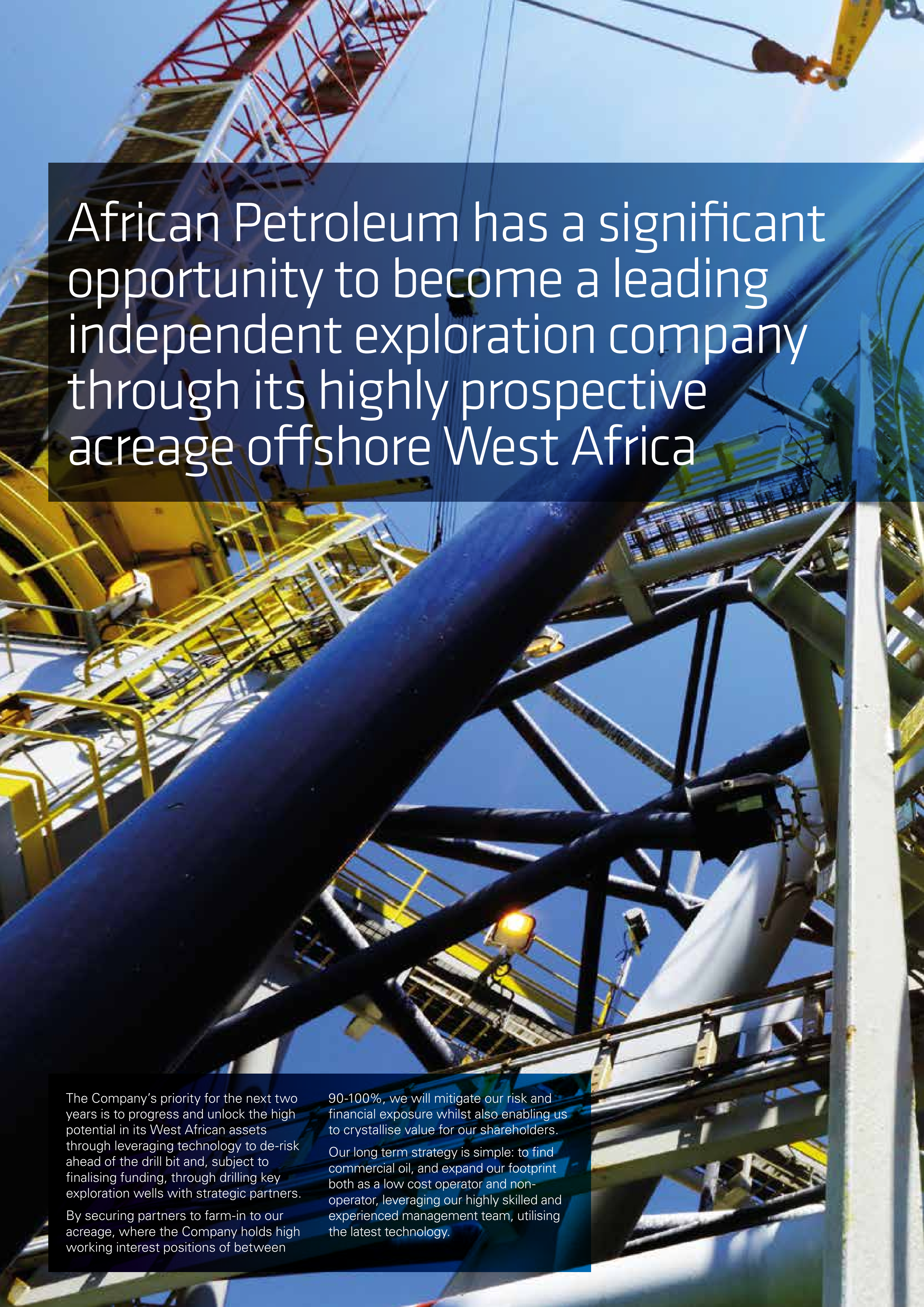
5 YEAR OBJECTIVE

Commercialise and expand

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

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

Creating sustainable stakeholder value



African Petroleum has a significant opportunity to become a leading independent exploration company through its highly prospective acreage offshore West Africa

The Company's priority for the next two years is to progress and unlock the high potential in its West African assets through leveraging technology to de-risk ahead of the drill bit and, subject to finalising funding, through drilling key exploration wells with strategic partners.

By securing partners to farm-in to our acreage, where the Company holds high working interest positions of between 90-100%, we will mitigate our risk and financial exposure whilst also enabling us to crystallise value for our shareholders.

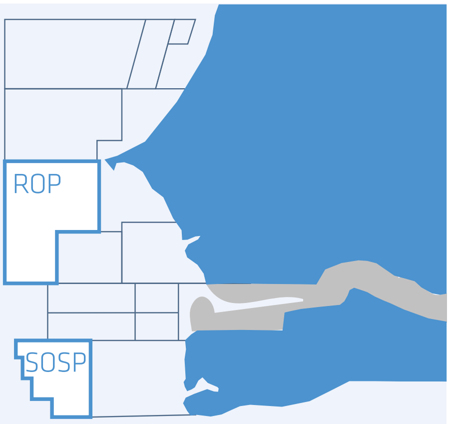
Our long term strategy is simple: to find commercial oil, and expand our footprint both as a low cost operator and non-operator, leveraging our highly skilled and experienced management team, utilising the latest technology.

Senegal Project: Blocks ROP and SOSP

14,216km²

Net acreage

- 90% working interest in exploration blocks Rufisque Offshore Profond and Senegal Offshore Sud Profond
- Extensive seismic data acquired over both blocks
- Third party discoveries in adjacent acreage during 2014
- Appraisal wells by third parties offshore Senegal during 2015
- Extensive regional database is constantly being upgraded
- Independently assessed net unrisked mean prospective oil resources of 1,779MMStb



Licence Overview

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

Licence Activity

As part of the initial licence entry, the Company purchased 10,000km of 2D seismic data over its Senegal Licences and compiled an extensive regional database.

In addition, in May 2012, the Company completed a 3,600km² 3D seismic acquisition over the SOSP licence block and interpretation is ongoing. In the ROP block an existing seismic dataset (2007 vintage) covering 1,800km² was purchased from Petrosen.

This base dataset was reprocessed with the final product delivered in Q4 2014 and interpretation is underway. 2D seismic data was also reprocessed to enable better regional well ties and geological understanding. Several large Cretaceous turbidite fan 'leads' have already been identified, these have been matured to prospects as the reprocessed data has been evaluated and included in the updated ERCE letter released in March 2015.

On 13 March 2015, African Petroleum announced that independent petroleum consultant ERC Equipoise had prepared an updated assessment of prospective oil resources attributable to the Company's Senegal Licences. The assessment, estimates the net unrisked mean prospective oil resources at 1,779MMStb.

Recent Updates

Interest in the margin continues to grow as evidenced by Kosmos Energy's return to the region. In September 2014, Kosmos Energy signed a farm-in agreement to acquire a 60% interest in two licences offshore Senegal in return for fully paying for the acquisition of approximately 7,000km² of 3D seismic. Should Kosmos Energy enter into the next phase of exploration, Kosmos Energy will be committed to drill two wells up to a total value of $240 million, and then drill a third well up to the value of another $120 million.

On 7 October 2014, Cairn Energy announced an important oil discovery offshore Senegal. The FAN-1 exploration well recovered light oil from a series of stacked Cretaceous sandstones, with APIs ranging from 28° up to 41°. The column was reported to be 500m, though the net pay of 29 metres was at several discrete intervals. Cairn Energy believes that the discovery "may have significant potential as a standalone discovery".

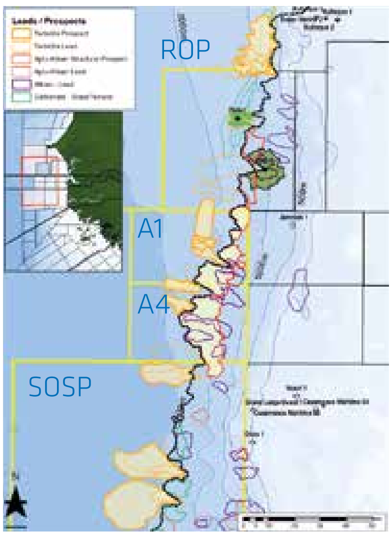
Cairn Energy drilled a second well, SNE-1, offshore Senegal in 1,100m of water and announced, on 10 November 2014, that they had made an additional discovery. Initial analysis of the well, as reported by Cairn Energy, showed 95m gross oil bearing column with a gas cap. Excellent reservoir sands with net pay of 36 metres 32 API oil and a P50 contingent resource of 330 MMbbls. FAR Ltd, one of Cairn Energy's partners, issued notice of discovery on both wells and reported; "based on preliminary estimates, it [SNE-1] is highly likely to be a commercial discovery", a significant statement for both African Petroleum and the country. IHS reported SNE-1 as the largest published oil discovery in the world during 2014. The SNE-1 discovery is less than 10km from African Petroleum's Gambian acreage where similar prospects have been identified.

On 18 December 2014, the Company announced that its subsidiary African Petroleum Senegal Limited received confirmation from the President in the form of a Presidential decree of entry into the First Renewal Period on licence SOSP. Prior to entering into the First Renewal Period, Petrosen agreed to defer the existing well commitment of the First Renewal Period of SOSP by 18 months to allow for further technical work by the Company prior to drilling.

The forward programme provides an opportunity to analyse the data fully, prior to making a commitment to drill the exploration well in the second sub period of the First Renewal Period.

In January 2015, Cairn Energy announced its intention to spud a series of exploration and appraisal wells offshore Senegal during the year. African Petroleum will monitor the results of this programme closely.

Each of these developments, especially their proximity to the Company's acreage, provides a very positive context to African Petroleum's presence offshore Senegal (and The Gambia - refer next section). The farm-out process is ongoing with heightened interest in this exciting part of African Petroleum's portfolio.

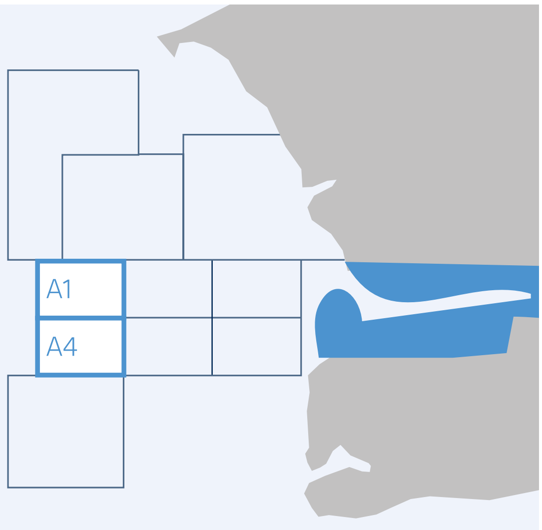


The Gambia Project: Blocks A1 & A4

2,672km²

Net acreage

- 100% working interest in exploration blocks A1 and A4
- High potential frontier exploration area
- Extensive 3D seismic acquired over A1 and A4
- Multiple prospects analogous to Cairn Energy operated discoveries SNE-1 and FAN-1
- Independently assessed net unrisked mean prospective oil resources of 3,079MMStb



Licence Overview

African Petroleum holds a 100% operated working interest in offshore licences A1 and A4. The Company has completed a significant 3D seismic survey with data covering 2,500km² and has found a number of analogue leads and prospects in its acreage to that of the recent SNE-1 and FAN-1 discoveries made by Cairn Energy in Senegal.

On 13 March 2015, African Petroleum announced that independent petroleum consultant ERC Equipoise prepared an updated assessment of prospective oil resources attributable to the Company's Gambian Licences. The assessment, estimates the net unrisked mean prospective oil resources at 3,079MMStb.

Licence Activity

On 27 November 2014, African Petroleum entered into an agreement with The Government of the Republic of The Gambia to reinstate the Company's Licence Block A1 and Licence Block A4 (together the "Gambian Licences") on a 100% interest basis, and settle all prior issues concerning the Gambian Licences. The reinstatement of the Gambian Licences is a significant and positive step for the Company, particularly following the recent oil discoveries made by Cairn Energy in Senegal.

Upon reinstatement, African Petroleum agreed to a revised initial exploration period that will expire on 1 September 2016 in return for a commitment to drill an exploration well on one of the Gambian Licences and reprocess 3D seismic on Licence Block A4 prior to 1 September 2016. Depth commitments have also been modified for basinal and shelfal wells.

Recent Updates

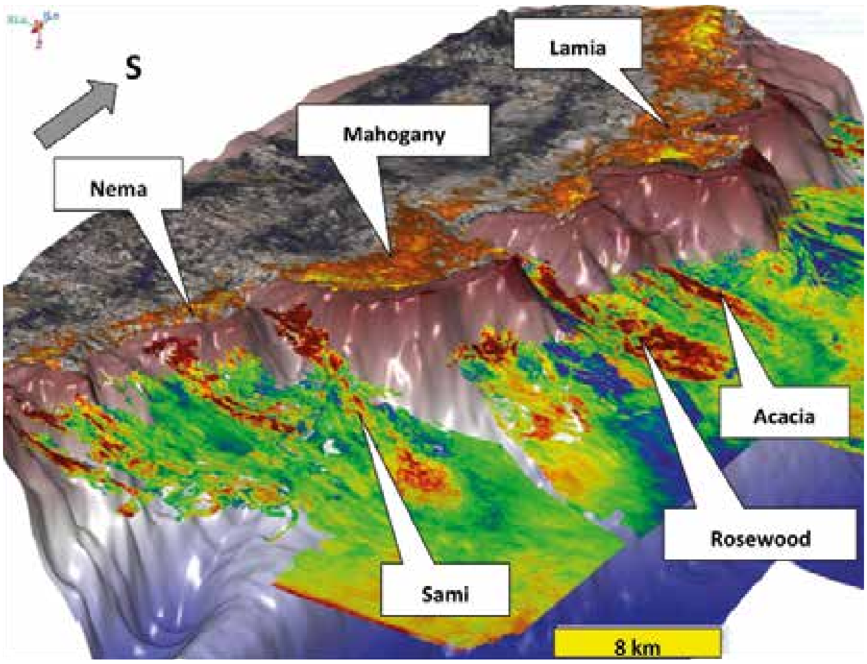
The Company has identified leads and prospects in the Gambian Licences, many of which are on trend with the discoveries made at FAN-1 (announced 7 October 2014) and SNE-1 (announced 10 November 2014) by the Cairn Energy operated group in Senegal.

African Petroleum is looking to farm-out both Gambian Licences and has had significant interest from international and large independent oil companies. We expect this interest to culminate in a farm-in in due course.

	Mean (MMStb)	
Prospective Resources for Gambian and Senegal Licences	Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources
The Gambia – A1 & A4	3,079	445
Senegal – SOSP & ROP	1,779	325
Total Resources	**4,858**	**770**

KEY AFRICAN PETROLEUM PROSPECTS

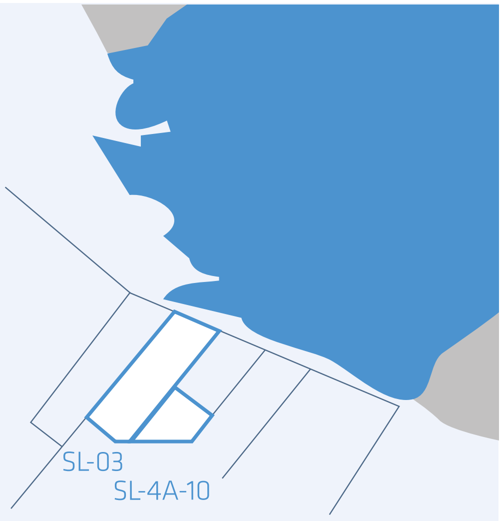
ERC Equipoise Letter, March 2015



Sierra Leone Project: Blocks SL-03 & SL-4A-10

5,855km²
Net acreage

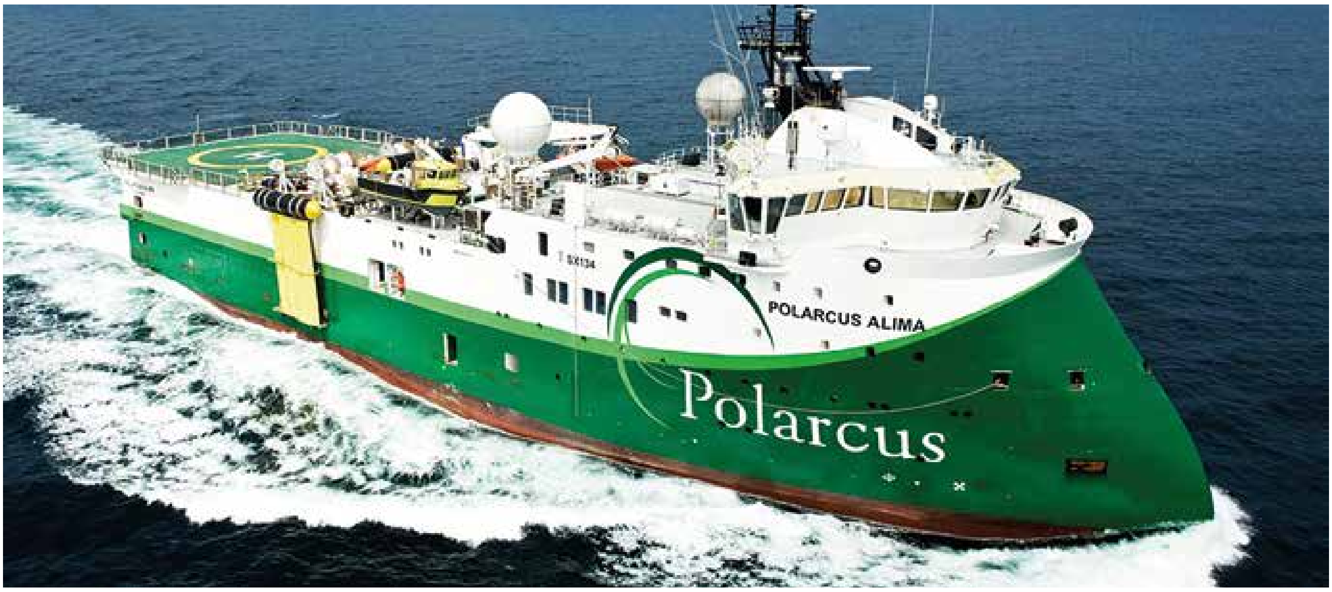
- 100% working interest in offshore licences SL-03 and SL-4A-10
- Significant 3D and 2D seismic data acquired over the licence area
- Two-year extension agreed for the first exploration period in the SL-03 Licence
- Independently assessed net unrisked mean prospective oil resources of 1,354MMStb



Licence Overview
In Sierra Leone, the Company holds a 100% operated working interest in offshore licences SL-03 and SL-4A-10. African Petroleum was awarded a 100% interest in SL-03 in April 2010, while licence SL-4A-10 was awarded as part of Sierra Leone's third offshore licencing round in 2012. The Company's Sierra Leone licences cover a combined net acreage of 5,855km² and are located to the south of Freetown, offshore Sierra Leone.

Licence Activities
Since gaining operatorship of the Sierra Leone licences, African Petroleum has acquired approximately 2,500km² of 3D seismic data over block SL-03 and approximately 1,000km² of 3D seismic data over block SL-4A-10. In addition, the Company has purchased regional 2D seismic data in western Sierra Leone. The Company has already identified a number of key prospects in its Sierra Leone licences, one of which has net unrisked mean prospective oil resources of 1,354MMStb (ERC Equipoise Letter, 2015).

Recent Updates
In September 2014, the Company commenced and completed the acquisition of approximately 1,000km² of 3D seismic data on Block SL-4A-10, offshore Sierra Leone. An initial version of the data was made available for interpretation in late December 2014. African Petroleum is awaiting angle stacks to enable further de-risking of the prospect inventory (April 2015). The seismic acquisition fulfills the remaining obligations in Sierra Leone ahead of the next exploration phase in both blocks.

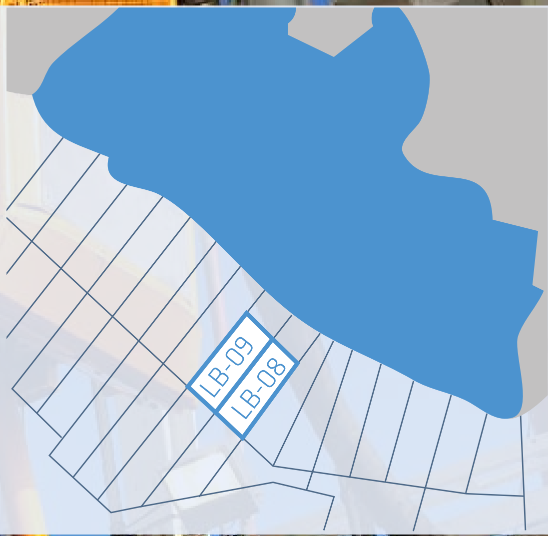


Liberia

5,350km²

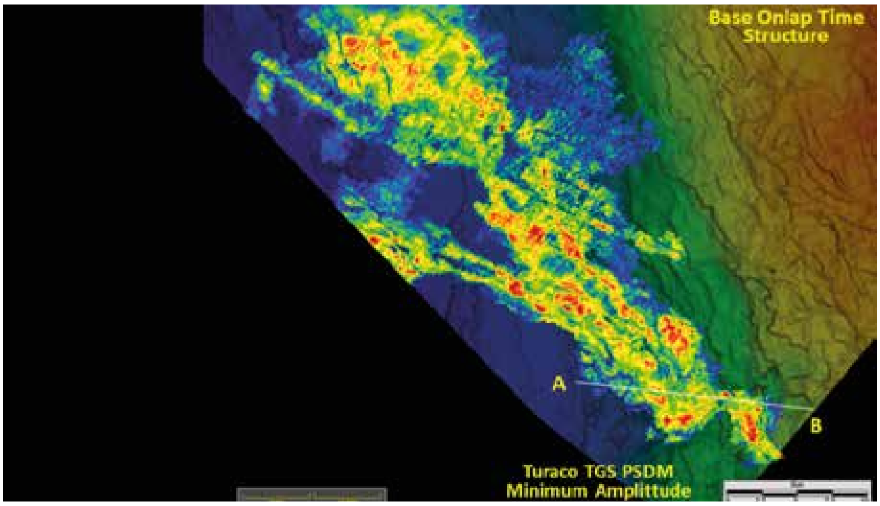
Net acreage

- 100% working interest in production sharing contracts LB-08 and LB-09
- African Petroleum has drilled three exploration wells, with one discovery at Narina-1 finding 31m net pay in both the Turonian and Albian reservoirs
- High resolution 3D seismic data planned to de-risk acreage further
- Announced two year extension of Liberia Licence blocks in February 2014
- Independently assessed net unrisked mean prospective oil resources of 4,192MMStb



Liberian Project: Blocks LB-08 and LB-09

Three wells drilled to date, including the oil discovery at Narina-1



Licence Overview

African Petroleum, through European Hydrocarbons Limited, is both operator and holder of a 100% working interest in production sharing contracts LB-08 and LB-09, which have a combined net acreage of 5,350km². The Company has completed an extensive work programme on its Liberian licences with 5,100km² of 3D seismic acquired, three wells successfully drilled, including the discovery at Narina-1, and identified key prospects with net unrisked mean prospective oil resources of 4,192MMStb (ERCE Audit January 2015 in conjunction with ERCE Competent Persons Report).

Licence Activities

African Petroleum has completed the acquisition and processing of 5,100km² of 3D seismic data over both licences. The interpretation of this data identified numerous prospects and leads in the Upper Cretaceous post rift section and also a number of Cretaceous aged syn-rift opportunities.

African Petroleum has successfully executed an initial exploration programme in LB-09, with three wells drilled: Apalis-1, Narina-1 and Bee Eater-1. In September 2011, African Petroleum completed drilling its first exploration well, Apalis-1, on LB-09. The well encountered oil shows in several geological units including the shallow unlogged (Tertiary-Paleocene) and proved source rock in the Cenomanian. The Narina-1 well was drilled on LB-09 in January 2012 and encountered a total of 31 metres of net oil pay in the primary Turonian objective and underlying Albian reservoirs with no oil water contact observed. African Petroleum's discovery at Narina-1 was the first to prove a working petroleum system in the central Liberian basin, an extremely positive result for the Company and one that improves the chances of success elsewhere in the area.

The Company drilled its third well, Bee Eater-1, on LB-09 in January 2013. The well tested an up-dip axial section of the Turonian slope fan in which the Company's Narina-1 discovery had been made in 2012. The Bee Eater-1 well encountered a tight reservoir interval, but provided the impetus to integrate the information into a predictive model for improved reservoir in slope fans further down-dip. These new findings have been incorporated into a revised interpretation of the subsurface across the portfolio, with new basin floor fan prospects identified in both blocks.

In September 2013, the Company completed reprocessing of all the 3D seismic data from its Liberian licences to improve image quality and support the maturation of additional prospects and appraisal opportunities. The reprocessing highlighted that certain areas may benefit from improved seismic imaging and further targeted 3D reprocessing and acquisition of new high-resolution 3D seismic are currently being considered for LB-08 and LB-09. Lessons learned from previous seismic reprocessing will be incorporated into any new data and any new acquisition will utilise state of the art broadband technology. If the new data is acquired with a different azimuth, there is a possibility to combine datasets.

In LB-08 specifically, overburden issues are not quite so severely degrading the current seismic image and significant improvement from new data is expected. Recent work on Turaco and Hornbill (included in January 2015 ERCE letter) in deepwater LB-08 has helped prioritise these prospects.

Recent Updates

On 23 December 2014, African Petroleum signed a non-binding term sheet agreeing terms with a private London based independent oil and gas company to farm-in to the Company's 100% owned Liberian LB-08 licence for a 50% equity and non-operated interest. Completion of the farm-in transaction, as contemplated by the Term Sheet, is subject to contract and a number of conditions precedent.

The signing of the Term Sheet is a significant milestone for African Petroleum. Should the farm-in transaction complete, the incoming party will bring a breadth of knowledge and experience to the partnership and will allow the Company to continue its exploration programme in its highly prospective acreage offshore Liberia.

In January 2015, African Petroleum announced that independent petroleum consultant ERC Equipoise prepared an updated assessment of prospective oil resources attributable to the Company's Liberian Licences. This updated assessment, in conjunction with the ERCE Competent Persons Report April 2014, estimates the net unrisked mean prospective oil resources at 4,192MMStb.

Côte d'Ivoire

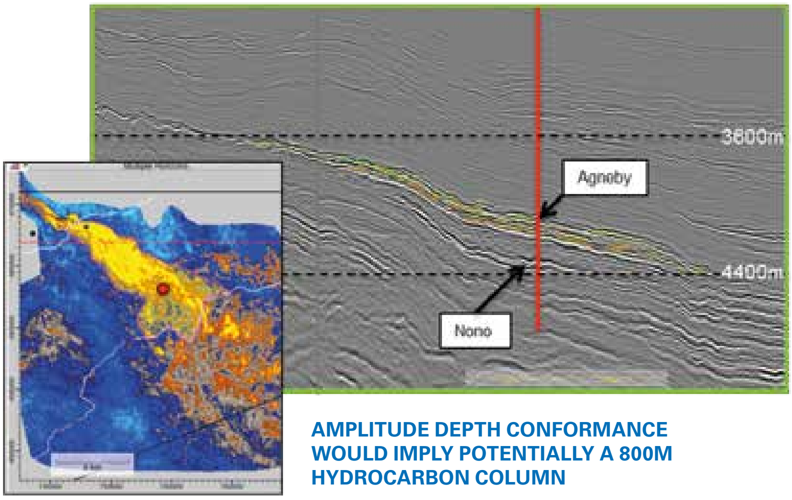
2,283km²

Net acreage

- 90% working interest in offshore licences CI-509 and CI-513
- Acquired 4,200km² seismic data over Côte d'Ivoire Licence Blocks
- Discovery in neighbouring licence has significantly de-risked African Petroleum acreage
- Independently assessed net unrisked mean prospective oil resources of 2,130MMStb

Côte d'Ivoire Project: Blocks CI-509 & CI-513

CI-509 AGNÉBY PROSPECT EXAMPLE



AMPLITUDE DEPTH CONFORMANCE WOULD IMPLY POTENTIALLY A 800M HYDROCARBON COLUMN

Licence Overview

In Côte d'Ivoire, African Petroleum holds a 90% working interest in offshore licences CI-509 and CI-513 (the "CI Licences"), the remaining 10% is held by Petroci, the National Oil Company of Côte d'Ivoire. The Company was awarded CI-513 in December 2011 and CI-509 in March 2012, with a combined net acreage of 2,283km^2.

Licence Activities

In October 2012, the Company acquired 4,200km^2 of 3D seismic data over the CI Licences, fulfilling the seismic work commitments of the first exploration phase for both licences.

Fast-track 3D seismic data was received in November 2012, while final 3D seismic depth processing of the entire survey was completed in March 2014. Interpretation of the data has identified a number of significant prospects, with net unrisked mean prospective oil resources of 2,130MMStb (ERC Audit, January 2015).

On 22 April 2014 African Petroleum announced PSC amendments to both licences CI-509 and CI-513. The PSC amendments include an adjustment of the licence periods providing for one-year extensions to the first exploration periods of both licences at the expense of the duration of future exploration periods.

The PSC adjustment allows the Company more time for drilling of the first period commitment wells in these blocks. The first exploration period for block CI-509 is extended to March 2016 and block CI-513 has been extended to December 2015. The Company intends to use some of this additional time to integrate seismic depth processing into the optimisation of exploration well locations as several new amplitude supported prospects have arisen from processed PSDM 3D seismic.

Total's Saphir-1XB oil discovery in CI-514, has effectively de-risked the Company's adjacent acreage. African Petroleum traded the 3D seismic covering both Total's CI-514 operated acreage and the CI-508 acreage immediately north of CI-513 and CI-509 held by the Vitol operated group. In January 2015, following an independent assessment of the Côte d'Ivoire prospects by ERC Equipoise, the Company announced an additional 570MMStb to be added to the net unrisked prospective oil resources.

The Company intends to use the additional time from the licence extensions to secure the appropriate sixth generation rig (at the latest competitive rates) for a wider drilling programme with new partners from the ongoing farm-out process. In preparation for the 2015 drilling campaign, the Company signed an agreement with DrilQuip Limited to provide two SS-15 wellheads. The purchase of these wellheads is a positive step for the Company and a move towards initiating the drilling campaign.

Recent Updates

As announced on 14 July 2014, the Company entered into an agreement with Buried Hill Africa Limited ("Buried Hill") to farm-out a 10% interest in Block CI-509, in return for Buried Hill funding 21.1% of the cost of the next exploration well to be drilled on the block and an additional cash payment to African Petroleum representing 10% of past costs incurred ("Farm-Out Agreement"). Under the terms of the Farm-Out Agreement, African Petroleum will continue as Operator on the licence. Completion of the Farm-Out Agreement is subject to the satisfaction or waiving of certain conditions precedent. The Company continues to seek additional partners in its Côte d'Ivoire acreage and anticipates making a further announcement in H1 2015.

In January 2015, African Petroleum announced that independent petroleum consultant ERC Equipoise prepared an updated assessment of prospective oil resources attributable to the Company's Côte d'Ivoire Licences. This updated assessment, in conjunction with the ERCE Competent Persons Report (April 2014), estimates the net unrisked prospective oil resources at 2,130MMStb and net risked prospective oil resources at 456MMStb, a 118% increase in net risked prospective resources from the April 2014 Competent Persons Report.

	Mean (MMStb)	
Licence	Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources
Ayame	502	115.5
Ayame West	298	68.6
Sassandra	175	28.0
Cavalla	171	27.4
Agnéby	414	111.7
Nzi	93	15.7
Soubre	259	49.2
Lobo East	91	18.2
Lobo West	128	21.7
Deterministic Total	**2,130**	**456.0**

Financial review

Corporate and financial activities

2014 Results overview

During the 2014 year the Company continued to invest in its licence interests in Côte d'Ivoire, Liberia, Senegal, Sierra Leone and The Gambia with US$15.7 million invested in preparation for upcoming well drilling operations in 2015, and seismic and evaluation activities (2013: US$94.8 million).

The 2013 loss after tax of US$42.2 million (2013: loss of US$88.2 million) included US$24.4 million of impairment charges (2013: US$49.7 million) – refer below for further details.

Depreciation, impairments and expenses

Depreciation charges for the year totalled US$1.0 million (2013: US$1.7 million) with most of the charge relating to the Group's plant and equipment. The Group recognised an impairment charge of US$22.3 in respect of exploration and evaluation expenditure (2013: US$31.2 million in respect of the A1 and A4 licences in The Gambia due to the government's purported termination of the licences in early January 2014, at that time African Petroleum held a 60% equity position in the acreage). The Company's A1 and A4 licences in The Gambia were re-instated on a 100% basis to the Company in November 2014; however, the Company has not reversed the impairment loss previously recognised for these licences in the Audited Financial Statements for the year ended 31 December 2014.

Impairment charges of US$1.7 million for related party loans were also recognised during the year (2013: impairment charges of US$3.8 million for consumable spares, US$12.9 million for related party loans and deposits, and US$1.7 million for aircraft).

Other expenses incurred during the year totalled US$22.4 million (2013: US$39.6 million). Included in other expenses is employee benefits of US$7.6 million (2013: US$11.2 million) which includes a charge of US$0.3 million for share based payments (2013: US$2.6 million).

Capital Expenditure

During 2014 the Group incurred exploration and evaluation expenditure of US$15.7 million with US$4.4 million invested in a 1,000 km^2 3D seismic acquisition on licence SL-4A-10 in Sierra Leone and US$11.3 million invested in annual licence fees, seismic and other evaluation work in Liberia, Côte d'Ivoire, Sierra Leone, Senegal and The Gambia (2013: US$94.8 million with US$75.9 million invested in drilling the Bee Eater-1 well in Liberia and US$18.9 million invested in seismic and other evaluation work in Liberia, Côte d'Ivoire, Sierra Leone and Senegal).

Listing & Fundraising

On 28 May 2014 African Petroleum successfully listed on the Oslo Axess, a regulated market of the Oslo Bors, raising approximately NOK 48.6 million (approximately US$8.2 million) through a placing of 37,378,820 ordinary shares at a price of NOK 1.30 per share, to both institutional and retail investors. This fundraising complemented an earlier private placement to insitutional investors of 83,334,000 shares at a price of A$0.24 per share raising A$20 million (approximately US$18 million) in February 2014.

Accounting Policies

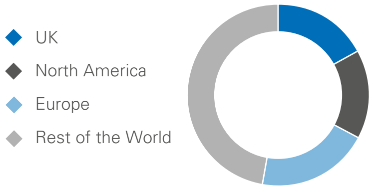
The Company is an Australian incorporated company and is listed on the Oslo Axess, a regulated market of the Oslo Stock Exchange and the National Stock Exchange of Australia. Accordingly the Group is required to comply with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Group's significant accounting policies and details of the significant accounting judgements and critical accounting estimates are disclosed within the notes to the financial statements. The Group has not made any changes to its accounting policies in the year ended 31 December 2014.

Substantial shareholdings

As at 20 March 2015, the Company has been notified in accordance with section 671B of the Corporations Act of Australia of the following substantial holdings in the Company's ordinary share capital:

Shareholder	Number of shares	% of issued capital
Sarella Investments Limited	252,846,329	**26.4**
M&G Investment Funds	126,451,178	**13.2**
The Capital Group of Companies Inc	64,425,354	**6.7**

GEOGRAPHICAL ANALYSIS OF INVESTORS



Liquidity risk management and going concern

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

Events Since Year-end

Subsequent to year-end, on 10 February 2015 African Petroleum announced a private placement to existing and new investors (the "Private Placement") of 271,732,000 new ordinary shares raising NOK 95,106,200 (approximately US$12.5 million) in gross proceeds at a subscription price of NOK 0.35 per share. Each applicant in the Private Placement is entitled to be allocated one transferable option for every two shares allocated in the Private Placement, corresponding to a total allocation of up to 135,866,000 options. The options have an exercise price of NOK 0.75 per share and expire on 17 March 2017.

The Company raised a further NOK 4,061,516 (approximately US$0.5 million) in a subsequent repair offering to retail investors on 1 April 2015 with similar terms to the Private Placement.

Financial Strategy and Outlook for 2015

Going forward our financial strategy is to broaden the sources of funding for the Company whilst ensuring an appropriate capital structure, in order to support the Group's growth strategy. During 2015 we will continue to focus on funding our high-impact exploration work by farming out licence interests to industry partners whilst maintaining capital discipline to ensure that our cost base remains appropriate to our organisational capacity. In addition to the immediate funding benefit, the farm-out process introduces further technical competence from industry partners in the evaluation and development of the Group's licence interests, contributes to reducing the Group's cost of operations, preserves and enhances cash balances, and diversifies the Group's exploration risk.

Despite the fall in oil price impacting sentiment with regards to global exploration we believe that industry will continue to explore the best regions in the world such as the West African Transform Margin, and the wider margin through The Gambia and Senegal. Furthermore, there has been a sizeable reduction in operating costs which presents a significant cost-saving opportunity for African Petroleum when carrying out well drilling or seismic acquisition programmes in the near term.

Stephen West
Finance Director
African Petroleum Corporation Ltd

Corporate social responsibility

Our core commitments

Our Responsibility

The Board of Directors remains committed to operate with integrity and social responsibility by incorporating Ethics, Environmental Awareness, and Health & Safety into core business functions.

As an operator of over 10 concession agreements across five countries, African Petroleum endeavours to create a sustainable beneficial impact on the communities in which we operate. We ensure this by developing CSR programmes in consultation with host governments to identify key community issues and identify partner NGOs.

In 2014, the Company's focus shifted internally as the new management and governance structures were implemented, and a revised strategy was communicated. The Company's principal goal for 2014 was to lay the foundations for sustainable growth. African Petroleum has established a well-considered social investment programme for 2015 that emphasises corporate citizenship, education and access to quality healthcare.

Corporate Citizenship

African Petroleum is a partner in development with our host governments. Accordingly, it is our duty to strive for the economic betterment of the communities by making strategic investments towards the key development goals of our host states.

One of the main areas of focus is human capacity development. African Petroleum provides on-going technical support towards geoscience and engineering programmes at various West African Universities. In 2014, we further developed this by fostering dialogue and cooperation between educational institutions in the countries where we operate. For example, in Q1 2014, African Petroleum sponsored the Institute Technique Felix Houphouet Boigny and the University of Liberia to attend the Get Energy Conference. The Conference addressed educational shortfalls across West Africa and was an excellent opportunity to explore options to develop distance-learning platforms. This interchange will be expanded upon in 2015 as we partner with local institutions to discuss the creation of regional learning centres.

Access to Healthcare

The Company remained committed to its efforts to improve healthcare related outcomes in the countries in which we operate. This proved especially true in relation to the Ebola crisis. Recognising the importance of informational awareness in halting the spread of the disease, African Petroleum partnered with the Gbowee Peace Foundation Africa to reduce the detrimental impact of Ebola Virus Disease in the quarantined communities of Liberia. The effort was mainly twofold: (1) the distribution of Personal Protective Equipment to first responders; and (2) a public information campaign to inform communities of the dangers of the disease. In Sierra Leone, a country equally hindered by the outbreak, African Petroleum consulted with the Petroleum Directorate of Sierra Leone to design programmes in furtherance of community recovery. These programmes will be rolled out in earnest in 2015 and will focus on the plight of Ebola orphans, the resumption of sustainable economic activities such as agriculture.

Environment

2014 represented a slowdown in operational activities such as drilling. Nonetheless, the Company's environmental policy remains inviolate. We strive to conduct all operations in an environmentally responsible manner and we hold all partners, subcontractors, and potential farminees to the same standards.

Health & Safety

As an owner and operator of multiple concessions, it is the duty of African Petroleum to provide for a safe working environment. HSE is imbedded throughout all of African Petroleum's core operations and is the first item on the agenda in every board meeting. Our commitment can be seen in the Company's response to Ebola in the affected countries of Liberia and Sierra Leone. The local offices were temporarily closed and all employees were urged to minimise potential exposure and work from home. Further, information was relayed to the local offices on how to avoid potential infections. Fortunately, the Company's employees have not been directly affected by the disease, however, our thoughts remain with their friends, families and country during this extremely difficult time.

Business Ethics

African Petroleum remains committed to carrying out its operations with the highest moral and legal standards. All employees and contractors are held to these high standards and we endeavour to approach all stakeholders with integrity and fair dealing in all actions. We have zero tolerance of corruption and maintain robust compliance policies, including annual training of Board members, employees and contractors. Equally, we exercise care in the selection of vendors, suppliers and contractors.

© Photographer – Nikki Bayliss/Sightsavers

Additional information – Oslo Axess

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

Nature of the business

The principal activity of the Company is oil and gas exploration and is outlined in the Directors Report on page 32.

Working environment

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

During the year ended 31 December 2014 there were no staff injuries or accidents reported, and no illnesses suffered by staff that required extended absences from the workplace.

Workplace equality

African Petroleum is committed to workplace diversity which includes but is not limited to gender, age, ethnicity and cultural background. Where possible the Company fills employment positions with local skilled people. During 2014 all staff positions in our West African offices were held by local people.

Proportion of local West African employees	Actual	Objective
Organisation as a whole	60%	**50%**
Board	11%	**10%**

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

Proportion of women	Actual	Objective
Organisation as a whole	14%	**20%**
Executive management team	Nil	**20%**
Board	Nil	**20%**

Impact on the external environment

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

Going concern assumption

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

Risk assessment

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

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

Outlook

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

Further details on the Company's outlook are described in the Financial Review on page 21 of the annual report.

Rights and obligations of shareholders

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

a. the Company's share capital consists entirely of ordinary shares. Further details are set-out in Note 15 to the audited financial statements. All the Company's ordinary shares are admitted for trading on the Oslo Axess (Norway) and the National Stock Exchange (Australia);

b. there are no restrictions on the transfer of securities;

c. significant direct and indirect shareholdings are set-out on page 109 of the annual report;

d. no holders of any securities have special control rights;

e. the Company does not operate an employee share scheme;

f. there are no restrictions on voting rights;

g. there are no agreements between shareholders which are known to the Company and which may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC;

h. the Company's Constitution provides that the Board of Directors shall have no fewer than 3 directors and no more than 12 directors. The directors are elected by a general meeting of shareholders by ordinary resolution. Additionally, pursuant to Clause 13.4 of the Constitution, the Board of Directors may at any time appoint a person to be a Director, provided that the maximum number of Directors is not exceeded. Any such Director appointed will hold office until the next general meeting and will be eligible for re-election. At the Company's annual general meeting, one-third of the Directors for the time being, shall retire from office, provided always that no Director except a Managing Director shall hold office for a period in excess of three years without submitting himself for re-election. The Directors to retire at an annual general meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election. In the event of equal voting at a director's meeting, the chairman of the meeting shall have a second or casting vote providing there is more than two directors competent to vote on the question. As the Company is incorporated in Australia, the Australian Corporations Act requires the Company to have at least two directors that reside in Australia.

i. the Company may modify or repeal its constitution or a provision of its constitution by special resolution of shareholders;

j. pursuant to section 198A of the Australian Corporations Act, the business of a company is managed by or under the direction of the Board of Directors. Pursuant to Clause 2.2 of the Company's Constitution, the Board of Directors has the power to issue shares;

k. subject to the requirements in the Australian Corporations Act, the Company may purchase its own shares in accordance with the buy-back provisions of the Australian Corporations Act, on such terms and at such times as may be determined by the Directors from time to time and approved by the shareholders as required pursuant to the Australian Corporations Act. The Company is not entitled to hold its own shares, subject to exceptions set out in Section 259A of the Australian Corporations Act. Any shares repurchased by the Company will need to be cancelled;

l. there are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid;

m. there are no agreements between the Company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Additional information – Oslo Axess continued

Corporate governance

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

The Companies policies and practice for corporate governance are further outlined in the Company's Corporate Governance Statement on page 63 of the annual report.

Report of Payments to Governments

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

Basis for Preparation

The report includes direct payments to Governments from subsidiaries, joint operations and joint ventures. In some cases, however, certain payments to Governments may be made by the operator on behalf of a partnership. This is often the case for area fees. In such cases, African Petroleum will report the full payment made by African Petroleum on behalf of partners when African Petroleum is the operator.

Definitions

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

Project - for this report a project is defined as an investment in a concession agreement.

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

Materiality - as per the "Forskrift om land-for-land rapportering" payments made as a single payment, or as a series of connected payments that equal or exceed Norwegian kroner (NOK) 800,000 during the year are disclosed.

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

Payments to Governments and Contextual Information

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

i) Payments per Project

Project	Licence Fees US$
CI-509	946,505
CI-513	500,000
Total Côte d'Ivoire	**1,446,505**
A1	–
A4	–
Total The Gambia	**–**
LB-08	60,000
LB-09	60,000
Total Liberia	**120,000**
ROP	351,785
SOSP	339,600
Total Senegal	**691,385**
SL-03	641,544
SL-4A-10	279,800
Total Sierra Leone	**921,344**

ii) Payments per Government

Government	Licence Fees US$
Government[1] (Federal)	1,446,505
Government[2] (Municipality)	–
Government[3] (State owned company)	–
Total Côte d'Ivoire	**1,446,505**
Government[1] (Federal)	–
Government[2] (Municipality)	–
Government[3] (State owned company)	–
Total The Gambia	**–**
Government[1] (Federal)	–
Government[2] (Municipality)	–
Government[3] (State owned company)	120,000
Total Liberia	**120,000**
Government[1] (Federal)	–
Government[2] (Municipality)	–
Government[3] (State owned company)	691,385
Total Senegal	**691,385**
Government[1] (Federal)	–
Government[2] (Municipality)	–
Government[3] (State owned company)	921,344
Total Sierra Leone	**921,344**

Additional information – Oslo Axess continued

Legal Entities by Country

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

Legal Entity	Country of incorporation	Ownership	Employees[1]	Interest paid to a Group entity
African Petroleum Corporation Limited	Australia	n/a	1	–
Total Australia			**1**	**–**
African Petroleum Corporation Ltd	Cayman Islands	100%	–	–
European Hydrocarbons Ltd	Cayman Islands	100%	–	–
African Petroleum Liberia Ltd	Cayman Islands	100%	–	–
African Petroleum Ltd	Cayman Islands	-[2]	–	–
African Petroleum Sierra Leone Ltd	Cayman Islands	100%	–	–
European Hydrocarbons Ghana Ltd	Cayman Islands	-[2]	–	–
African Petroleum Senegal Ltd	Cayman Islands	90%	–	–
African Petroleum Gambia Ltd	Cayman Islands	100%	–	–
African Petroleum Guinea Ltd	Cayman Islands	-[2]	–	–
African Petroleum Côte d'Ivoire Ltd	Cayman Islands	100%	–	–
Total Cayman Islands			**–**	**–**
African Petroleum Côte d'Ivoire SAU	Côte d'Ivoire	100%	2	–
Total Côte d'Ivoire			**2**	**–**
African Hydrocarbons Ghana Ltd	Ghana	-[2]	–	–
European Hydrocarbons (Ghana) Limited	Ghana	-[2]	–	–
Total Ghana			**–**	**–**
African Petroleum (Guinea) SARL	Guinea	-[2]	–	–
Total Guinea			**–**	**–**
African Petroleum Liberia Limited	Liberia	100%	5	–
Total Liberia			**5**	**–**
APCL Gambia B.V.	Netherlands	100%	–	–
Total Netherlands			**–**	**–**
African Petroleum (Senegal) SAU	Senegal	100%	3	–
Total Senegal			**3**	**–**
African Petroleum (SL) Limited	Sierra Leone	99.99%	16	–
European Hydrocarbon (SL) Limited	Sierra Leone	99.99%	–	–
Total Sierra Leone			**16**	**–**
African Petroleum Corporation (Services) Ltd	United Kingdom	100%	16	–
European Hydrocarbons Limited	United Kingdom	100%	–	–
Regal Liberia Limited	United Kingdom	100%	–	–
African Petroleum Limited	United Kingdom	100%	1	–
African Petroleum Corporation Limited	United Kingdom	100%	–	–
Total United Kingdom			**17**	**–**

1 Employees number is the average during the year
2 Company derecognised during the period.

Statement of Responsibility

We confirm that:

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

b. that the Directors Report (pages 32 to 61) together with the Additional Information – Oslo Axess (pages 24 to 28) includes a fair review of the development and performance of the business and the position of African Petroleum Corporation Limited and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and

c. to the best of our knowledge, the country-by-country report for 2014 has been prepared in accordance with the Norwegian Security Trading Act Section 5-5a.

Charles Matthews
Chairman of the Board

Dr Stuart Lake
Director of the Board and CEO

Jeffrey Couch
Director of the Board

David King
Director of the Board

Bjarne Moe
Director of the Board

Timothy Turner
Director of the Board

Anthony Wilson
Director of the Board

Gibril Bangura
Director of the Board

Mark Ashurst
Director of the Board

Board of Directors

Charles Matthews, OBE
Non-Executive Chairman

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

Stuart Lake
CEO and Executive Director

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

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Mark Ashurst
Non-Executive Director

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

Gibril Bangura
Non-Executive Director

Qualifications
Arts and Business Management, Junior College Atlanta.

Jeffrey Couch
Non-Executive Director

Qualifications
BA Law from Osgoode Hall Law School and BA Business Administration from the University of Western Ontario.

David King
Non-Executive Director

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

Timothy Turner
Non-Executive Director

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

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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.

Bjarne Moe
Non-Executive Director

Qualifications
Economics degree from the University of Oslo.

Key management personnel

Michael Barrett
Exploration Director

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

Stephen West
Finance Director

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

Jens Pace
Chief Operating Officer

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

Ian Philliskirk
Group General Counsel

Qualifications
Barrister of Lincoln's Inn (non-practising), LL.b (Hons) from University College London and Bar Finals, Inns of Court School of Law, London.

Directors' report

Your Directors present their report on African Petroleum Corporation Limited ("African Petroleum" or the "Company") for the year ended 31 December 2014.

Directors

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

Mr Charles Matthews	Chairman
Dr Stuart Lake	Executive Director and Chief Executive Officer, appointed 1 February 2014
Mr Mark Ashurst	Non-Executive Director, resigned as Executive Director 1 August 2014
Mr Gibril Bangura	Non-Executive Director
Mr Jeffrey Couch	Non-Executive Director
Dr David King	Non-Executive Director
Mr Bjarne Moe	Non-Executive Director, appointed 16 June 2014
Mr James Smith	Non-Executive Director, resigned 1 August 2014
Mr Karl Thompson	Executive Director and Chief Executive Officer, resigned 1 February 2014
Mr Timothy Turner	Non-Executive Director
Mr Anthony Wilson	Non-Executive Director

Company Secretary

Ms Angeline Hicks, appointed 6 June 2014

Ms Claire Tolcon, resigned 6 June 2014

Principal Activity

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

Review of Operations

Corporate

Share Consolidation

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

(a) Every three shares consolidated into one share; and

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

Appointment of New Chief Executive Officer

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

Dr Lake has over 28 years of experience in a wide variety of roles in international oil and gas companies including the Hess Corporation, four years in the Apache Corporation overseeing Global New Ventures and later Exploration/Exploitation activity in Argentina and over 19 years in Shell, where he was Vice President Exploration for Shell, Russia and held a wide variety of positions in both Exploration and Production throughout the world.

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

Dr Lake has demonstrated himself to be a proven oil finder, maintaining a high 85% geological success rate in all three companies, based on drilling over 300 wells in 11 countries over his 28 year career. He has a BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England supervised by Professor J. F. Dewey. Dr Lake also remains on the Advisory Board of the Energy and Geoscience Institute ("EGI") at the University of Utah and is a Non-Executive Director of the board of Tamboran Resources Limited.

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

A$20 Million Share Placement

On 24 February 2014, the Company announced it had received firm commitments for a placing of 83,334,000 new fully paid ordinary shares ("Placing Shares") at A$0.24 per Share with institutional and sophisticated investors, to raise a total of A$20,000,160 (US$18,054,722) before costs ("Placing"). The Placing took place in two tranches with the first tranche of 37,852,000 Placing Shares issued on 4 March 2014 and the second tranche of 45,482,000 Placing Shares issued on 8 April 2014.

Listing Oslo Axess

On 24 February 2014, the Company announced its intention to seek a potential listing on a recognised European stock exchange and on 1 May 2014 the Company announced it had received approval to list on Oslo Axess, a regulated market of the Oslo Stock Exchange. On 28 May 2014, the Company successfully completed an initial public offering ("IPO") and listing of the Company's shares on the Oslo Axess with the first day of trading on 30 May 2014 under the ticker symbol "APCL". The IPO raised gross funds of NOK 48.6 million (approximately US$8.2 million) through the issue of 37,378,820 fully paid ordinary shares at an issue price of NOK1.30 (approximately A$0.24) per share.

Board Restructure

Following the strengthening of the Board in 2013 with the appointment of Charles Matthews, OBE, as Chairman in October 2013 and Dr David King as Non-Executive Director in July 2013, African Petroleum announced the appointment of Dr Stuart Lake as Chief Executive Officer and Executive Director on 1 February 2014.

On 16 June 2014, following the Company's successful listing on Oslo Axess, Norwegian based Mr Bjarne Moe was appointed Independent Non-Executive Director of the Board. Mr Moe has over 35 years' experience in the oil and gas industry including being the former Director General of the Oil and Gas Department of the Ministry of Petroleum, Norway. Since 2011, Mr Moe has been an advisor to the oil and gas industry and has had several large international companies as clients. Mr Moe was also appointed as a member of the Company's Continuous Disclosure Committee.

Additionally, on the 1 August 2014, Mr James Smith stepped down from the Board of Directors and Mr Mark Ashurst assumed the position of Non-Executive Director of the Board, stepping down from his role as Executive Director.

Operational updates

Farm-Out Update

During 2014, African Petroleum made significant progress towards securing a farm-in partner on several licences. On 14 July 2014, the Company announced an agreement to farm-out a 10% interest in Block CI-509 offshore Côte d'Ivoire in return for Buried Hill funding 21.1% of the cost of the next exploration well to be drilled on Block CI-509 and an additional cash payment to African Petroleum representing 10% of past costs incurred ("Farm-out Agreement"). Under the terms of the Farm-out Agreement, African Petroleum continues as Operator on the licence. Completion of the Farm-out Agreement is subject to the satisfaction or waiving of certain conditions, which are still outstanding at the date of this report.

On 23 December 2014, African Petroleum announced that it had signed a non-binding term sheet agreeing terms with a private London based independent oil and gas company to farm-in to the Company's 100% owned Liberian LB-08 licence ("Term Sheet"). Pursuant to the Term Sheet, the third party has agreed, subject *inter alia* to the completion of due diligence and the entering into of mutually agreed contracts, to acquire a 50% net participating interest in the LB08 licence in return for the payment of 50% of all future costs and expenditures relating to the LB-08 licence and a contribution to past costs and expenditures. Completion of the farm-in transaction, as contemplated by the Term Sheet, is subject to contract and a number of conditions precedent.

The Company is pleased to have secured an initial farm-in on Block CI-509 and to have signed a term sheet for Block LB-08. In addition, significant progress has been made on attracting additional companies to farm-in to the Company's other acreage. The Company has received a high level of interest in Côte d'Ivoire, Senegal and The Gambia from a number of international companies and Independents outside the interest already shared for our Liberian acreage. The significant oil discoveries made by Cairn Energy (operator) in Senegal has led to the heightened interest in Senegal and The Gambia and similarly with Total's Saphir-1XB discovery in CI 514 adjacent to our Côte d'Ivoire acreage. African Petroleum has identified a number of analogues in its acreage to Cairn Energy's discoveries at SNE-1 and FAN-1 and the Total discovery in Côte d'Ivoire at Saphir-1XB.

Directors' report continued

Review of Operations continued

Licence Amendments

During 2014, African Petroleum made a number of announcements regarding the Group's licences. On 5 February 2014, the Company announced European Hydrocarbons Limited, a wholly owned subsidiary of African Petroleum Corporation Limited, received approval from the Board of Directors of the National Oil Company of Liberia (NOCAL) for a two-year extension to the second exploration period for both LB-08 and LB-09 until 11 June 2016.

On 22 April 2014, African Petroleum agreed amendments to the Production Sharing Contracts related to Blocks CI-509 and CI-513 in Côte d'Ivoire (the "PSC Amendments"). The PSC Amendments included an adjustment of the licence periods providing for one-year extensions to the first exploration periods of both licences at the expense of the duration of future exploration periods.

Further to the announcement in January 2014 that the Company had received notice from the Republic of The Gambia of the purported termination of the Gambian Licences A1 and A4, on 28 November 2014, African Petroleum was pleased to confirm that these licences had been reinstated following an agreement with The Government of the Republic of The Gambia. The reinstatement of the Gambia Licences was a significant and positive step for the Company, particularly following the oil discoveries made by Cairn Energy in Senegal. With the reinstatement, African Petroleum agreed to a revised initial exploration period that will expire on 1 September 2016 in return for a commitment to drill an exploration well on one of the Gambia Licences and reprocess 3D seismic on Licence Block A4 prior to 1 September 2016.

On 18 December 2014, African Petroleum announced that its subsidiary African Petroleum Senegal Limited received confirmation from the President in the form of a Presidential decree of entry into the First Renewal Period on licence Senegal Offshore Sud Profond ("SOSP"). Prior to entering into the First Renewal Period, Petrosen (the National Oil Company of Senegal) agreed to defer the existing well commitment of the First Renewal Period of SOSP by 18 months to allow for further technical work by the Company prior to drilling.

SOSP has significant potential for both deep-water submarine fans and shelf edge platform plays, both of which have recently been proven in nearby acreage by the Cairn Energy (operator) wells FAN-1 and SNE-1. The Company has proposed Pre-Stack Depth Migration (PSDM) over the licence area to improve definition of the material prospects identified through technical work to date. The forward programme provides an opportunity to analyse the data fully prior to making a commitment to drill the exploration well in the second sub period of the First Renewal Period.

Seismic Acquisition

In Q3 2014, African Petroleum commenced and completed the acquisition of approximately 1,000 sq km of 3D seismic data over offshore licence SL- 4A-10, Sierra Leone. The 3D seismic survey was completed by TGS using the Polarcus "Alima". An initial version of the data was made available in Q4 2014.

Exploration Activities

The Group is an oil and gas exploration group currently focused on exploration offshore West Africa. The Company's assets are located in fast-emerging hydrocarbon basins, where several discoveries have been made in recent years, including three significant discoveries during 2014, one by Total in Côte d'Ivoire and two by Cairn Energy in Senegal.

The Group holds 10 offshore exploration and production licences consisting of two licences in each of Côte d'Ivoire, Liberia, Senegal, The Gambia and Sierra Leone. The Group acts as operator of all its licences which cover a gross acreage of 32,210km^2.

Since acquiring its licence interests, the Group has performed an active work programme on all licences, including the acquisition of 3D seismic on a majority of its licences and the drilling of three wells on its 100 per cent owned LB-09 licence in Liberia. The Group is the largest net acreage owner in West Africa, rivalling industry majors such as Anadarko Petroleum, Chevron Corporation and Tullow Oil. Table 1 below shows a detailed overview of the Group's licence interests.

Table 1: Summary of Licences

Country	Licence	Operator	Working Interest	Grant Date	Start Current Phase	End Current Phase	Area km²	Outstanding commitments in current phase
Liberia	LB-08	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,717	None
Liberia	LB-09	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,634	None
Côte d'Ivoire	CI-513	African Petroleum Cote d'Ivoire Limited	90%	Dec 2011	Dec 2011	Dec 2015	1,446	One exploration well
Côte d'Ivoire	CI-509	African Petroleum Cote d'Ivoire Limited	90%	Mar 2012	Mar 2012	Mar 2016	1,091	One exploration well
Senegal	Rufisque Offshore Profond	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2011	Oct 2015	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2014	Dec 2017	7,920	One exploration well
Sierra Leone	SL-03	European Hydrocarbons Limited	100%	Apr 2010	Apr 2010	Apr 2015	3,860	None
Sierra Leone	SL-4A-10	African Petroleum Senegal Limited	100%	Sep 2012	Sep 2012	Sep 2015	1,995	One contingent exploration well
The Gambia	A1	African Petroleum Gambia Limited	100%	Sep 2006	Nov 2014	Sep 2016	1300	One exploration well
The Gambia	A4	African Petroleum Gambia Limited	100%	Sep 2006	Nov 2014	Sep 2016	1380	None

As part of the Group's business strategy, it is actively seeking partners to farm-in to its 10 licences in order to share the risk and potential reward of the Company's highly prospective assets. The farm-outs would reduce the Company's working interest and is part of a process of maturing the Group's asset portfolio and is initiated to *inter alia* reduce the Group's capital commitments, generate cash sales proceeds for funding of future operations as well as the introduction of technically and operationally competent joint venture partners to the Group's licences.

Directors' report continued

Review of Operations continued

Liberia

Licence Overview

African Petroleum is both operator and holder of a 100% working interest, in production sharing contracts LB-08 and LB-09, which have a combined net acreage of 5,350km^2. The Company has completed an extensive work programme on its Liberian licences with 5,100km^2 of 3D seismic acquired, three wells successfully drilled, including the discovery at Narina-1, and identified key prospects with net unrisked mean prospective oil resources in excess of 4,192MMStb (ERCE Audit January 2015 in conjunction with ERCE Competent Persons Report).

Licence Activities

African Petroleum has completed the acquisition and processing of 5,100km^2 of 3D seismic data over both licences. The interpretation of this data identified numerous prospects and leads in the Upper Cretaceous post rift section and also a number of Cretaceous aged syn-rift opportunities.

African Petroleum has successfully executed an initial exploration programme in LB-09, with three wells drilled: Apalis-1, Narina-1 and Bee Eater-1. In September 2011, African Petroleum completed drilling on its first exploration well, Apalis-1, on LB-09. The well encountered oil shows in several geological units including the shallow unlogged (Tertiary-Paleocene) and proved source rock in the Cenomanian.

The Narina-1 well was drilled on LB-09 in January 2012 targeting a major Turonian fan system. The Narina-1 well encountered a total of 32 metres of net oil pay in the primary objective Turonian and underlying Albian reservoirs with no oil water contact observed. African Petroleum's discovery at Narina-1 was the first to prove a working petroleum system in the central Liberian basin, an extremely positive result for the Company and one that improves the chances of success elsewhere in the area.

The Company drilled its third well, Bee Eater-1, on LB-09 in January 2013. The well tested an up-dip axial section of the Turonian slope fan in which the Company's Narina-1 discovery had been made in 2012. The Bee Eater-1 well encountered a tight reservoir interval, but provided the impetus to integrate the information into a predictive model for improved reservoir in slope fans outboard and down-dip. These new findings have been incorporated into a revised interpretation of the subsurface across the portfolio, with new basin floor fan prospects identified in both blocks.

In September 2013, the Company completed reprocessing of all the 3D seismic data from its Liberian licences to improve image quality and support the maturation of additional prospects and appraisal opportunities. The reprocessing has highlighted that certain areas may benefit from improved seismic imaging and so both further targeted 3D reprocessing and acquisition of new high-resolution 3D seismic are currently being considered for LB-09 to cover two key exploration prospects (Narina West and Night Heron) near the Narina-1 well. Detailed stratigraphic analysis and reservoir quality prediction from seismic data will assist in the rapid assessment of both Narina West and Night Heron to further de-risk the licence area to enable accurate well positioning and efficient development in the event of appraisal success. The high-resolution 3D seismic survey, should it go ahead, will incorporate lessons learned from seismic reprocessing and will be acquired utilising state of the art broadband technology.

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

The Company has identified a number of key prospects in the Liberian licences, with net unrisked mean prospective oil resources of 4,192MMStb (ERC Equipoise, CPR 2014 and ERCE Audit January 2015).

Côte d'Ivoire

Licence Overview

In Côte d'Ivoire, African Petroleum holds a 90% working interest in offshore licences CI-509 and CI-513 (the "CI Licences"), the remaining 10% is held by Petroci, the National Oil Company of Côte d'Ivoire. The Company was awarded CI-513 in December 2011 and CI-509 in March 2012, with a combined net acreage of 2,284km^2. The Company has acquired 4,200km^2 of 3D seismic data and has identified in excess of 2,130MMStb net unrisked of prospective oil resources (ERCE Audit, January 2015).

Licence Activities

In October 2012, the Company acquired 4,200km^2 of 3D seismic data over the CI Licences, fulfilling the seismic work commitments of the first exploration phase for both licences.

Fast-track 3D seismic data was received in November 2012, while final 3D seismic depth processing of the entire survey was completed in March 2014. Interpretation of the data has identified a number of significant prospects, and the recent Total discovery has changed the view on this portfolio significantly. In January 2015, African Petroleum announced that independent petroleum consultant ERC Equipoise prepared an updated assessment of prospective oil resources attributable to the CI Licences. This updated assessment, in conjunction with the ERC Equipoise Competent Persons Report April 2014, estimates the net unrisked prospective oil resources at 2,130MMStb.

On 22 April 2014 African Petroleum announced PSC Amendments to both licences CI-509 and CI-513. The PSC Amendments include an adjustment of the licence periods providing for one-year extensions to the first exploration periods of both licences at the expense of the duration of future exploration periods.

The PSC Amendments allow the Company more time for drilling of the first period commitment wells in these blocks. The first exploration period for block CI-509 is extended to March 2016 and block CI-513 has been extended to December 2015. The Company intends to use some of this additional time to integrate seismic depth processing into the optimisation of exploration well locations as several new amplitude supported prospects have arisen from processed PSDM 3D data on trend with the Saphir-1XB Total discovery.

Senegal

Licence Overview
In Senegal, African Petroleum holds an 90% operated working interest in exploration blocks Rufisque Offshore Profond ("ROP") and Senegal Offshore Sud Profond ("SOSP") (together the "Senegal Licences"). The Company's Senegal Licences are located offshore southern and central Senegal, with a net acreage of 12,795km^2.

Licence Activity
To date, the Company has acquired 10,000km^2 of 2D seismic data over its Senegal Licences and has compiled an extensive regional database.

In May 2012, the Company completed a 3,600km^2 3D seismic acquisition over the SOSP licence block. In the ROP block an existing seismic dataset (2007 vintage) covers 1,800km^2 and was purchased from Petrosen.

This base dataset was reprocessed with the final product delivered in Q4 2014 and interpretation is underway. Several large Cretaceous turbidite fan "leads" have already been identified; these will be matured to prospects as the reprocessed data is evaluated and will be included in the updated CPR anticipated to be released in H1 2015.

The Gambia

Licence Overview
African Petroleum holds 100% operated working interest in offshore licences A1 and A4. The Company has completed a 3D seismic survey with data covering 2,500km^2. The Company has found a number of analogue leads and prospects in its acreage to that of the recent SNE-1 discovery made by Cairn Energy in Senegal.

Licence Activity
On 27 November 2014, African Petroleum entered into an agreement with The Government of the Republic of The Gambia to reinstate the Company's Licence Block A1 and Licence Block A4 (together the "Gambian Licences") on a 100% interest basis, and settle all prior issues concerning the Gambian Licences. The reinstatement of the Gambian Licences is a significant and positive step for the Company, particularly following the recent oil discoveries made by Cairn Energy in Senegal.

Upon reinstatement, African Petroleum agreed to a revised initial exploration period that will expire on 1 September 2016 in return for a commitment to drill an exploration well on one of the Gambian Licences and reprocess 3D seismic on Licence Block A4 prior to 1 September 2016.

Sierra Leone

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

Licence Activities
Since gaining operatorship of the Sierra Leone licences, African Petroleum has acquired approximately 2,500km^2 of 3D seismic data over block SL-03, approximately 1,000km^2 of 3D seismic data over block SL-4A-10 and 2D seismic data over block SL-4A-10. The Company has already identified a number of key prospects in its Sierra Leone licences, one of which has net unrisked mean prospective oil resources of 434MMStb (ERC Equipoise, CPR 2014).

In September 2013 the Company received a two-year extension to the first exploration period for SL-03, extending the first exploration period on the block to April 2015.

In September 2014, the Company commenced and completed the acquisition of approximately 1,000km^2 of 3D seismic data on Block SL-4A-10, offshore Sierra Leone. An initial version of the data was made available for interpretation in late December 2014.

Result
African Petroleum reported a loss after income tax of US$42,202,605 for the year ended 31 December 2014 (2013: loss of US$88,229,784).

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.

Directors' report continued

Significant Events after the Balance Date

Corporate

Subsequent to year-end, on 10 February 2015 African Petroleum announced a private placement to existing and new investors (the "Private Placement") of 271,732,000 new ordinary shares raising NOK 95,106,200 (approximately US$12.5 million) in gross proceeds at a subscription price of NOK 0.35 per share. Each applicant in the Private Placement is entitled to be allocated one transferable option for every two shares allocated in the Private Placement, corresponding to a total allocation of up to 135,866,000 options. The options have an exercise price of NOK 0.75 per share and have a two-year life from the date of issue.

The Company intends to raise a further NOK 19 million (approximately US$2.5m) in a subsequent repair offering to retail investors during March 2015 with similar terms.

On 9 March 2015, the Company relocated its Head Office to Premier House, 10 Greycoat Place, London SW1P 1SB, United Kingdom.

Operational

Subsequent to year-end, on 26 January 2015 African Petroleum announced an update to its prospective oil resources at its 90% owned and operated CI-509 and CI-513 offshore licence blocks in Côte d'Ivoire ("Côte d'Ivoire Licences") and its 100% owned and operated LB-08 and LB-09 offshore blocks in Liberia ("Liberia Licences").

The Company engaged the independent petroleum consultant, ERC Equipoise Ltd ("ERCE"), to prepare an updated assessment of prospective oil resources attributable to the Company's Côte d'Ivoire and Liberia Licences (the "ERCE Audit").

The ERCE Audit of prospective resources includes the addition of eight new prospects and has taken into account information gathered from third party drilling campaigns in the margin during 2014, particularly the oil discovery made by Total in CI-514 in April 2014. The ERCE Audit, in conjunction with the ERCE Competent Persons Report April 2014 ("April 2014 CPR"), estimates the net prospective oil resources relating to the Côte d'Ivoire Licences and Liberia Licences are as follows:

	Mean (MMStb)		
Licence	Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources	% Increase in Net Risked Prospective Oil Resources from April 2014 CPR
Côte d'Ivoire			
CI-513 & CI-509	2,130	456	118%
Liberia			
*LB-08 & LB-09	4,192	662	33%
Total Updated Portfolio Côte d'Ivoire & Liberia	6,322	1,118	58%

* Liberia values include four (4) new prospects reviewed in the ERCE Audit as well as unchanged prospects from April 2014 CPR

The impact of de-risking through regional third party drilling activity in Côte d'Ivoire and the addition of new Turonian and Cenomanian prospects as outlined in the ERCE Audit translates into the addition of 410MMStb in the net risked mean prospective oil resources from the April 2014 CPR (increase of 58%).

Likely Developments and Expected Results

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

Environmental Regulation and Performance

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

Significant Changes in the State of Affairs

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

Information on Directors

Charles Matthews	**Chairman**
Qualifications	Mr Matthews holds a BSc in Geography and Oceanography from the University of Wales, as well as an MBA from Cranfield Business School and a Strategic Marketing qualification from Harvard Business School.
Experience	Mr Matthews has over 10 years' experience in chairman and director positions, having been on the board of a number of listed manufacturing and technology companies, including FTSE 250 LSE listed company FKI Plc. He has previously held senior management positions at Cosworth Group, Rolls Royce and Bentley Motor Cars, and has served as a Member of the Vickers Group Executive Board. He is currently Chairman of LSE listed Porvair Plc, a specialist filtration technologies business in the aerospace and general engineering sectors.
Interest in Shares and Options	Mr Matthews holds 1,666,667 options with an exercise price of A$0.24 and an expiry date of 24 April 2019 and 100,000 shares.
Dr Stuart Lake	**Executive Director and Chief Executive Officer**, appointed 1 February 2014
Qualifications	Dr Lake holds a BSc Hons in Geology from the University of Wales and a PhD in Geology from the University of Durham, England supervised by Professor J. F. Dewey. Dr Lake also remains on the Advisory Board of the Energy and Geoscience Institute (E.G.I) at the University of Utah and is a Non-Executive Director on the board of Tamboran Resources Limited (effective Sept. 2014).
Experience	Dr Lake has over 28 years of experience in a wide variety of roles in international oil and gas companies including the Hess Corporation, four years in the Apache Corporation overseeing Global New Ventures and later Exploration/Exploitation activity in Argentina and over 19 years in Shell, where he was Vice President Exploration for Shell, Russia and held a wide variety of positions in both Exploration and Production throughout the world.
Interest in Shares and Options	Dr Lake holds 5,000,000 options with an exercise price of A$0.24 and an expiry date of 22 April 2019, 5,000,000 performance rights subject to various vesting conditions and purchased 250,000 shares in 2014. Post year end, Dr Lake also participated in a private placement by acquiring a further 2,608,500 shares at a price of NOK 0.35 per share.
Mark Ashurst	**Non-Executive Director**, stepped down as Executive Director 1 August 2014
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 1,000,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019.
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 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019.

Directors' report continued

Information on Directors continued

Jeffrey Couch	**Non-Executive Director**
Qualifications	Bachelor of Law
Experience	Mr Jeffrey Couch is Managing Director and Head of Investment and Corporate Banking Europe for BMO Capital Markets, a leading North American financial services provider. Previously, he was Head of Business Development and M&A at Eurasian Natural Resources Corporation PLC. Mr Couch is a qualified Canadian lawyer, and attended the University of Western Ontario Business School and Osgoode Hall Law School in Canada. He has over 15 years of investment banking and capital markets experience having worked for Kleinwort Benson, Citigroup (Salomon Brothers) and Credit Suisse. He has extensive experience in the natural resources sector having advised and raised capital for clients globally, with a particular focus in emerging markets and Africa.
Interest in Shares and Options	Mr Couch has an interest in 147,900 fully paid ordinary shares. Mr Couch also holds 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019.
Dr David King	**Non-Executive Director**
Qualifications	MSc in Geophysics from Imperial College, London, PhD in Seismology from the Australian National University, Canberra.
Experience	Dr David King is a professional geoscientist and has over 30 years' experience in oil and gas and other natural resources industries. He has co-founded, as well as held executive and non-executive board positions with three successful ASX listed oil and gas exploration companies (Eastern Star Gas Limited, Sapex Limited, and Gas2Grid Limited). Dr King is currently non-executive Chairman of two ASX listed companies: oil and gas exploration company Galilee Energy Limited, and biotechnology research and development company, Cellmid Limited. He is also a Non-Executive Director of unlisted shale oil & gas explorer Tamboran Resources Limited. In a long corporate career, he has also served as Managing Director of ASX listed gold producer North Flinders Mines, and CEO of oil & gas producers Beach Petroleum and Claremont Petroleum. He was more recently Chairman of ASX Robust Resources Limited, Chairman of AIM Listed Tengri Resources, and Non-Executive Director of ASX listed Republic Gold Limited.
Interest in Shares and Options	Dr King holds 300,000 shares.
Bjarne Moe	**Non-Executive Director**, appointed 16 June 2014
Qualifications	Degree in Economics from the University of Oslo.
Experience	Mr Moe has more than 35 years experience. He started out in the Ministry of Industry and was transferred to the Ministry of Petroleum and Energy when it was established in 1978. In 1988, Mr Moe was appointed Director General and head of the Oil and Gas department. Furthermore, Mr Moe has been a diplomat working for the Ministry of Foreign Affairs and been counsellor at the Norwegian embassy in Washington, D.C. and Mr Moe has further chaired several international commissions for solving questions regarding median line fields, and international gas and oil pipelines. He has also been heading delegations outside of Norway to solve specific questions and been a mediator for unitisation of fields etc. Mr Moe has headed several delegations for OECD (IEA) and has been a member of the Petroleum Price board for 15 years. Since July 2011, Mr Moe has been a partner at Ricardo Corporate Finance AS. The company is specialising in financial structuring and is also an advisor to the oil and gas industry and has several large, international companies as clients. Mr. Moe is currently chairman of Consultor Energy AS, an energy advisory company.
Interest in Shares and Options	Mr Moe holds 100,000 shares. Mr Moe is due to be issued 500,000 options with an exercise price of A$0.24 and an expiry date of 16 June 2019 in accordance with his terms of appointment.

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 41,667 fully paid ordinary shares at the date of this report. Mr Turner holds 166,667 options with an exercise price of A$1.65 and an expiry date of 31 July 2017.
Anthony Wilson	**Non-Executive Director**
Experience	Mr Wilson has had a long career in a number of senior financial positions. Having qualified as a Chartered Accountant, Mr Wilson initially became a partner in general practice before moving into the investment banking sector initially with Wedd Durlacher Mordaunt & Co, the stockjobber, and then with BZW, the investment banking division of Barclays. Mr Wilson was Finance Director for BZW Securities and BZW Asset Management over a period of 10 years. Following BZW, Mr Wilson held various senior management roles, including as a director for DAKS Simpson Group plc and as a Non-Executive Director for Panceltica Holdings plc.
Interest in Shares and Options	Mr Wilson holds 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019 and 100,000 shares.
Karl Thompson	**Executive Director and Chief Executive Officer**, resigned 1 February 2014
Qualifications	BSc Geology, MSc Geophysics.
Experience	Mr Thompson is an accomplished petroleum explorationist with 28 years of technical, operational and managerial experience in the exploration and development of hydrocarbons with major multinational and independent energy companies. He has established a track record as a successful 'oil finder' and commercial acquisitions of new venture oil and gas assets as well as corporate takeovers. He spent 18 years with Chevron Corporation where he was Exploration and Production Director as well as Strategic Planning Manager involved in a number of successful oil discoveries and developments as well as new venture acquisitions. Following a successful career with Chevron he started his petroleum consultancy working with companies in West Africa assisting with further hydrocarbon discoveries and new venture acquisitions. He has extensive experience in Europe, Africa and the Middle East working with major multinational companies and new start up AIM exploration companies as well National Oil companies.
Interest in Shares and Options	Mr Thompson held 1,091,667 fully paid ordinary shares and 1,166,667 options with an exercise price of A$1.65 and an expiry date of 31 July 2017 as at the date of resignation. Mr Thompson forfeited 1,091,667 performance rights on resignation.

Directors’ report continued

Information on Directors continued

James Smith	**Non-Executive Director**, resigned 1 August 2014
Qualifications	MSc in Petroleum Geology (Geophysics option), BSc (Hons) in Geological Geophysics, Fellow of The 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 held 500,000 options with an exercise price of A$0.24 and an expiry date of 1 August 2017 as at the date of resignation.

Company Secretary

Angeline Hicks is a Chartered Accountant with global corporate and financial experience. After gaining her qualifications at Deloitte, Ms Hicks furthered her career in the banking industry in London for eight years, working for investment banks such as Barclays Capital, Credit Suisse and JP Morgan, focusing on managing compliance and corporate and financial reporting. Ms Hicks was previously Chief Financial Officer and Company Secretary of UK (AIM) listed Hot Tuna and is currently Company Secretary for ASX listed Minera Gold Limited.

Remuneration Report (Audited)

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

Details of Directors and key management personnel

(i) Directors

Mark Ashurst	Non-Executive Director, resigned as Executive Director 1 August 2014
Gibril Bangura	Non-Executive Director
Jeffrey Couch	Non-Executive Director
David King	Non-Executive Director
Stuart Lake	Executive Director and Chief Executive Officer, appointed 1 February 2014
Charles Matthews	Chairman
Anders Bjarne Moe	Non-Executive Director, appointed 16 June 2014
James Smith	Non-Executive Director, resigned 1 August 2014
Karl Thompson	Executive Director and Chief Executive Officer, resigned 1 February 2014
Timothy Turner	Non-Executive Director
Anthony Wilson	Non-Executive Director

(ii) Other Key Management Personnel

Angeline Hicks	Company Secretary, appointed 6 June 2014
Michael Barrett	Exploration Director
Jens Pace	Chief Operating Officer
Ian Philliskirk	Group General Counsel, appointed 15 December 2014
Claire Tolcon	Company Secretary, resigned 6 June 2014
Stephen West	Finance Director

There were no changes to key management personnel after the reporting date and before the date of the financial report was authorised for issue.

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

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

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

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

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

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

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 post share consolidation[2] US$
6 months ended 30 June 2010[1]	(23,076,789)	(8,85) cents
6 months ended 31 December 2010	(14,524,092)	(3.24) cents
31 December 2011	(19,019,539)	(3.78) cents
31 December 2012	(40,431,908)	(7.29) cents
31 December 2013	(88,229,784)	(15.59) cents
31 December 2014	(42,202,605)	(6.47) cents

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

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

a) every three shares consolidated into one share; and

b) every three options consolidated into one option and the exercise price of each option multiplied by a factor of three.

The loss per share post consolidation above, has been calculated based on the restated weighted average number of ordinary shares outstanding during the relevant period comparative periods have been adjusted to reflect the share consolidation.

Directors' report continued

Remuneration Report (audited) continued

Director and key management remuneration for the years ended 31 December 2014 and 31 December 2013

	Short-term Benefits			Post	Share based payments				
2014	Salary and fees US$	Other cash benefits[2] US$	Cash bonus US$	Employment Benefits[1] US$	Shares[6] US$	Options[6] US$	Other[7] US$	**Total US$**	Performance Related %
Directors									
M Ashurst[8]	462,679	30,650	–	69,061	–	74,636	–	**637,026**	–
G Bangura	46,273	–	–	–	–	37,318	–	**83,591**	–
J Couch	43,754	–	–	–	–	37,318	–	**81,072**	–
D King	64,985	–	–	–	–	–	–	**64,985**	–
S Lake[9]	909,016	76,355	427,130[3]	86,012	595,634	607,323	–	**2,701,470**	22%
C Matthews	219,432	–	–	–	–	245,877	–	**465,309**	–
B Moe[10]	19,576	–	–	–	–	28,551	–	**48,127**	–
J Smith[11]	37,008	–	–	–	–	107,635	–	**144,643**	–
K Thompson[12]	60,456	11,055	–	6,045	(2,162,573)[13]	–	8,984	**(2,076,033)**	–
T Turner	39,387	–	–	–	–	–	–	**39,387**	–
A Wilson	60,394	–	–	–	–	37,318	–	**97,712**	–
Total	**1,962,960**	**118,060**	**427,130**	**161,118**	**(1,566,939)**	**1,175,976**	**8,984**	**2,287,289**	
Key management									
A Hicks[14]	12,429	–	–	–	–	–	–	**12,429**	–
M Barrett	388,213	2,208	178,091[4]	68,767	–	87,407	–	**724,686**	–
J Pace	520,094	7,832	226,661[4]	52,009	219,338	(72,781)	9,437	**962,590**	23%
I Philliskirk[15]	15,639	–	15,639[5]	–	–	814	–	**32,092**	–
C Tolcon[16]	44,753	–	–	–	–	5,420	–	**50,173**	–
S West	396,582	5,283	–	39,658	–	299,293	–	**740,816**	–
Total	**3,340,670**	**133,383**	**847,521**	**321,552**	**(1,347,601)**	**1,496,129**	**18,421**	**4,810,075**	

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

Notes

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

2 Other cash benefits relate to rental assistance and health insurance benefits.

3 Cash bonuses relate to sign-on bonus due on S. Lake's first anniversary of employment for 50% of his basic salary. The amount is unpaid at 31 December 2014.

4 Cash bonuses relate to Key management retention bonuses. As at 31 December 2014 50% of the retention bonuses are still payable.

5 Cash bonus relates to a sign-on bonus.

6 Share based payments represent the value of options and performance shares that have been recognised during the current year.

7 Relates to non-recourse loans to Mr Thompson granted in two instalments (6 September 2012 and 30 January 2013) and to Mr Pace granted on 9 October 2013 and accounted for as a share based payment. See Note 8 to the Financial Statements.

8 Mr Ashurst resigned as Executive Director and was appointed as a Non-Executive Director on 1 August 2014.

9 Dr Stuart Lake was appointed Chief Executive Officer on 1 February 2014.

10 Mr Moe was appointed as a Non-Executive Director on 16 June 2014.

11 Mr Smith resigned as Non-Executive Director on 1 August 2014. The Board resolved for Mr Smith to retain his unvested options upon resignation. Salary and fees includes US$26,268 (A$28,000) non-executive director fees and US$10,740 as payment for consulting services provided by Mr Smith to the Company.

12 Mr Thompson resigned as Executive Director and Chief Executive Officer on 1 February 2014.

13 All unvested Performance Shares held by Mr Thompson were recognised as a reversal of share based payments through Employee Remuneration within the Statement of Comprehensive Income.

14 Ms Hicks was appointed as Company Secretary on 6 June 2014.

15 Mr Philliskirk was appointed as Group General Counsel on 15 December 2014.

16 Ms Tolcon resigned as Company Secretary on 6 June 2014.

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

Notes

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

2 Other cash benefits relate to rental assistance, health insurance benefits and termination payouts.

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

4 Share based payments represent the value of options and performance shares that have been recognised during the current year.

5 Relates to non-recourse loans of US$1,118,618 to Mr Thompson granted in two instalments (6 September 2012 and 30 January 2013) and US$675,891 to Mr Pace granted on 9 October 2013, accounted for as a share based payment. See Note 8 to the Financial Statements.

6 Mr Ashurst resigned as Chief Financial Officer on 1 October 2013.

7 Dr King was appointed as a Non-Executive Director on 1 July 2013.

8 Mr Matthews was appointed Chairman on 10 October 2013.

9 Mr Sage resigned as Non-Executive Deputy Chairman on 30 June 2013. Mr Sage's fees include US$24,127 (A$25,000) as payment for consultancy services provided by Mr Sage to the Company.

10 Includes US$46,323 (A$48,000) non-executive director fees and US$124,789 (£80,084) as payment for consulting services provided by Mr Smith to the Company.

11 Relates to the re-estimate of the vesting date on Mr Thompson's performance shares.

12 Mr Timis resigned as Non-Executive Chairman on 10 October 2013.

13 Mr Watling resigned as Non-Executive Director on 1 July 2013.

14 Mr Church resigned as Director of Exploration on 30 April 2013. All unvested options held by Mr Church were recognised as a reversal of share based payments through Employee Remuneration within the Statement of Comprehensive Income.

15 Mr Raillard resigned as General Manager – West Africa on 31 December 2013. All unvested options held by Mr Raillard were recognised as a reversal of share based payments through Employee Remuneration within the Statement of Comprehensive Income. A termination payment of £20,100 (US$32,861) was paid to Mr Raillard on resignation.

16 Mr Robinson resigned as Director of Exploration on 1 May 2013. All unvested options held by Mr Robinson were recognised as a reversal of share based payments through Employee Remuneration within the Statement of Comprehensive Income. A termination payment of £30,000 (US$46,521) was paid to Mr Robinson on resignation.

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

Directors' report continued

Remuneration Report (audited) continued

Additional disclosures relating to options and shares

Options awarded, vested, forfeited, cancelled and lapsed during the year

The table below discloses the number of share options granted to Directors and key management personnel as remuneration during the current year as well as the number of options that vested, forfeited, cancelled or lapsed during the year. All amounts are post consolidation.

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

2014	Year	Options awarded during the year No.	Award date	Fair value per option at award date A$	Vesting date	Exercise price A$	Expiry date	Vested during the current year No.	Forfeited during the current year No.	Cancelled during the current year No.	Lapsed during the current year No.
Directors											
M Ashurst[11]	2014	333,334	30 May 2014	0.23[1]	30 May 2015[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	333,333	30 May 2014	0.23[1]	30 May 2016[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	333,333	30 May 2014	0.23[1]	30 May 2017[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2011	–	27 May 2011	2.28	27 May 2011	1.65	31 Jul 2017	–	–	(333,333)	–
	2010	–	25 Nov 2010	1.84	25 Nov 2010	1.65	31 Jul 2017	–	–	(500,000)	–
G Bangura	2014	166,667	30 May 2014	0.23[1]	30 May 2015[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,667	30 May 2014	0.23[1]	30 May 2016[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,666	30 May 2014	0.23[1]	30 May 2017[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2010	–	25 Nov 2010	1.84	25 Nov 2010	1.65	31 Jul 2017	–	–	(333,333)	–
J Couch	2014	166,667	30 May 2014	0.23[1]	30 May 2015[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,667	30 May 2014	0.23[1]	30 May 2016[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,666	30 May 2014	0.23[1]	30 May 2017[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2010	–	25 Nov 2010	1.84	25 Nov 2010	1.65	31 Jul 2017	–	–	(333,333)	
S Lake[12]	2014	1,666,667	2 Apr 2014	0.24[3]	1 Feb 2015[17]	0.24[2]	22 Apr 2019	–	–	–	–
	2014	1,666,667	2 Apr 2014	0.24[3]	1 Feb 2016[17]	0.24[2]	22 Apr 2019	–	–	–	–
	2014	1,666,666	2 Apr 2014	0.24[3]	1 Feb 2017[17]	0.24[2]	22 Apr 2019	–	–	–	–
C Matthews	2014	555,556	2 Apr 2014	0.24[3]	10 Oct 2014[17]	0.24[2]	22 Apr 2019	555,556	–	–	–
	2014	555,556	2 Apr 2014	0.24[3]	10 Oct 2015[17]	0.24[2]	22 Apr 2019	–	–	–	–
	2014	555,555	2 Apr 2014	0.24[3]	10 Oct 2016[17]	0.24[2]	22 Apr 2019	–	–	–	–
B Moe[13]	2014	166,667	16 Jun 2014	0.19[5]	16 Jun 2015[17]	0.24[6]	16 Jun 2019	–	–	–	–
	2014	166,667	16 Jun 2014	0.19[5]	16 Jun 2016[17]	0.24[6]	16 Jun 2019	–	–	–	–
	2014	166,666	16 Jun 2014	0.19[5]	16 Jun 2015[17]	0.24[6]	16 Jun 2019	–	–	–	–
J Smith[14]	2014	166,667	30 May 2014	0.23[1]	30 May 2015[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,667	30 May 2014	0.23[1]	30 May 2016[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,666	30 May 2014	0.23[1]	30 May 2017[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2010	–	25 Nov 2010	1.84	25 Nov 2010	1.65	31 Jul 2017	–	–	(333,333)	–
	2012	–	25 May 2012	3.83	25 May 2012	3.00	31 Jul 2017	–	–	(83,334)	–
A Wilson	2014	166,667	30 May 2014	0.23[1]	30 May 2015[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,667	30 May 2014	0.23[1]	30 May 2016[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2014	166,666	30 May 2014	0.23[1]	30 May 2017[17]	0.24[2]	3 Jun 2019	–	–	–	–
	2010	–	25 Nov 2010	1.84	25 Nov 2010	1.65	31 Jul 2017	–	–	(333,333)	–
Key management personnel											
M Barrett	2013	–	20 Sep 2013	0.40[9]	1 Jan 2014	0.30[4]	20 Sep 2018	194,444	–	–	–
J Pace	2013	–	20 Sep 2013	0.40[9]	1 Jan 2014	0.30[4]	20 Sep 2018	194,444	–	–	–
I Philliskirk[15]	2014	166,667	15 Dec 2014	0.07[7]	15 Dec 2015[17]	0.30[4]	15 Dec 2019	–	–	–	–
	2014	166,667	15 Dec 2014	0.07[7]	15 Dec 2016[17]	0.30[4]	15 Dec 2019	–	–	–	–
	2014	166,666	15 Dec 2014	0.07[7]	15 Dec 2017[17]	0.30[4]	15 Dec 2019	–	–	–	–
C Tolcon[16]	2014	25,000	2 Apr 2014	0.24[8]	2 Apr 2014[18]	0.30[4]	22 Apr 2019	25,000	–	–	–
S West	2014	1,000,000	30 May 2014	0.23[1]	30 May 2014[18]	0.24[2]	3 Jun 2019	1,000,000	–	–	–
	2013	–	1 Oct 2013	0.31[1]	1 Oct 2014	0.30[4]	21 Nov 2018	194,445	–	–	–

Please see following page for explanatory notes.

Notes

* All unvested options are forfeited on the date of resignation of holder.
1 The equivalent US$ fair value per option at award date is equal to US$0.22.
2 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.20.
3 The equivalent US$ fair value per option at award date is equal to US$0.22.
4 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.24
5 The equivalent US$ fair value per option at award date is equal to US$0.18.
6 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.20.
7 The equivalent US$ fair value per option at award date is equal to US$0.06.
8 The equivalent US$ fair value per option at award date is equal to US$0.22.
9 The equivalent US$ fair value per option at award date is equal to US$0.38.
10 The equivalent US$ fair value per option at award date is equal to US$0.29.
11 Mr Ashurst resigned as Executive Director and was appointed as a Non-Executive Director on 1 August 2014.
12 Dr Lake was appointed as Chief Executive Officer on 1 February 2014.
13 Mr Moe was appointed a Non-Executive director on 16 June 2014.
14 Mr Smith resigned as Non-Executive Director on 1 August 2014. The Board resolved for Mr Smith to retain his unvested options upon resignation.
15 Mr Philliskirk was appointed Group General Council on 15 December 2014.
16 Ms Tolcon resigned on 6 June 2014.
17 The vesting condition relates to the rendering of services.
18 No vesting conditions were attached to these options because these options were issued as a form of retention bonus and incentive package. They vested immediately on issue.

Number and value of options, cancelled and replaced during the year

On 30 May 2014, 2,250,000 director options were cancelled and replaced whereby the number of options was increased to 3,000,000 options, the exercise price of the options was reduced to A$0.24, the expiry dates were extended to 3 June 2019, and the various vesting conditions were altered. The fair value of the 2,250,000 original options was already fully expensed in the prior year as they vested on issue. The fair value of the 3,000,000 replacement options awarded has been recognised, taking into consideration the estimated vesting date of the revised milestones. The following were held by Directors:

2014	Original options prior to No.	Replacement options No.	Grant date	Fair value of replacement options A$	Original expiry date	Revised expiry date	Total fair value of replacement options recognised in the current year US$
Directors							
M Ashurst	833,334	1,000,000	30 May 2014	0.23[1]	31 Jul 2017	3 Jun 2019	74,636
G Banguara	333,333	500,000	30 May 2014	0.23[1]	31 Jul 2017	3 Jun 2019	37,318
J Couch	333,333	500,000	30 May 2014	0.23[1]	31 Jul 2017	3 Jun 2019	37,318
J Smith[2]	416,667	500,000	30 May 2014	0.23[1]	31 Jul 2017	3 Jun 2019	107,635
A Wilson	333,333	500,000	30 May 2014	0.23[1]	31 Jul 2017	3 Jun 2019	37,318

Notes

1 The equivalent US$ fair value is equal to US$0.22
2 Mr Smith resigned as Non-Executive Director on 1 August 2014.

The share price on the replacement date (30 May 2014) was A$0.26 (US$0.24).

There were no other alterations to the terms and conditions of options awarded as remuneration to Directors and key management personnel since their award date, during the current year, other than disclosed in the table above. The share consolidation did not have an impact on the fair value of the existing awards.

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

Directors' report continued

Remuneration Report (audited) continued

Option Holdings by Directors and other Key Management Personnel (Post consolidation)

	Balance 1 January 2014	Options acquired	Awarded as remuneration	Options exercised	Net change other	Balance 31 December 2014	Exercisable	Not Exercisable
Directors								
M Ashurst[1]	833,334	–	1,000,000	–	(833,334)	1,000,000	–	1,000,000
G Bangura	333,333	–	500,000	–	(333,333)	500,000	–	500,000
J Couch	333,333	–	500,000	–	(333,333)	500,000	–	500,000
D King	–	–	–	–	–	–	–	–
S Lake[2]	–	–	5,000,000	–	–	5,000,000	–	5,000,000
C Matthews	–	–	1,666,667	–	–	1,666,667	555,556	1,111,111
B Moe[3]	–	–	–	–	500,000	500,000	–	500,000
J Smith[4]	416,667	–	500,000	–	(916,667)	–	–	–
K Thompson[5]	1,166,667	–	–	–	(1,166,667)	–	–	–
T Turner	166,667	–	–	–	–	166,667	166,667	–
A Wilson	333,333	–	500,000	–	(333,333)	500,000	–	500,000
Key management personnel								
A Hicks[6]	–	–	–	–	–	–	–	–
M Barrett	1,158,333	–	–	–	–	1,158,333	769,445	388,888
J Pace	750,000	–	–	–	–	750,000	361,112	388,888
I Philliskirk[7]	–	–	500,000	–	–	500,000	–	500,000
C Tolcon[8]	25,000	–	25,000	–	(50,000)	–	–	–
S West	583,334	–	1,000,000	–	–	1,583,334	1,194,445	388,889
	6,100,001	**–**	**11,191,667**	**–**	**(3,466,667)**	**13,825,001**	**3,047,225**	**10,777,776**

Notes

1 Mr Ashurst resigned as Executive Director and was appointed as a Non-Executive Director on 1 August 2014.

2 Dr Lake was appointed as Chief Executive Officer on 1 February 2014.

3 Mr Moe was appointed as Non-Executive Director on 16 June 2014.

4 Mr Smith resigned as Non-Executive Director on 1 August 2014.

5 Mr Thompson resigned as Chief Executive Officer on 1 February 2014.

6 Ms Hicks was appointed Company Secretary on 6 June 2014.

7 Mr Philliskirk was appointed as Group General Counsel on 15 December 2014.

8 Ms Tolcon resigned as Company Secretary on 6 June 2014.

Value of options awarded, exercised, cancelled and lapsed during the year

2014	Value of options granted during the year US$	Value of options exercised during the year US$	Value of options cancelled during the year US$	Value of options lapsed during the year US$	Remuneration consisting of share options for the year %
Directors					
M Ashurst[1]	215,269	–	–	–	28%
G Bangura	107,635	–	–	–	70%
J Couch	107,635	–	–	–	71%
S Lake[2]	1,119,156	–	–	–	40%
C Matthews	373,052	–	–	–	63%
B Moe[3]	90,461	–	–	–	82%
J Smith[4]	107,635	–	–	–	80%
A Wilson	107,635	–	–	–	64%
Key management personnel					
I Philliskirk[5]	30,712	–	–	–	50%
C Tolcon[6]	5,488	–	–	–	11%
S West	215,269	–	–	–	33%

Notes

1 Mr Ashurst resigned as Executive Director and was appointed as a Non-Executive Director on 1 August 2014.

2 Dr Lake was appointed as Chief Executive Officer on 1 February 2014.

3 Mr Moe was appointed a Non-Executive director on 16 June 2014.

4 Mr Smith resigned as Non-Executive Director on 1 August 2014. The Board resolved for Mr Smith to retain his unvested options upon resignation.

5 Mr Philliskirk was appointed Group General Council on 15 December 2014.

6 Ms Tolcon resigned on 6 June 2014.

Performance rights awarded, vested and forfeited during the year (Post Consolidation)

The table below discloses the number of performance rights granted to Directors and key management personnel as remuneration during the current year as well as the number of performance rights that vested, forfeited, cancelled or lapsed during the year.

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

2014	Year	Rights awarded during the year No.	Award date	Value per right on award date A$	Fair value on award date A$	Date performance condition expected to be met[1]	Vested during the current year No.	Forfeited during the current year No.	Cancelled during the current year No.	Lapsed during the current year No.	Balance 31 December 2014 No.
Directors											
S Lake	2014	1,000,000	1 Feb 2014	0.27	270,000[5]	30 Apr 2015[3]	–	–	–	–	1,000,000
	2014	1,000,000	1 Feb 2014	0.27	270,000[5]	31 Aug 2015[3]	–	–	–	–	1,000,000
	2014	1,000,000	1 Feb 2014	0.27	270,000[5]	31 Dec 2015[3]	–	–	–	–	1,000,000
	2014	1,000,000	1 Feb 2014	0.27	270,000[5]	31 Dec 2016[3]	–	–	–	–	1,000,000
	2014	1,000,000	1 Feb 2014	0.27	270,000[5]	31 Dec 2016[3]	–	–	–	–	1,000,000
K Thompson[2]	2011	–	27 May 2011	3.00	3,275,000[6]	31 Dec 2014[4]	–	(1,091,667)	–	–	–
Key management personnel											
J Pace	2012	–	01 Oct 2012	3.60	1,800,000[7]	31 Dec 2015[4]	–	–	–	–	500,000

Notes

1 The expected date performance condition will be met is management best estimate based on various performance hurdles.

2 Mr Thompson resigned as Executive Director and Chief Executive Officer on 1 February 2014.

3 Performance hurdle relates significant sale or farm out of one of the Company's licences, refer to Dr Lake's service agreement for further details.

4 Performance hurdle relates to securing the Company a commercial discovery.

5 The equivalent US$ fair value per performance right at award date is equal to US$0.25.

6 The equivalent US$ fair value per performance right at award date is equal to US$2.83

7 The equivalent US$ fair value per performance right at award date is equal to US$2.89

Directors' report continued

Remuneration Report (audited) continued

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

	Balance 1 January 2014	Balance held on appointment	Granted as remuneration	On exercise of options	Net change other	Balance 31 December 2014
Directors						
M Ashurst[1]	–	–	–	–	–	–
G Bangura	–	–	–	–	–	–
J Couch	147,900	–	–	–	–	147,900
D King	–	–	–	–	300,000	300,000
S Lake[2]	–	–	–	–	250,000	250,000
C Matthews	–	–	–	–	100,000	100,000
B Moe[3]	–		–	–	100,000	100,000
J Smith[4]	–	–	–	–	–	–
K Thompson[5]	1,091,667	–	–	–	(1,091,667)	–
T Turner	41,667	–	–	–	–	41,667
A Wilson	–	–	–	–	100,000	100,000
Key management personnel						
A Hicks[6]	–	–	–	–	–	–
M Barrett	–	–	–	–	–	–
J Pace	333,333	–	–	–	–	333,333
I Philliskirk[7]	–	–	–	–	–	–
C Tolcon[8]	52,667	–	–	–	(52,667)	–
S West	–	–	–	–	–	–
	1,667,234	**–**	**–**	**–**	**(294,334)**	**1,372,900**

Notes

1 Mr Ashurst resigned as Executive Director on 1 August 2014.

2 Dr Lake was appointed as Chief Executive Officer on 1 February 2014.

3 Mr Moe was appointed as Non-Executive Director on 16 June 2014.

4 Mr Smith resigned as Non-Executive Director on 1 August 2014.

5 Mr Thompson resigned as Chief Executive Officer on 1 February 2014.

6 Ms Hicks was appointed Company Secretary on 6 June 2014.

7 Mr Philliskirk was appointed as Group General Counsel on 15 December 2014.

8 Ms Tolcon resigned as Company Secretary on 6 June 2014.

Loans to Directors and key management personnel and their related parties

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

2014	Balance as at beginning of year US$	Interest charged US$	FX gains / (losses) US$	Balance as at end of year US$	Cumulative share based payment liability US$	Net US$
Directors						
K Thompson[1]	1,090,131	45,327	(38,767)	1,096,691[2]	(1,003,974)	92,717
Key management personnel						
J Pace	661,372	27,431	(26,161)	662,642[3]	(614,363)	48,279

Notes

1 Mr Thompson resigned as Executive Director and Chief Executive Officer on 1 February 2014.

2 The highest loan balance during the year was US$1,178,332 at 30 June 2014.

3 The highest loan balance during the year was US$711,972 at 30 June 2014.

ii) Terms and conditions of loans to Directors and key management personnel and their related parties:
Directors and key management personnel are charged interest at the concessional rate of 4% per annum, accrued monthly. The average official rate of interest from HM Revenue & Customs in the UK during the year was 4%.

During 2012, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$196,000 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$45,327 (£27,641) of interest recognised during the current year (2013: US$40,916 (£26,139)). The Loan Agreement was approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$1,096,691 (2013: US$1,090,131). At 31 December 2014, the total limited recourse feature of the loan of US$1,003,974 has been recognised as a share based payment liability (2013: US$886,210). For 2014 a share based payment expense of US$117,763 (2013: US$886,210) has been recognised within the line item "Employee benefits" within the Statement of Comprehensive Income of which the benefit related to the period before Mr Thompson's resignation amounted to US$8,784.

During 2012, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$27,431 (£16,701) of interest recognised during the current year (2013: US$25,123 (£16,047)). The loan agreement was approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$662,642 (2013: US$661,372). At 31 December 2014, the total limited recourse feature of the loan of US$614,363 has been recognised a share based payment liability (2013: US$604,927). For 2014 a share based payment expense of US$9,437 (2013: US$604,927) has been recognised within the line item "Employee benefits" within the Statement of Comprehensive Income.

Service Agreements
All equity awards are on a post consolidated basis.

Mr Mark Ashurst – Non-Executive Director, resigned as Executive Director 1 August 2014
Mr Ashurst's role as Executive Director until his resignation on 1 August 2014 and his appointment as a Non-Executive Director from this date are governed by two contracts between the Company and Mr Ashurst. The first agreement for his role as Executive Director stipulated the following terms and conditions:

(a) Rate: a fee of £280,000 per annum is payable to Mr Ashurst. Mr Ashurst's fee is subject to annual review by the board and is settled in Great British pounds with the US$ equivalent for 2014 equal to US$462,679.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Ashurst meeting annual targets set at the commencement of each year. No bonus was awarded to Mr Ashurst during the current year (2013: nil).

(c) Options: the Company awarded Mr Ashurst 1,000,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019 during the current year (2013: nil). The options are subject to the following vesting conditions:

(i) 333,334 options will be exercisable from 30 May 2015;

(ii) 333,333 options will be exercisable from 30 May 2016; and

(iii) 333,333 options will be exercisable from 30 May 2017.

Previously Mr Ashurst held 833,334 vested options with an exercise price of A$1.65 and an expiry date of 31 July 2017, which have been cancelled.

(d) Termination: if either party wish to terminate the employment, it should give to the other six months' notice in writing. The agreement was terminated on 1 August 2014 when Mr Ashurst resigned as Executive Director and was replaced with a new agreement as Non-Executive Director (refer below).

The second agreement for his role as Non-Executive Director stipulates the following terms and conditions:

(a) Rate: effective from 1 February 2015 a fee of A$80,000 per annum is payable to Mr Ashurst and reviewed annually by the Board. Mr Ashurst's fee is settled in US$, with US$ Nil paid to him during the year. In addition, Mr Ashurst is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: Mr Ashurst retains the 1,000,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019.

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

Directors' report continued

Remuneration Report (audited) continued

Mr Gibril Bangura – Non-Executive Director

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

(a) Rate: a fee of A$48,000 per annum is payable to Mr Bangura and reviewed annually by the Board. Mr Bangura's fee is settled in US$, with US$46,273 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 awarded Mr Bangura 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019 during the current year (2013: nil). The options are subject to the following vesting conditions:

(i) 166,667 options will be exercisable from 30 May 2015;

(ii) 166,667 options will be exercisable from 30 May 2016; and

(iv) 166,666 options will be exercisable from 30 May 2017.

Previously, Mr Bangura held 333,333 vested options which have an exercise price of A$1.65 and an expiry date of 31 July 2017 which have been cancelled.

(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$43,754 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 awarded Mr Couch 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019 during the current year (2013: nil). The options are subject to the following vesting conditions:

(ii) 166,667 options will be exercisable from 30 May 2015;

(ii) 166,667 options will be exercisable from 30 May 2016; and

(v) 166,666 options will be exercisable from 30 May 2017.

Previously, Mr Couch held 333,333 vested options which have an exercise price of A$1.65 and an expiry date of 31 July 2017 which have been cancelled.

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

Dr David King – Non-Executive Director

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

(a) Rate: a fee of A$65,000 per annum is payable to Dr King and reviewed annually by the Board. With effect from 1 June 2014 Dr King's fee was increased to A$80,000 per annum. Dr King's fee is settled in Great British Pounds with the US$ equivalent for 2014 equal to US$64,368. In addition, Dr King is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company did not award Dr King any options during the current year.

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

Dr Stuart Lake – Executive Director and Chief Executive Officer, appointed 1 February 2014

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

(a) Rate: a fee of £600,000 per annum is payable to Dr Lake. Dr Lake's fee is subject to annual review by the Board and is settled in Great British pounds with the US$ equivalent for 2014 equal to US$909,016.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Dr Lake's performance against reasonable annual targets set at the commencement of each year. For the first year of employment only, as a deferred sign-on bonus, the Company guarantees to pay Dr Lake a bonus of at least 50% of Basic Salary. Such guaranteed bonus shall be paid on or around the first anniversary of the date of commencement of employment. A US$ equivalent of US$427,130 (£275,000) has been accrued at 31 December 2014.

(c) Discovery Bonus: In addition to any discretionary annual bonus, the Company shall pay Dr Lake a bonus of 100% of Basic Salary in the event the Company makes a Discovery during the course of Dr Lake's employment.

(d) Options: the Company awarded Dr Lake 5,000,000 options with an exercise price of A$0.24 and an expiry date of 22 April 2019 during the current year. The options are subject to the following vesting conditions:

  (i) 1,666,667 options will be exercisable from 1 February 2015;

  (ii) 1,666,667 options will be exercisable from 1 February 2016; and

  (iii) 1,666,666 options will be exercisable from 1 February 2017.

(e) Shares: 5,000,000 fully paid shares will be issued to Dr Lake in five tranches of 1,000,000 shares, each time one of the following achievements are met:

  (i) The finding of oil or gas by the Company that can be proven to flow either via MDTs, DSTs or cased hole tests and will require further appraisal either with 3D seismic or a well; or

  (ii) Completion of a Significant sale or farm in of assets of the Company. "Significant" means a sale or farm out of the Company's assets, or a farm in acquiring an interest in a licence which would include but not be limited to:

    - any sale of assets by the Company where the consideration received for such sale is worth excess of US$60 million; and
    - any farm in or farm out which involves the Company acquiring or assigning to a third party an interest in a licence where the consideration is worth in excess of US$60 million. The Remuneration Committee will determine the satisfaction of a Milestone.

  As at 31 December 2014, no milestones have been achieved.

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

Mr Charles Matthews – Chairman

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

(a) Rate: on appointment Mr Matthews was paid a fee of £120,000 per annum. Mr Matthews annual fee is reviewed annually by the Board and is settled in Great British Pounds, with the US$ equivalent for 2014 equal to US$219,432. In addition, Mr Matthews is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

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

(c) Options: the Company awarded Mr Matthews 1,666,667 options with an exercise price of A$0.24 and an expiry date of 24 April 2019 during the current year (2013: nil). The options are subject to the following vesting conditions:

  (i) 555,556 options will be exercisable from 10 October 2014;

  (ii) 555,556 options will be exercisable from 10 October 2015; and

  (iii) 555,556 options will be exercisable from 10 October 2016.

Directors' report continued

Remuneration Report (audited) continued

Mr Anders Bjarne Moe – Non-Executive Director, appointed 16 June 2014
Mr Moe's role as Non-Executive Director is governed by a contract between the Company and Mr Moe. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of A$48,000 per annum is payable to Mr Moe and reviewed annually by the Board. Mr Moe's fee is settled Australian Dollars with the US$ equivalent for 2014 equal to US$19,576. In addition, Mr Moe is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

(b) Options: the Company awarded Mr Moe 500,000 options with an exercise price of A$0.24 and an expiry date of 16 June 2019 during the current year. The options are subject to the following vesting conditions:

(i) 166,667 options will be exercisable from 16 June 2015;

(ii) 166,667 options will be exercisable from 16 June 2016; and

(iii) 166,666 options will be exercisable from 16 June 2017.

(c) Termination: this agreement will cease in the event that Dr Moe 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, resigned 1 August 2014
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$37,008 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 500,000 options during the year. These options have an exercise price of A$0.24 and an expiry date of 3 June 2019. Previously Mr Smith held a further 416,667 vested options with 333,334 of these options having an exercise price of A$1.65 and an expiry date of 31 July 2017 and the remaining 83,333 have an exercise price of A$3.00 and an expiry date of 31 July 2017, which have been cancelled.

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

Mr Karl Thompson – Executive Director and Chief Executive Officer, resigned 1 February 2014
Mr Thompson's role as Executive Director and Chief Executive Officer is governed by a contract between the Company and Mr Thompson. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £440,000 per annum is payable to Mr Thompson. Mr Thompson's fee is subject to annual review by the board. Mr Thompson's fee is settled in Great British pounds with the US$ equivalent for 2014 equal to US$60,456.

(b) A discretionary annual bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Thompson meeting annual targets set at the commencement of each year. No bonus was awarded to Mr Thompson during the current year (2013: nil).

(c) Options: the Company did not award Mr Thompson any options during the current year (2013: nil). Mr Thompson previously held 1,166,667 options which have an exercise price of A$1.65 and an expiry date of 31 July 2017.

(d) Shares: A value of US$2,162,573 has been reversed in the current year in relation to 1,091,667 performance shares that had not vested on resignation. Mr Thompson holds a further 1,091,667 fully paid shares.

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

Mr 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 2014 equal to US$39,387. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties.

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

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

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

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

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

(c) Options: the Company did not award Mr Turner any options during the current year (2013: nil). Mr Turner holds 166,667 options with an exercise price of A$1.65 and an expiry date of 31 July 2017.

Mr Anthony Wilson – Non-Executive Director

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

(a) Rate: a fee of A$48,000 per annum is payable to Mr Wilson and on 1 June 2014 it was increased to A$80,000 per annum. Mr Wilsons annual fee is reviewed by the Board and settled in US$ and US$60,394 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 awarded Mr Wilson 500,000 options with an exercise price of A$0.24 and an expiry date of 3 June 2019 during the current year (2013: nil). The options are subject to the following vesting conditions:

(i) 166,667 options will be exercisable from 30 May 2015;

(ii) 166,667 options will be exercisable from 30 May 2016; and

(iii) 166,666 options will be exercisable from 30 May 2017.

Mr Wilson previously held 333,333 vested options with an exercise price of A$1.65 and an expiry date of 31 July 2017 which have been cancelled.

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

Directors' report continued

Remuneration Report (audited) continued

Angeline Hicks – Company Secretary, appointed 6 June 2014

The engagement conditions of contractor Ms Hicks were approved by the Board on commencement of her engagement with a fee of A$2,000 per month plus GST for company secretarial services. Ms Hicks fee was settled in Australian dollars, with the US$ equivalent for 2014 equal to US$12,429.

The Company did not award Ms Hicks any options during the current year.

Michael Barrett – Exploration Director

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

(a) Rate: a fee of £220,000 per annum was payable to Mr Barrett up until 1 July 2014, when it was increased to £275,000. Mr Barrett's fee is reviewed annually by the Board and is settled in Great British pounds, with the US$ equivalent for 2014 equal to US$388,213.

(b) Options: the Company did not award Mr Barrett any options during the current year. The Company awarded 583,333 options to Mr Barrett during 2013. The options have an exercise price of A$0.30 and an expiry date of 20 September 2018. The options are subject to the following vesting conditions:

(i) 194,444 options will be exercisable from 1 January 2014;

(ii) 194,444 options will be exercisable from 1 January 2015; and

(iii) 194,444 options will be exercisable on the completion of a farm-in or joint venture contract.

The Company issued 125,000 options to Mr Barrett during 2012 which vested on issue, and a further 450,000 during 2011 which were subject to various vesting conditions.

(c) A discretionary bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Barrett meeting annual targets set at the commencement of each year. A further bonus of £110,000 can be paid to Mr Barrett upon the completion of a "farm in" or joint venture contract, as determined by the Board's Remuneration Committee. During the current year Mr Barrett was awarded a £110,000 (US$178,091) retention bonus (2013: Nil). As at 31 December 2014 £55,000 was still payable. No other milestones were achieved so no further bonuses were paid.

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

Jens Pace – Chief Operating Officer

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

(a) Rate: a fee of £280,000 per annum was payable to Mr Pace until 1 July 2014 at which time the Board revised his fee to £350,000 per annum. Mr Pace's fee is reviewed annually by the Board. Mr Pace's fee is settled in Great British pounds, with the US$ equivalent for 2014 equal to US$520,094.

(b) Options: the Company did not award Mr Pace any options during the current year. The Company awarded 583,333 options to Mr Pace during 2013. The options have an exercise price of A$0.30 and an expiry date of 20 September 2018. The options are subject to the following vesting conditions, on the assumption that Mr Pace remains employed by the Company:

(i) 194,444 options will be exercisable from 1 January 2014;

(ii) 194,444 options will be exercisable from 1 January 2015; and

(iii) 194,444 options will be exercisable on the completion of a farm-in or joint venture contract.

Mr Pace previously held 166,667 options which have an exercise price of A$3.00 and an expiry date of 8 January 2018.

(c) Shares: the Company issued 333,333 fully paid shares to Mr Pace upon his commencement date (1 October 2012) with the Company. A further 500,000 shares will be issued upon the Company securing a commercial discovery. As at 31 December 2014, this performance milestone has not yet occurred. US$219,338 has been recognised in the current year in relation to these performance shares (2013: US$209,689).

(d) A discretionary bonus of up to 150% of base salary may be awarded by the Board's Remuneration Committee subject to Mr Pace meeting annual targets set at the commencement of each year. A further bonus of £140,000 can be paid to Mr Pace upon the completion of a "farm in" or joint venture contract, as determined by the Board's Remuneration Committee. During the current year Mr Pace was awarded a £140,000 (US$226,661) retention bonus (2013: Nil). As at 31 December 2014 £70,000 was still payable. No other milestones were achieved so no further bonuses were paid.

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

Ian Philliskirk – Group General Counsel, appointed 15 December 2014
Mr Philliskirk's role as Group General Counsel is governed by an agreement between the Company and Mr Philliskirk. The agreement stipulates the following terms and conditions:

(a) Rate: a fee of £200,000 per annum is payable to Mr Philliskirk and reviewed annually by the Board. Mr Philliskirk's fee is settled in Great British Pounds, with the US$ equivalent for 2014 equal to US$15,639.

(b) Options: the Company awarded Mr Philliskirk 500,000 options with an exercise price of A$0.24 and an expiry date of 15 December 2019 during the current year. The options are subject to the following vesting conditions:

(i) 166,667 options will be exercisable from 15 December 2015;

(ii) 166,667 options will be exercisable from 15 December 2016; and

(iii) 166,667 options will be exercisable from 15 December 2017.

(c) A signing bonus of £10,000 has been agreed with Mr Philliskirk on commencement date (US$15,639) and is payable at 31 December 2014.

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

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

Claire Tolcon – Company Secretary, resigned 6 June 2014
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 2014 equal to US$44,753.

The Company awarded Ms Tolcon 25,000 options with an exercise price of A$0.30 and an expiry date of 22 April 2019 during the current year (2013: nil). Ms Tolcon previously held 25,000 options with an exercise price of A$0.90 and an expiry date of 17 January 2017. These options vest upon the Company securing a commercial discovery.

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

(a) Rate: a fee of £240,000 per annum is payable to Mr West and reviewed annually by the Board. Mr West's fee is settled in Great British Pounds, with the US$ equivalent for 2014 equal to US$396,582.

(b) Options: the Company awarded Mr West 1,000,000 options during the year. These options have an exercise price of A$0.24 and an expiry date of 3 June 2019. During the prior year, 583,334 options were awarded to Mr West with an exercise price of A$0.30 and an expiry date of 21 November 2018. The options are subject to the following vesting conditions, on the assumption that Mr West remains employed by the Company:

(i) 194,445 options vest on Mr West's first anniversary of employment with the Company;

(ii) 194,445 options vest on Mr West's second anniversary of employment with the Company; and

(iii) 194,444 options vest on Mr West's third anniversary of employment with the Company.

(c) A discretionary bonus of up to 100% of base salary may be awarded by the Board's Remuneration Committee subject to Mr West meeting annual targets set at the commencement of each year. During the current year no bonus was paid to Mr West.

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

Related party transactions with Key Management Personnel in 2014
(i) In May 2011, the Company provided a US$10 million loan facility to a director related entity, International Petroleum Limited ('IPL'), Mr Turner is a director of IPL. During 2011, the loan facility was fully drawn down. Under the terms of the facility agreement, the amounts drawn down are required to be repaid in full by the earlier of:

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

Interest is receivable on amounts drawn down under the facility at the cash rate plus 10% (2013: 4%) in the current period. During the year US$644,866 interest was earned on the facility (2013: US$324,903). As at 31 December 2014, the total amount receivable from IPL in relation to this loan facility is US$11,949,231 (31 December 2013: US$11,304,365).

Directors' report continued

Remuneration Report (audited) continued

Related party transactions with Key Management Personnel in 2014 continued

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

On 31 July 2014, the Company and IPL entered into the Deed of Variation and the Deed of Acknowledgement and Agreement, whereby the parties agreed to convert all the monies (including interest) owed under the Loan Agreement of 16 May 2011 and the Exclusivity Agreement of 17 April 2013 into 233,890,450 shares of IPL at a conversion price of AUD $0.06 per share using an AUD to USD exchange rate of 1.06441.

Conversion of the outstanding loans into 233,890,450 shares was subject to various conditions which according to IPL's NSX announcement on 7 October 2014 have been satisfied and the shares were issued on 2 October 2014.

In addition, IPL granted the Company on 2 October 2014 the option to buy 5,000,000 shares of IPL at the exercise price of AUD$0.06 per share. These share options expire on 2 October 2016.

As at 31 December 2014, the Company has fair valued the shares and options in IPL at zero.

(ii) An aggregate amount of US$32,581 was paid to Cape Lambert Resources Limited ("Cape Lambert"), for occupancy costs (2013: US$56,278). The occupancy costs were based on a monthly fee of AUD$3,049.20 representing the Group's share of the overall office floor space. Mr Turner is a director of Cape Lambert.

(iii) During the year US$1,353,003 was paid, or was due and payable by African Minerals Limited ("AML") and its subsidiaries for rental of the Company's corporate aircraft (2013: US$589,184). The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by AML, plus a third of the actual indirect cash costs during the period 1 January 2014 to 31 October 2014, from this point the indirect cash costs was charged to Timis Corporation. As at 31 December 2014 US$1,429,204 was outstanding (2013: US$510,669). Mr Timis and Mr Bangura are directors of AML.

On 1 December 2014, AML announced that the Tonkolili Iron Ore Project had been placed in care and maintenance due to insufficient working capital being available and an inability to secure additional short-term funding. In addition, on 10 February 2015 AML announced that they had insufficient funds to meet their obligation to pay a $17 million biannual coupon payment due and that it is unlikely that such a payment will be made in the near future.

Due to the current financial position of AML, the Company has considered it prudent to recognise an impairment provision for the outstanding balance of US$1,429,204. This impairment loss may be reversed if AML secures additional funding that facilitates the repayment of the outstanding balance.

(iv) During the year US$1,672,999 was paid, or was due and payable by Pan African Minerals Limited ("PAM") and its subsidiaries (2013: US$850,912) for rental of the Company's corporate aircraft. As at 31 December 2014 US$1,034,223 amount was outstanding (2013: $1,441,801). Mr Timis, Mr Bangura and Mr Ashurst are directors of PAM. The balance has since been repaid. The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by PAM, plus a third of the actual indirect cash costs over the period.

(v) During the year US$264,949 was paid, or was due and payable by IPL and its subsidiaries (2013: nil) for rental of the Company's corporate aircraft. As at 31 December 2014 US$224,969 amount was outstanding (2013: nil). Mr Timis and Mr Turner are directors of IPL. The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by IPL, plus a margin of US$3,000 per flying hour as a contribution towards the actual indirect cash cost during the year. US$2,000 of this margin is subsequently refunded to the two other related parties that otherwise share the total indirect costs during the period.

(vi) During the year US$537,535 was paid, or was due and payable to AML and its subsidiaries for office rental costs (2013 US$252,594). The rental fees were determined based on a monthly rate of GBP£20,000 representing the Group's share of the overall office floor space. As at 31 December 2014 US$312,775 was outstanding (2013: US$252,594). Further, a prior period balance of $62,700 relating to 2012 travel expenses was written off during the year.

(vii) During the year US$96,844 was advanced to IPL and its subsidiaries to cover employee costs in relation to work on the exploration and production sharing contracts in the republic of Niger (2013: US$379,586). The Company had recognised an impairment provision for the total amount of US$476,430 (2013: US$379,586). On 12 September 2014, IPL repaid the total outstanding balance. The impairment expense has been reversed in 2014. During the year a further US$64,923 was paid on their behalf to cover travel costs in relation to work on the exploration and production sharing contracts in the republic of Niger (2013: nil). US$76,464 was recharged to IPL for these expenses in line with the Company's recharge of services policy. A further US$43,814 was recharged to IPL for employment services provided. As at 31 December 2014 US$17,584 was outstanding (2013: $44,588).

(viii) During the year US$144,770 was paid on behalf of PAM and its subsidiaries to cover IT costs in relation to the service they share with the Company in London (2013: nil). US$159,687 was recharged to PAM for these expenses in line with the Company's recharge of services policy and based on PAM's actual share of the total usage plus 10%. A further US$15,000 was recharged to PAM for the supply of employment services during the year (2013: $63,713). As at 31 December 2014 US$187,687 was outstanding (2013: $13,000).

(ix) During the year US$459,941 was paid by the Group on the behalf of PAM and its subsidiaries to cover PAM's employment costs and petty cash advances (2013: US$778,501). As at 31 December 2014 US$70,883 was outstanding (2013: US$59,955). The advance is interest free and on demand with no contractual terms.

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:

	Directors' Meetings		Audit Committee Meetings		Continuous Disclosure Committee Meetings		Remuneration Committee Meetings	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mark Ashurst[1]	5	5	–	–	–	–	–	–
Gibril Bangura	5	2	–	–	–	–	–	–
Jeffrey Couch	5	3	3	1	–	–	–	–
David King	5	5	–	–	–	–	–	–
Stuart Lake[2]	5	5	–	–	–	–	–	–
Charles Matthews[2]	5	4	3	3	–	–	–	–
Anders Bjarne Moe[3]	3	3	–	–	–	–	–	–
James Smith[4]	3	3	–	–	–	–	–	–
Karl Thompson[5]	–	–	–	–	–	–	–	–
Timothy Turner	5	3	–	–	–	–	–	–
Anthony Wilson	5	5	3	3	–	–	–	–

Notes

1 Mr Ashurst resigned as Executive Director and was appointed Non-Executive Director on 1 August 2014.

2 Dr Lake was appointed as Chief Executive Officer on 1 February 2014.

3 Mr Moe was appointed as Non-Executive Director on 16 June 2014.

4 Mr Smith resigned as Non-Executive Director on 1 August 2014.

5 Mr Thompson resigned as Chief Executive Officer on 1 February 2014.

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

Indemnifying Directors and Officers

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

Indemnification of Auditors

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

Directors' report continued

Options

Unissued Shares under Option

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

Expiry Date	Exercise Price A$	Number Under Option
10 April 2015	3.75[1]	333,333
10 April 2015	4.50[2]	166,667
10 April 2015	5.25[3]	166,667
10 April 2015	6.00[4]	166,667
30 June 2015	1.65[5]	2,972,175
8 August 2016	0.30[8]	100,000
8 August 2016	0.90[6]	100,000
17 January 2017	0.90[6]	2,192,783
17 January 2017	3.00[7]	130,556
17 January 2017	3.75[1]	25,001
27 March 2017	0.90[6]	3,333
27 March 2017	1.65[5]	91,667
27 March 2017	3.00[7]	6,667
31 July 2017	1.65[5]	2,400,000
8 January 2018	3.00[7]	166,667
8 January 2018	3.75[1]	22,223
22 November 2018	0.30[8]	2,700,000
2 April 2019	0.24[9]	6,666,667
2 April 2019	0.30[8]	174,999
30 May 2019	0.24[9]	4,000,000
5 June 2019	0.30[8]	600,000
16 June 2019	0.27[10]	500,000
15 December 2019	0.30[8]	500,000

Notes

1 The US$ equivalent exercise price as at 31 December 2014 is US$3.06

2 The US$ equivalent exercise price as at 31 December 2014 is US$3.67

3 The US$ equivalent exercise price as at 31 December 2014 is US$4.28

4 The US$ equivalent exercise price as at 31 December 2014 is US$4.89

5 The US$ equivalent exercise price as at 31 December 2014 is US$1.35

6 The US$ equivalent exercise price as at 31 December 2014 is US$0.73

7 The US$ equivalent exercise price as at 31 December 2014 is US$2.45

8 The US$ equivalent exercise price as at 31 December 2014 is US$0.24

9 The US$ equivalent exercise price as at 31 December 2014 is US$0.20

10 The US$ equivalent exercise price as at 31 December 2014 is US$0.22

Shares issued on the exercise of options

During the current year no ordinary shares were issued on the exercise of options (2013: 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 2014 has been received and can be found on page 58 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.

Stuart Lake

Director

London, 10 March 2015

Auditor's independence declaration
to the Directors of African Petroleum Corporation Limited

In relation to our audit of the financial report of African Petroleum Corporation Limited for the financial year ended 31 December 2014, 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

VL Hoang
Partner
10 March 2015

Corporate governance statement

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

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

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

Summary of corporate governance practices

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

The Board of Directors

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

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

The Board assumes the following responsibilities:

(a) appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;

(b) driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;

(c) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;

(d) approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;

(e) approving and monitoring the budget and the adequacy and integrity of financial and other reporting;

(f) approving the annual, half-yearly and quarterly accounts;

(g) approving significant changes to the organisational structure;

(h) approving the issue of any shares, options, equity instruments or other securities in the Company;

(i) ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;

(j) recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and

(k) meeting with the external auditor, at their request, without management being present.

Composition of the Board

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

(a) the composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction; and

(b) the principal criterion for the appointment of new Directors is their ability to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. The majority of the Board is to be comprised of Non-Executive Directors and where appropriate, at least 50% of the Board should be independent. Directors of the Company are considered to be independent when they are a Non-Executive Director (ie not a member of management and have been for the preceding three years), hold less than 5% of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr M Ashurst, Mr G. Bangura, Mr T. Turner, Dr Stuart Lake (appointed 1 February 2014) and Mr K Thompson (resigned 1 February 2014) are not considered independent.

Chairman Mr C. Matthews and Non-Executive Directors Mr J Couch, Dr D. King, Mr B. Moe (appointed 16 June 2014), Mr J Smith (resigned 1 August 2014) and Mr A. Wilson were considered to have been independent throughout the year or since their appointment (as applicable).

On 1 February 2014, Mr K Thompson resigned from his position as Chief Executive Officer of the Company and Dr Stuart Lake assumed this position. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Dr S Lake was the most appropriate person to fulfil the role.

Corporate governance statement continued

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

M. Ashurst	4 years 8 months	(resigned Exec Director 1 Aug 2014)	Non-Executive Director
G. Bangura	4 years 8 months		Non-Executive Director
J. Couch	4 years 7 months		Non-Executive Director
D. King	1 year 6 months		Non-Executive Director
S. Lake	11 months	(appointed 1 Feb 2014)	Executive Director
C. Matthews	1 year 3 months		Chairman
B. Moe	6 months	(appointed 16 June 2014)	Non-Executive Director
T. Turner	7 years 9 months		Non-Executive Director
A. Wilson	4 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$734,058 (A$900,000) per annum. The Board may award additional remuneration to Non-Executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

Performance

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

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

Code of Conduct

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

Statement of comprehensive income

	Note	For the year ended 31 December 2014 US$	31 December 2013 US$
Continuing operations			
Revenue	6(a)	**5,623,389**	2,793,952
Aircraft expenses	6(b)	**(4,850,534)**	(3,748,329)
Depreciation expense	6(c)	**(1,016,247)**	(1,698,750)
Impairment of exploration and evaluation expenditure	13	**(22,675,228)**	(31,220,749)
Impairment of consumable spares	13	**–**	(3,840,625)
Rig demobilisation/cancellation costs	13	**–**	(3,753,407)
Gain/(loss) on disposal of consumable spares	13	**43,800**	(4,547,505)
Impairment of aircraft		**–**	(1,707,839)
Impairment of related party loans & deposits	8	**(1,694,484)**	(12,918,951)
Consulting expenses		**(5,781,225)**	(7,621,676)
Compliance and regulatory expenses		**(831,067)**	(792,184)
Administration expenses		**(1,261,706)**	(3,043,599)
Employee benefits	6(d)	**(7,645,453)**	(11,194,043)
Travel expenses		**(1,211,481)**	(1,838,168)
Occupancy costs		**(1,013,028)**	(2,258,739)
Foreign exchange gains/(losses)		**37,931**	(555,304)
Finance costs		**72,728**	(283,868)
Loss from continuing operations before income tax		**(42,202,605)**	(88,229,784)
Income tax expense	5	**–**	–
Loss for the year from continuing operations		**(42,202,605)**	(88,229,784)
Other comprehensive gains/(losses)			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve			
Foreign exchange gain/(loss) on translation of functional currency to presentation currency	16	**–**	(137,900)
Other comprehensive gains/(losses) for the year, net of tax		**–**	(137,900)
Total comprehensive loss for the year		**(42,202,605)**	(88,367,684)
Loss for the year is attributable to:			
Non-controlling interest		**(65,692)**	(126,428)
Owners of the parent		**(42,136,913)**	(88,103,356)
		(42,202,605)	(88,229,784)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		**(65,692)**	(126,428)
Owners of the parent		**(42,136,913)**	(88,241,256)
		(42,202,605)	(88,367,684)
Loss per share attributable to members			
Basic/diluted loss per share	25	**(6.47) cents**	(15.59) cents

The accompanying notes form part of these financial statements

Statement of financial position

	Note	As at 31 December 2014 US$	31 December 2013 US$
Assets			
Current assets			
Cash and cash equivalents	7	**3,869,086**	7,914,218
Trade and other receivables	8	**3,426,097**	6,217,940
Restricted cash	9	**12,069,899**	12,074,205
Prepayments	10	**735,958**	1,265,752
		20,101,040	27,472,115
Non-current asset held for sale	11	**931,035**	–
Total current assets		**21,032,075**	27,472,115
Non-current assets			
Property, plant and equipment	12	**1,407,270**	3,157,835
Exploration and evaluation expenditure	13	**396,326,784**	403,272,803
Intangible Assets	12(a)	**169,744**	352,158
Financial assets	21	**–**	–
Total non-current assets		**397,903,798**	406,782,796
Total assets		**418,935,873**	434,254,911
Liabilities			
Current liabilities			
Trade and other payables	14	**32,876,491**	30,893,236
Total current liabilities		**32,876,491**	30,893,236
Total liabilities		**32,876,491**	30,893,236
Net assets		**386,059,382**	403,361,675
Equity			
Issued capital	15	**600,591,811**	575,911,770
Reserves	16	**17,502,309**	17,282,038
Accumulated losses	17	**(231,707,814)**	(189,570,901)
Parent interests		**386,386,306**	403,622,907
Non-controlling interests	18	**(326,924)**	(261,232)
Total equity		**386,059,382**	403,361,675

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 2014		**575,911,770**	**29,371,231**	**(189,570,901)**	**(12,089,193)**	**(261,232)**	**403,361,675**
Loss for the year	17,18	**–**	**–**	**(42,136,913)**	**–**	**(65,692)**	**(42,202,605)**
Other comprehensive income:							
Total comprehensive loss for the year		**–**	**–**	**(42,136,913)**	**–**	**(65,692)**	**(42,202,605)**
Issue of share capital	15	**24,680,041**	**–**	**–**	**–**	**–**	**24,680,041**
Share-based payments	16	**–**	**220,271**	**–**	**–**	**–**	**220,271**
Balance at 31 December 2014		**600,591,811**	**29,591,502**	**(231,707,814)**	**(12,089,193)**	**(326,924)**	**386,059,382**

	Note	Ordinary share capital US$	Share-based payment reserve US$	Accumulated losses US$	Foreign currency translation reserve US$	Non-controlling interest US$	Total US$
Balance at 1 January 2013		575,911,770	25,794,821	(101,467,545)	(11,951,293)	(134,804)	488,152,949
Loss for the year	17,18	–	–	(88,103,356)	–	(126,428)	(88,229,784)
Other comprehensive income:							
Foreign currency exchange differences arising on translation from functional currency to presentation currency	16	–	–	–	(137,900)	–	(137,900)
Total comprehensive loss for the year		–	–	(88,103,356)	(137,900)	(126,428)	(88,367,684)
Transactions with owners in their capacity as owners:							
Share-based payments	16	–	3,576,410	–	–	–	3,576,410
Balance at 31 December 2013		575,911,770	29,371,231	(189,570,901)	(12,089,193)	(261,232)	403,361,675

The accompanying notes form part of these financial statements.

Statement of cash flows

	Note	For the year ended 31 December 2014 US$	31 December 2013 US$
Cash flows from operating activities			
Payments to suppliers and employees		**(18,140,105)**	(32,587,150)
Rental income		**3,532,681**	1,441,628
Interest received		**31,136**	151,174
Finance costs		**(137,194)**	(73,947)
Net cash flows used in operating activities	7(b)	**(14,713,482)**	(31,068,295)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**26,833**	–
Payment for plant, equipment and aircraft		**–**	(275,907)
Payment for exploration and evaluation activities		**(15,060,812)**	(75,246,602)
Cash received for disposal of consumable spares		**713,648**	2,975,913
Payment of deposit to related party		**–**	(1,235,000)
Loan to related parties		**(362,750)**	(1,296,782)
Loan repaid by related parties		**939,277**	1,060,456
Cash backing security returned		**–**	60,452,997
Acquisition of a subsidiary, net of cash acquired		**(14,283)**	–
Net cash used in investing activities		**(13,758,087)**	(13,564,925)
Cash flows from financing activities			
Proceeds from issue of shares	15	**26,175,122**	–
Capital raising costs	15	**(1,495,081)**	–
Net cash from financing activities		**24,680,041**	–
Net decrease in cash and cash equivalents		**(3,791,528)**	(44,633,220)
Cash and cash equivalents at the beginning of the year		**7,914,218**	52,598,909
Net foreign exchange differences		**(253,604)**	(51,471)
Cash and cash equivalents at the end of year	7(a)	**3,869,086**	7,914,218

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

1. Corporate Information
The financial report of the Company and its subsidiaries (together the "Consolidated Entity") for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 9 March 2015.

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) and the Oslo Axess (code: APCL), a regulated market place of the Oslo Stock Exchange, Norway.

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

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

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

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

The cash and restricted cash position at 31 December 2014 was $15,938,985 (2013: $19,988,423). As at 31 December 2014, the Consolidated Entity had net current liabilities of $11,844,416 (2013: net current liabilities of $3,421,121). The ability of the Consolidated Entity to continue its operations is dependent on the Company:

(a) Obtaining independent shareholder approval for the issue of 271,732,000 shares, at NOK 0.35 (approximately A$0.06) per share, via a General Meeting to be held on or about 16 March 2015. The shares will rank *pari passu* in all respects with the existing issued ordinary shares;

(b) Obtaining independent shareholder approval for the issue of an additional 54,346,000 shares, at NOK 0.35 (approximately A$0.06) per share, via a General Meeting to be held on or about 16 March 2015; and

(c) Completing farm-out transactions on some of its exploration licences in Cote d'Ivoire, Senegal and The Gambia to meet the minimum exploration commitment as per Note 23 during 2015.

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 Group has adopted all new and amended Australian Accounting Standards and Interpretations effective as of 1 January 2014, including:

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]*
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2014-1 *Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRS 2010-2012 Cycle*
- Interpretation 21 *Levies*

The adoption of the relevant standards or interpretations is described below:

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]
This amendment removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions. This amendment has resulted in reduced disclosures in the Group's financial statements.

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(a) Changes in accounting policy and other disclosures continued

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. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendment has had no impact on the Group's financial statements.

AASB 2014-1 Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRS 2010-2012 Cycle
This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

AASB 2 clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. As a result of the guidance in AASB the Company policies for determining 'vesting conditions', 'market conditions', 'performance conditions' and 'service conditions' for the valuation of share-based payments. This did not have a significant impact on the Company.

AASB 3 clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. AASB 3 did not have a significant impact on the Company.

AASB 8 requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets. AASB 8 requires additional disclosures. This did not have a significant impact on the Company.

AASB 116 & AASB 138 clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. AASB 116 and AASB 138 did not have a significant impact on the Company.

AASB 124 defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. New disclosures are provided in the remuneration report and Note 20.

Interpretation 21 Levies
This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. This interpretation has no impact on the Group.

Accounting Standards and interpretations issued but not yet effective
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the reporting period ended 31 December 2014 are set out below. The new Standards and Interpretations effective 1 January 2015 is not expected to have a significant impact on the Group. The Group is still in the process of determining the impact of other new Standards and Interpretations.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items: • AASB13 – Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132. AASB 140 – Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.	1 July 2014	1 January 2015

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Amendments to AASB 9 (December 2009 & 2010 editions) (AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and • The remaining change is presented in profit or loss. AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.	1 January 2018	1 January 2018

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(a) Changes in accounting policy and other disclosures continued

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
		Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in December 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.		
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require: (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. This Standard also makes an editorial correction to AASB 11.	1 January 2016	1 January 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 January 2016
AASB 2014-1 Part B Amendments to AASB 119	Amendments to Australian Accounting Standards – Part B Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)	AASB 2014-Part B makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service. The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.	1 July 2014	1 January 2015

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 15	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers,* which replaces IAS 11 *Construction Contracts,* IAS 18 *Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services).* The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer; (b) Step 2: Identify the performance obligations in the contract; (c) Step 3: Determine the transaction price; (d) Step 4: Allocate the transaction price to the performance obligations in the contract; and (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Early application of this standard is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2017	1 January 2017
AASB 2014-2	Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements [AASB 1053]	The Standard makes amendments to AASB 1053 Application of Tiers of Australian Accounting Standards to: • clarify that AASB 1053 relates only to general purpose financial statements; • make AASB 1053 consistent with the availability of the AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors option in* AASB *1 First-time Adoption of Australian Accounting Standards;* • clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1; permit an entity applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather that applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements; and • specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements.	1 July 2014	1 January 2015
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	AASB 2014-9 amends AASB 127 *Separate Financial Statements,* and consequentially amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures,* to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127. AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	1 January 2016

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(a) Changes in accounting policy and other disclosures continued

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	1 January 2016

(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 2014 (together the Group).

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

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

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

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

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

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

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

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

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

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

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

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

(d) Foreign currency translation

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(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) Intangible assets

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

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

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

(i) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, all costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

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.

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

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

(j) Revenue

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

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

Interest

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

Rental income

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

(k) Income tax

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

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

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

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

(l) Other taxes

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax 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 sales tax included.

The net amount of sales tax 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 sales tax component of cash flows arising from investing and financing activities, which is recoverable from, or payable to taxation authorities are classified as operating cash flows.

(m) Earnings per share

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

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

(n) Employee benefits

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

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

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(n) Employee benefits continued

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

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

(o) Trade and other payables

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

(p) Provisions

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

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

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

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

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

(q) Contributed equity

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

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

(r) Share-based payments

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

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

(s) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred as 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.

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

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

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

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

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

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

(u) Financial instruments

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

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, Available for sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

For purposes of subsequent measure, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available for sale financial assets.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purposes of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

The Groups has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

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

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

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

Notes to the consolidated financial statements continued

3. Summary of Accounting Policies continued

(u) Financial instruments continued

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortise cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life for the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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

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

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

(v) Joint arrangements

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

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

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

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

(w) Comparatives

Certain comparatives have been reclassified to conform with the current year presentation, in particular the share-based payment liability has been netted off against loans receivable from Key Management Personnel to reflect the interrelationships between the two balances. Refer to Note 8.

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(i) are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. In the case of impairment during the exploration and evaluation phase, fair value less cost to sell is used as the recoverable amount to determine an impairment allowance for exploration and evaluation expenditure assets because the value in use of the assets is nil. The related carrying amounts are disclosed in Note 13. For 2014 the fair value less cost to sell of impaired assets of $75.6 million is based on an implied fair value of an open market offer (level 3 fair value).

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.

Withholding taxes

The Consolidated Entity is subject to withholding taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the withholding tax provision in the period in which such determination is made.

Impairment of investments and related party receivables

The Consolidated Entity, at each reporting date, whether there is objective evidence that an investment or related party receivable is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has impacted on the estimated future cash flows of the investment or the related party receivable that can be reliably estimated. Evidence of impairment may include indications that the related party is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Refer to Note 20 for details of related party loans impaired during the year.

Notes to the consolidated financial statements continued

5. Income Tax

	2014 US$	2013 US$
(a) The components of income tax expense comprise:		
Current tax	–	–
Deferred tax	–	–
	–	–
(b) The prima facie tax on loss from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (31 December 2013: 30%)	**12,660,782**	26,468,935
Foreign tax rate adjustment	**(1,228,713)**	(638,005)
	11,432,069	25,830,930
Add/(less)		
Tax effect of		
– Tax effect of permanent differences	**(80,890)**	(1,433,207)
– Unrecognised deferred tax asset attributable to tax losses and temporary differences	**(11,351,179)**	(24,397,723)
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 2014 it is not probable that future taxable amounts will be available to utilise those temporary differences and losses.

6. Loss Before Income Tax Expense

	2014 US$	2013 US$
(a) Revenue		
Interest income	**748,760**	534,889
Rental income[1]	**3,918,997**	1,856,973
Other revenue	**955,632**	402,090
	5,623,389	2,793,952

1 During 2012, the Consolidated Entity purchased a corporate aircraft. The aircraft is leased to related parties and generated US$3,918,997 external revenue for the year ended 31 December 2014 (2013: US$1,856,973).

	2014 US$	2013 US$
(b) Aircraft Expenses	**4,850,534**	3,748,329

	2014 US$	2013 US$
(c) Expenses		
Depreciation	**1,016,247**	1,698,750
Lease rental costs	**771,324**	1,124,060
Loss on disposal of PP&E	**15,077**	343,087
	1,802,648	3,165,897
(d) Employee Remuneration		
Employee benefits expensed	**4,296,794**	5,360,928
Director's remuneration expensed	**3,056,966**	3,255,424
Share based payments expensed (refer to Note 19)	**291,693**	2,577,691
	7,645,453	11,194,043
Employee benefits capitalised	**2,061,500**	2,840,400

	2014 US$	2013 US$
(e) Remuneration of Auditors		
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**104,366**	200,590
Ernst & Young related practices	**299,305**	306,543
Other non-assurance services	**88,241**	45,239
	491,912	552,372

7. Cash and Cash Equivalents

	2014 US$	2013 US$
Cash at bank and on hand	**3,869,086**	7,914,218
	3,869,086	7,914,218

(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:

	2014 US$	2013 US$
Cash and cash equivalents	**3,869,086**	7,914,218
(b) Reconciliation of net loss to net cash flows from operating activities		
Loss from ordinary activities	**(42,202,605)**	(88,229,784)
Adjusted for non-cash items:		
Depreciation and loss on disposal of property, plant and equipment	**1,031,324**	2,051,258
Share based payments	**220,271**	5,067,547
Unrealised foreign exchange losses	**(443,865)**	(195,799)
Interest and commitment fee capitalised on loan to related parties	–	(490,942)
Impairment of related party loans & deposits	**1,694,485**	12,918,951
Impairment of aircraft	–	1,707,839
Impairment of exploration and evaluation expenditure	**22,682,372**	31,220,749
Impairment of consumable spares	–	3,840,625
Rig demobilisation/cancellation costs (settled with consumable spares)	–	3,753,407
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Decrease in trade and other receivables	**1,228,027**	156,223
Increase/(decrease) in trade and other payables	**1,076,509**	(2,868,369)
Net cash used in operating activities	**(14,713,482)**	(31,068,295)

(c) Non-Cash Activities

No significant non-cash investing or financing transactions occurred during the year ended 31 December 2014.

(d) Acquisition of 40% interest in Buried Hill

On 8 August 2014, the Group increased its interest in the rights and obligations under the Gambian licences 100% (from 60%) through the acquisition of 18,000 ordinary shares in the capital of Buried Hill Gambia BV. The purchase price for the shares amounts to an aggregate amount of $14,283.

Notes to the consolidated financial statements continued

8. Trade and Other Receivables

	2014 US$	2013 US$
Current		
Trade receivables[(e)]	–	279,200
Trade receivables from related parties[(d)]	**2,966,891**	2,449,462
Loan receivable from related parties	–	12,918,951
Other receivables	**1,747,414**	3,228,912
	4,714,305	18,876,525
Impairment allowance[(a), (d)]	**(1,429,204)**	(12,918,951)
	3,285,101	5,957,574
Loan receivable from Key Management Personnel[(b), (c)]	**1,759,333**	1,751,503
Share-based payment liability	**(1,618,337)**	(1,491,137)
	140,996	260,366
Total trade and other receivables	**3,426,097**	6,217,940

(a) On 1 December 2014, African Minerals Limited (“AML”) and its subsidiaries announced that the Tonkolili Iron Ore Project had been placed in care and maintenance due to insufficient working capital being available and an inability to secure additional short-term funding. In addition, on 10 February 2015 AML announced that they had insufficient funds to meet their obligation to pay a $17 million biannual coupon payment due and that it is unlikely that such a payment will be made in the near future.

Due to the current financial position of AML, the Company has considered it prudent to recognise an impairment allowance for the outstanding balance of US$1,429,204. This impairment loss may be reversed if AML secures additional funding that facilitates the repayment of the outstanding balance.

(b) During 2012, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$196,000 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$45,327 (£27,641) of interest recognised during the current year (2013: US$40,916 (£26,139)). The Loan Agreement was approved by the Board of Directors as being on arm’s length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$1,096,691 (2013: US$1,090,131). At 31 December 2014, the total limited recourse feature of the loan of US$1,003,973 has been recognised as a share-based payment liability (2013: US$886,210). For 2014 a share-based payment expense of US$117,763 (2013: US$886,210) has been recognised within the line item “Employee benefits” within the Statement of Comprehensive Income.

(c) During 2012, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within five years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$27,431 (£16,701) of interest recognised during the current year (2013: US$25,123 (£16,047)). The loan agreement was approved by the Board of Directors as being on arm’s length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$662,642 (2013: US$661,372). At 31 December 2014, the total limited recourse feature of the loan of US$614,363 has been recognised a share-based payment liability (2013: US$604,927). For 2014 a share-based payment expense of US$9,437 (2013: US$604,927) has been recognised within the line item “Employee benefits” within the Statement of Comprehensive Income.

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

(e) Trade receivables are non-interest bearing and are generally on 30 days terms.

As at 31 December 2014, trade and other receivables of an initial value of $4,315,258 (2013: $14,410,088) were impaired and fully provided for. See below for the movements in the provision for impairment loss of receivables.

	Trade receivables US$	Loan from related parties US$	Other receivables US$	Total US$
At 1 January 2013				
Impairment recognised	–	(12,918,951)	–	(12,918,951)
Reversal	–	–	–	–
At 31 December 2013	–	(12,918,951)	–	(12,918,951)
Impairment recognised	**–**	**(2,170,954)**	**–**	**(2,170,954)**
Reversal[1]	**–**	**476,470**	**–**	**476,470**
Written off on conversion[2]	**–**	**13,184,231**	**–**	**13,184,231**
At 31 December 2014	**–**	**(1,429,204)**	**–**	**(1,429,204)**

1 On 12 September 2014, International Petroleum Limited (“IPL”) repaid an outstanding balance of US$ 476,470 (2013: US$379,586) previously fully impaired. The balance related to an advance to IPL to cover employee costs in relation to work on exploration and production sharing contracts in the republic of Niger.

2 On 31 July 2014, the Company and IPL entered into the Deed of Variation and the Deed of Acknowledgement and Agreement, whereby the parties agreed to convert all the monies (including interest) owed under the Loan Agreement of 16 May 2011 and the Exclusivity Agreement of 17 April 2013 into 233,890,450 shares of IPL at a conversion price of AUD $0.06 per share using an AUD to USD exchange rate of 1.06441. Refer to Note 21 for details.

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

		Past due but not impaired				Past due and impaired
	Total US$	< 30 days	30-60 days	61-90 days	> 90 days	Specific
2014	**2,894,932**	**200,786**	**159,663**	**–**	**1,105,279**	**1,429,204**
2013	15,647,613	658,993	260,234	31,023	1,778,412	12,918,951

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

Other receivables are neither past due or impaired.

9. Restricted Cash

	2014 US$	2013 US$
Current		
Restricted cash	**12,069,899**	12,074,205
	12,069,899	12,074,205

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

10. Prepayments

	2014 US$	2013 US$
Prepayments related to exploration activities	**31,250**	367,340
Other prepayments	**704,708**	898,412
	735,958	1,265,752

11. Non-Current Asset Held for Sale

On 12 December 2014, the Company agreed to the immediate sale of the corporate aircraft. On 6 January 2015, the Company entered into an agreement to sell the corporate aircraft to the Timis Corporation, the Parent entity of the Timis Mining Corporation for consideration of US$1,000,000. The asset was transferred on 6 January 2015, with payment to be received no later than three months following the date of the signed agreement.

The corporate aircraft was classified as held for sale with a carrying amount at 31 December 2014 of US$931,035, with an accumulated impairment of US$1,707,839.

Notes to the consolidated financial statements continued

12. Property, Plant and Equipment

	Freehold land US$	Plant & equipment US$	Aircraft US$	TOTAL US$
31 December 2014				
Cost	**1,056,158**	**3,041,717**	**–**	**4,097,875**
Accumulated depreciation and impairment	**–**	**(2,690,605)**	**–**	**(2,690,605)**
	1,056,158	**351,112**	**–**	**1,407,270**
31 December 2013				
Cost	1,056,158	3,107,470	3,626,191	7,789,819
Accumulated depreciation	–	(2,085,793)	(2,546,191)	(4,631,984)
	1,056,158	1,021,677	1,080,000	3,157,835

(a) Reconciliations

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

	2014 US$	2013 US$
Freehold land		
Balance at beginning of the year	**1,056,158**	1,056,158
Additions at cost	**–**	–
Balance at end of the year	**1,056,158**	1,056,158
Plant and Equipment		
Balance at beginning of the year	**1,021,677**	2,962,004
Additions at cost	**33,879**	212,423
Depreciation expense	**(684,869)**	(1,423,119)
Disposals	**(19,575)**	(352,509)
Transfer	**–**	(377,122)
Balance at end of the year	**351,112**	1,021,677
Aircraft		
Balance at beginning of the year	**1,080,000**	2,975,016
Additions at cost	**–**	19,432
Depreciation expense	**(148,965)**	(206,609)
Impairment	**–**	(1,707,839)
Transfer to non-current asset held for sale	**(931,035)**	–
Balance at end of the year	**–**	1,080,000
Total property, plant and equipment	**1,407,270**	3,157,835

	2014 US$	2013 US$
Intangible Assets		
Balance at beginning of the year	**352,158**	–
Transfer	**–**	377,122
Additions at cost	**–**	44,058
Amortisation expense	**(182,414)**	(69,022)
Balance at end of the year	**169,744**	352,158
Total intangible assets	**169,744**	352,158

13. Exploration and Evaluation Expenditure

	2014 US$	2013 US$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	**396,326,784**	403,272,803
Reconciliation		
Opening balance	**403,272,803**	354,822,592
Exploration expenditure incurred	**15,773,009**	94,788,410
Impairment of exploration and evaluation expenditure[1, 2]	**(22,675,228)**	(31,220,749)
Impairment of consumable spares	–	(3,840,625)
Consumable spares disposed of on the settlement of a claim	–	(3,753,407)
Disposal of consumable spares[3]	**(43,800)**	(7,523,418)
	396,326,784	403,272,803

1 In 2014 an impairment loss of US$22,675,228 was recognised in respect of exploration and evaluation expenditure in Liberia and Senegal. This impairment loss amount was determined after consideration of several factors including ongoing discussions with potential partners on certain licences.

2 In 2013 an impairment loss of US$31,220,749 was recognised in respect of exploration and evaluation expenditure relating to the Gambian Licences that had not been extended into the next exploration phases. On 28 November 2014, the Company announced that the Gambian Licences were reinstated with an extension to the initial exploration phase expiring on 1 September 2016.

3 US$43,800 of consumable spares was disposed of during the current year.

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

Country	Licence	Operator	Working Interest	Grant Date	Start Current Phase	End Current Phase	Area km^2	Outstanding commitments in current phase
Liberia	LB-08*	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,717	None
Liberia	LB-09*	European Hydrocarbons Limited	100%	Jun 2005	Jun 2012	Jun 2016	2,634	None
Côte d'Ivoire	CI-513*	African Petroleum Cote d'Ivoire Limited	90%	Dec 2011	Dec 2011	Dec 2015	1,446	One exploration well
Côte d'Ivoire	CI-509*	African Petroleum Cote d'Ivoire Limited	90%	Mar 2012	Mar 2012	Mar 2016	1,091	One exploration well
Senegal	Rufisque Offshore Profond*	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2011	Oct 2015	10,357	One exploration well
Senegal	Senegal Offshore Sud Profond*	African Petroleum Senegal Limited	90%	Oct 2011	Oct 2014	Dec 2017	7,920	One exploration well
Sierra Leone	SL-03**	European Hydrocarbons Limited	100%	Apr 2010	Apr 2010	Apr 2015	3,860	None
Sierra Leone	SL-4A-10**	African Petroleum Senegal Limited	100%	Sep 2012	Sep 2012	Sep 2015	1,995	One contingent exploration well
The Gambia	A1**	African Petroleum Gambia Limited	100%	Sep-2006	Nov 2014	Sep 2016	1300	One exploration well
The Gambia	A4**	African Petroleum Gambia Limited	100%	Sep-2006	Nov 2014	Sep 2016	1380	None

* The contract type for these licences is production sharing contracts.

** The contract type for these licences is petroleum agreement with royalty.

Notes to the consolidated financial statements continued

13. Exploration and Evaluation Expenditure continued

The consolidated entity's accounting policy in relation to Exploration and Evaluation expenditure is described under Note 3(i). 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.

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. At 31 December 2014, the Directors have performed an assessment of licences to determine whether the respective capitalised exploration and evaluation costs continued to meet the criteria outlined above. The assessment resulted in US$22,675,228 impairment expenses related to certain licences that are currently under farm-out negotiations. For the remaining licences, the Directors are satisfied that all above requirements were met. In particular, the Directors are satisfied that:

(i) The rights to tenure of these licences are current. The consolidated entity actively monitors the conditions of these licences to ensure full compliance. For licences with near-term expiry dates and significant outstanding exploration and drilling obligations (Senegal, Cote d'Ivoire), the Directors have been working with relevant regulatory bodies for an extension and at the same time seeking farm-in partners to share future exploration and drilling obligations. With recent significant oil discovery in the region, the Directors are confident that the consolidated entity will be able to find farm-in partners to meet obligations under these licences.

(ii) Active and significant operations in relation to these licences are planned into the future as per the consolidated entity's exploration budget. Details of the consolidated entity's exploration commitments are included in Note 23 and would be met through a combination of additional funding from farm-in partners and capital raisings. As at the date of this report, the Group has made progress toward securing farm-in partners for certain licences and raising capital through a combination of private placements and repair offering.

(iii) Exploration activities on these licences have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Specifically, the Directors considered the significant historic drilling campaigns in LB-09 where three wells were drilled, including the significant Narina-1 discovery. The Directors noted that while the Competent Person Report dated 23 January 2015 on the estimate of net unrisked prospective oil resources in LB-09 is encouraging, it is prospective in nature and has not reached to stage where the economics can be reliably determined (refer to Note 22). It is the Directors' intention to generate future economic benefit from Licence LB-09, from further successful exploration, development and exploitation. As at 31 December 2014, the consolidated entity has achieved all significant drilling milestones for the licence in the current and next phase up to June 2016.

On this basis, capitalised costs at 31 December 2014 continue to be carried forward as exploration and evaluation expenditure. 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.

The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

14. Trade and Other Payables

	2014 US$	2013 US$
Trade payables	**3,492,322**	6,062,585
Withholding tax[1]	**13,586,809**	13,551,667
Other payables[2]	**15,797,360**	11,278,984
	32,876,491	30,893,236

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

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

15. Issued Capital

	2014 US$	2013 US$
Fully paid ordinary shares	**600,591,811**	575,911,770

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

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

Reconciliation of movement in shares on issue

	Number of fully paid ordinary shares	
	2014	2013
Balance at beginning of the year	**1,695,433,051**	1,695,433,051
Share consolidation[1]	**(1,130,288,414)**	–
Issue of shares pursuant to a capital raising	**120,712,820**	–
Issue of shares pursuant to share based payment arrangements	**–**	–
Issue of shares on the exercise of options	**–**	–
Balance at end of the year	**685,857,457**	1,695,433,051

Reconciliation of movements in issued capital

	2014 US$	2013 US$
Fair value of issued share capital at beginning of the year	**575,911,770**	575,911,770
Issue of shares pursuant to a capital raising	**26,175,122**	–
Capital raising costs	**(1,495,081)**	–
Issue of shares pursuant to share based payment arrangements	**–**	–
Issue of shares on the exercise of options	**–**	–
Share capital at end of the year	**600,591,811**	575,911,770

1 On 3 February 2014, the Company consolidated every three shares into one.

Capital Management

Management controls the capital of the Company in order to maximise the return to shareholders and ensure that the Company can fund its operations and continue as a going concern. Capital is defined as issued share capital.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior reporting period.

Management monitors capital requirements through cash flow forecasting. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Consolidated Entity has no externally imposed capital requirements.

Notes to the consolidated financial statements continued

16. Reserves

	2014 US$	2013 US$
Share-based payment reserve		
Balance at beginning of the year	**29,371,231**	25,794,821
Issue of options pursuant to share based payment arrangements	**220,271**	3,576,410
Balance at end of the year	**29,591,502**	29,371,231
Foreign currency translation reserve		
Balance at beginning of the year	**(12,089,193)**	(11,951,293)
Foreign currency exchange differences arising on translation of functional currency to presentation currency	**–**	(137,900)
Balance at end of the year	**(12,089,193)**	(12,089,193)
Total reserves	**17,502,309**	17,282,038

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.

17. Accumulated Losses

	2014 US$	2013 US$
Accumulated losses at beginning of the year	**(189,570,901)**	(101,467,545)
Loss attributable to the members of the entity	**(42,136,913)**	(88,103,356)
Accumulated losses at end of the year	**(231,707,814)**	(189,570,901)

18. Non-controlling Interest

	2014 US$	2013 US$
Non-controlling interests at the beginning of the year	**(261,232)**	(134,804)
Loss attributable to non-controlling interests	**(65,692)**	(126,428)
Non-controlling interests at the end of the year	**(326,924)**	(261,232)

19. Share Based Payments

	2014 US$	2013 US$
Performance shares	**814,972**	209,689
Forfeiture of performance shares	**(2,162,573)**	–
Options	**1,512,094**	876,865
Non-recourse loan	**127,200**	1,491,137
Total share-based payments expense (Note 6)	**291,693**	2,577,691

All equity related awards are on a post consolidation basis.

Shares

Non-recourse loans in the current year

During the current year, an amount of US$127,200 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income in relation to loans made to Mr Thompson and Mr Pace to cover tax payable on performance shares awarded to them. Refer to Note 8 for details.

Non-recourse loans in the prior year

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

Shares awarded in the current year

On 30 May 2014, 5,000,000 performance shares were awarded to Dr Lake, Chief Executive Officer upon commencement with the Company, in line with the terms of his employment contract. The fair value of the share based payment was US$1,252,530 (A$1,350,000). The fair value was determined from the share price on the award date being A$0.27 (US$0.25). The shares will be issued in five tranches of 1,000,000 shares, each time one of the following achievements are met:

a. discovery of oil or gas by the Company; or

b. the completion of a significant sale or farm in of assets of the Company,
(together the "Milestones").

The Remuneration Committee determines the satisfaction of a Milestone.

As at 31 December 2014, these Milestones have not yet occurred. US$595,634 has been recognised in the current year in relation to these awards within the line item "Employee remuneration" within the Statement of Comprehensive Income (2013: nil).

Shares awarded in prior years

During 2012, 500,000 performance shares were awarded to Mr Pace which will vest upon the Company securing a commercial discovery. The fair value of the shares at grant date was US$1,867,554 (A$1,800,000). The fair value was determined from the share price on the award date being A$3.60 (US$3.74). As at 31 December 2014, this performance milestone has not yet occurred. US$219,338 has been recognised in the current year in relation to these awards within the line item "Employee remuneration" within the Statement of Comprehensive Income (2013: US$209,689).

During 2011, 2,183,334 performance shares were awarded to Mr Thompson. On 18 August 2011, 1,091,667 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 fair value was determined from the share price on the award date being A$3.00 (US$3.18). The remaining 1,091,667 performance shares were to be issued to Mr Thompson when the Company secures a commercial discovery. As at 31 December 2014, a value of US$2,162,573 has been reversed in the current year in relation to these performance shares as within the line item "Employee remuneration" within the Statement of Comprehensive Income, as a result of Mr Thompson's resignation on 1 February 2014.

Notes to the consolidated financial statements continued

19. Share Based Payments continued

Options

Options awarded in the current year

During the current year, 9,491,666 unlisted options have been issued to Directors, employees and consultants of the Company (2013: 1,266,666 unlisted options). 8,266,667 unlisted options are subject to vesting conditions where the options will vest evenly over three tranches, as long as the employee continues to be employed by the Company. The tranches related to the rending of services to the Company. 1,224,999 unlisted options were not subject to any vesting conditions and vested immediately. A total of US$1,360,212 has been recognised for the current year in relation to awards issued in the current and prior years (2013: US$3,692,756). Of this amount US$1,360,212 has been recognised within the line item "Employee remuneration" within the Statement of Comprehensive Income.

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
2 Apr 2014	6,666,667	0.24[1]	22 Apr 2019	0.24	0.22
2 Apr 2014	174,999[4]	0.30[2]	22 Apr 2019	0.24	0.22
6 May 2014	600,000	0.30[2]	5 Jun 2019	0.22	0.20
30 May 2014	1,000,000[4]	0.24[1]	3 Jun 2019	0.23	0.22
16 Jun 2014	500,000	0.24[3]	16 Jun 2019	0.19	0.18
15 Aug 2014	50,000[4]	0.30[2]	8 Aug 2016	0.08	0.07
15 Dec 2014	500,000	0.30[2]	15 Dec 2019	0.07	0.06
	9,491,666				

1 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.20

2 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.24

3 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.22

4 These options were not subject to any vesting conditions

The weighted average fair value of the options granted during the current year is A$0.25 (2013: A$0.36). 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 value of options capitalised during the period was nil (2013: nil).

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

Options awarded in the prior year

During the prior year, 1,266,666 unlisted options were issued to Directors and employees of the Company. The options are subject to vesting conditions where the options will vest evenly over three tranches, as long as the employee continues to be employed by the Company. The tranches relate to the rendering of services to Company.

Grant date	Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
21 Nov 2013	583,333	0.30[1]	22 Nov 2018	0.30	0.30
20 Sep 2013	683,333	0.30[1]	22 Nov 2018	0.39	0.39
	1,266,666				

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

Options forfeited during the current year

During the current year 166,656 unlisted options with various exercise prices of between A$0.30 and A$1.25 lapsed upon resignation of certain employees of the Company. An expense of US$96,397 has been reversed within the line item "Employee remuneration" in the Statement of Comprehensive Income, in recognition of unvested options that have been forfeited as a result of the holders ceasing to be employed with the Company as at the end of the prior year.

Options forfeited in the prior year

In the prior year 1,872,778 unlisted options with various exercise prices of between A$0.90 and A$3.75 lapsed upon resignation of certain employees of the Company. An expense of US$2,131,869 has been reversed within the line item "Employee remuneration" in the Statement of Comprehensive Income, in recognition of unvested options that have been forfeited as a result of the holders ceasing to be employed with the Company as at the end of the prior year.

Options cancelled and replaced in the current year

On 30 May 2014, 2,250,000 fully vested Directors options were cancelled and replaced with 3,000,000 options. The options are subject to vesting conditions where the options will vest evenly over three tranches, as long as the employee continues to be employed by the Company. The tranches relate to the rending of services to Company. The exercise price of the options was reduced to A$0.24 and the various vesting condition and expiry dates were extended to 3 June 2019. The fair value of the 2,250,000 original options was already fully expensed in the prior year. An amount of US$223,910 has been recognised in respect of the 3,000,000 replacement options for the current year within the line item "Employee remuneration" in the Statement of Comprehensive Income.

Options replaced or modified in the prior year

On 20 September 2013, 1,008,333 employee options were cancelled and replaced with 1,650,000 options. The exercise price of the options was reduced to A$0.30 and the various vesting conditions and expiry dates were extended to 22 November 2018. The fair value of the 1,008,333 original options has been fully recognised on modification date, plus the fair value of the 1,650,000 replacement options awarded has also been recognised, taking into consideration the estimated vesting date of the revised milestones. An amount of US$502,052 has been recognised in respect of the 1,650,000 replacement options for the current year within the line item "Employee remuneration" in the Statement of Comprehensive Income.

On 11 April 2013, 2,972,175 unlisted options exercisable at A$1.65 per option with an expiry date of 30 June 2013 were modified whereby the expiry date was extended for a further two years, to 30 June 2015. An amount of US$978,487 has been recognised in respect of these options for the current year within the line item "Consultancy expenses" in the Statement of Comprehensive Income.

Also on this date, 833,334 unlisted options with an expiry date of 30 June 2013 were modified with the expiry date being extended to 10 April 2015. Of these options, 333,333 are exercisable at A$3.75 per option; 166,667 exercisable at A$4.50 per option; 166,667 exercisable at A$5.25 per option and 166,667 exercisable at $6.00 per option. These options will vest on reaching the exercise price(s) for a minimum of ten trading days in a particular month. The options that have not vested at any time shall automatically vest upon a change of control in sale of more than 50% of issued share capital (fully diluted) of the Company. An amount of US$1,511,369 has been recognised in respect of these options for the current year within the line item "Consultancy expenses" in the Statement of Comprehensive Income.

Notes to the consolidated financial statements continued

19. Share Based Payments continued

Options continued

The following shows the model inputs for the options granted and outstanding at 31 December 2014:

Expiry Date	Exercise Price A$[1]	Number Under Option[1]	Dividend Yield (%)	Risk Free Rate (%)	Expected life of Options (years)	Share price at grant date A$[1]	Share price at grant date US$[1]
10 April 2015	3.75[2]	333,333	–	2.80	1	0.69	0.72
10 April 2015	4.50[3]	166,667	–	2.80	1	0.69	0.72
10 April 2015	5.25[4]	166,667	–	2.80	1	0.69	0.72
10 April 2015	6.00[5]	166,667	–	2.80	1	0.69	0.72
30 June 2015	1.65[6]	2,972,175	–	2.80	1	0.69	0.72
8 August 2016	0.30[9]	100,000	–	2.90	2	0.16	0.15
8 August 2016	0.90[7]	100,000	–	2.90	2	0.16	0.15
17 January 2017	0.90[7]	2,192,784	–	3.23 – 3.93	3	0.90 – 4.53	0.90 – 4.86
17 January 2017	3.00[10]	130,556	–	2.77 – 3.90	3	4.35 – 5.88	4.56 – 6.21
17 January 2017	3.75[2]	25,001	–	2.26 – 2.40	3	4.14 – 4.17	4.05 – 4.23
27 March 2017	0.90[7]	3,333	–	3.59	3	2.10	2.25
27 March 2017	1.65[6]	91,667	–	3.89 – 3.90	3	4.95 – 6.00	5.19 – 6.27
27 March 2017	3.00[8]	6,667	–	3.89	3	6.00	6.30
31 July 2017	1.65[6]	2,400,000	–	2.61	3	4.35	4.23
8 January 2018	3.00[8]	166,667	–	2.48	4	3.75	3.78
8 January 2018	3.75[2]	22,222	–	2.38 – 2.51	4	3.75	3.78 – 3.84
22 November 2018	0.30[9]	2,116,667	–	3.28	4	0.45	0.42
22 November 2018	0.30[9]	583,333	–	3.23	4	0.36	0.33
2 April 2019	0.24[10]	6,666,667	–	3.05	5	0.28	0.26
2 April 2019	0.30[9]	174,999	–	3.05	5	0.28	0.28
30 May 2019	0.24[10]	4,000,000	–	3.11	5	0.27	0.25
5 June 2019	0.30[9]	600,000	–	3.26	5	0.26	0.24
16 June 2019	0.27[11]	500,000	–	3.17	5	0.23	0.22
15 December 2019	0.30[9]	500,000	–	2.42	5	0.10	0.08
TOTAL		**24,186,072**					

1 The consolidation of issued capital has been reflected on the options issued prior to 3 February 2014

2 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$3.06

3 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$3.67

4 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$4.28

5 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$4.89

6 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$1.35

7 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.73

8 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$2.45

9 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.24

10 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.20

11 The equivalent US$ exercise price per option at 31 December 2014 is equal to US$0.22

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

	2014		2013	
	Number of Options	**Weighted Average Exercise Price A$**	Number of Options[1]	Weighted Average Exercise Price A$[1]
Balance at beginning of the period	**14,111,063**	**1.47**[2]	13,242,175	1.62
Granted during the year	**9,491,666**	**0.25**[3]	2,100,000	0.30
Exercised during the year	**–**	**–**	–	–
Cancelled during the year	**(2,250,000)**	**1.70**[4]	(1,008,334)	2.67
Replacement options granted during the year	**3,000,000**	**0.24**[5]	1,650,000	0.30
Forfeited during the year	**(166,656)**	**0.25**[3]	(1,872,778)	1.47
Balance at end of the year	**24,186,073**	**0.84**[6]	14,111,063	1.47
Exercisable at end of the year	**12,147,184**	**1.38**[7]	10,152,730	1.56

The share options outstanding at the end of the period had a weighted average exercise price of A$0.84 (2013: A$1.56) and the weighted average remaining contractual life was 1,186 days (2013: 1,164 days).

1 The consolidation of issued capital has been reflected on the options issued prior to 3 February 2014

2 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$1.20

3 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$0.20

4 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$1.39

5 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$0.20

6 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$0.69

7 The US$ equivalent weighted average exercise price as at 31 December 2014 is equal to US$1.26

Notes to the consolidated financial statements continued

20. Related Party Information

(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 2014	2013
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	**–** [1]	100%
African Petroleum Sierra Leone Ltd	Cayman Islands	**100%**	100%
European Hydrocarbons Ghana Ltd	Cayman Islands	**–** [1]	100%
African Petroleum Senegal Ltd	Cayman Islands	**90%**	90%
African Petroleum Gambia Ltd	Cayman Islands	**100%**	100%
African Petroleum Guinea Ltd	Cayman Islands	**–** [1]	100%
African Petroleum Cote d'Ivoire Ltd	Cayman Islands	**100%**	100%
African Petroleum (SL) Limited	Sierra Leone	**99.99%**	99.99%
European Hydrocarbon (SL) Limited	Sierra Leone	**99.99%**	99.99%
African Hydrocarbons Ghana Ltd	Ghana	**–** [1]	91%
European Hydrocarbons (Ghana) Limited	Ghana	**–** [1]	95%
African Petroleum Liberia Limited	Liberia	**100%**	100%
African Petroleum Cote d'Ivoire SAU	Cote d'Ivoire	**100%**	100%
African Petroleum Corporation (Services) Limited	United Kingdom	**100%**	100%
European Hydrocarbons Limited	United Kingdom	**100%**	100%
Regal Liberia Limited	United Kingdom	**100%**	100%
African Petroleum Limited	United Kingdom	**100%**	100%
African Petroleum Corporation Limited	United Kingdom	**100%**	100%
African Petroleum (Guinea) SARL	Guinea	**–** [1]	100%
African Petroleum (Senegal) SAU	Senegal	**100%**	100%
APCL Gambia B.V.	Netherlands	**100%**	–

1 Company derecognised during the period.

(c) Key management personnel

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

(d) Remuneration of key management personnel

	2014 US$	2013 US$
Short-term employee benefits	**4,321,574**	5,286,653
Post-employment benefits	**321,552**	348,211
Share based payments	**166,949**	2,806,938
Total compensation	**4,810,075**	8,441,802

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

	2014 US$	2013 US$
African Minerals Limited and its subsidiaries(iii)	**1,429,204**	510,669
Pan African Minerals Limited and its subsidiaries(iv), (x), (xi)	**1,292,793**	1,505,514
International Petroleum Limited and its subsidiaries(vi), (ix)	**242,553**	44,558
The Timis Corporation(v)	**90,089**	–
The Timis Trust(vii)	**(87,749)**	388,721
	2,966,891	2,449,462
Impairment allowance	**(1,429,204)**	–
Total receivables from related parties (Note 8)	**1,537,687**	2,449,462

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

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

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

Interest is receivable on amounts drawn down under the facility at the cash rate plus 10% (2013: 4%) in the current period. During the year US$644,866 interest was earned on the facility (2013: US$324,903). As at 31 December 2014, the total amount receivable from IPL in relation to this loan facility is US$11,949,231 (31 December 2013: US$11,304,365).

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

On 31 July 2014, the Company and IPL entered into the Deed of Variation and the Deed of Acknowledgement and Agreement, whereby the parties agreed to convert all the monies (including interest) owed under the Loan Agreement of 16 May 2011 and the Exclusivity Agreement of 17 April 2013 into 233,890,450 shares of IPL at a conversion price of AUD $0.06 per share using an AUD to USD exchange rate of 1.06441.

Conversion of the outstanding loans into 233,890,450 shares was subject to various conditions which according to IPL's NSX announcement on 7 October 2014 have been satisfied and the shares were issued on 2 October 2014.

In addition, IPL granted the Company on 2 October 2014 the option to buy 5,000,000 shares of IPL at the exercise price of AUD$0.06 per share. These share options expire on 2 October 2016.

As at 31 December 2014, the Company has fair valued the shares and options in IPL at zero.

(ii) An aggregate amount of US$32,581 was paid to Cape Lambert Resources Limited ("Cape Lambert"), for occupancy costs (2013: US$56,278). The occupancy costs were based on a monthly fee of AUD$3,049.20 representing the Group's share of the overall office floor space. Mr Turner is a director of Cape Lambert.

(iii) During the year US$1,353,003 was paid, or was due and payable by African Minerals Limited ("AML") and its subsidiaries for rental of the Company's corporate aircraft (2013: US$589,184). The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by AML, plus a third of the actual indirect cash costs during the period 1 January 2014 to 31 October 2014, from this point the indirect cash costs was charged to Timis Corporation. As at 31 December 2014 US$1,429,204 was outstanding (2013: US$510,669). Mr Timis and Mr Bangura are directors of AML.

On 1 December 2014, AML announced that the Tonkolili Iron Ore Project had been placed in care and maintenance due to insufficient working capital being available and an inability to secure additional short-term funding. In addition, on 10 February 2015 AML announced that they had insufficient funds to meet their obligation to pay a $17 million biannual coupon payment due and that it is unlikely that such a payment will be made in the near future.

Due to the current financial position of AML, the Company has considered it prudent to recognise an impairment provision for the outstanding balance of US$1,429,204. This impairment loss may be reversed if AML secures additional funding that facilitates the repayment of the outstanding balance.

(iv) During the year US$1,672,999 was paid, or was due and payable by Pan African Minerals Limited ("PAM") and its subsidiaries (2013: US$850,912) for rental of the Company's corporate aircraft. As at 31 December 2014 US$1,034,223 amount was outstanding (2013: $1,441,801). Mr Timis, Mr Bangura and Mr Ashurst are directors of PAM. The balance has since been repaid. The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by PAM, plus a third of the actual indirect cash costs over the period.

(v) During the year US$529,834 was paid, or was due and payable by The Timis Corporation ("TC") and its subsidiaries (2013: nil) for rental of the Company's corporate aircraft. As at 31 December 2014 US$90,089 amount was outstanding (2013: nil). Mr Timis is a director of TC. The balance has since been repaid. The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by TC, plus a third of the actual indirect cash costs during the period 1 November 2014 to 31 December 2014.

(vi) During the year US$264,949 was paid, or was due and payable by IPL and its subsidiaries (2013: nil) for rental of the Company's corporate aircraft. As at 31 December 2014 US$224,969 amount was outstanding (2013: nil). Mr Timis and Mr Turner are directors of IPL. The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by IPL, plus a margin of US$3,000 per flying hour as a contribution towards the actual indirect cash cost during the year. US$2,000 of this margin is subsequently refunded to the two other related parties that otherwise share the total indirect costs during the period.

Notes to the consolidated financial statements continued

20. Related Party Information continued

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

(vii) During the year US$132,359 was paid, or was due and payable by Mr Timis for personal use of the Company's corporate aircraft (2013: US$388,721). As at 31 December 2014 US$87,749 was payable as a result of an advanced payment (2013: US$388,720 receivable). The recoverable amount was determined based on the actual direct outgoing cash costs incurred on the aircraft while used by Mr Timis, plus a margin of US$3,000 per flying hour as a contribution towards the actual indirect cash costs during the year. US$2,000 of this margin is subsequently refunded to the two other related parties that otherwise share the total indirect cash costs during the period.

(viii) During the year US$537,535 was paid, or was due and payable to AML and its subsidiaries for office rental costs (2013 US$252,594). The rental fees were determined based on a monthly rate of GBP£20,000 representing the Group's share of the overall office floor space.. As at 31 December 2014 US$312,775 was outstanding (2013: US$252,594). Further, a prior period balance of $62,700 relating to 2012 travel expenses was written off during the year.

(ix) During the year US$96,844 was advanced to IPL and its subsidiaries to cover employee costs in relation to work on the exploration and production sharing contracts in the republic of Niger (2013: US$379,586). The Company had recognised an impairment provision for the total amount of US$476,430 (2013: US$379,586). On 12 September 2014, IPL repaid the total outstanding balance. The impairment expense has been reversed in 2014. During the year a further US$64,923 was paid on their behalf to cover travel costs in relation to work on the exploration and production sharing contracts in the republic of Niger (2013: nil). US$76,464 was recharged to IPL for these expenses in line with the Company's recharge of services policy. A further US$43,814 was recharged to IPL for employment services provided. As at 31 December 2014 US$17,584 was outstanding (2013: $44,588).

(x) During the year US$144,770 was paid by the Group on behalf of PAM and its subsidiaries to cover PAM's IT costs in relation to the service they share with the Company in London (2013: nil). US$159,687 was recharged to PAM for these expenses in line with the Company's recharge of services policy and based on PAM's actual share of the total usage plus 10%. A further US$15,000 was recharged to PAM for the supply of employment services during the year (2013: $13,000). As at 31 December 2014 US$187,687 was outstanding (2013: $15,600).

(xi) During the year US$459,941 was paid on the behalf of PAM and its subsidiaries to cover employment costs and petty cash advances (2013: US$778,501). As at 31 December 2014 US$70,883 was outstanding (2013: US$48,113). The advance is interest free and on demand with no contractual terms.

(xii) During the year US$195,479 was advanced to The Timis Trust to cover travel and other expenses (2013: nil). The advance is interest free and on demand with no contractual terms. This balance was fully recovered during the year. (2013: nil).

(xiii) During the year US$26,831 of travel expenses was paid which related to the personal use of the Company car by Mr Timis. Mr Timis resigned as the chairman of the Company on 10 October 2013. As at 31 December 2014 US$25,553 was receivable and was determined based on actual cash outgoings (2013: nil). The advance is interest free and on demand with no contractual terms.

(xiv) In 2012, US$841,994 (£521,252) was loaned to Karl Thompson to cover tax payable on performance shares awarded to Mr Thompson. In January 2013, an additional US$196,000 (£124,107) was loaned to Mr Thompson to cover an additional 10% tax payable on these performance shares. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$45,327 (£27,641) of interest recognised during the current year (2013: US$40,916 (£26,136)). The Loan Agreement was approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$1,096,691 (2013: US$1,090,131). At 31 December 2014, the total limited recourse feature of the loan of US$1,003,973 has been recognised as a share-based payment (2013: US$886,210). For 2014 a share-based payment expense of US$117,763 (2013: US$886,210) has been recognised within the line item "Employee benefits" within the Statement of Comprehensive Income (refer to Note 8 and Note 19).

(xv) In 2012, US$630,497 (£390,321) was loaned to Jens Pace to cover tax payable on performance shares awarded to Mr Pace. The loan can only be used for the payment of the relevant tax (upon presentation of the tax amount) and must be repaid within 5 years or from the sale of any shares prior to this time. The shares are subject to a voluntary escrow, whereby the shares cannot be sold or transferred until the loan is discharged and the proceeds are to be applied to discharge the loan. Interest is charged on the loan at 4% with US$27,431 (£16,701) of interest recognised during the current year (2013: US$25,123 (£16,047)). The loan agreement was approved by the Board of Directors as being on arm's length terms. If prior to the repayment date the proceeds from the sale of the performance shares are insufficient in total to cover the loan, the Company will waive the remaining balance of the loan. At 31 December 2014 the outstanding balance of the loan receivable was US$662,642 (2013: US$661,372). At 31 December 2014, the total limited recourse feature of the loan of US$614,365 has been recognised as a share-based payment (2013: US$604,927). For 2014 a share-based payment expense of US$9,437 (2013: US$604,927) has been recognised within the line item "Employee benefits" within the Statement of Comprehensive Income (refer to Note 8 and Note 19).

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

	2014 US$	2013 US$
Mr Moe	**19,576**	–
Dr King	**26,509**	–
CRMS which is an entity controlled by Mr Turner	**–**	3,904
Mr Bangura	**–**	7,098
Mr Couch	**–**	21,295
Mr Matthews	**–**	16,488
Mr Smith	**–**	3,549

21. Financial Assets and Financial Liabilities

	2014 US$	2013 US$
Financial assets		
Cash and cash equivalents	**3,869,086**	7,914,218
Trade and other receivables	**3,426,097**	1,862,157
Restricted cash	**12,069,899**	74,205
Financial assets[1]	**–**	–
	19,365,082	9,850,580
Financial liabilities		
Trade and other payables	**19,289,682**	17,341,569
	19,289,682	17,341,569

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

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

Interest is receivable on amounts drawn down under the facility at the cash rate plus 10% (2013: 4%) in the current period. During the year US$644,866 interest was earned on the facility (2013: US$324,903). As at 31 December 2014, the total amount receivable from IPL in relation to this loan facility is US$11,949,231 (31 December 2013: US$11,304,365).

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

On 31 July 2014, the Company and IPL entered into the Deed of Variation and the Deed of Acknowledgement and Agreement, whereby the parties agreed to convert all the monies (including interest) owed under the Loan Agreement of 16 May 2011 and the Exclusivity Agreement of 17 April 2013 into 233,890,450 shares of IPL at a conversion price of AUD $0.06 per share using an AUD to USD exchange rate of 1.06441.

Conversion of the outstanding loans into 233,890,450 shares was subject to various conditions which according to IPL's NSX announcement on 7 October 2014 have been satisfied and the shares were issued on 2 October 2014. This investment is classified as available for sale.

IPL granted the Company on 2 October 2014 the option to buy 5,000,000 shares of IPL at the exercise price of AUD$0.06 per share. These share options expire on 2 October 2016.

As at 31 December 2014, the Company has determined that the fair value of the shares and options in IPL is immaterial, as the company is currently suspended on the National Stock Exchange and is expected to have a marginal net asset position, post conversion.

Financial risk management policies

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

Notes to the consolidated financial statements continued

21. Financial Assets and Financial Liabilities continued

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:

	2014 US$	2013 US$
Financial assets		
Cash and cash equivalents	**3,869,086**	7,914,218
Related party loans receivable	**–**	1,291,895
Loan receivable from Key Management Personnel	**175,933**	175,150
Restricted cash	**69,899**	74,205
Financial liabilities		
Borrowings	**–**	–
	4,114,918	9,455,468

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 on interest rate risk exposure in existence at the reporting date.

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

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2014 US$	2013 US$	**2014 US$**	2013 US$
Consolidated Entity				
+1% 100 basis points (2013: 100 basis points)	**38,691**	98,506	**–**	–
-1% 100 basis points (2013: 100 basis points)	**(38,691)**	(98,506)	**–**	–

The movements in profit are due to higher/lower interest earned from variable rate cash balances. A sensitivity analysis of 100 basis points has been used as this is considered reasonable given the current level of the USD interest rate (2013: 100 basis points).

Foreign currency risk

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

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

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

	2014 US$	2013 US$
Financial assets		
Cash and cash equivalents – US$ (Parent entity)	**4,836**	3,327,311
Cash and cash equivalents – £ (subsidiaries)	**477,903**	767,532
Loan receivable – US$ (Parent entity)	**–**	–

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)	
	2014 US$	2013 US$	**2014 US$**	2013 US$
Consolidated Entity				
US$ to A$ + 10%	**484**	332,731	**–**	–
US$ to A$ – 10%	**(484)**	(332,731)	**–**	–
US$ to £ + 10%	**47,790**	76,753	**–**	–
US$ to £ – 10%	**(47,790)**	(76,753)	**–**	–

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 2013.

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:

2014	**0 – 3 months US$**	**3 – 6 months US$**	**6 – 12 months US$**	**1 – 5 years US$**	**Greater than 5 years US$**	**Total US$**
Trade and other payables	**5,434,898**	**500,000**	**13,354,784**	**–**	**–**	**19,289,682**

2013	0 – 3 months US$	3 – 6 months US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	17,341,569	–	–	–	–	17,341,569

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

Notes to the consolidated financial statements continued

21. Financial Assets and Financial Liabilities continued

Credit risk

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

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

(i) Cash and cash equivalents

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

(ii) Trade and other receivables

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

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Refer to Note 8 for aging profile.

Fair value

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

22. Segment Information

For management purposes, the Group is organised into one main operating segment, which involves exploration for hydrocarbons. All of the Group's activities are interrelated, and discrete financial information is reported to Chief Operating Decision Maker as a single segment. Licences and funding requirements in relation to each licence are considered in aggregate based on the Group's overall funding position and financing strategies. 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.

Three customers make up 90% of rental revenue (2013: 98%).

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

	2014 US$	2013 US$
Australia	**–**	–
Côte d'Ivoire	**55,637,029**	51,492,185
Gambia	**593,218**	133,053
Liberia	**280,315,013**	291,028,434
Senegal	**28,017,655**	37,951,679
Sierra Leone	**32,907,304**	24,064,321
United Kingdom	**433,579**	2,113,124
	397,903,798	406,782,796

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:

	2014 US$	2013 US$
Within one year	**54,924,240**	40,507,191
After one year but not more than five years	**40,532,753**	66,610,540
More than five years	**–**	–
	95,456,993	107,117,731

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:

	2014 US$	2013 US$
Within 1 year[1]	–	120,488
Later than 1 year and not later than 5 years	–	72,209
Later than 5 years	–	–
	–	192,697

1 The Company office rental commitment was extinguished on 6 February 2014.

Contingent liabilities

Senegal Project

The Company has a US$10 million minimum work commitment guarantee on exploration Block Rufisque Offshore Profond ("ROP"). As at 31 December 2014, the Company has a remaining exposure of US$882,399 on ROP.

Sierra Leone Project

The Company has a US$10 million work commitment guarantee on exploration Block SL-04A. As at 31 December 2014 the Company has an outstanding exposure of US$3,106,690.

24. Events Subsequent to Reporting Date

Corporate

Subsequent to year-end, on 10 February 2015 African Petroleum announced a private placement to existing and new investors (the "Private Placement") of 271,732,000 new ordinary shares raising NOK 95,106,200 (approximately US$12.5 million) in gross proceeds at a subscription price of NOK 0.35 per share. Each applicant in the Private Placement is entitled to be allocated one transferable option for every two shares allocated in the Private Placement, corresponding to a total allocation of up to 135,866,000 options. The options have an exercise price of NOK 0.75 per share and have a two-year life from the date of issue.

The Company intends to raise a further NOK 19 million (approximately US$2.5m) in a subsequent repair offering to retail investors during March 2015 with similar terms.

On 9 March 2015, the Head Office of the Company was relocated to Premier House, 10 Greycoat Place, London SW1P 1SB, United Kingdom.

Operational

Subsequent to year-end, on 26 January 2015 African Petroleum announced an update to its prospective oil resources at its 90% owned and operated CI-509 and CI-513 offshore licence blocks in Côte d'Ivoire ("Côte d'Ivoire Licences") and its 100% owned and operated LB-08 and LB-09 offshore blocks in Liberia ("Liberia Licences").

The Company engaged the independent petroleum consultant, ERC Equipoise Ltd ("ERCE"), to prepare an updated assessment of prospective oil resources attributable to the Company's Côte d'Ivoire Licences and Liberia Licences (the "ERCE Audit").

The ERCE Audit of prospective resources includes the addition of eight new prospects and has taken into account information gathered from third party drilling campaigns in the margin during 2014, particularly the oil discovery made by Total in CI-514 in April 2014. The ERCE Audit, in conjunction with the ERCE Competent Persons Report April 2014 ("April 2014 CPR"), estimates the net prospective oil resources relating to the Côte d'Ivoire Licences and Liberia Licences are as follows:

	Mean (MMStb)		% Increase in Net Risked Prospective Oil Resources from
Licence	Net Unrisked Prospective Oil Resources	Net Risked Prospective Oil Resources	April 2014 CPR
Côte d'Ivoire			
CI-513 & CI-509	2,130	456	118%
Liberia			
* LB-08 & LB-09	4,192	662	33%
Total Updated Portfolio Côte d'Ivoire & Liberia	6,322	1,118	58%

* Liberia values include four (4) new prospects reviewed in the ERCE Audit as well as unchanged prospects from April 2014 CPR

The impact of de-risking through regional third party drilling activity in Côte d'Ivoire and the addition of new Turonian and Cenomanian prospects as outlined in the ERCE Audit translates into the addition of 410MMStb in the net risked mean prospective oil resources from the April 2014 CPR (increase of 58%).

Notes to the consolidated financial statements continued

25. Loss Per Share

	31 December 2014 US$	31 December 2013 US$
(a) Basic loss per share		
Overall operations	**(6.47) cents**	(15.59) cents
(b) Diluted loss per share		
Overall operations	**(6.47) cents**	(15.59) 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	**(42,136,913)**	(88,103,356)
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(42,136,913)**	(88,103,356)

	Number of shares 2014	Number of shares 2013
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	**651,956,149**	565,144,637
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive loss per share	**651,956,149**	565,144,637

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 24,186,072 options as at 31 December 2014 (2013: 14,111,063 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 2014 US$	31 December 2013 US$
Statement of financial position		
Current assets	**84,164**	74,108,885
Non-current assets	**41,123,285**	957,479,277
Total assets	**41,207,449**	1,031,588,162
Current liabilities	**(148,067)**	(952,061)
Total liabilities	**(148,067)**	(952,061)
Net Assets	**41,059,382**	1,030,636,101
Shareholders' equity		
Issued capital	**996,274,914**	971,594,874
Reserves	**(10,012,597)**	58,793,078
Accumulated gains/(losses)	**(945,202,935)**	248,149
	41,059,382	1,030,636,101
Net gain/(loss) for the year	**(945,451,084)**	53,709,393
Total comprehensive loss	**(945,451,084)**	53,403,400

26. Parent Entity Financial Information continued

(b) Guarantees entered into by the parent entity

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

Sierra Leone Project
The Company has a US$10 million parent entity guarantee on exploration Block SL-04A.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current year (31 December 2013: 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 2014 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2014 and of its performance for the year ended on that date; and

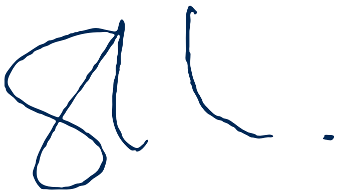
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(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 Finance Director for the year ended 31 December 2014.

Signed in accordance with a resolution of the Directors:



Stuart Lake

Chief Executive Officer

London, 10 March 2015

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 2014, 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.

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 2014 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to the following matters:

- the conditions set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.
- Note 13 Exploration and Evaluation Costs sets out the Directors' judgments which form the basis by which the consolidated entity's exploration and evaluation licenses are carried at $396,326,784 in the Statement of Financial Position at 31 December 2014. The Directors have formed their judgment on the basis that active and significant operations in relation to these licenses are planned into the future. The active and significant operations to be undertaken are dependent on the on-going plan to seek license extensions from regulatory bodies, additional funding from farm-out partners and capital raisings. Without extensions to the licenses to allow further studies to be completed and/or additional funding via farm-out or capital raising to meet the consolidated entity's exploration and drilling obligations, the consolidated entity may be required to either relinquish or sell licenses and in such circumstances may not be able to realise the carrying value of the Exploration and Evaluation Costs as at 31 December 2014.

Report on the remuneration report
We have audited the Remuneration Report of the directors' report for the year ended 31 December 2014. 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 2014, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

VL Hoang
Partner
Perth
10 March 2015

Additional shareholder information

Additional Stock Exchange Information

African Petroleum Corporation Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (code: AOQ) and the Oslo Axess (code: APCL), a regulated market place of the Oslo Stock Exchange, Norway.

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 28 February 2015 were as follows:

Category (size of holding)	Holders	Units
1 – 1,000	524	155,680
1,001 – 5,000	165	451,883
5,001 – 10,000	29	220,699
10,001 – 100,000	46	1,919,820
100,001 – over	49	683,109,375
Total	**813**	**685,857,457**

Equity Securities

There are 813 shareholders, holding 685,857,457 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 691.

Options

The Company currently has the following options on issue:

(a) 833,334 unlisted options exercisable at various prices on or before 10 April 2015 (subject to vesting conditions);

(b) 2,972,175 unlisted options exercisable at A$1.65 expiring on 30 June 2015;

(c) 100,000 unlisted options exercisable at A$0.30 expiring on 8 August 2016;

(d) 100,000 unlisted options exercisable at A$0.90 expiring on 8 August 2016;

(e) 2,192,784 unlisted options exercisable at A$0.90 expiring on 17 January 2017 (subject to vesting conditions);

(f) 130,556 unlisted options exercisable at A$3.00 each on or before 17 January 2017;

(g) 25,001 unlisted options exercisable at A$3.75 each on or before 17 January 2017;

(h) 6,667 unlisted options exercisable at A$3.00 each on or before 27 March 2017;

(i) 3,333 unlisted options exercisable at A$0.90 each on or before 27 March 2017;

(j) 91,667 unlisted options exercisable at A$1.65 each on or before 27 March 2017;

(k) 2,400,000 unlisted options exercisable at A$1.65 expiring on 31 July 2017;

(l) 166,667 unlisted options exercisable at A$3.00 each on or before 8 January 2018;

(m) 22,222 unlisted options exercisable at A$3.75 each on or before 8 January 2018;

(n) 2,700,000 unlisted options exercisable at A$0.30 on or before 22 November 2018 (subject to various vesting conditions);

(o) 6,666,667 unlisted options exercisable at A$0.24 each on or before 2 April 2019;

(p) 174,999 unlisted options exercisable at A$0.30 each on or before 2 April 2019;

(q) 4,000,000 unlisted options exercisable at A$0.24 each on or before 30 May 2019;

(r) 600,000 unlisted options exercisable at A$0.30 each on or before 5 June 2019;

(s) 500,000 unlisted options exercisable at A$0.24 each on or before 16 June 2019; and

(t) 500,000 unlisted options exercisable at A$0.30 each on or before 15 December 2019.

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 31 December 2014 (and the shareholding they held at the time of their notification to the Company) are as follows (the figures are post consolidation):

Fully paid ordinary shareholders	Number	% of held Issued Capital
1. Sarella Investments Limited	252,846,329	36.9%
2. M&G Investment Funds	78,300,178	11.4%
3. The Capital Group of Companies Inc	48,248,963	7.0%

20 largest shareholders

The names of the 20 largest fully paid ordinary shareholders as at 6 March 2015 are as follows:

Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1. Citicorp Nominees Pty Limited	364,506,616	53.15%
2. Sarella Investments Limited	237,461,714	34.62%
3. J P Morgan Nominees Australia Limited	28,384,106	4.14%
4. National Nominees Limited	18,157,914	2.65%
5. HSBC Custody Nominees (Australia) Limited	5,626,038	0.82%
6. Hilburg International Limited	4,258,854	0.62%
7. Dalsin Holdings Limited	4,008,090	0.58%
8. Mr Antony William Paul Sage <EGAS Superannuation Fund A/C>	2,760,275	0.40%
9. Ned Goodman Investment Counsel Limited	1,959,749	0.29%
10. Carrytage Holdings Ltd	1,333,334	0.19%
11. Pershing Australia Nominees Pty Ltd <DJ Carmichael Account>	1,248,119	0.18%
12. Mr Karl Thompson	1,091,667	0.16%
13. Lamington Capital Inc	1,076,113	0.16%
14. Dolven Holdings Limited	801,618	0.12%
15. Mr Antony William Paul Sage	742,834	0.11%
16. Artal Corp	666,667	0.10%
17. FAR Down Limited	666,667	0.10%
18. Ms Georgia Zaris	650,000	0.09%
19. Mortson Financial Limited	544,843	0.08%
20. BNP Paribas Nominees Pty Ltd <Commerzbank AG DRP>	500,000	0.07%
	676,445,218	**98.63%**

Schedule of exploration assets

Key Assets

Tenement	Holder/ Applicant	Interest Held
Offshore Liberia		
Block 8	European Hydrocarbons Limited[1]	100%
Block 9	European Hydrocarbons Limited[1]	100%
Offshore Sierra Leone		
Block 03	European Hydrocarbons Limited	100%
Block 04A-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%
Offshore The Gambia		
Block A1	African Petroleum Gambia Limited[2]	100%
Block A4	African Petroleum Gambia Limited[2]	100%

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

2 African Petroleum Gambia Limited has 100% equity indirectly through its 100% ownership of APCL Gambia B.V which has 40% interest in block A1 and A4.

Non-Core Assets

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

Corporate directory

Directors
Charles Matthews, Non-Executive Chairman
Dr Stuart Lake, Chief Executive Officer
Mark Ashurst
Gibril Bangura
Jeffrey Couch
Dr David King
Anders Bjarne Moe
Timothy Turner
Anthony Wilson

Company Secretary
Angeline Hicks

Registered Office
Level 4
16 Milligan Street
Perth WA 6000
Australia

Auditors
Ernst & Young
11 Mounts Bay Road
Perth WA 6000
Australia

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 WA 6000
Australia

Telephone: +61 8 9332 2000
Facsimile: +61 8 9323 2033

Stock Exchange listing
Oslo Axess
Code: APCL

National Stock Exchange of Australia
Code: AOQ

Notes

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