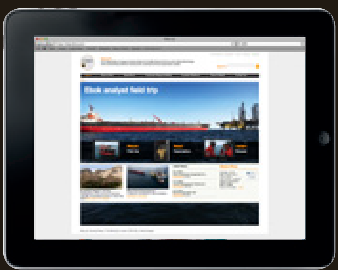
A world class asset base

Afren plc Annual Report and Accounts 2011

A full-cycle Business

Afren is a leading independent exploration and production company, listed on London's Main Market and a constituent of the FTSE 250 Index.

Our portfolio of 29 assets in 12 countries spans the full-cycle E&P value chain of exploration, appraisal, development through to production and is located in several of the world's most prolific and fast emerging hydrocarbon basins. With a proven track record and self-sustaining business model that is underpinned by a clear and consistent strategy, Afren is well placed to continue to deliver strong growth long into the future.



For more information see

www.afren.com

http://www.ar2011afren.com/

http://www.afren.com/afreneax/index.html

www.afren.com/ebok

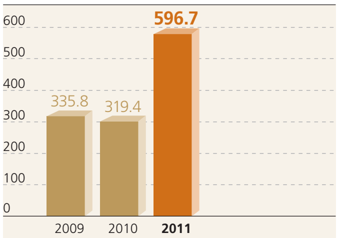
What's in this report

Making good progress

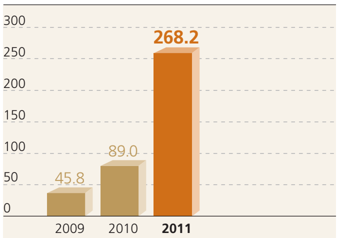
Our 2011 results reflect the good progress we have made across the business, delivering against each of our core strategic objectives. During the period we significantly increased our production and resource base, expanded our portfolio of assets, strengthened our capital structure and posted financial results that are materially ahead of 2010.

Financial highlights

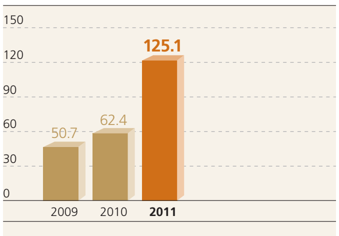
Revenue
(US$m)



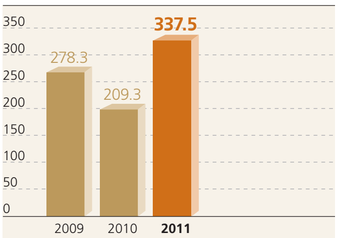
Operating profit
(US$m)



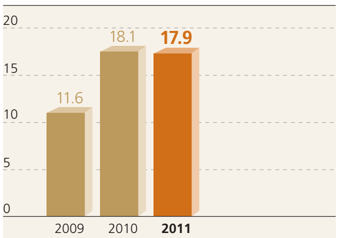
Normalised profit after tax
(US$m)



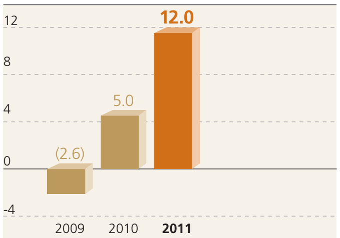
Operating cash flow
(US$m)



Normalised operating costs per barrel (US$/boe)



Basic profit/(loss) per share
(cents)



For more information
See page 46

Operational highlights

Increasing production – first oil at Ebok

In 2011 we consolidated our position as a leading independent producer offshore Nigeria with the start-up and commissioning of all 14 wells associated with the initial phases of the Ebok field development, and at the Okoro field commissioned two new infill wells helping to further underpin the Company's profitable and growing production base.

For more information
See page 32

Acquisition of major portfolio onshore Nigeria completed

In 2011 FHN, in which Afren is a 45% shareholder, completed the acquisition of a 45% interest in OML 26 and at the same time secured US$280 million in new financing. The block includes two producing fields and three proved undeveloped assets with significant exploration upside. By year end the partners had almost doubled gross production at the Ogini and Isoko fields to 10,500 bopd, and are working towards ultimately delivering 50,000 bopd from a major redevelopment programme.

Go online
www.fhnigeria.com

For more information
about our operations
See page 30

Strategic entry into the Kurdistan region of Iraq

The acquisition of interests in the contiguous Barda Rash and Ain Sifni PSCs has increased our 2P/2C reserves and resource base by over 633% at a cost of under US$1.0/bbl and offers line of sight on major long-term production growth. Strategically, we are now well positioned in two of the world's top ten oil producing countries, Nigeria and Iraq.

For more information
See pages 36 and 37

Image courtesy of Transocean

Multi-well exploration campaign under way

We have now entered the most active phase of exploration drilling in Afren's history, and in doing so have completed our transition into a full-cycle business. We have made a successful start to our ongoing exploration campaign with the significant Okoro East discovery in Nigeria, and over the coming months will participate in several high-impact wells in each of our core areas, all of which have the potential to unlock sizeable volumes.

For more information
See page 30

Responsibility highlights

Operating safely and responsibly

We recorded a strong Environment, Health, Safety and Security (EHSS) performance with a year-on-year improvement during the period, when several complex and potentially hazardous operations were undertaken at our development projects. We have also continued to develop our Corporate Social Responsibility policies against best practice guidance by both the UN Global Compact and Equator Principles.

For more information
See page 52

Outlook

- Continued production growth with full year net working interest production of between 42,000 to 46,000 boepd
- Ongoing development of our producing assets offshore and onshore Nigeria
- Early production at Okoro East
- First oil in the Kurdistan region of Iraq at Barda Rash
- Up to 14 high-impact exploration and appraisal wells targeting in excess of 800 mmbbls net to Afren across each of our core regions
- Good financial management underpinning a well funded and agile business

The story so far

Seven years ago Afren was a company with a minority interest in a single asset offshore in the deepwater Gulf of Guinea. Today we are a full-cycle business with 29 assets in 12 countries, a growing platform of profitable production, large-scale reserves and resource base, high-quality pipeline of development projects and an extensive multi-well exploration drilling campaign.

2005

Admission to AIM and completion of £8 million placing

Completion of Block 1 JDZ transaction

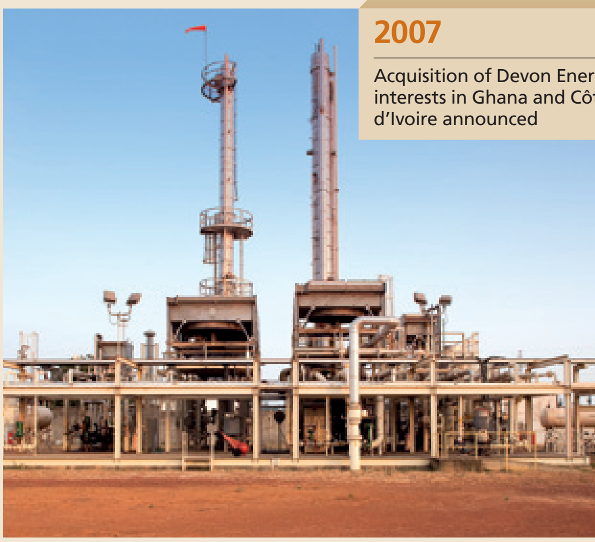
Zero reserves and production

2006

Agreement signed with Amni for the development of the Okoro field, offshore Nigeria

2007

Acquisition of Devon Energy's interests in Ghana and Côte d'Ivoire announced



2008

Agreement signed with Oriental Energy Resources for the development of the Ebok field, offshore Nigeria

First oil achieved at the Okoro field

Kurdistan region of Iraq

In November 2011 we made a strategic, early-entry into a prolific oil and gas producing region. Afren acquired a 60% and a 20% participating interest in two Production Sharing Contracts in the Kurdistan region of Iraq. These offer a combination of near-term development upside and high volume but low risk exploration potential.

For more information
See page 36

2009 2010 2011 2012

2009

Successful appraisal programme at Ebok more than quadruples gross reserves to over 100 mmbbls

Acquisition of an interest in the Okwok field offshore Nigeria

Afren establishes First Hydrocarbon Nigeria (FHN)

Achieved main board listing

2010

Pan African expansion – Afren acquires high-impact exploration assets in Ethiopia, Kenya, Madagascar and Seychelles

Admission to FTSE 250 Index

2011

First oil achieved at the Ebok development, offshore Nigeria

Afren becomes the first UK listed independent E&P to successfully access the international bond market in size, raising US$500 million in total

Strategic acquisition and entry into the Kurdistan region of Iraq

Acquisition of a 74% interest in the Tanga Block, Tanzania

FHN completes acquisition of a 45% interest in OML 26, onshore Nigeria

2012 (post period end)

Significant new oil discovery made at Okoro East, offshore Nigeria

Successful completion of US$300 million bond issue

Building a world class portfolio

Afren now has a diversified yet balanced portfolio of 29 assets in 12 countries located in hydrocarbon basins of global significance. Between them they cover every stage of the upstream oil and gas workflow from exploration, appraisal and development through to production – making us a full-cycle E&P company.

1 Nigeria

Highlights:

- Nine interests in Blocks spanning shallow water offshore and onshore areas
- Initial phases of the Ebok development now fully onstream, development ongoing in 2012
- OML 26 acquisition completed
- Okoro onstream in 2008. Good reservoir management moving recovery factor towards the 3P scenario and production maintained consistently ahead of pre start-up expectations
- Significant oil discovery at Okoro East
- Maturing Okwok towards development status
- High-impact exploration drilling at Ebok, OML 115 and OPL 310 in 2012
- Regional office in Lagos

2 Côte d'Ivoire

Highlights:

- Two upstream Blocks and a gas processing plant
- Oil, natural gas and NGL production
- Effective management of mature production at Block CI-11
- Exciting appraisal and exploration opportunities at Block CI-01, adjacent to maritime border with Ghana
- Regional office in Abidjan

3 Ghana

Highlights:

- Keta Block located along the prolific West African Transform Margin
- Large scale prospectivity identified in Upper Cretaceous, analogous to recent major discoveries in Ghana
- Successful farm down of 35% interest and operatorship to Eni in return for a full carry through the exploration drilling of one well in 2012. Afren still retains a 35% interest

For more on our assets
See page 30

4 Congo Brazzaville

Highlights:

- La Noumbi permit adjacent to, and on trend with, the large M'Boundi field – one of Africa's largest onshore discoveries
- Working petroleum system demonstrated on the Block, with prospectivity identified at several intervals
- Two exploration wells proposed in 2012 by the operator

5 Nigeria – São Tomé & Príncipe JDZ

Highlights:

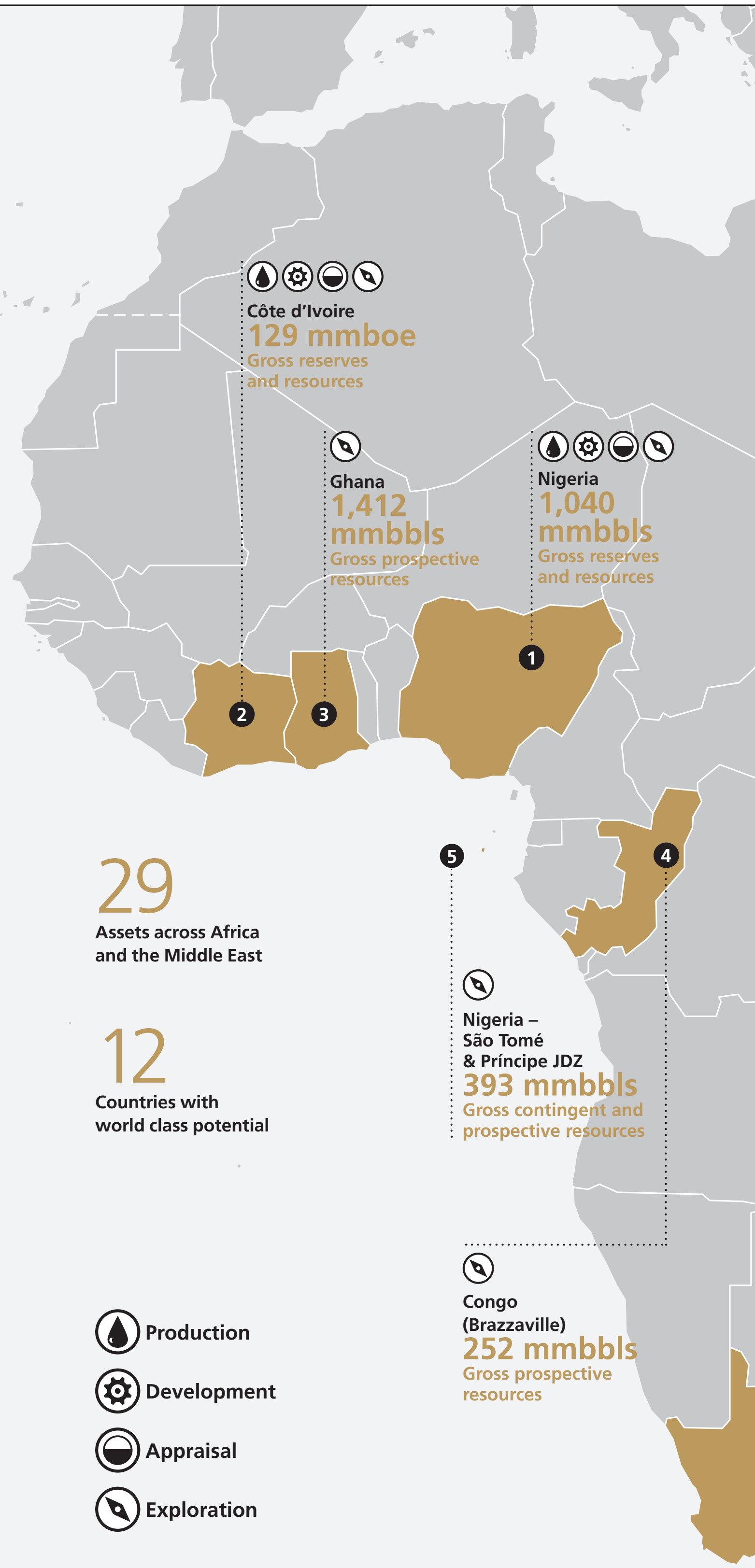
- Obo-1 discovery well encountered 150ft of oil pay in 2006
- New operator, Total, proposed the drilling of one appraisal well on the Obo discovery and one exploration well in 2012
- Proximity of Total's existing infrastructure in offshore Nigeria offers potential synergies that could enhance development prospects for the Block

6 South Africa

Highlights:

- Block 2B located in the Orange River Basin close to the Ibhubesi gas field – covers an area of around 5,828 km^2 with water depths ranging from shoreline to 250 m
- A-J1 oil discovery tested 36° API oil in 1989
- Multiple prospects identified
- 600 km^2 of new 3D seismic data to be acquired ahead of expected exploration drilling in 2012

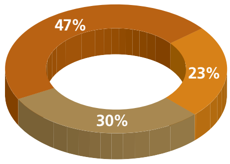
For more information go online
www.afren.com/operations



Key figures from across Afren

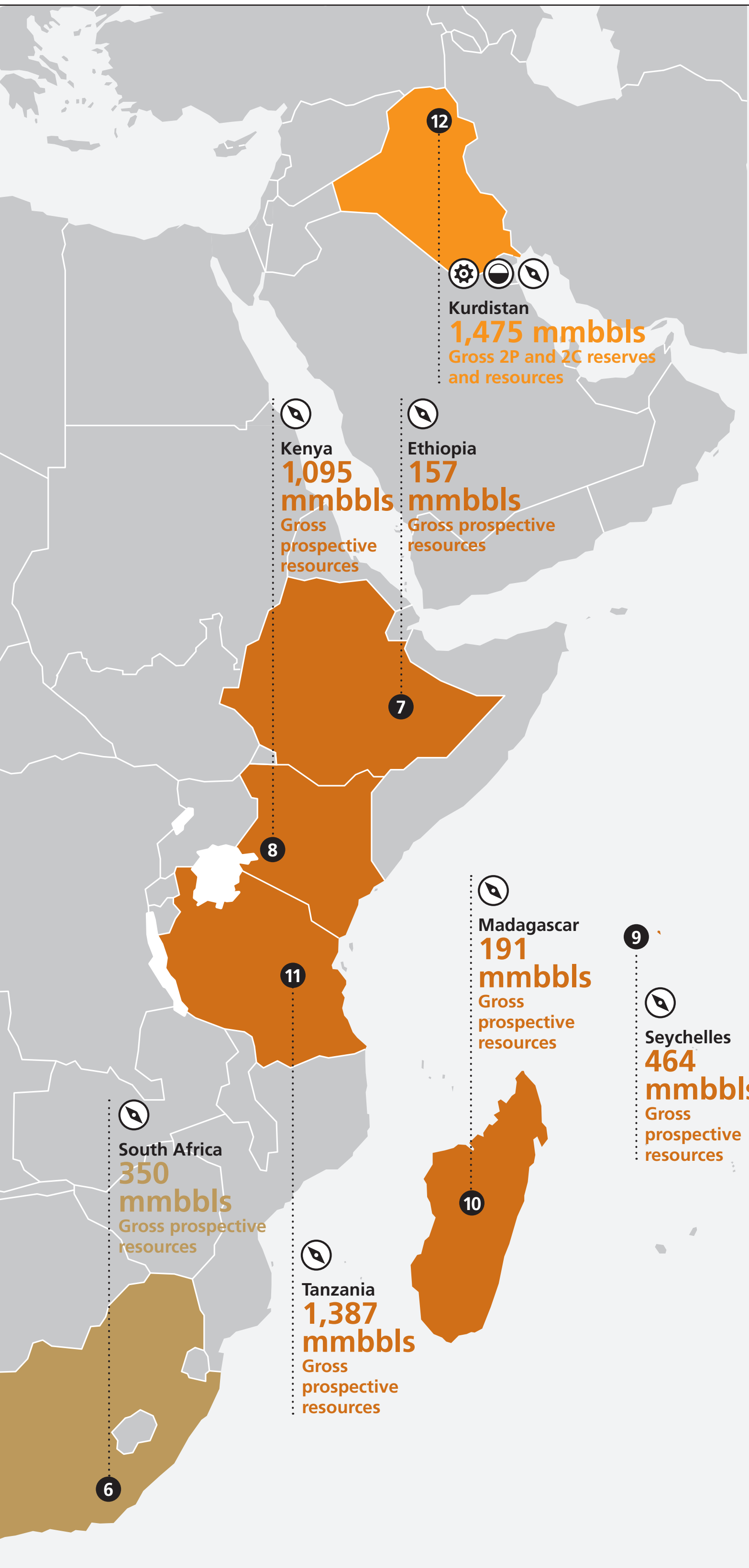
Countries with upstream assets held	12
Licences/Assets	29
Gross acreage ('000 sq km)	133
Employees	272
Development wells	24
2011 net working interest production (boepd)	19,154
Gross total reserves and resources (mmboe)	9,261

Group net reserves and resources mmboe



East Africa	2,113
Sub-Saharan Africa	1,346
Kurdistan region of Iraq	1,051

4,510 mmboe
Group net reserves and resources



12 Kurdistan region of Iraq

Highlights:

- Two Production Sharing Contracts: 60% operated interest in Barda Rash and 20% non-operated interest in Ain Sifni
- Large scale discovered but undeveloped resource base with low risk/high volume upside
- Low unit cost reserve growth (US$0.68 2P/2C bbl compares very favourably to other regional transactions during the period)
- The Barda Rash PSC is located 55 km north-west of Erbil. Production start up in 2012
- The Ain Sifni PSC is located approximately 70 km north-west of Erbil. Substantial low risk volumes in a proven oil bearing play
- Regional office in Erbil

7 Ethiopia

Highlights:

- Blocks located in the high potential Ogaden Basin
- Blocks 7 and 8 have good oil shows in Jurassic and gas shows in Triassic
- Work ongoing to further interpret the prospectivity of Blocks 7 and 8
- Seismic acquisition completed in 2010 with exploration drilling planned for 2012

8 Kenya

Highlights:

- Four Blocks in high potential rift and coastal basins – all have evidence of working hydrocarbon systems
- L17/L18 – coastal to shallow water marine setting. Exploration drilling in 2012 contingent on rig availability
- Block 1 – onshore acreage contiguous with Ogaden basin in Ethiopia; acquiring 1,200 km of new 2D seismic
- Block 10A – exploration drilling scheduled for 2012
- Regional office in Nairobi

9 Seychelles

Highlights:

- Three Blocks located on the Seychelles micro-continent
- Recently interpreted data indicates several 100 mmbbl plus leads in all three Blocks, as well as new basins with the potential to contain significant Jurassic sedimentary sections
- Main exploration target is the Permo-Triassic Karoo interval, which comprises non-marine sands inter-bedded with shales
- New seismic acquisition in 2011 ahead of exploration drilling

10 Madagascar

Highlights:

- Block 1101 is located on the Eastern flank of the Ambilobe basin onshore Northern Madagascar
- Three major structures mapped close to existing well with oil shows
- Proven oil accumulations in the Isalo formation in Central Madagascar at Bemolanga and Tsimiroro are evidence of large scale oil potential
- Afren's operated interest has increased to 90%
- Seismic acquisition and exploration drilling scheduled for 2013

11 Tanzania

Highlights:

- The Tanga Block is a 7,064 km² licence lying directly south of and adjoining Afren's Kenyan Blocks L17 and L18
- Large scale prospectivity and numerous additional leads identified
- Seismic acquisition completed and exploration drilling planned for 2012

Chairman's Statement

'Afren made good progress in 2011 and continues to grow in strength. We have assembled a world class portfolio of assets that offers significant potential across the full-cycle E&P value chain, and through our strategic foresight have secured positions in some of the world's most prolific and emerging oil and gas basins. We have a good track record of operational delivery, a strong financial framework and are well positioned for further growth.'

Egbert Imomoh,
Chairman

+633%

Increase in 2P and 2C recoverable reserves and resources base year-on-year

US$597 million

Record turnover in 2011

+34%

Increase in net working interest production year-on-year

Our vision and strategic priorities
Afren's vision is to be the leading independent E&P Company in each of the areas in which we operate. We also aim to be recognised as the partner of choice by all of our stakeholders, and have created a balanced portfolio of high quality upstream assets across the full-cycle E&P value chain.

In order to achieve our vision, we have identified clear strategic priorities focused on running our business and delivering efficient growth in a responsible way.

Low cost reserves growth
In July 2011 we announced the acquisition of two major assets in the Kurdistan region of Iraq – the Barda Rash and Ain Sifni Blocks. The acquisition, which is consistent with our strategy of acquiring low cost barrels, has increased our 2P and 2C recoverable reserves and resources base by over 633% at a cost of under US$1.0 per barrel and strategically means that Afren is now well positioned in two of the world's most prolific oil producing countries, Nigeria and Iraq. We were pleased to receive all requisite approvals for development of the large scale Barda Rash field in December 2011, and are now under way with the development of what is a truly world class asset. Furthermore, we completed the OML 26 acquisition through our 45% interest in First Hydrocarbon Nigeria (FHN), adding a significant reserves and resources base onshore Nigeria, fully funded by FHN.

Stable production platform
In 2011, we successfully delivered first oil from the landmark Ebok field development in just over two years from commencing appraisal drilling. We have also concurrently maintained production at the Okoro development (at levels which have exceeded our pre-start up expectations) as well as our operations in Côte d'Ivoire. In 2011, we achieved an average full production growth of 19,154 boepd (14,333 boepd in 2010).

We will continue to grow our production by developing the existing production and appraisal opportunities within our portfolio, whilst also pursuing high impact exploration targets in East and West Africa as well as the Kurdistan region of Iraq.

Record financial results
The Company benefited from increased production and a higher realised oil price in 2011, achieving record profits of US$125.4 million on turnover of US$596.7 million. During the year we raised US$184.5 million from an equity placing in support of our expansion into the Kurdistan region of Iraq and took the opportunity to access the bond market, allowing us to repay shorter-term facilities and at the same time reduce any potential over-reliance on a relatively limited number of lending banks in times of economic uncertainty.

High impact exploration campaign under way
We were delighted to be able to announce, post period end, that we made a successful start to our 2012 exploration drilling campaign with the Okoro East exploration well. The proximity of Okoro East to the producing Okoro main field means we are well positioned to monetise this discovery quickly and efficiently – both in terms of leveraging our detailed understanding of the subsurface and development track record in the area. We will be looking to replicate this success with further wells planned at our core Ebok/Okwok/OML 115 hub and will also participate in multiple high impact wells in key plays across the Kurdistan region of Iraq, West Africa Transform Margin and the rift and coastal basins of East Africa, each of which has the potential to materially increase our discovered resource base.

Key Performance Indicators
We measure the performance of the business with five KPIs that are designed to measure progress against our strategic objectives. In 2011 we realised strong year-on-year performance. More information on our KPIs and 2011 performance is included on pages 16 to 17.

The Afren team
As global demand for energy increases and competition for upstream oil and gas assets intensifies, we are witnessing similar trends in a tightening recruitment market with demand and competition for skilled and experienced people increasing. Industry surveys highlight that a growing skills shortage is now the greatest concern to employers within the industry, ahead of both economic instability and geopolitical risks. Afren's growth and success revolves first and foremost around the quality and commitment of our people – and the values to which we all subscribe, namely professionalism, dedication, creativity and respect. In order to ensure that we can attract and retain the best people, we have in place a remuneration policy that is necessarily competitive within the industry, and rewards exceptional performance with a balance between short- and long-term rewards and a comprehensive benefits scheme.

'We remain committed to developing local content in each of our operating areas and employ 178 people in Africa, of whom over 97% are local nationals.'

We continued to grow our team in 2011 with 86 new arrivals joining us during the year and opened two new regional offices in Nairobi and Erbil. Our total workforce grew to 272, up 30% year-on-year, of which all are full-time employees. We remain committed to developing local content in each of our operating areas and employ 178 people in Africa, of whom over 97% are local nationals. We will continue to evolve our employment practices and policies to ensure we are able to attract and retain the best talent, and are wholly committed to developing all our staff to their full potential.

Corporate Social Responsibility

At Afren, we aim to be a responsible and transparent business. Our CSR policies encompass our relationship with all stakeholders including shareholders, employees, contractors, local communities and host governments, as well as with the environments in which we work. We have successfully worked with the host communities in the areas in which we operate. A key strategic priority is the effective management of CSR policies across all operational areas.

During the year we implemented a number of key EHSS initiatives. These included developing a comprehensive Environmental, Health and Safety Management System across our portfolio and benchmarking ourselves against the Oil and Gas Producers' (OGP) annual average safety performance. Both reinforced our continuous improvement in EHSS, resulting in significant declines in the Total Recordable Injury Rate (TRIR) and Lost Time Injury Frequency (LTIR) of 79% and 91% respectively.

Since 2009, Afren has engaged the British Safety Council to independently audit our health and safety performance in Nigeria and Côte d'Ivoire based on rating performance in five key areas:

- Safety organisation
- Management control systems
- Emergency control systems
- Management of accident/incident reporting and investigation
- Workplace implementation.

We are pleased to report that we have achieved three out of five stars again in 2011, with 75% compliance with best practice. We have established challenging EHSS targets across all areas of our operation, against which we are well positioned to deliver.

In 2011 we continued to develop and implement social and economic capacity advancement programmes in our areas of activity. This year we have communicated more about our all encompassing CSR strategy, in particular the stakeholder engagement activities that provide a foundation for our wider CSR programme. More information on our CSR initiatives and performance in 2011 is included on pages 52 to 57.

Managing risks to our business

The monitoring and management of risks to the business are integral to Afren's organisational framework. So that we can continue to operate safely and effectively, we are constantly identifying and analysing potential risks that could adversely affect our ability to deliver against our objectives. At the same time, crucially, we map out our response should things go wrong.

We have a robust, solutions-based reporting system in place that enables the direct and timely reporting of risks to the Board of Directors. This focuses on specifying precisely what actions are required to help us continually improve risk mitigation and ensure we are equipped to deal with a constantly evolving operating and business environment.

So that we can identify all risks to the delivery of our strategy early and put mitigation measures in place, we are continuing to enhance our risk management process and to embed it in the organisation. We are therefore cascading the management of risks at all organisational levels to reaffirm that everyone is responsible for managing those risks that may impact their day-to-day work. More information on our risk management and performance in 2011 is included on pages 20 to 25.

Expanding the Board

In February 2012, Patrick Obath was appointed to the Board as a Non-Executive Director. Mr Obath, an East African national and senior energy industry practitioner, has held a number of senior management positions in a career spanning over 36 years, including 20 years with Shell International, Shell Kenya, Shell Tanzania and Shell Oil Products Africa. Mr Obath brings a wealth of expertise in corporate health, safety and environmental management, combined with significant East African experience. These attributes will prove invaluable as we move into an active operational phase across our exploration portfolio in Kenya, Tanzania, Madagascar, Ethiopia and Seychelles.

Group Code of Business Conduct

Your Board is fully committed to the principles of good corporate governance. These principles are detailed in Our Group Code of Business Conduct, which has been updated in line with the enactment of the Bribery Act 2010. The Code sets out the behaviour which Afren expects of its Directors, managers and employees, of our suppliers, contractors, agents and partners. We are committed to complying with all applicable legal requirements, to upholding the highest ethical standards and to acting with complete integrity at all times. Our employees and everyone that we work with create and support our reputation and ensure our progress and success. This Code demonstrates our commitment to ensuring that these high levels of conduct are maintained.

The Company has complied with the provisions set out in the UK Corporate Governance Code throughout the year and, where specific provisions may not appear to have been complied with, a full explanation is provided in the Corporate Governance statement on pages 64 to 72 of this report.

Outlook

2011 has been another year of growth and delivery for Afren. We have made good progress in all aspects of our business, in particular delivering significant year-on-year production and reserves growth and posting a record set of financial results. 2012 is also set to be an exciting year for the Company as we continue to pursue further growth opportunities and begin to unlock the true potential of our portfolio – both through our active field development, and exploration and appraisal drilling programmes.

Egbert Imomoh
Chairman

A strategy delivering long-term value

Our vision to be the leading independent upstream exploration and production company in each of the areas in which we operate is underpinned by a clear and consistent strategy – one that is designed to provide a framework for sustainable long-term growth across the full-cycle E&P value chain.

A closer look at our strategic priorities sets them in the context of Afren's growth to date. From the outset one of our key priorities was to establish a reliable platform of cash generative reserves and production that would lead us ultimately to a self funded forward work programme and creating value across the full-cycle exploration and production value chain.

» Vision

To be the leading independent Exploration and Production company

» Objective

To maximise shareholder value

» Strategy

Our strategy will be driven across five strategic priorities

To create a balanced and diversified portfolio of quality assets across the full-cycle E&P chain

Our Business Model

In alignment with our strategic priorities, our business model is designed to create and preserve long-term shareholder value through the development of a financially self-sufficient portfolio of assets spanning the full-cycle E&P value chain. Underpinning our business is a portfolio of producing assets that generates the cash flow we require to reinvest in and accelerate the development of further reserves and at the same time technically mature our exploration and appraisal asset base to drillable status.

At the core of this approach are high standards of governance, corporate and social responsibility, a detailed and methodical planning and financial management process to ensure we are investing our capital in the most efficient way and the operational execution and delivery of our forward work programme. The application of our business model is the responsibility of our senior management team and dedicated technical, financial, commercial, risk management and legal business functions, under the ultimate stewardship of our Board of Directors.

Delivering against our strategy

Throughout the Business Review, you can find a number of examples demonstrating how our strategic priorities have been applied. These are annoted by the use of the numbered icons:

1 2 3 4 5

Strategic priorities

Production growth 1

Organic reserves growth 2

Pursue materially accretive acquisitions 3

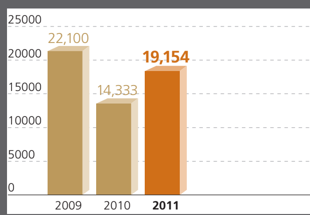
Operational efficiency and financial discipline 4

Corporate responsibility 5

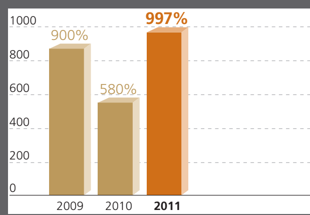
Read about our strategy in action
See page 14

Measuring our progress

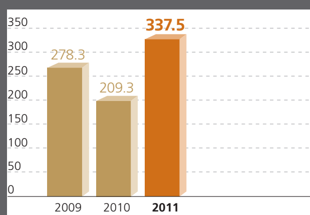
Net effective working interest production boepd



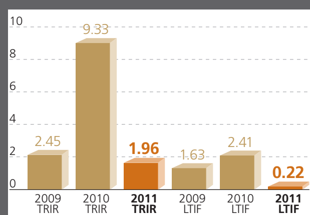
Reserves replacement ratio



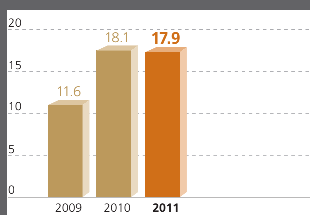
Operating cash flow
US$ million



Total Recordable Injury Rate and Lost Time Injury Frequency



Normalised operating cost per barrel US$/boe



For more on KPIs
see page 16

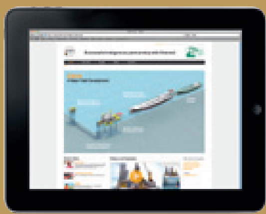
1

Production growth

Significant 2P + 2C reserves and resources base

Afren now has a portfolio in place capable of yielding sustainable, long-term production growth. Our net 2P/2C recoverable reserves and resources total almost a billion barrels of which only 7% has so far been developed and brought into production.

For more information go online
www.afren.com/ebok



Year-on-year production increase

Ebok – a successful partnership
We are developing Ebok through a phased approach. The initial stages are now complete and we have 14 wells onstream and a further four planned in 2012. Our partnership and working relationship with Oriental Energy Resources has been successful, also creating follow on opportunities at Okwok and OML 115.

Okoro – Optimising production and maximising oil recovery
Okoro is Afren's maiden greenfield development project. To date we have successfully operated one appraisal well and drilled nine production wells in partnership with Amni, an established indigenous oil and gas company. We achieved first oil in just two years from entry and output at the field has consistently remained ahead of pre start-up expectations, meaning that we are now on a trajectory towards what was the 3P recovery scenario at the time of start-up.

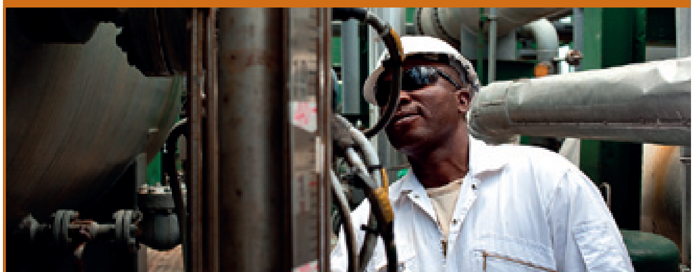
OML 26
OML 26 is a large scale redevelopment opportunity. FHN completed the acquisition of a 45% interest in December 2011. Afren is the Technical Services Provider to FHN and also a 45% shareholder.

2

Organic reserves growth

Transitioning 2C resources to 2P reserves – creating predictable reserves generation

A key opportunity for us over the near to medium term is to convert a substantial volume of our currently defined 2C resource base into 2P reserves. This will be achieved through the progressive investment in and development of our key projects in Nigeria and the Kurdistan region of Iraq that hold the majority of our 2C resources. Our portfolio today is capable of being a predictable reserves generator of scale for many years to come.



Most active exploration period in our short history

2012 is our busiest exploration period to date. We plan to drill up to 14 exploration and appraisal wells, which will target over 800 mmbbls of net unrisked prospective resources.

Our dedicated team of explorationists have responsibility for identifying exploration ideas, prioritising our prospect inventory and ensuring efficient deployment of capital and execution of our exploration data gathering and drilling activities. Our exploration strategy is play led and balanced across three key themes:

- Exploration in proven areas, which are low risk and quick to monetise
- Proven play concepts that offer significant upside, with moderate risk
- Higher risk frontier areas with play opening possibilities and potentially large rewards

Our 2012 exploration campaign got off to a successful start at Okoro East and includes further high impact wells in Ghana, Nigeria, the Kurdistan region of Iraq, Kenya and Tanzania – all of which could materially transform our discovered resource base.

For more on our strategy see page 12

3

Pursue materially accretive acquisitions

Accessing low cost reserves

We have been successful in achieving low entry and acquisition costs by focusing on areas where we are strategically and competitively advantaged.

These include areas where:

- There are proven working hydrocarbon systems
- Opportunities have been overlooked, under-developed or may be out of reach to much larger companies
- We have an in-depth understanding of the subsurface, key relationships or a local structure we can leverage.

As an agile independent with a successful track record we can move swiftly – a hallmark of our growth to date being a willingness to take 'early mover' advantage when the opportunity merits it.

Acquisition in the Kurdistan region of Iraq

The most recent example of this is our acquisition of interests in two contiguous Production Sharing Contracts (PSCs) in the Kurdistan region of Iraq. We now have a 60% participating interest in the Barda Rash PSC and a non-operated 20% participating interest in the Ain Sifni PSC. The total acquisition cost of US$588.4 million equates to just US$0.68 per 2C barrel, and is significantly below the values of other comparable transactions in the region during 2011.

This acquisition is a highly complementary extension to our existing portfolio and an opportunity to transfer our core development and production skill set we have developed in Africa over the past seven years. The assets offer a compelling combination of both near-term development upside and substantial low risk exploration potential.

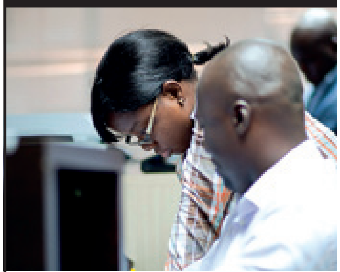
Tanzania and South Africa
In 2011 we also expanded our African exploration portfolio through the acquisition of interests in the Tanga Block offshore Tanzania and Block 2B offshore South Africa.

4

Operational efficiency and financial discipline

Increased financial flexibility

Increased production means that we now have significant cash flow generation in excess of forward capex. This gives us significant financial flexibility to develop our portfolio and support growth.



Robust capital structure

Afren's prudent approach to planning has resulted in a robust capital structure and firm financial control, which will provide a solid foundation for future growth.

At 31 December 2011, we had US$292 million of cash, augmented by a thriving, cash generative portfolio. Hedges are in place for 2012, providing a minimum floor price of US$80/bbl – US$90/bbl over circa three mmbbls production.

We have a clear debt reduction schedule, with the majority of debt due in 2016. We have also looked to implement a more balanced debt strategy and have become the first E&P company to gain access to the bond market. At year-end 2011, our net debt (excluding finance leases) was US$548 million. Our capital structure was further strengthened by the completion of a second secured Bond issue, with proceeds of US$300 million, in February 2012.

5

Corporate responsibility

CR: The Afren approach

Corporate responsibility (CR) continues to be a critical focus area. We are committed to ensuring that Afren is recognised as a responsible organisation with high standards of CR performance.

Maintaining these standards will ensure that the business grows successfully for the benefit of all stakeholders, whose concerns and aspirations we must understand if we are to develop long-standing, successful relationships.

How we measure our progress

We measure our progress through five KPIs that are closely aligned with delivering our strategy.

Strategic priorities

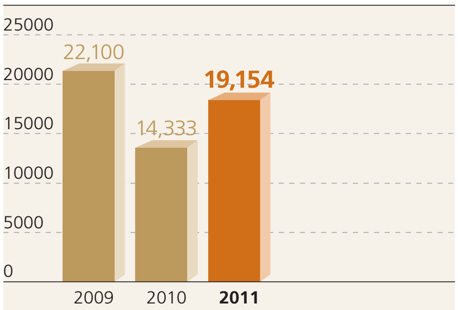
For more on our strategy see page 12

1. Production growth
2. Organic reserves growth
3. Pursue materially accretive acquisitions
4. Operational efficiency and financial discipline
5. Corporate responsibility

Net effective working interest production boepd

Delivering on our strategy

1 2 3



19,154 boepd

+34%

Measure and performance

19,154 boepd (2010: 14,333 boepd)

+4,821 boepd (34%) year-on-year.

Definition

Our share of working interest oil and gas production during the year.

Relevance

An indicator of our production growth from existing assets, and the impact of organic and acquired reserves growth on production in the year.

Progress

Net production has been primarily influenced by the start of production at Ebok and the completion of the Okoro infill wells.

This growth has been offset by a reduction in working interest production from Okoro following the completion of cost recovery in 2010.

Outlook

The Company expects that, with a full year of production from Ebok and the success of future projects, production growth will continue in 2012 and beyond.

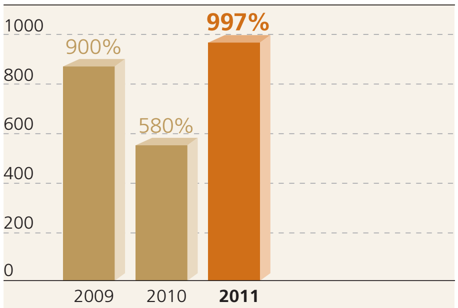
Risk management

The in-depth geological understanding of our assets and close monitoring and planning of production performance and simultaneous operations help us to guard against unplanned interruptions and maximise production.

Reserves replacement ratio

Delivering on our strategy

2 3



997%*

+417ppts

Measure and performance

997% (2010: 580%)*

Definition

The ratio of the number of barrels of oil equivalent discovered and acquired compared to the number produced over the course of the year.

Relevance

An indicator of our ability to replenish reserves through both the success of our exploration and evaluation programme and inorganic acquisitions.

Progress

Reserves increases have again been significant, driven largely by the acquisition of our interest in the Barda Rash PSC.

Outlook

Despite increased production being expected from Ebok in 2012, the significant exploration and appraisal programme planned for 2012 and the development of Okoro East has the potential to generate high reserves replacement throughout the course of the coming year.

Risk management

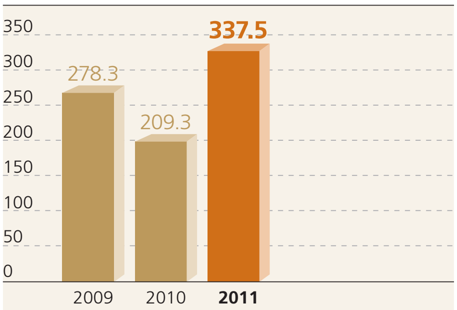
Exploration risks are managed through our wide portfolio of assets, with each asset being subject to rigorous peer review and detailed evaluation of prospects. In addition, the Directors will continue to consider materially accretive acquisitions to supplement organic reserves growth, if deemed appropriate.

* Includes Okwok contingent resources which are subject to final developments approvals.

Operating cash flow
US$ million

Delivering on our strategy

1 4



US$338 million
+US$129 million

Measure and performance
US$338 million (2010: US$209 million)

+US$129 million (62%) year-on-year increase

Definition
Cash flow in the year before taking into account movements in respect of capital expenditure and other investments in our exploration and evaluation, production assets and financing activities.

Relevance
An indicator of our efficiency in generating cash from the operating profits of the business.

Progress
This reflects an increase in operating profit for the year compared to 2010, following the start of production at Ebok and higher realised oil prices.

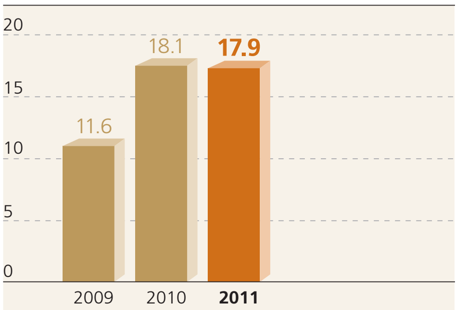
Outlook
Production growth and strong realised oil prices are expected to lead to increased operating cash flows in 2012.

Risk management
Tight controls over expenditure and detailed monitoring of cash flows enable us to ensure positive cash generation from our operating activities.

Normalised operating cost per barrel
US$/boe

Delivering on our strategy

4



US$17.9/boe
-US$0.2/boe (1% decrease)

Measure and performance
2010: US$18.1/boe

2011: US$17.9/boe

Definition
The operating cost for all fields divided by the total boe produced in the period. Ebok costs and production are included from Q4 2011 onwards being the point at which uninterrupted levels of production were achieved.

Relevance
An indicator of the efficiency of our production in the period.

Progress
Several factors have influenced the operating cost per barrel in 2012. The effect of the production ramp-up at Ebok was offset by a decrease in gross production at Okoro.

Outlook
Although we expect a certain level of operating cost increases year-on-year, particularly at Okoro, a full year of production at Ebok is likely to lead to a lower operating cost per unit in 2012.

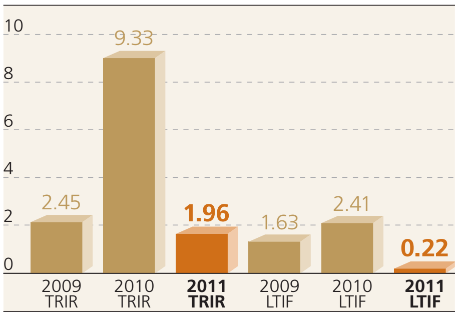
Risk management
Budgets are set on an annual basis and continually monitored throughout the year to identify and eliminate the cause of potential cost over-runs.

Our operations team is committed to identify and implement areas of efficiency in the production process.

Total Recordable Injury Rate and Lost Time Injury Frequency

Delivering on our strategy

5



1.96 TRIR and 0.22 LTIF

Measure and performance
Total Recordable Incident Rate (TRIR)

Lost Time Incident Frequency (LTIF)

TRIR: 1.96 (2010: 9.33)

LTIF: 0.22 (2010: 2.41)

Definition
The number of lost time or recordable incidents (the total of fatalities, lost time, restricted workcase, and medical treatment cases) per million man hours worked.

Relevance
Both KPIs are a direct measure of safety performance and have well-established benchmarks within the oil and gas industry, in particular as published annually by the Oil and Gas Producers Association (OGP).

Progress
Performance during 2011 has shown a strong improvement in both the LTIF and TRIR, with both KPIs showing a significant and sustained decrease over the 12-month period. This has been achieved through a rigorous programme of auditing and supervision of key contractors during the period of installation, hook-up and commissioning of the Ebok production facilities.

Outlook
We will continue to monitor both LTIF and TRIR as KPIs of safety performance and to benchmark ourselves against industry standards. In addition we will also look towards more proactive indicators of safety performance in a drive to avoid injuries in the workplace.

Risk management
Injury to our workforce is a major risk to our business both in absolute terms resulting from consequential losses, but also from the reputational damage this causes to Afren's name.

Performance metrics

We also use a number of performance metrics to help us monitor our progress.

Strategic priorities

For more on our strategy see page 12

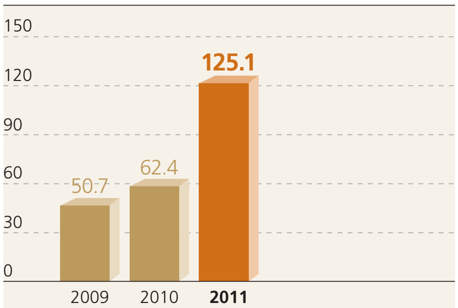
1. Production growth
2. Organic reserves growth
3. Pursue materially accretive acquisitions
4. Operational efficiency and financial discipline
5. Corporate responsibility

Normalised profit after tax

US$ million

Delivering on our strategy

1 4



US$125 million

+US$63 million

Measure and performance

US$125.1 million (2010: US$62.4 million)

+US$62.7 million (100%) year-on-year increase

Definition

Profit for the year adjusted to remove costs in respect of one-off and non-trading related items.

Refer to note 7 of the financial statements for a reconciliation between normalised profit after tax and the profit after tax reported on an IFRS basis.

Relevance

An indicator of operational and financial performance in the year, with one-off and non-cash items removed.

Progress

Normalised profit after tax has significantly increased year-on-year due to Ebok production, and the increase in oil price realised in the period.

Outlook

Assuming oil prices remain at their current level, a full year of production at the Ebok field is expected to underpin a positive outlook for Afren in 2012.

Risk management

Continued profitability can be achieved through the effective implementation and execution of Afren's strategy and business plan.

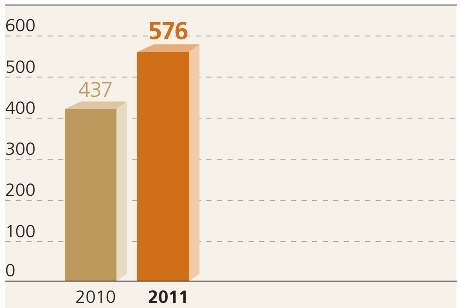
The business is well placed to achieve further growth in profitability in 2012.

Capital expenditure

US$ million

Delivering on our strategy

1 4



US$576 million

+US$135 million

Measure and performance

2010: US$437 million

2011: US$576 million

Definition

Capital expenditure in the year, excluding the acquisitions of the Group's interests in Barda Rash and Ain Sifni and finance leases but including capitalised interest costs.

Relevance

An indicator of our investment in exploration and development.

Progress

Our development expenditure has ensured that the Ebok field had reached targeted production rates by the end of 2011.

We have continued to invest in our exploration activities in areas such as Ghana, Nigeria and East Africa.

Outlook

We will continue to invest in both development and exploration in 2012.

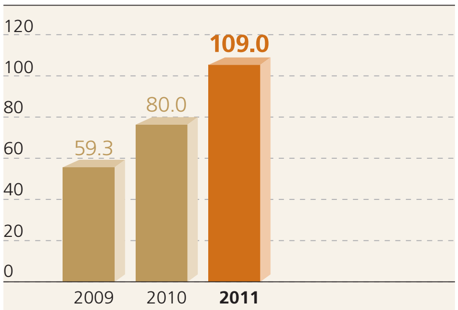
Risk management

Project finances are closely monitored against carefully planned capex budgets to ensure that expenditure is focused on value-adding projects and that overruns are minimised.

Realised oil price
US$/bbl

Delivering on our strategy

4



US$109/bbl

+36%

Measure and performance
US$109/bbl

+36% year-on-year increase

2010: US$80/bbl

Definition
The average price achieved, per bbl, through sales of oil made during the period.

Relevance
Strongly linked to financial performance, in particular our revenue earned.

Progress
Oil prices continued to strengthen throughout 2011.

During the year, the Company realised an average oil price of US$109/bbl, which was equivalent to the average Brent price for the year (2010: US$80/bbl, average Brent price of US$79.5/bbl).

Outlook
The key driver to realised oil price is the underlying Brent price, which is subject to volatility.

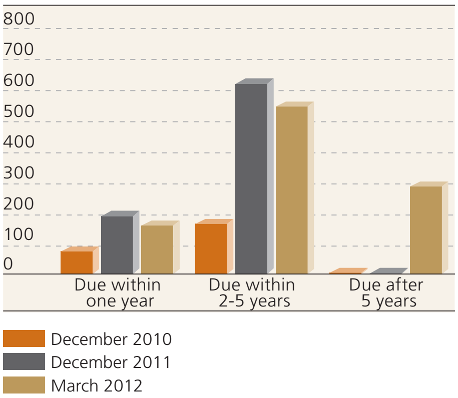
To date, oil prices in 2012 have remained above the average price achieved in 2011.

Risk management
We will continue to manage exposure to oil price volatility through the use of hedging instruments to protect against downside risk.

Debt maturity
US$ million

Delivering on our strategy

5



Measure and performance
March 2012: 83% of debt due after more than one year.

December 2011: 76% of debt due after more than one year.

December 2010: 67% of debt due after more than one year.

Definition
The maturity of our borrowings and other debt facilities.

Relevance
An indicator of our capital structure, future commitments and financial flexibility.

Progress
The high yield bond issues in January 2011 and February 2012, together with the equity placing in July 2011, have enabled us to restructure our debt profile and provided considerable financial resources to take forward.

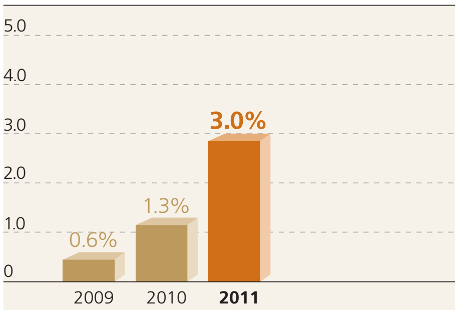
Outlook
We will continue to review our capital structure to further optimise our sources of funding and to fund future growth.

Risk management
Future cash requirements are monitored against the production curve and operational and capital expenditure needs.

Staff turnover
%

Delivering on our strategy

5



3.0%

+1.7 ppts

Measure and performance
3.0% (2010: 1.3%)

Definition
The rate at which staff choose to leave Afren voluntarily (e.g. for a job with a different company, etc), as opposed to a forced termination (e.g. dismissal or redundancy).

Relevance
Shortage of key skills; recruitment and transition costs; loss of production.

Progress
Voluntary turnover is still relatively low when compared to our peer group (especially for technical and operational disciplines), indicating that Afren remains an employer of choice.

Outlook
The industry is facing skills shortages in some key areas (e.g. geosciences, engineering and drilling) with increased costs and competition for these resources.

Risk management
Monitoring of industry pay levels, benefits and bonuses. Implementation of creative reward initiatives to continue to provide competitive salaries and packages.

Risk management process

Afren's approach to business risk management has continued to evolve during 2011 in response to changes in the business and operating environment.

Risk overview

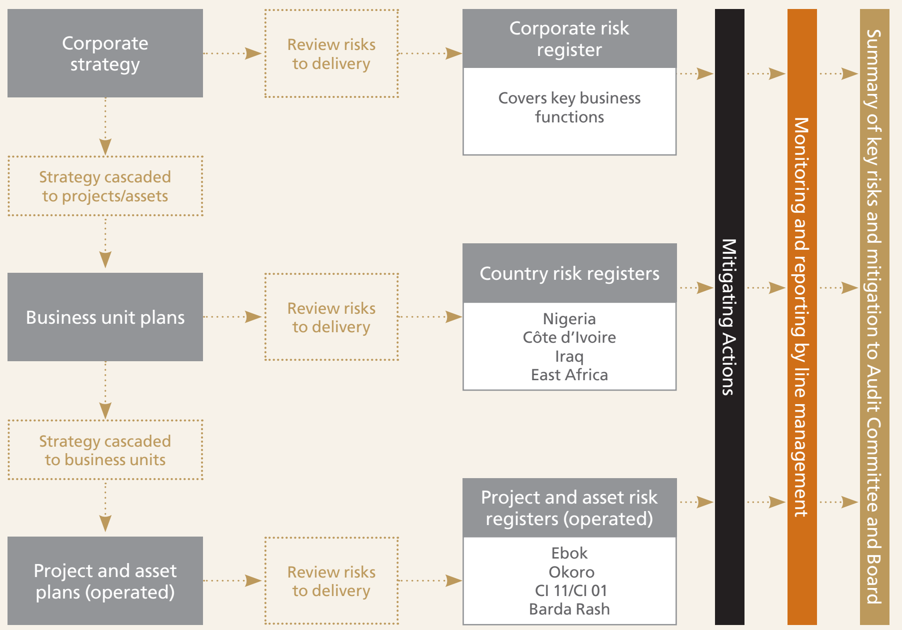
The key objectives of early identification of risks, effective implementation of mitigation measures and active monitoring and review are central to our risk management process.

This has been achieved through close and continuing co-operation between the Risk Management and the other business functions, in particular the operations team. Ongoing monitoring of our business risks will ensure that shareholder returns are maximised from our diverse and dynamic portfolio.

Our risk management process continues to be refined as we implement it across the business. The key steps in the process are illustrated below and this approach has been used at a corporate level and has been cascaded down to our Nigerian operations and to several projects.

Risks are identified and assessed in the context of our business plans and the risk registers that are generated are monitored and actioned by functional and line managers. The Audit and Risk Committee of the Board are then regularly appraised of progress on implementing the risk management system and the steps that have been taken to mitigate the significant business risks.

Process for ongoing Risk Management



Key activities during 2011

2011 saw a major focus on managing the risks associated with Ebok drilling and development activities. The installation, commissioning and early production ramp-up from the central Ebok facilities and West Fault Block development were all subject to the risk review process and followed up by rigorous monitoring of actions to ensure that targets were met.

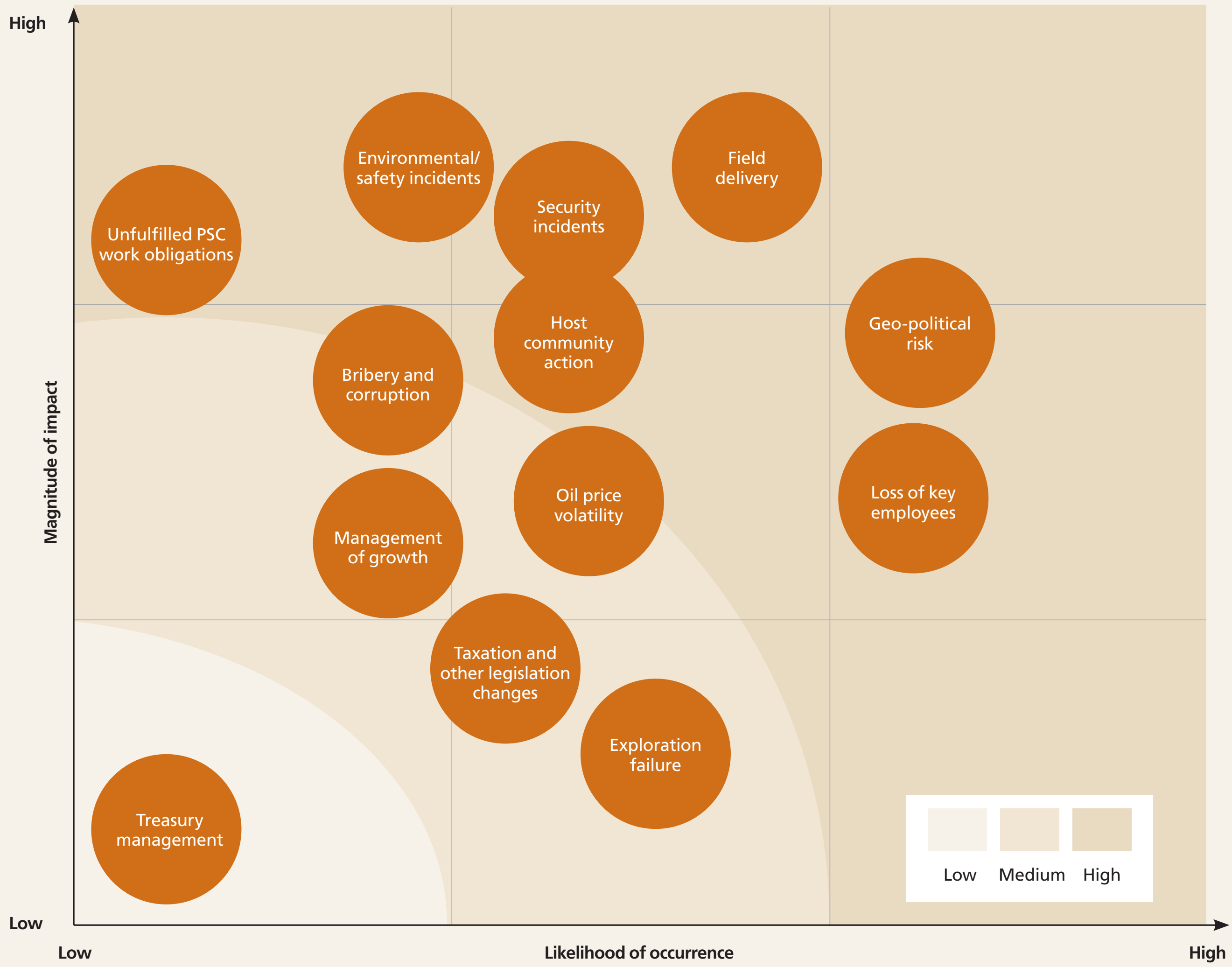
The management of security risks has also been under the spotlight and a structured process has been implemented for carrying out security risk assessments. This process necessarily involves wide participation from partners, contractors and external stakeholders in order to provide a baseline for managing security risks for our operations. The process has been used to validate the security arrangements for our offshore operations in Nigeria and the upcoming exploration activities in East Africa.

Our acquisition programme saw the mid-year addition of assets in Kurdistan. As a new country entry this acquisition poses different, if similar risks to those faced in our core African operations and as such, was subject to wide reaching risk assessment. The proposed development project for the Barda Rash field has been through a detailed risk review focusing on the well workover programme and plans for early production facilities. The risk mitigation measures will be incorporated into the overall project plan and actions will be tracked through the regular project review meetings.

Progress on implementing the Afren Business Risk Management System was reviewed regularly throughout 2011 with the Audit and Risk Committee. The Committee were updated on the output from specific risk assessments and the mitigation measures that were implemented.

For more on impact vs. likelihood
See page 22

What are our key risks?



2012 Outlook

The East Africa Exploration portfolio is also an area where we have been reviewing the risks associated with exploration activities both on- and offshore ahead of commencing operations. The detailed planning for the seismic and drilling activities targeted for 2012 has taken account of the identified risks and will help ensure a successful exploration campaign.

The major goal for 2012 is to further strengthen the linkage between our corporate strategic objectives and the risk management programme. This will ensure alignment between business plans, budgets and employee objectives and will cascade the accountability for risk management down to individuals.

Afren is operating in a fast moving and dynamic environment with geo-political and operational risks that require constant monitoring and response. It is essential that the approach to risk management mirrors this reality and is flexible and responsive to the business needs. At the end of the day this requires a collaborative approach with all our key stakeholders in order to effectively manage and mitigate the risks.

Principal risks and uncertainties

We have identified the following principal risks and uncertainties in relation to the Group's financial and operational performance in 2011.

Key risk	Description and impact	How do we manage it
OPERATIONAL RISK		
Field delivery risk	• Field delivery risk applies to all phases of the E&P cycle from seismic acquisition through to production operations. At each phase the mitigating measures will be different, however failure to control risks will manifest itself as project delays, cost overruns, high production costs, early field decommissioning and ultimately lower than expected reserves.	• All operations are subject to risk reviews to identify as early as possible potential risks to delivery. • Our engineers analyse results from appraisal and development wells and determine the appropriate course of action in terms of drilling programme and facility design. • All projects are closely monitored to ensure the project delivers against plan and to enable actions to be taken to maintain progress. • Project finances are monitored against budget to minimise overruns. • Production operations are closely monitored to ensure that unplanned downtime is minimised and that operating costs are tightly controlled. • Actual production is regularly checked against the annual production forecast.
Exploration failure	• Exploration activities can be capital intensive and may involve a high degree of risk. Sustained exploration failure will impact the growth and upside potential of the Company.	• A dedicated team has been established under the leadership of the new Exploration Director, to exploit the exploration portfolio. • Exploration assets are subject to a rigorous peer review process. • Exploration risk is evaluated for each prospect by looking in detail at how to de-risk the key elements of the subsurface data, source rock, reservoir, trapping and seal mechanisms, etc. Prospects are subsequently ranked and budgets approved. • Exploration costs are funded by planned operational cash flows in 2012.
Environmental/ safety incidents	• As Afren's activities expand there is a continuing focus on preventing major pollution and/or significant loss of life due to systems or equipment failure. We have implemented EHSS management systems based on best industry practice at both the corporate and country level.	• Afren has a comprehensive EHSS management system with an annual independent audit programme to ensure effective implementation. • Dedicated EHSS teams in each area of operation. • Contingency plans in place.
Unfulfilled work/ PSC obligations	• Loss of production interest or exploration licence due to incomplete fulfilment of work or PSC obligations.	• The operations, finance and legal teams jointly monitor compliance with licence obligations. • Maintenance of good open working relationships with local governments in the countries of operation.
EXTERNAL RISK		
Geo-political risk	• The countries in which Afren operates face political, socio-economic and legal uncertainties. • 2011 has seen some ethnic tension and public protests in Nigeria. These events have not impacted Afren operations. • In Côte d'Ivoire there was civil disruption throughout 2010 and 2011 following the disputed election. The situation ultimately ended with the change in government in mid 2011. The country is gradually returning to a state of peace and stability. • In the Kurdistan region of Iraq there are geopolitical and legal uncertainties, particularly associated with the licensing framework and ability to export.	• Ongoing monitoring and close liaison on the ground to monitor the situation from an Afren safety and security perspective. • Contingency plans in place.
Security incidents	• Afren continues to operate in regions where kidnapping, piracy and criminal attacks are commonplace. • As we move into exploration activities in East Africa and development in the Kurdistan region of Iraq management of security risks will continue to be a major strand in our risk management programme.	• Dedicated security teams in each area of operation. • Robust security management programme. • Security risk assessments for each asset and operation.
Host community action	• Our operations both on and offshore have the potential for interruption by our host communities if relationships are not well established.	• Afren has a tried and tested system for managing community affairs which is applied to all operations. • Dedicated community affairs teams are in place where required. • Contingency plans in place.

Strategic priorities

For more on our strategy see page 12

1 Production growth
2 Organic reserves growth
3 Pursue materially accretive acquisitions
4 Operational efficiency and financial discipline
5 Corporate responsibility

KPI/Performance metric	Strategic priorities	Responsibility	See also	Change	Assessment
Capital expenditure Operating cost per barrel	1 2 4	**Chief Operating Officer**	Operations Review	—	High
Reserves replacement ratio Full finding cost	1 2	**Exploration Director**	Operations Review	—	Medium
LTIF TRIF Number of spills	5	**Head of EHSS**	Corporate Social Responsibility	—	High
Work plan and budget	4	**COO**	Operations Review	—	High
Civil/political unrest	4 5	**Country MDs**	Operations Review	—	High
Security incidents	4	**Head of EHSS**	Corporate Social Responsibility	↑	High
Host communities incidents Development spend		**Head of EHSS**	Corporate Social Responsibility	—	High

KPIs and Risk Management

Principal risks and uncertainties

Key risk	Description and impact	How do we manage it
EXTERNAL RISK CONTINUED		
Oil price volatility	• Oil prices can fluctuate significantly.	• The policy of the Group is to protect its minimum cash flow requirements in the context of a sustained downturn in oil prices. • The Group strategy to manage oil price risk is to hedge between 20-30% of the production curve by using financial instruments which allow the Group to protect the downside risk.
STRATEGIC RISK		
Bribery and corruption	• 2010 saw the introduction of the UK Anti-bribery and Corruption Act. As an oil and gas operator working in Africa, Afren is potentially exposed to accusations of poor practise in this important area of business.	• Afren has implemented a Code of Business Conduct across all its operations. • An independent whistle-blowing hotline has been established to enable concerns about poor practise to be voiced without the fear of reprisal. • Additional policy and processes have been established to meet the stringent requirements of the UK anti-bribery and corruption legislation. • Audit and Risk Committee in place to review governance and internal controls. • Risk Management function working with key functions in the business.
Management of growth	• As the business continues to grow, so does the requirement for competent personnel with the right skills in the right place at the right time. Failure to manage either organic growth or to integrate acquisitions will result in delays and other impacts on key objectives.	• All acquisitions are subject to thorough due diligence in order to deliver an attractive integration plan. • Remuneration policies are designed to incentivise, motivate and retain key employees as well as to attract new personnel as and when required.
Loss of key employees	• Loss of knowledge and skills to the Group in particular in countries of operation. • Intensified competition for human talent in Africa and the Middle East. • Inability to attract required quality of personnel to fill vacancies. • Afren has continued through 2011 to minimise the staff turnover rate and to recruit highly talented individuals when required.	• Succession planning is considered on a Group-wide basis, taking into account the development of the executive and senior management. • Remuneration policies are designed to incentivise, motivate and retain key employees including Directors. • Salaries and reward of senior executives, including Directors, set at competitive levels using third-party benchmarks.
FINANCIAL RISK		
Taxation and other legislation changes	• There is a risk that future changes impact our profitability.	• Our financial and legal teams monitor current legislation and proposed changes and incorporate these into our working practices. • Maintenance of good open working relationships with local authorities in the countries of operation.
Treasury management	• The availability of financing to maintain the ongoing operations of the business is key.	• The Group has utilised a number of sources of capital to supplement cash generated from operations, through the bond issues in January 2011 and in February 2012 and an equity placing in July 2011. The Group will continue to optimise its capital structure during 2012 to provide further financial flexibility to fund the Group's operational requirements. • The Group continues to manage its expenditure and monitor cash flows to ensure that future cash requirements are appropriately controlled.

Strategic priorities

For more on our strategy see page 12

1. Production growth
2. Organic reserves growth
3. Pursue materially accretive acquisitions
4. Operational efficiency and financial discipline
5. Corporate responsibility

KPI/Performance metric	Strategic priorities	Responsibility	See also	Change	Assessment
Oil price achieved	4	**Finance Director**	Finance Section	—	Medium
Number of whistle blowing incidents	5	**Group General Counsel**	Business Ethics Section	—	Medium
Staff turnover Inability to recruit for key positions	3 5	**Chief Executive**	Corporate Social Responsibility	↓	Medium
Staff turnover	5	**Head of HR**	Human Resources Section, Remuneration Report	↑	High
Effective tax rate	4	**Finance Director**	Finance Section	—	Medium
Liquidity	4	**Finance Director**	Finance Section	—	Low

Chief Executive's Statement

"The 2011 results reflect the growing maturity of our business, with record net profit of US$125 million, up 172% on 2010 and an increase of 2P reserves by 132% to 185 mmboe. We have a made a successful start to our multi-well exploration campaign for 2012 with a significant new discovery offshore Nigeria. We have a visible production trajectory to 100,000 boepd by 2017 and a mature capital structure that will internally fund both organic and inorganic opportunities.

Since the Company was listed in 2005, we have demonstrated strategic foresight and taken significant positions in Nigeria, East Africa and the Kurdistan region of Iraq, at a cost of entry highly accretive to our shareholders, coupled with a strong track record of operational delivery."

Osman Shahenshah,
Chief Executive and Founder

Strategic priorities

For more on our strategy see page 12

1. Production growth
2. Organic reserves growth
3. Pursue materially accretive acquisitions
4. Operational efficiency and financial discipline
5. Corporate responsibility

US$597 million
2011 turnover

995 mmboe
2P and 2C reserves and resources

Significant reserves growth

2011 was a defining year for Afren, and one of continued delivery and growth – a period in which we expanded our portfolio by three assets to 29 assets across 12 countries. In the process we increased our net 2P reserves by 132% to 185 mmboe and at a cost of less than US$1/bbl – well within our targeted range of under US$4/bbl. Our production increased by 34% year-on-year to 19,154 boepd, and, although a longer than expected period of facilities-related downtime at the Ebok field held back our average annual rate, we still exited the year ahead of target. 2011 undoubtedly presented us with installation related challenges, while undertaking simultaneous operations, at the major Ebok field development. I therefore take great encouragement from the way we worked tirelessly as a team to overcome them, and still deliver the project in a fast-track timescale that few other operators would be able to match.

Strong production performance

Afren's highlight of 2011 was delivering first oil at the major Ebok field development offshore South East Nigeria, this important landmark being achieved in just over two years since the Company first started appraisal drilling at the field. At the same time, we have successfully maintained oil production at the Okoro field at levels well in excess of pre start-up expectations and also continued to manage mature production at our operations in Côte d'Ivoire, in line with expectations. The Company now has a commanding presence offshore South East Nigeria and is firmly positioned as a leading independent upstream operator in the region.

Onshore Nigeria, First Hydrocarbon Nigeria (FHN) successfully completed the acquisition of OML 26 from the SPDC Joint Venture. We will realise the benefit of current and future production growth at OML 26 through our 45% shareholding in FHN.

The combined performance of our producing assets in 2011 yielded full year average production of 19,154 boepd (compared to 14,333 boepd in 2010). Taking into account the weighting of Ebok production in our portfolio, and the requirement in 2012 to manage simultaneous operations associated with the field's ongoing development, we expect to produce between 42,000 boepd and 46,000 boepd in 2012.

We have a pipeline of large scale development projects and multiple exploration and appraisal wells planned that we expect to bolster this inventory further, allowing us to continue to grow our production base into the foreseeable future.

Nigeria – our engine for growth

Nigeria has provided the opportunities for us to grow and establish Afren as a leading independent E&P company and as a partner of choice. Ultimately, it has also given us the track record and credentials that allowed us to expand across and beyond Africa. Simply put, Nigeria is our heartland and its attraction is clear. At a fundamental level, Nigeria is the most prolific oil and gas producing nation in Sub-Saharan Africa, accounting for around 80% of proved oil and gas reserves discovered to date across the region. The sheer scale of the resource base and numerous partnership opportunities, coupled with our strong ties and Nigerian management, mean that we are firmly in Nigeria for the long-term. Furthermore, Afren's key early priority was to establish a solid platform of cash generative reserves and production that would enable us to build and grow the business on a sustainable basis. Nigeria lends itself perfectly to the achievement of this objective. In particular, we had identified that there are a large number of discovered but undeveloped oil fields in Nigeria that have been licensed to indigenous operators or are peripheral within the Major IOCs' portfolios, and that opportunities exist for an aligned partner to assist in the effective development and monetisation of these assets by providing access to capital and the necessary technical and operational capacity.

We took our partnership model to the next level by establishing FHN, an indigenous company in which Afren holds a 45% interest and for whom we act as Technical Services Provider. In 2011 FHN completed the acquisition of a 45% interest in the major onshore Block OML 26 from the SPDC Joint Venture, crystallising a new and innovative dimension to our long-term growth plans in Nigeria. The completion of the transaction is further evidence that, as pressure mounts on the incumbent asset holders to optimise development of Nigeria's national hydrocarbon resources and develop local capacity, a secondary asset acquisition and divestiture market is opening up in the country. The transaction is also a strong endorsement of the progressive role that independent E&Ps such as Afren can play in achieving this goal.

I am proud to be able to say that we have now successfully delivered two high quality Nigerian development projects in Ebok and Okoro, and built a portfolio of six further development, appraisal and exploration projects. These will ensure we continue to organically grow our reserves and production base in Nigeria for many years to come. Furthermore, we are now in a better position than ever to capitalise on new partnership opportunities that may present themselves. These include those currently held in joint ventures between the Nigerian Government and Major IOCs, assets that could be connected to future indigenous licensing rounds, and assets of other Nigerian companies if appropriate. The future for us in Nigeria is bright.

Transferring our core skills with expansion into the Kurdistan region of Iraq

Our most significant strategic move in 2011 was undoubtedly our expansion into the Kurdistan region of Iraq. We are an entrepreneurial Company and take a long-term view of growing our business. We play to our strengths by leveraging our relationships and expertise to access new basins in areas where we can gain a strategically and competitively advantageous position – always willing to move ahead of the curve for the right opportunities. Afren is now the most active international independent E&P in Nigeria, and also in East Africa where we have assembled a highly attractive acreage position in some of the region's most sought after play fairways.

Thematically, the Kurdistan region of Iraq shares similarities with the Nigerian opportunity set. Although oil has been discovered in abundance and plays proven, the region has nevertheless been overlooked by, or remained out of reach for, much larger international companies. This has created a window of opportunity for smaller, agile independents to secure assets with world class potential. For us, it is a prime opportunity to transfer and deploy the fast track development and production capabilities that we have developed in Nigeria, and deliver a complementary additional production stream to the business. The acquisition is consistent with our strategic priorities and has delivered independently certified net 2P/2C resources of 868 mmbbls at US$0.68 per 2P/2C bbl – well below other regional transaction values during the year.

2012 will see us focus on development of the major Barda Rash field, and progressive transitioning of 2C resources into 2P reserves and production. We have received all requisite approvals for the Field Development Plan associated with approximately 500 mmbbls of light oil at Barda Rash. There we plan to commence production this year from existing well stock and ultimately seek to deliver up to 125,000 bopd over the medium term. We will also continue to explore the highly prospective Ain Sifni block as part of our broader exploration and appraisal drilling campaign.

Moving into our most active period of exploration drilling

We recognise that exploration is one of the most efficient ways of creating significant value, if done well and in a structured way. For us, first and foremost, exploration should be carried out on a sustainable and internally funded basis. Secondly, it is important to have a prospect inventory balanced across the risk spectrum that offers exposure to a variety of independent play types and geologies. We have therefore constructed our exploration portfolio around play-based themes with an emphasis on blending exposure across:

- Low risk, quick to monetise opportunities in and around our core production and development areas in the Niger Delta and Kurdistan region of Iraq.
- Moderate risk, proven play concepts that offer significant upside along the West Africa Transform Margin and other parts of the region.
- Higher risk, play opening opportunities in the rift and coastal basins of East Africa.

We believe that technical maturity of an asset is key to unwinding risk and uncertainty, and we seek to use available technologies to minimise pre-drill risks and maximise our chances of a successful drilling outcome. We also look to actively manage our portfolio from a risk/reward perspective, and will consider farm in and farm out opportunities as appropriate. 2012 will see Afren participate in up to 14 exploration wells across our core areas, each of which has the potential to materially transform our discovered resource base. We were pleased to make a successful start to our campaign with the Okoro East exploration well, offshore Nigeria, and eagerly look forward to the outcome of our other current and planned wells throughout the remainder of the year.

External market and industry backdrop

2011 was a period of continued volatility in the markets, characterised by political tensions and unrest in North Africa and spreading across the Middle East, followed by the Eurozone crisis. Negative news from the Eurozone in particular depressed investor sentiment toward equities worldwide in the second half of the year, resulting in downward pressure on equity valuations.

Against this backdrop, commodity prices strengthened over the course of 2011, with Brent Crude starting the year at US$95.3/bbl and exiting the year at US$106.6/bbl – an increase of 12%. Continued uncertainty in the Middle East has led to ongoing concerns over risks to near-term oil supply. These have, in turn, contributed to oil prices staying consistently above US$110/bbl in 2012 year-to-date. We actively seek to manage our exposure to oil price volatility and continue to adopt an opportunistic approach to hedging. The US dollar strengthened against sterling in the first half of 2011, but weakened over the last few months of the year to give an average rate of US$/£1.604, with a change over the year of 0.3%.

In terms of the cost environment, the effects of inflation on discretionary capital and operating expenditure for Afren have been negligible on account of current price levels.

Initial indications for the industry in 2012 are encouraging, with a consensus indicating a supportive oil price environment and equity markets making positive ground in the first few months of the year. We recognise that the future will always hold a degree of risk and uncertainty. In this respect we are planning for a number of possible external scenarios, and will ensure that operational and financial flexibility is integral to Afren's business to enable us to deliver maximum returns.

2012 to 2015 business targets

Having expanded the business significantly over the past three years, we feel it is important to set out our business targets for the next three years, in alignment with our strategic vision and objectives. Targets to 2015 are therefore to:

- Continue to grow Afren's presence in our core areas of activity and geological plays;
- Progressively transition a significant portion of our existing 2C resource base into the 2P reserves category;
- Maintain valuation discipline by targeting 2P/2C additions at a cost of under US$4/bbl;
- Discover 250 mmboe of net recoverable 2P/2C reserves and resources from our forward exploration drilling programme;
- Deliver year-on-year production growth;
- Manage and optimise our production and development operations to maximise the core value of the business;
- Ensure that available capital is deployed in the most efficient way and in alignment with our full cycle business requirements; and
- Continually improve CSR performance.

Outlook

We have made a strong start to 2012. Production has increased substantially as a result of ramp up at the Ebok field. We are making good progress in the Kurdistan region of Iraq, having moved into the development phase of the large Barda Rash field, and have already begun to see a positive production response to early optimisation measures at OML 26. Our appraisal activities will assist in maturing existing discoveries through the development approval process and we have made a successful start to our 2012 exploration drilling campaign, which will see Afren participate in multiple high impact wells in a combination of proven and frontier basins. Underpinned by a strong financial platform and mature capital structure, we look forward to another year of significant achievement.

Osman Shahenshah
Chief Executive and Founder

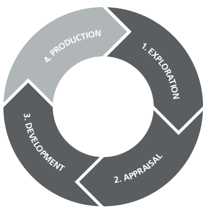
Production and development

An established and growing production base. In 2011, we achieved first oil at the Ebok field and successfully completed infill drilling at the Okoro field. The Group is well placed to achieve 100,000 boepd of production by 2017 from known 2P reserves and contingent resources (on Field Development Plan approval where appropriate) from the Ebok, Okoro, Okoro East, CI-11, OML 26, Okwok and Barda Rash projects.

Asset	Gross Production	Reserves*
Ebok	8,023 bopd	102.3 mmboe
Okoro	15,801 bopd	14.7 mmboe
CI-11	3,245 boepd	4.4 mmboe
Lion Gas Plant	618 boepd	–

* Gross remaining 2P reserves at 31 December 2011.

Nigeria
Okoro Setu



Working interest	95%/50%*
Owner and local partner	Amni International Petroleum Development Ltd.
Gross 2P certified reserves**	14.7 mmbbls***
Gross production	15,801 bopd
Work programme	Production

* Working interest pre/post cost recovery.
** Reserves remaining as at 31 December 2011.
*** Source: NSAI; excludes Okoro East.

Strong production performance

In 2011, Afren and its partner Amni International Petroleum Development Company Limited (Amni) successfully completed two infill wells, Okoro-11 and Okoro-12, taking the total number of producing wells at the field to nine. As a result, output at the field during the year averaged 15,801 bopd on a gross basis (9,000 bopd net to Afren) in line with guidance. In 2012 the partners are aiming to sustain production from existing well stock between 14,000 bopd and 16,000 bopd. By the end of 2011 the Okoro field had produced 19.8 million barrels of oil.

New oil discovery made at Okoro East

Post period end, Afren and Amni announced that the Okoro East exploration well had made a new oil discovery. The well was spudded on 18 December 2011 with the Transocean Adriatic IX jack-up drilling rig, the objective being to explore a separate, previously undrilled structure located approximately 2 km east of the Okoro main field. Okoro East is in a similar structural setting to the main field, with a fault sealed three-way dip closure in Tertiary reservoir sands at equivalent intervals to the Okoro main field.

In addition, the Okoro East exploration well was targeting a deeper horst block structure, a play concept that had not been previously explored on the block. The well was drilled to a total measured depth of 8,751 ft (8,016 ft true vertical depth) and successfully encountered good quality oil in both the Tertiary reservoir sands equivalent to those that have been developed and are in production at the Okoro main field, and the deeper, previously unexplored reservoirs. The well encountered 549 ft true vertical thickness of net oil pay (580 ft gross) and 41 ft of net gas pay. The discovery of pay in the deeper zones has opened up further prospectivity at similar levels on the Okoro main field and elsewhere on the block. The partners subsequently undertook and completed logging and testing operations, confirming the presence of a high quality 38° to 40° API oil in excellent reservoir sands. Pressure data that was also obtained has assisted with the Group's structural understanding of the field and will be used to help determine the optimal development solution for this significant new discovery.

2012 Outlook

The year ahead will see ongoing management of existing production at the Okoro field with the objective of optimising the oil recovery factor from the developed reservoir zones. There are two available well slots at the existing Okoro wellhead platform, from which Afren and its partner Amni plan to drill new production wells targeting the Okoro East reservoirs, in order to establish early production whilst also deciding upon the most appropriate long-term development solution for the new field.

Iain Wright,
Technical Director

'We have in place today a reliable platform of production anchored around our core assets in Nigeria, and a major development project under way in the Kurdistan region of Iraq that gives us clear visibility on long-term volume growth.'

Right:
Okoro field development.

Strategic priorities

For more on our strategy see page 12

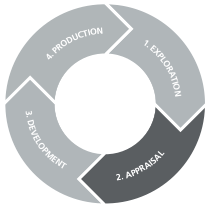
1 Production growth

2 Organic reserves growth

4 Operational efficiency and financial discipline

Production and development

Nigeria Ebok



Adebayo Ayorinde,
Managing Director,
Afren Nigeria

'First oil was delivered at the Ebok field in a development lead time of little over two years from drilling our first appraisal well.'

Working interest	100%/50%*
JV partner	Oriental Energy Resources Ltd.
Gross 2P certified reserves**	102.3 mmbbls***
Gross production	8,023 boepd
Work programme	Production, development and exploration drilling

* 100% pre cost recovery effective working interest; 50% post cost recovery effective working interest.
** Reserves remaining as at 31 December 2011.
*** Source: NSAI.

Production start-up

In 2011, Afren and its local partner Oriental successfully commenced production at the Ebok field. By year end the partners had commissioned all 14 production wells associated with the initial phases of the field development. The project is Afren's second major greenfield development offshore south-east Nigeria, following the Okoro field development, and first oil was achieved in a record time of little over two years following the first appraisal well drilled by the partners. By the end of 2011 the Ebok field had produced approximately 3.0 million barrels of oil.

Innovative development solution

The development configuration at Ebok consists of two unmanned wellhead platforms at the Central Fault Block and West Fault Block locations. Both are tied back to a Mobile Offshore Production Unit (MOPU) where the produced crude oil is processed. From there it is piped to a 1.2 million barrel capacity Floating Storage Offloading vessel (FSO) spread-moored nearby, prior to offtake and direct sale on the international market.

The MOPU is a former jack-up drilling unit that was specially converted into a production facility. The FSO was likewise converted, from a pre-existing tanker vessel. Both of these initiatives significantly reduced lead times to delivery compared to if new build facilities had been fabricated. The MOPU is designed to allow for future on-site expansion to accommodate higher production rates, and the FSO can quickly and efficiently be changed out for a larger capacity vessel should greater storage capacity be required. Furthermore, the MOPU and FSO development solution has enabled the Group to save an estimated US$51 million in upfront costs and day rate charges compared to alternative FPSO-based development concepts also considered.

Creating a new production hub offshore south-east Nigeria

Our development strategy is to systematically bring each proven area of the Ebok field onstream and, through ongoing drilling, continue to increase the reserves base and production from the field over the coming months and years. We plan for the MOPU and FSO to become a central facility, not just for the immediately surrounding Ebok structure, but also for the broader Ebok/Okwok/OML 115 area. This will facilitate the economical and rapid tie-back of production from potential future developments on the acreage.

2012 Outlook

Afren and Oriental plan to drill a further four horizontal production wells from the West Fault Block location in 2012. These will target proved oil bearing zones that were not captured by the initial phases of field development work. The field partners also plan to drill an exploration well on the Ebok North Fault Block during the first half of the year.

Right:
Simultaneous operations at the Ebok field in 2011: one of the largest independent developments in Nigeria to date.

Strategic priorities
For more on our strategy see page 12

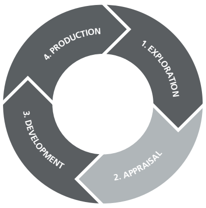
1 Production growth

2 Organic reserves growth

4 Operational efficiency and financial discipline

Production and development

Nigeria Okwok



Working interest	70%/56%*
JV partner	Oriental Energy Resources Ltd.
Gross contingent resources	51.8 mmbbls**
Work programme	3D seismic and appraisal drilling

* 70% pre cost recovery effective working interest; 56% post cost recovery effective working interest (subject to gross volumes lifted).
** Source: NSAI.

Overview

Okwok is an undeveloped oil field located in OML 67, 50 km offshore in 132 ft of water and in close proximity to the Afren/Oriental-owned Ebok development. The field was discovered by the ExxonMobil/NNPC JV in 1967 (Okwok-1), and two subsequent appraisal wells were drilled in 1968 (Okwok-2 and Okwok-3), but not production tested. The Okwok-1 and Okwok-2 wells encountered over 150 ft of oil pay. The Okwok-9 appraisal well was spudded during August 2010 by Afren and Oriental, and reached a total measured depth of 8,083 ft. The well was completed over a 35 ft interval with average porosity of 30% and flowed 31° API crude oil. This confirmed the field as a commercial development project.

The Group completed an Ocean Bottom Cable 3D seismic survey over the whole Ebok/Okwok/OML 115 area in November 2011, acquiring in total 348 km^2 of new, high quality data. Processing of the new data is under way and expected to be completed by the second quarter of 2012. One of the primary purposes of the new data is to assist in development planning for the Okwok field, alongside determining the optimal placement of one further appraisal well.

2012 Outlook

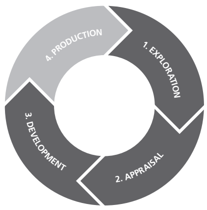
Afren and its partner Oriental intend to drill one further appraisal well at the Okwok field during the second half of 2012, ahead of formal submission of a Field Development Plan to the Nigerian authorities. The most likely development scenario for Okwok comprises the installation of a separate dedicated production processing platform tied back to and sharing the existing 1.2 mmbbls capacity Ebok Floating Storage Offloading vessel (FSO) located approximately 13 km to the west.

Strategic priorities

For more on our strategy see page 12

1. Production growth
2. Organic reserves growth
4. Operational efficiency and financial discipline

Nigeria
OML 26



Working interest	45%*
JV partner	FHN/NPDC
Gross 2P certified reserves and contingent resources**	184 mmboe***
Work programme	Production

* Held through FHN in which Afren has a 45% holding, giving effective interest of 20%.
** Source: ERC.
*** Reserves and resources remaining as at 31 December 2011.

Completion of a landmark transaction by FHN

On 1 December 2011, First Hydrocarbon Nigeria (FHN), in which Afren is a 45% shareholder, announced that it had completed the acquisition of a 45% interest in the OML 26 licence onshore Nigeria from the Shell Petroleum Development Company of Nigeria Ltd (SPDC), Total E&P Nigeria Ltd (Total) and Nigeria Agip Oil Company (Agip), together with the SPDC Joint Venture. FHN also announced that it had reached completion on financing facilities totalling US$280 million enabling it to fully fund the acquisition cost and its share of future capital requirements associated with the initial development of the block. FHN is partnered in the redevelopment of the block with Nigerian Petroleum Development Company (NPDC), the oil and gas exploration and production subsidiary of Nigerian National Petroleum Company (NNPC).

A major redevelopment opportunity with substantial upside

The Ogini and Isoko fields are currently producing from a limited number of currently active drainage points. Several wells are currently shut in and there is significant potential for further redevelopment. Under the proposed development plan, initial work is focused on certain 'quick-win' opportunities including low-cost workovers of existing wells and reactivation of gas lift to existing wells. From the existing wells, the Block attained production of 10,500 bopd with optimised compressor uptime in December 2011. The partners will next seek to mobilise a land rig to the field location in order to commence drilling new development wells and undertake de-bottlenecking work of surface facilities.

Significant upside potential also exists at the undeveloped Aboh, Ovo and Ozoro discoveries, together with an estimated 615 mmboe gross unrisked prospective resources defined across multiple prospects that will continue to be worked up in parallel to, and integrated with, future development plans.

2012 Outlook

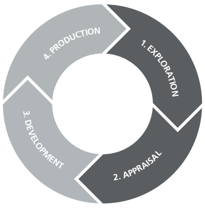
The proposed forward work programme (including facilities upgrade) is expected to sustain optimised production in 2012 and increase production to more than 40,000 bopd through phased development over the next four years.

Left:
Production capacity at OML 26 today is 30,000 bopd with plans to increase this to over 50,000 bopd.

Far left:
A likely development concept for Okwok is a stand-alone production facility tied back to the Ebok FSO.

Production and development

Kurdistan region of Iraq
Barda Rash



Ravi Sharma,
Director of Production and Development

Working interest	60%
Operator	Afren
Gross 2P certified reserves	190 mmbbls*
Gross contingent resources	1,243 mmbbls*
Work programme	Production and development

* Source: RPS Energy.

Strategic priorities

For more on our strategy see page 12

1 Production growth
2 Organic reserves growth
4 Operational efficiency and financial discipline

'The fact that only 7% of our discovered 2P and 2C reserves and resource base has been developed and brought into production to date is indicative of the scale of growth our portfolio is capable of yielding in the future.'

Operations Review

Kurdistan region of Iraq – a world class petroleum play

2011 saw the Group expand its geographic footprint to encompass the Kurdistan region of Iraq, through the acquisition of a 60% participating interest in the Barda Rash PSC and 20% participating interest in the Ain Sifni PSC. The Kurdistan region of Iraq represents an attractive upstream opportunity set for Afren. The region is geologically, part of the world's most prolific petroleum system, the Zagros Fold Belt trend. This extends across all of the Middle East's most productive regions and accounts for 60% of the world's proved oil and gas reserves.

The Kurdistan region of Iraq is a heavily under-explored component of this play, with only a small portion of licensed acreage and limited number of mapped prospects having been drilled to date. Despite this, drilling results so far have yielded exploration success rates in excess of 70% and discovery rates of over 200 million barrels per well. This justifies its status as a fast emerging region of global oil and gas importance. Estimates for 'yet to find' resources in the region are substantial, ranging from 40 billion to 70 billion barrels. This potential has not gone unnoticed, with the region continuing to attract the attention of the global oil Majors as competition for acreage intensifies.

A large scale development project

The Barda Rash PSC is located 55 km north west of Erbil, and holds the 14,015 mmbbls STOIIP/1,433 mmbbls gross recoverable Barda Rash oil field (split approximately 471 mmbbls light oil and 962 mmbbls heavier oil). The field is defined as an elongated anticline with surface expression of 20 km length and up to 7 km width. The reservoirs are fracture carbonates of various depositional settings.

In 2009, the BR-1 discovery well was drilled to 3,300 m and successfully encountered oil in Cretaceous to Jurassic reservoirs. Well tests were carried out on the Jurassic Mus and Adaiyah formations, each yielding rates of around 3,200 bopd, with a subsequent extended test of the BR-1 well producing 440,000 barrels of 30° to 32° API oil over a three-month period. During this time, oil was trucked from onsite storage and sent to local refineries. Export pipeline infrastructure is located approximately 55 km from the field location and has capacity available. Two further wells were drilled at the field in 2010 – BR-2 and BR-3 – both encountering oil full-to-base in all reservoirs. No oil water contact has yet been established. The field is defined by 330 km of good quality 2D seismic data.

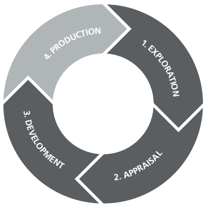
2012 Outlook

In December, Afren received all necessary approvals of the Field Development Plan (FDP) for Barda Rash. The Group plans to undertake a phased development of the field with production start-up scheduled in 2012. Work is now focused on the development of the light oil reserves, the first stage of which comprises re-entering the three existing wells that have been drilled at the field to date, completing them as production wells and commissioning a modular early production system. Production will be trucked to nearby pipeline export points and ultimately in the third phase, be exported via the planned Taq Taq to the Ceyhan export pipeline. The Company will then commence the drilling and completion of multiple new development wells with the intention of increasing production to a planned trucking capacity of 35,000 bopd and ultimately to a targeted 125,000 bopd by 2017. Following this, the Group will focus on the development and production of the heavier oil resources, which will offer further large scale production growth.

Left:
Barda Rash field in the Kurdistan region of Iraq; the target for initial phases of development is approximately 500 million barrels of light oil.

Production and development

Côte d'Ivoire CI-11



Working interest	47.96%
Operator	Afren
Gross production	3,245 boepd
Gross 2P certified reserves*	4.4 mmboe**
Work programme	Production

* Reserves remaining as at 31 December 2011.
** Source: NSAI.

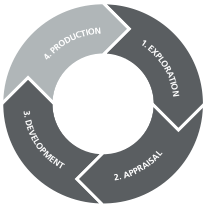
Production at Block CI-11

Full year 2011 gross production at Block CI-11 was approximately 3,200 boepd, comprising an oil rate of 831 bopd and natural gas rate of 14 mmcfd. Production levels were below expectation during the year due to the impact of political and social unrest. This delayed importation of equipment and resources required for routine maintenance of the compressor unit during the first quarter of 2011.

2012 Outlook

We continue to evaluate our strategic and operational options.

Côte d'Ivoire Lion Gas Plant



Working interest	100%
Operator	Afren
Gross production	618 boepd
Work programme	NGL extraction*

* Butane extracted from gas stream at a rate of 12bbls/mcf; gasoline extracted from gas stream at a rate of 9bbls/mcf.

Overview

Afren is the sole owner of the Lion Gas Plant, which processes gas from the CI-11 and adjacent CI-26 and CI-40 blocks operated by Canadian Natural Resources. The plant has an inlet capacity of 75 mmcfd and strips gasoline and butane from the rich gas stream it receives. The butane is sold into the local market (meeting approximately 35% of domestic butane demand) and gasoline is spiked into the CI-11 crude stream and sold on the international market. The LGP plant benefits from tax-exempt status, delivering 618 boepd average NGL production in 2011. Production levels were below expectations during the year, due to the impact of political and social unrest in the first half of the year.

2012 Outlook

The Group continues to evaluate methods to extract propane at the plant, which could be sold locally to industrial customers.

Exploration
Low risk, quick to monetise opportunities

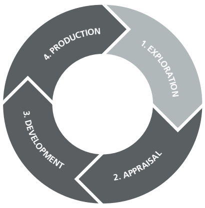
Strategic priorities
For more on our strategy see page 12

1 Production growth
2 Organic reserves growth
4 Operational efficiency and financial discipline

Niall McCormack,
Exploration Director

'We have assembled a balanced portfolio of exploration assets that provide a mix of exploration options across multiple play types and basins'.

Nigeria OML 115



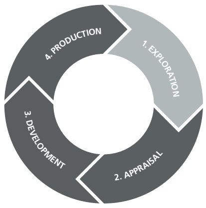
Working interest	100%/50%*
JV partner	Oriental Energy Resources Ltd.
Work programme	Exploration drilling

* 100% pre cost recovery effective working interest; 50% post cost recovery effective working interest.

Overview
OML 115 surrounds the Ebok and Okwok development area, where Afren is also partnered with Oriental, and is close to the giant Zafiro Complex in Equatorial Guinea. The block offers us an attractive opportunity to further capitalise on our extensive knowledge of the area, exploring the same reservoirs that have already been proved as oil bearing and productive at Ebok and Okwok. The southern portion of the Okwok structure (Okwok South) extends into OML 115 and additional prospectivity has already been defined within the deeper Que Iboe, Biafra and Isonga formations. With production processing, storage and export infrastructure in place at the Ebok field, we have a readily available export route for any potential future development in the area. At the same time, we will be able to benefit from cost synergies, lowering the economic threshold for new barrels.

2012 Outlook
Following the completion of the Ocean Bottom Cable 3D seismic over the whole Ebok/Okwok/OML 115 area on 4 November 2011, the partners plan to drill an exploration well on the block during the second half of 2012, potentially targeting the Ufon prospect. The Ufon prospect is a three-way dip closed structure that is interpreted to have oil prospectivity in the same D Series reservoirs that have proven to be oil bearing at the nearby Ebok and Okwok fields among other intervals.

Kurdistan region of Iraq Ain Sifni PSC



Working interest	20%
Operator	Hunt Oil Middle East Ltd.
Work programme	Exploration drilling

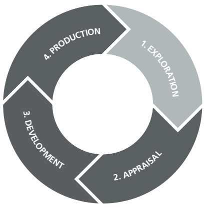
Overview
The Ain Sifni PSC is located 70 km north-west of Erbil, and operated by Hunt Oil Middle East. Drilled on the crest of the Simrit anticline in 2010, the JS-1 discovery well logged continuous oil pay from 1,110 m to 3,070 m in Cretaceous and Jurassic reservoirs. Triassic reservoir targets were not penetrated by the well and no oil water contact was established.

The PSC has substantial upside over and above the volumes discovered to date at the Simrit structure, with prospective resources independently estimated at 7,493 mmbbls STOIIP and 917 mmbbls recoverable on a gross unrisked basis. This is primarily attributed to as yet undrilled parts of the Simrit structure and the Maqlub prospect that is interpreted to be the westerly extension of the proven Barda Rash anticline.

2012 Outlook
The operator, Hunt Oil Middle East, spudded the Simrit-2 exploration well at the end of October 2011. The well is seeking to prove and test Cretaceous, Jurassic and Triassic reservoirs at the western extent of the Simrit anticline structure and is drilling ahead in accordance with the planned schedule. Once this is completed, the partners intend to proceed with drilling further exploration wells targeting the East Simrit, Maqlub and Betnaar structures.

Exploration
Moderate risk, proven play concepts

Ghana Keta Block



Working interest	35%
Operator	Eni
Work programme	Exploration drilling

Overview – prime acreage in an exciting exploration fairway

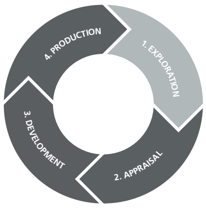
The Keta Block is located in the Volta River Basin in Eastern Ghana, next to the maritime boundary with Togo. The block has both Tertiary and Cretaceous prospectivity, with the principal exploration focus being the Cretaceous Albian to Campanian sections. The block offers multiple prospects and leads, with a variety of trapping and depositional settings. A number of these show potential for significant stratigraphic trapping and giant field potential.

In October 2011, we announced the formal completion of the farm out of a 35% working interest and transfer of operatorship to Eni. Under the terms of the farm out, Afren will receive a carry through the drilling of one exploration well, back costs and carry through future seismic acquisition. A milestone bonus is payable upon the achievement of first oil on the block.

2012 Outlook

Post period end on 6 February 2012, Afren announced that Eni had commenced drilling of the Nunya-1X (formerly named Cuda-2) exploration well with the Marianas semi-submersible drilling rig. The Nunya prospect is a four-way dip closed structure with a primary reservoir target comprising Upper Cretaceous deep-marine fan sandstones. These are analogous to those that have yielded significant discoveries elsewhere along the West Africa Transform Margin.

Nigeria OPL 310



Working interest	70%*
Local partner	Optimum Petroleum Development Ltd.
Work programme	Seismic acquisition/ exploration drilling

* Effective economic working interest.

Overview

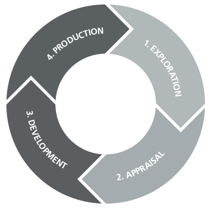
OPL 310 is located in the Upper Cretaceous fairway that runs along the West African Transform Margin and lies next to the Chevron operated Aje field, which has been declared commercial. Extending from the shallow water continental shelf to deep water, the block represents an exploration opportunity in an under-explored basin with a proven working hydrocarbon system. It is also in close proximity to the recently completed West African Gas Pipeline (WAGP) which allows future gas discoveries to be readily developed. We have good seismic coverage of the block in the form of a 307 km² 3D survey and 483 km of 2D data, which has been integrated with new electromagnetic gravity data that the partners acquired in 2011.

Afren has identified several prospects that lie in the same Senonian, Turonian and Albian sandstone intervals that have yielded significant discoveries along with the West African Transform Margin in Ghana and Côte d'Ivoire.

2012 Outlook

The Group intends to drill an exploration well in 2012 and has plans in place to acquire additional seismic data.

Nigeria São Tomé & Príncipe JDZ Block 1



Working interest	4.4%
Operator	Total
Gross contingent resources	43 mmbbls*
Work programme	Exploration and appraisal drilling

* Source: NSAI.

Overview

The JDZ Block 1 extends over approximately 700 km² in water depths ranging from 1,600 m to 1,800 m. One discovery has been made on the block with the sole exploration well that has been drilled to date. In 2006, the Obo-1 exploration well encountered 150 ft of net pay and importantly proved a working hydrocarbon system in the JDZ. The proximity of Total's operated licences and production facilities in Nigeria creates strong synergies and will enable cost reductions in any potential future development of the licence's resources.

2012 Outlook

Total is seeking to reprocess existing seismic data and has proposed the drilling of one appraisal well on the Obo discovery and one exploration well in 2012. Afren has a 4.41% interest. The first well in this campaign was spudded during March 2012 with the West Polaris drill ship.

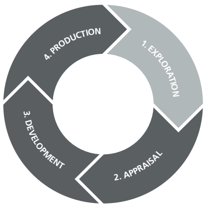
Strategic priorities

For more on our strategy see page 12

2 Organic reserves growth

4 Operational efficiency and financial discipline

Congo Brazzaville La Noumbi



Working interest	14%
Operator	Maurel et Prom
Work programme	Exploration drilling

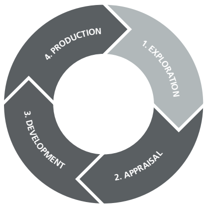
Overview

The La Noumbi permit is located onshore Congo Brazzaville, to the north and on trend with the large producing M'Boundi oil field. The partners have entered the next exploration phase on the block.

2012 Outlook

Following interpretation of depth processed 2D data on the block, two prospects have been identified and the operator has proposed drilling these in 2012.

Côte d'Ivoire CI-01



Working interest	65%*
Operator	Afren
Gross contingent resources	37 mmboe**
Work programme	Electromagnetic survey and 3D seismic

* With rights over an additional 15%.
** Source: NSAI.

Overview

CI-01 has a proven petroleum system in multiple reservoirs within the Cretaceous. Both oil and gas have been found and tested in the Ibex and Kudu fields, while only gas has been found in the Eland field. Most of the oil and gas encountered is in reservoirs that are younger than the Albian structural closures targeted in the past. There are 3D seismic surveys covering Ibex, Kudu and Eland, and a 2D seismic grid covers the rest of the block. CI-01 borders the maritime boundary with Ghana, and lies adjacent to the major Jubilee and Tweneboa oil and gas discoveries made in recent years.

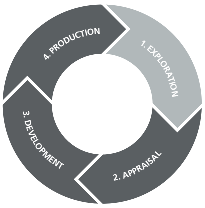
By applying the latest understanding of Cretaceous depositional systems to the existing well and seismic dataset, to redefine the distribution of oil and gas in existing discoveries on the block, we believe that the potential exists for these accumulations to be significantly larger than originally mapped.

2012 Outlook

The partners plan to acquire more 3D seismic over the block.

Exploration
Moderate risk, proven play concepts

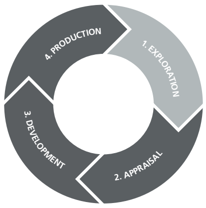
Nigeria OPL 907/917



	OPL 907	OPL 917
Working interest	41%*	42%*
Operator	AGER	AGER
Work programme	Seismic reprocessing	Seismic reprocessing

* AGER effective working interest; AGER is owned 50% by Afren, 50% by Global Energy Company (GEC).

South Africa Block 2B



Working interest	25%*
Operator	Thombo
Work programme	Seismic acquisition

* Subject to customary approvals; working interest increases to 50% and operatorship transferred to Afren upon completion of seismic acquisition programme.

OPL 907 and 917 offer potentially attractive Cretaceous opportunities. The main hydrocarbon plays consist of late Cretaceous deltaic to shallow marine clastics in fault related traps. Having acquired the original seismic tapes and reprocessed the data, Afren is continuing to evaluate the potential of the blocks in order to identify areas for future seismic acquisition that could ultimately lead to future exploration drilling.

2012 Outlook
Having acquired the original seismic tapes and reprocessed the data, Afren is continuing to evaluate the potential of the blocks in order to identify areas for future seismic acquisition that could ultimately lead to future exploration drilling.

Overview
Block 2B is located in the Orange River Basin, an offshore shallow water area lying between the Ibhubesi gas field and the Namaqualand coast. The block covers an area of approximately 5,000 km^2 with water depths ranging from shore line to 250 m. The main reservoir objectives are the fluvial and lacustrine sands of the AJ Graben of Lower Cretaceous age, which occur in three sequences. The A-J1 exploration well, drilled in 1989, successfully encountered oil in these sequences and tested good quality 36° API oil. Reprocessing of 2D seismic data has since defined several other Lower Cretaceous rift graben prospects, genetically analogous to the prolific Lake Albert play in Uganda. Further prospectivity has also been identified within a fractured basement play (analogous to Yemen), which could form a secondary exploration play on the acreage.

2012 Outlook
The partners' near-term work programme involves the acquisition of 600 km^2 of new 3D seismic data, with reprocessing of existing 2D seismic and ongoing seismic inversion and regional biostratigraphy studies ahead of expected exploration drilling in 2013 or 2014.

Exploration
Frontier areas with major play opening potential

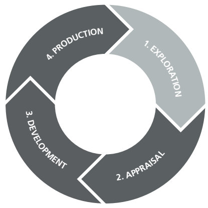
Strategic priorities
For more on our strategy see page 12

- 2 Organic reserves growth
- 4 Operational efficiency and financial discipline

Galib Virani,
Director, Afren EAX Ltd

'Our portfolio of 11 East African assets are located in basins with strong evidence of working hydrocarbon systems being present. We are focused on onshore rift basins and the deepwater Cretaceous/Tertiary play systems which are geological settings that have yielded significant discoveries in Uganda, Sudan, Tanzania, Madagascar, Mozambique and most recently in Kenya.'

Kenya Block 1



Working interest	50%
Operator	Afren EAX*
Work programme	Seismic acquisition

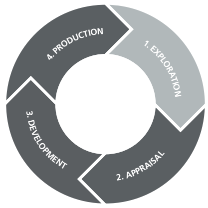
* EAX is a wholly owned subsidiary of Afren Plc.

Overview
Block 1 is located on the western margin of the Mandera-Lugh basin in north-eastern Kenya bordering both Somalia and Ethiopia, where it is connected to the Ogaden basin. The Upper Triassic and Jurassic formations that have been identified are considered to be the primary zones of oil prospectivity. An oil seep close to the Tarbaj-1 well in the south-west corner of the block confirms the presence of hydrocarbons. Analogous data with the Ogaden basin also suggests there may be other potential source rocks and reservoirs. The Bur Mayo and the Kalicha-Seir formations in the Mandera-Lugh basin appear comparable to the Lower and Upper Hamanlei (Jurassic) formations in the Ogaden basin. If analogous, these formations should have high total organic content (TOC) source rocks and good quality reservoirs.

Several major structures have already been mapped on the block, that currently has 850 km of existing 2D seismic coverage. During the first half of 2011, the partners successfully acquired airborne gravity and magnetic data, the results of which have been encouraging and have been used to target an additional 1,800 km of 2D seismic data on the block.

2012 Outlook
The partners on Block 1 have commenced the acquisition of the planned 1,800 km of 2D seismic data and are targeting completion of this and further seismic interpretation during 2012.

Kenya Block 10A



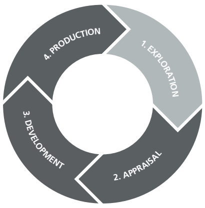
Working interest	20%
Operator	Tullow Oil
Work programme	Seismic acquisition and exploration drilling

Overview
Block 10A is located in the Anza Basin onshore northern Kenya, which is part of the Central African Mesozoic rift system that also includes the Muglad Graben in Southern Sudan, and the Lamu Graben in Kenya. The block covers a total of 14,747 km^2. Three exploration wells were drilled by Amoco in Block 10A (Sirius-1, Bellatrix-1 and Chalbi-3) throughout 1988 and 1989, in the southern part of the block. The presence of oil and gas shows and the high maturity level of organic rocks in wells Bellatrix-1 and Sirius-1 are evidence of a working hydrocarbon system on the block. The latter well notably established the presence of an Upper Cretaceous lacustrine source rock that may have generated low-sulphur/paraffinic oil.

2012 Outlook
Having satisfied all seismic work commitments with the acquisition of 750 km of 2D seismic over the block in 2011, the operator (Tullow Oil) will commence the drilling of one exploration well on the Paipai prospect. The drilling rig is now scheduled to arrive at the field location later than planned, which means that the well is expected to spud in mid-2012.

Exploration
Frontier areas with major play opening potential

Kenya Block L17/L18



Working interest	100%
Operator	Afren EAX*
Work programme	Seismic acquisition and exploration drilling

* EAX is a wholly owned subsidiary of Afren plc.

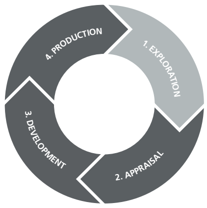
Overview
Blocks L17 and L18 are located in the Lamu Coastal Basin, offshore south-east Kenya, covering an area of approximately 1,275 km^2 and 3,630 km^2 respectively. They are situated in water depths varying from a few metres along the shoreline to up to around 500 m.

There are several potential source rocks for the Cretaceous plays in the southern areas of the basin including the Premo-Triassic Karoo interval and sections within the Lower to Middle Jurassic. There are oil seeps in the Lamu Basin and Pemba Island linked to a Jurassic source which implies that the structures in Blocks L17/L18 are most likely oil bearing. Although there may be additional potential in clastic reservoirs within the Tertiary, the main reservoir targets are in the Upper Cretaceous. The hydrocarbons are expected to have been generated in the deep Pemba trough south of Block L18.

Following completion in 2010 of a 400 km short offset shallow 2D seismic acquisition programme in the Shimoni area of Block L18 and in the Mombasa area of Block L17, a number of newly defined prospects and leads have been identified on the acreage.

2012 Outlook
The Group has completed the acquisition of additional 2D seismic data targeting the deepwater region of the block and plans to drill one exploration well targeting the coastal play in the second half of the year, and is currently trying to source an appropriate rig.

Tanzania Tanga Block



Working interest	74%
Operator	Afren
Work programme	Seismic acquisition and exploration drilling

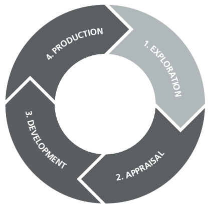
Overview
On 24 March 2011, Afren expanded its East African footprint with the acquisition of a 74% operated working interest in the Tanga Block, located offshore and onshore north-east Tanzania. The block lies south of, and is contiguous with, Afren's 100% owned and operated blocks L17 and L18 in Kenya. It contains a southerly extension of the same coastal high and basin trough plays allowing us to leverage our regional expertise and knowledge.

The block is covered by 200 km of legacy 2D seismic data, and 1,200 km of good quality new 2D seismic data. Immediately post completion, Afren undertook and completed a 751 km shallow water 2D seismic programme. The results of this survey have been encouraging, and provide excellent definition of several large scale prospects and leads that have been identified to date, together with new zones of additional potential.

During Q4 2011, over 900 km of deepwater 2D seismic was acquired. This is currently being processed with final results expected at the end of the Q1 2012.

2012 Outlook
The partners plan to acquire 3D seismic data in the deepwater and to drill the Orpheus prospect in 2012 from a shallow water offshore location and is in the process of securing a jack up drilling rig capable of this work.

Seychelles Areas A, B, C



Working interest	75%
Operator	Afren EAX*
Work programme	Seismic acquisition

* EAX is a wholly owned subsidiary of Afren plc.

Areas A, B, C
Areas A, B and C are located in the Seychelles micro-continent and cover a combined area of approximately 14,964 km^2. Areas A and B are located in shallow to deep water in the northern half of the Seychelles plateau while Area C is in shallow water to the south. The main exploration targets are the Permo-Triassic Karoo interval which comprises non-marine sands inter-bedded with shales and a Cretaceous marine rift basin underlain by Jurassic platform source rocks. The Karoo formation contains both the source rock and the reservoir. Over 1980 to 1981, three exploration wells were drilled, all of which encountered oil shows and confirmed the presence of a working hydrocarbon system. Over 3,500 km of 2D seismic data was acquired over areas A and B in the fourth quarter of 2012 and is currently being processed.

2012 Outlook
Seismic data acquired to date by the partners has revealed the presence of several large scale structures in all three licence areas, in addition to new basins that could also contain significant Jurassic and Cretaceous sedimentary sections.

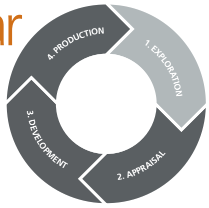
Strategic priorities

For more on our strategy see page 12

2 Organic reserves growth

4 Operational efficiency and financial discipline

Madagascar Block 1101



Working interest	90%
Operator	Afren EAX*
Work programme	Exploration drilling

* EAX is a wholly owned subsidiary of Afren plc.

Overview

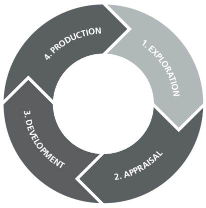
Block 1101 is located on the eastern flank of the Ambilobe Basin, onshore northern Madagascar. The block encompasses an area of approximately 14,900 km^2. Some 220 km of 2D seismic has been acquired over the block to date. The main exploration targets are sands of the Isalo formation. There are proven heavy oil accumulations in the Isalo formation in Central Madagascar such as Bemolanga and Tsimiroro, indicating good reservoir conditions.

Having increased its working interest to 90% through the reassignment of 50% from partner Candax Energy, the Group has agreed with state oil and gas agency OMNIS an expanded work programme that combines the first two exploration phases on the block and requires the drilling of one exploration well to a minimum depth of 1,600 metres. The partners have also agreed to acquire an additional 150 km of new 2D seismic and airborne gravity and magnetics. The airborne gravity and magnetic acquisition has been undertaken and is currently being processed.

2012 Outlook

The expanded work programme combines the first two exploration phases on the block and requires the drilling of one exploration well. The partners have also agreed to acquire an additional 150 km of new 2D seismic. Drilling is expected in 2013.

Ethiopia Blocks 7,8



Working interest	30%
Operator	Africa Oil
Work programme	Exploration drilling

Overview

In 2011, Afren and its partners decided to relinquish Blocks 2 and 6 in order to focus future exploration activities on Block 7 and 8.

Blocks 7 and 8 are located in the Ogaden Basin and are both part of the same PSC covering an overall area of 23,162 km^2. Exploration in the Ethiopia area began in the 1970s with Tenneco discovering the Calub and Hilal gas fields approximately 200 km to the east of Block 6. Exploration continued throughout the 1980s. Three wells, El Kuran-1, El Kuran-2 and Bodle-1, have been drilled on the blocks. Both of the El Kuran wells encountered hydrocarbons and oil was recovered from the Jurassic Hamanlei formation. The main potential reservoirs in the basin are clastic sediments of the Carboniferous age Calub formation and the Triassic age Adigrat formation. In addition, some permeable Jurassic carbonate rocks in the Hamanlei formation can be considered potential reservoirs.

2012 Outlook

Work is ongoing to further interpret the prospectivity of Blocks 7 and 8 ahead of expected drilling in mid-2012.

Financial Review

Afren has transformed its capital structure in 2011 – cash flow from operations strengthened with the start of production at Ebok; the January 2011 bond issue enabled the Group's debt to be restructured such that it is better aligned to future investment needs and production cash flows; and an equity placing, plus a second bond issue in February 2012, has funded the acquisition of two PSCs in the Kurdistan Region of Iraq. There are now considerable financial resources at the Group's disposal.

Darra Comyn,
Group Finance Director

Strategic priorities

For more on our strategy see page 12

1 Production growth
2 Organic reserves growth
3 Pursue materially accretive acquisitions
4 Operational efficiency and financial discipline
5 Corporate responsibility

Financial highlights

> **Turnover of US$597 million, an increase of 87% from the previous year**
(2010: US$319 million)
2 4

> **Normalised profit after tax of US$125 million, an increase of 100% on the previous year***
(2010: US$62 million)
1 2

> **Debt repayments of US$182 million, with outstanding principal at US$868 million**
(excluding amortised issue costs)
2 4

> **Realised oil price of US$109.0 per barrel and gas price of US$8.8 per mcf**
(2010: US$79.7 per barrel and US$5.7 per barrel)
1 2

> **Cash flow from operations of US$338 million, an increase of 62% from the previous year**
(2010: US$209 million)
1 2 4

> **Cash position of US$292 million, net debt (excluding finance leases) of US$548 million**
(2010: cash of US$140 million, net debt of US$128 million)
1 2 4

> **Gross profit for the year of US$302 million, an increase of 134% on the previous year**
(2010: US$129 million)
1

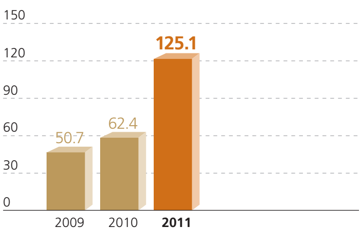
> **Profit after tax for the year from continuing operations of US$125 million, an increase of 172% on the previous year**
(2010: US$46 million)
1 2

> **Oil and gas additions in the year of US$576 million, an increase of 31% from the previous year**
(2010: US$437 million) (excluding finance leases and the acquisition of the interests in Barda Rash and Ain Sifni in 2011 and of Black Marlin in 2010, and including capitalised interest)
1 4

> **Gearing at year end of 45%**
(2010: 15%)
1 2

* Refer to note 7 of the financial statements.

Normalised profit after tax
(US$ million)



Market capitalisation since IPO
(£ million)

1 2 4

1. Result for the year

Revenues

Revenue for 2011 was US$596.6 million, an increase of 87% from 2010. The increase in revenue arises from the start of production from the Ebok field in the year (US$272.0 million) partly offset by the reduced working interest on the Okoro field. Working interest production for the year increased to 19,154 boepd from 14,333 boepd in 2010 due to the start of production from the Ebok field in 2011, offset by the Group reaching payback on the Okoro field which, as expected, saw our interest reduced from 95% to 50% in mid-2010.

The Group realised in 2011 an average oil price of US$109.0/bbl and an average gas price of US$8.8/mcf (2010: US$79.7/bbl and US$5.7/mcf), before all royalties. The average price for Brent in the period was US$109.0/bbl (2010: US$79.5/bbl).

Gross profit

Gross profit for the year was US$302.3 million, an increase of 134% on the prior year (2010: US$129.0 million), largely related to the commencement of production at Ebok and higher realised prices at the Okoro field. The DD&A charge for oil and gas assets in 2011 was US$155.4 million, an increase of 71% on the prior year (2010: US$90.5 million). The increased charge relates to the start of production at Ebok.

The increase in crude oil stock at the year end resulted in a credit for stock adjustment of US$25.4 million, compared with a charge of US$9.5 million in 2010.

The Group achieved a normalised operating cost of US$17.9/boe, a decrease of 1% over 2010 (2010: US$18.1/boe). This was largely due to efficiencies generated in reaching full production at Ebok being offset by: a decrease in gross production at Okoro and an increase in operating expenditure following the completion of initial development in mid-2010. Normalised cost per barrel includes costs and production from Ebok from Q4 2011 onwards. All other field costs are included on an annualised basis.

Profit for the year

Profit after tax on continuing activities for the year ended 31 December 2011 was US$125.4 million (2010: US$45.9 million). Normalised profit after tax was US$125.1 million. See note 7 to the financial statements for a full reconciliation of this figure (2010: US$62.4 million).

The impairment charge on oil and gas assets was US$1.1 million (2010: charge US$1.6 million) largely reflecting the relinquishment by Afren of its interest in Ethiopia Blocks 2 and 6. The low level of impairment reflects the ongoing success of the Group's exploration and appraisal programme.

Finance costs for 2011 were US$57.1 million (2010: US$11.3 million). The increase in finance costs relates to the issue of a new Bond in January 2011 (issue costs of US$20.9 million); and early redemption fees of US$2.5 million arising from the settlement of the Group's historical facilities, as well as increased interest charges relating to the Bond issue and further drawdowns on our Ebok facility during the year. The Group capitalised US$46.9 million of finance charges in the year, largely as part of the Ebok project financing (2010: US$13.6 million).

During the year we recognised a loss from derivative financial instruments of US$12.5 million (2010: US$8.9 million) relating to crude oil hedging contracts. This reflects a realised loss of US$9.3 million (2010: US$2.4 million loss) as the oil price realised averaged consistently above the hedged price during the year. There was a further mark to market loss of US$3.2 million (2010: loss of US$6.5 million) on the unrealised positions due to further strengthening in the oil price from around US$90 per barrel at the start of the year to over US$108 per barrel at year end.

Associate investment in FHN
In 2010, a gain of US$10.0 million arose as a result of new funding raised by FHN's other shareholders increasing the equity share attributable to Afren. Similar gains totalling US$14.7 million have arisen during 2011, as well as a gain of US$8.0 million relating to the increase in value of certain equity options in FHN held by Afren, driven by an increase in the underlying value of FHN.

Afren's share of FHN's loss for the year was US$14.0 million (2010: US$1.3 million loss), reflecting costs incurred in the development of FHN's interest in OML26 during the year. This loss is offset by income received from FHN of US$6.3 million (2010: US$nil) in relation to various management and support services provided by Afren.

Taxes paid in the year
The income tax charge for the year is US$96.0 million (2010: US$32.9 million). The increase reflects the increased profitability of the Group in 2011. Of this, US$8.1 million (2010: US$0.9 million) has been paid locally in Nigeria in respect of income from Okoro. The balance of current tax will be paid in 2012 with the deferred tax liability spread over the life of the field.

In addition, the Group pays other taxes in the form of royalties, withholding taxes, and non-recoverable VAT locally in Africa. In 2011 these amounted to US$166.5 million (2010: US$83.2 million) – as a percentage of revenue this represents 28% (2010: 26%). Okoro royalties are deducted within revenue whereas Ebok royalties are deducted as cost of sales, reflecting differences in the applicable contractual arrangements.

1 2 4

2. Financing the Group's activities
Net cash generated from operating activities in 2011 was US$337.5 million (2010: US$209.3 million), and this cash has been used alongside financing cash flows primarily to fund the Group's exploration and appraisal activities.

In January 2011, the Company completed a Bond issue, raising US$500 million before issue costs. The coupon on the bonds is 11.5% and they are listed on the Luxembourg Stock Exchange. The Company used part of the funds to repay borrowings amounting to US$171 million of certain pre-existing facilities. In February 2012, the Bond issue was recognised by Euromoney as one of the "2011 Deals of the Year".

A facilities agreement of US$50 million was entered into with Socar Trading S.A. in August 2011, and was fully drawn down at 31 December 2011. The funds received under the Socar loan are used by us for general corporate purposes.

In July 2011, the Company raised US$184.5 million, before commission and expenses, by placing 83,679,544 new ordinary one pence shares in the capital of the Company, with institutional investors, at a price of 135 pence per share. The capital was used to acquire a share in the Ain Sifni and Barda Rash licences in the Kurdistan region of Iraq.

Further payments in connection with the acquisition of the Group's interest in the Ain Sifni block were funded through a US$200 million corporate credit facility provided by BNPP and VTB. US$100 million of this was drawn down in November 2011 and used to fund payments made in December 2011 and March 2012.

Strategic priorities
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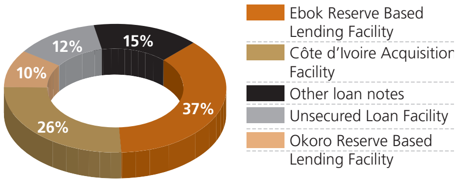
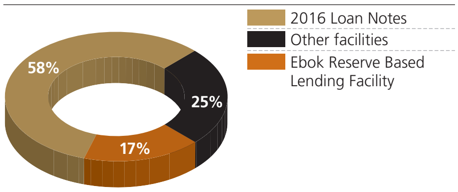
1 Production growth
2 Organic reserves growth
3 Pursue materially accretive acquisitions
4 Operational efficiency and financial discipline
5 Corporate responsibility

Loan repayments in the year, excluding payments in respect of finance leases, were US$182.3 million reflecting early settlement of historical facilities using the proceeds of the Bond issue in February 2011 and periodic payments due under other facilities. Cash at bank at 31 December 2011 was US$291.7 million, resulting in net debt, excluding finance leases, of US$548.3 million (2010: net debt, US$127.5 million).

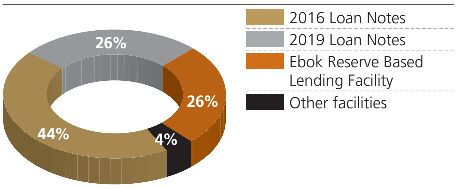
In 2011 the Group recognised a finance lease in respect of the arrangements with Mercator Offshore Nigeria (Pte) Limited for the production facilities on the Ebok field. This resulted in a finance lease liability at 31 December 2011 of US$135.5 million (2010: US$nil) to be settled in monthly payments of US$2.4 million (including interest) over a seven-year period.

December 2010 Debt profile*


* Debt excluding finance leases.

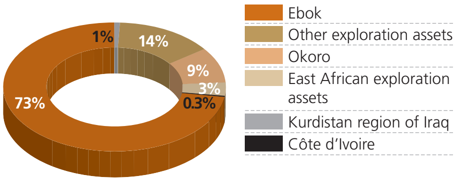
December 2011 Debt profile*


* Debt excluding finance leases.

March 2012 Debt profile*


* Debt excluding finance leases.

2011 Capital expenditure



1 2 4

3. Development, appraisal and exploration activities

The Group's investment in appraisal and exploration activities has continued during 2011, with expenditure of US$107 million, excluding the acquisition of the Group's interest in the Ain Sifni PSC of US$164 million (2010: US$74 million, excluding the acquisition of the Black Marlin exploration assets).

The main areas of expenditure were on Okoro East (US$7 million), Okwok (US$10 million), OML115 (US$45 million), OPL310 (US$10 million), the acquisition of a 74% interest in the Tanga block in Tanzania and seismic on the area (US$7 million) and expenditure, largely seismic, on the Group's East African exploration assets (US$18 million).

Development expenditure was US$469 million, excluding the acquisition of the Group's interest in the Barda Rash PSC, largely comprising US$380 million on the Ebok field and US$40 million on the Okoro infill well drilling programme.

The Group's 2P and 2C reserves and resources have increased by 859 mmboe, or 633% as at 31 December 2011 compared to 31 December 2010, largely achieved by the acquisition of the Ain Sifni and Barda Rash PSCs and the continued investment in African assets such as Ebok and Okoro.

There has been minimal write-off of unsuccessful exploration costs (2011: charge of US$1.1 million, 2010: charge of US$1.6 million) following the relinquishment of the Ethiopia Blocks 2 and 6.

1 2 4

4. Acquisitions in the year

In July 2011 the Group acquired interests in two contiguous PSCs located in the Kurdistan region of Iraq. The total amount payable for the acquisition is US$588.4 million (before the discounting of deferred consideration). In parallel the Company announced the successful placement of 83,679,544 ordinary shares, raising a total of £113.0 million (US$184.5 million) before fees which has been used, together with cash and debt resources, to fund the acquisition. Final settlement of the acquisition costs was made in March 2012. The Company also acquired interests in two exploration licences during the period; the Tanga Block in Tanzania and Block 2B in South Africa.

The Company increased its equity investment in FHN in 2011 through additional investments of US$9.8 million.

1 2 4

5. Our commitments

The Group has operating and capital commitments as at 31 December 2011 of US$537.7 million (2010: US$482.6 million), largely in respect of the lease of rig and field equipment and the ongoing exploration and evaluation programmes.

1 2 4

6. Bond issue to fund future growth

In February 2012, the Company completed a second Bond issue, proceeds of which were US$300 million before issue costs. The coupon on the bonds is 10.25% and they are listed on the Luxembourg Stock Exchange. The proceeds from the issue of the new Bond have been used to repay and cancel the US$200 million VTB/BNPP facility and for general corporate purposes.

Strategic priorities

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4 Operational efficiency and financial discipline
5 Corporate responsibility

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7. Review of our hedging arrangements

In the context of volatile oil prices and with the imminent first oil at Ebok, the Group reviewed its hedging arrangements in early 2011.

The Group previously had taken hedging positions associated with its operations in Okoro and Côte d'Ivoire. These arrangements were synthetic puts which allowed the Group to protect itself from the downside movements in prices while also benefiting from most of the upside. In early 2011 the Group purchased a number of deferred put options. These options allow the Group to sell approximately 5.9 million barrels in the period to 31 December 2013 at an average price of US$82.54/bbl. The average cost of the hedge is US$4.08/bbl giving effective protection to the Group at a price of US$78.46/bbl. The new instruments have been classified as cash flow hedges. Each period the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge are taken to equity and the ineffective portion, as well as any change in time value, is recognised in the income statement. In 2011, a loss of US$9.3 million (realised) and US$3.2 million (unrealised) was taken to the income statement, as a result of realised oil prices in the period and forward curve being higher than the hedged price.

Existing hedges covering 248,000 barrels at a price of US$60/bbl and 339,000 barrels at a price of US$81/bbl expired during 2011. These instruments were not designated as cash flow hedges and gains or losses were taken directly to the income statement in the period.

Since the year end, to take advantage of recent record oil prices, further deferred put options have been acquired. These allow the Group to sell a further 600,000 barrels at US$90 in 2012. In addition the Group has acquired deferred put spreads at US$90 and US$60 covering 1.44 million barrels guaranteeing US$90 per barrel if the oil price is between US$60 and US$90 and a US$30 per barrel benefit if the oil price falls below US$60.

The policy of the Group is to protect its minimum cash flow requirement in the context of a sustained downturn in oil prices. As such the maximum amount of our working interest we would seek to protect with these arrangements is between 20-30% of estimated production for a rolling period of 24 months forward. Our current outlook including the most recent hedge is that we have 28% of 2012 oil barrels hedged and 23% of 2013.

8. Outlook

The operational cash flows achieved from Ebok and Okoro in 2011, together with the proceeds of the January 2011 bond issue and July 2011 equity placing, have remodelled Afren's capital structure and provided the basis for further financial flexibility in 2012. This flexibility has been enhanced by the completion of a second bond issue in February 2012.

Afren has made good progress in 2011 and continues to grow in strength. The Group has assembled a world class portfolio of assets that offers significant potential across the full cycle E&P value chain. Through clear strategic foresight and capitalising on early mover advantage in Nigeria, East Africa and the Kurdistan region of Iraq, Afren has secured attractive acreage positions in some of the world's most prolific and emerging oil and gas basins. Combined with a good track record of operational delivery and a mature capital structure, this means that Afren is well positioned for further exponential growth.

CSR: The Afren Approach

Corporate Social Responsibility (CSR) underpins the way we do our business globally. We are committed to improving the quality of life in the countries where we operate. We always consider the ramifications of our actions and incorporate CSR into our management systems and procedures. We strive to operate to the highest international social, environmental and safety standards.

In 2011 we continued to support a variety of sustainable initiatives across our operations in locations including:

- Nigeria – where we focused on supporting Nigerian youths from our host communities with skills acquisition training to improve their chances of long-term employment
- Côte d'Ivoire – where we support the SOS Children's Village in Aboisso by providing food, supplies, beds and medical equipment
- Kenya – where we donated desks, chairs, lockers and other school supplies to primary schools in local villages
- Kurdistan region of Iraq – where we are committed to a multi-million dollar project at the American University of Iraq – Sulaimani to develop a Petroleum Engineering department.

In addition, we have:

- Experienced no major environmental spills, fines or warnings in our operations
- Achieved over 1 million man-hours without a lost time accident on the Ebok project
- Successfully recruited six graduates through our dedicated internship programme.

How we define CSR

We continue to evaluate our CSR policies and procedures against international best practice guided by both the UN Global Compact and Equator Principles. Based on this framework, our CSR report covers five key areas:

Environment

We place value on our relationship with the environment and strive constantly to interact respectfully with it by being mindful of its fragility.

Page 53

Health and Safety

We insist on high standards of performance to ensure our workforce remains safe and healthy.

Page 54

Social

We appreciate the opportunities to be gained from co-operation with local communities, striving to make connections and foster relationships with all of our stakeholders.

Page 55

Human resources

We reward performance and offer a progressive working environment and development opportunities for our employees. We will not tolerate discrimination of any sort.

Page 56

Business ethics

We conduct ourselves with integrity to ensure that every aspect of our business is operating to the highest standards of business ethics.

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Key objectives for 2012

Our objectives for 2012 are to continue to consolidate existing systems for managing EHSS, community and security issues. 2011 saw production start-up at Ebok and entry into the Kurdistan region of Iraq, where we have already performed extensive EHSS due diligence. In 2012 we intend to carry out a Social Impact Assessment for the Kurdistan region of Iraq and engage with the local communities to implement sustainable community development projects focused on education. Additionally, our goal for EHSS is to have zero lost time incidents, zero fatalities, and zero oil spills.

We have defined how we manage EHSS, ethical and HR issues through a set of corporate policies, management systems and supporting procedures and guidelines: www.afren.com

Environment

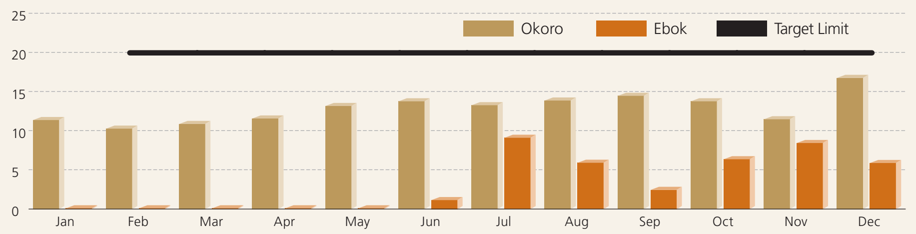
Strategic priorities

For more on our strategy see page 12

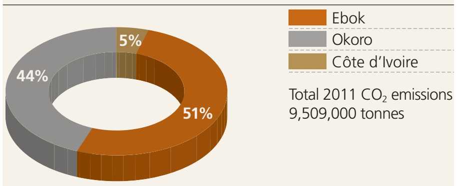
5 Corporate responsibility

At Afren, environmental management is one of our top priorities. Our operations vary from offshore to onshore and our approach is to maintain the highest international standards, rather than just abiding by local regulations. For each of our assets, we perform environmental impact assessments to identify any and all risks to the environment associated with our operations. Throughout 2011, we worked on defining our oil spill response plans and emergency preparedness. Our target was to avoid spills altogether, even though a minor spill did occur which was immediately cleaned and the incident investigated. Procedures have now been put in place to further strengthen spill prevention procedures across our operations.

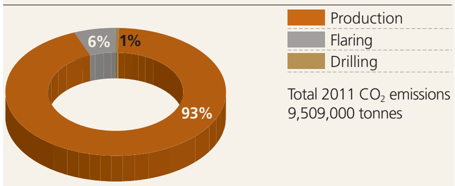
Fig 1: Afren assets produced oil-in-water content discharges vs target limit in 12 months period
(Jan-Dec 2011)



2011 CO_2 emissions by location



2011 CO_2 emissions by activity



Atmospheric emissions

Afren is developing its approach to the issue of greenhouse gases and other atmospheric pollutants. In the first instance we have examined our emissions of the key gases, carbon dioxide (CO_2), methane (CH4), nitrous Oxides (NOx), Sulphur Oxides (SOx) and other volatile organic compounds (VOCs) since the start of operations in 2009. Over this period there has clearly been a significant increase in activity, with the start of Okoro production, intensive development drilling on Ebok and the start of Ebok production in 2011. This increase is directly reflected in an increase in atmospheric emissions.

In addition to looking at the total volumes of atmospheric emissions, we have also examined the source of emissions by drilling and production activity. The results for 2011 emissions are shown in the graphs above for 2011 emissions.

As we move into 2012 our focus will remain on implementing energy efficiency initiatives that are aimed at driving down both our energy costs and atmospheric emissions.

Environmental highlights from our operations

Environmental monitoring

We are committed to monitoring our environmental performance and we are making significant progress on quantifying the emissions from our operations. In Nigeria in particular we have extensive annual monitoring programmes carried out on our behalf by independent third party consultants. This monitoring covers a host of environmental parameters including atmospheric and liquid discharges, waste and noise. The intent of the programme is to ensure that our emissions are consistent with those we predicted in our environmental impact assessments, that they remain within the legal limits and that we are able to demonstrate this to our stakeholders.

In addition to the atmospheric emissions described in the previous section we are monitoring the level of oil discharged with our produced water. Figure 1 shows that the oil concentration in parts per million (ppm) for our Nigerian operations remained well below our target discharge level of 20 ppm throughout 2011.

Our waste streams are generally separated into recyclable, non-hazardous and hazardous materials and disposed of at licensed facilities. The total tonnage of production waste arising from Okoro and Ebok for 2011 was around 285 tonnes, with 4,120 tonnes of cuttings processed and disposed onshore from drilling operations at the two fields.

Health and Safety

We benchmark our performance against International Association of Oil & Gas Production ('OGP') annual safety performance averages to help identify Group-wide and function-specific safety targets for the following year.

People are our most valuable resource. We ensure that they remain healthy and safe in the workplace by identifying, assessing and mitigating risk. Our goal is simple: zero injuries and fatalities across all areas of our operations.

We strive to ensure that we address important factors when developing systems and procedures, such as an understanding of cultural differences in host countries and the use of external contractors and representatives from our host communities where we operate. We aim to construct, maintain and develop world-class safety systems across all of our operations.

2011 Highlights

- Achieved over 1 million man hours without lost time incidents on Ebok project
- Significant improvement to our Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF) (see graphs to the right)
- Continuous improvement in Nigeria and Côte d'Ivoire to achieve 92% compliance with best practice through British Safety Council audits
- New health and safety management system developed and implemented across Nigeria and Côte d'Ivoire
- New focus on performance based audits and unannounced inspections
- Early EHSS plans formulated for new projects

How we achieved our objectives

Identifying, assessing and mitigating risks are the primary focus of our health and safety programme. In our opinion, proper assessment of risks at all levels of our operations can eliminate events that may lead to injury and other losses. Our management system and procedures consequently incorporate a suite of risk assessment techniques ranging from hands-on job safety analysis, to design risk assessment such as Hazard Identification Study ('HAZIDS') and Hazard and Operability Study ('HAZOPS').

We also require that our contractors adopt the same principles, rigorously checking to ensure this is the case – both before contracts are signed and again once work starts. By developing close relationships with our key contractors, we have aligned health and safety programmes so that we share lessons learned and participate jointly in activities such as training and audits.

Our efforts to improve health and safety standards have dramatically reduced the TRIR and LTIF 12-month rolling averages. These initiatives have included performing internal and external assessments, working closely with contractors to identify and manage hazards, enhancing performance incident investigations and developing strategies to prevent reoccurrence. As a result, our Total Recordable Incident Rate (TRIR) decreased from 7.57 to 1.96 and our Lost Time Injury Frequency (LTIF) from 1.85 to 0.22 (well below the international OGP benchmark).

Security

The security challenges faced by all companies today is truly global. In order to ensure that Afren provides a safe and secure workplace for its employees and contractors, a comprehensive security programme is in place to ensure that security measures are taken to help mitigate security threats.

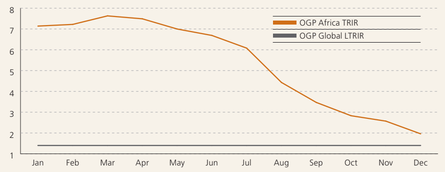
A key component of this programme is the development and implementation of a security risk assessment to cover all aspects of Afren's operations in Africa and the Kurdistan region of Iraq.

Afren is dedicated to ensuring that all security threats to our staff and contractors are treated with the highest level of attention and that everything is done to take the required steps to ensure a safe and secure workplace.

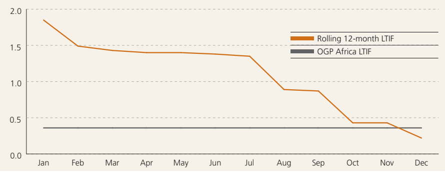
Our Goal

Our goal is zero injuries and fatalities across all areas of our operations and to minimise and/or negate operational health issues.

Afren rolling 12-month average total recordable incident rate (All locations, employees and contractors)



Afren rolling 12-month average lost time injury frequency rate (All locations, employees and contractors)



Social

Strategic priorities

For more on our strategy see page 12

5 Corporate responsibility

Afren's mission is to improve the lives of the communities in which we operate by implementing sustainable community development projects.

Our three community development goals are:

1. Education
2. Health
3. Employment

Education

Country	Project
Nigeria	• The University of Uyo Project: Afren acquired all the essential lab equipment and scientific journals for the University's Chemical and Petroleum Engineering department. • Secondary and tertiary scholarships awarded to 255 students in our Effiat and Eastern Obolo communities. All applicants take placement tests and were selected according to qualifications and financial need. Not only will the scholarships enable the young people in the community to continue their education, recipients will continue to receive financial assistance for the duration of the programme. • Construction began on science labs at three schools in Eastern Obolo. The three science blocks will spark interest in the sciences, education and career goals among the students in our communities. Local contractors were engaged to complete the construction, providing local employment and creating a sense of ownership within the community.
Côte d'Ivoire	• Renovated two classrooms and living quarters at a school in Jacqueville. • Partnered with Save the Children for a school rehabilitation and sanitation initiative at five schools in Abdijan.
East Africa	• Our East Africa community affairs team forged strong relationships with the local chiefs and stakeholders in Kenya and Tanzania. Successful development initiatives included re-roofing the Shimo La Tewa School in Mombassa, donating 100 lockers and chairs to a local secondary school and providing 170 desks for the Kichaka Mkwaju primary school in Ukunda.
Multi Country	• Established the University of Texas – Afren Management Endowed Graduate Fellowship in Engineering which provides a full scholarship for one African student a year. The student's tuition, books and living expenses will be covered, allowing them to devote all their concentration to obtaining a Master's Degree from one of the leading Petroleum Engineering departments in the United States. • Afren welcomed 13 Petroleum Engineering and Geosciences interns at our Houston office over the summer to work alongside our engineers and geoscientists and gain valuable real-world experience. We provide internship opportunities to African students studying at US universities, students who would otherwise face difficulties obtaining internship opportunities due to visa issues.
Kurdistan	• Committed to a multi-million dollar educational assistance project at the American University of Iraq – Sulaimani to create a Petroleum Engineering department in Iraqi Kurdistan.

Health

Country	Project
Nigeria	• Afren funded the inaugural phases of Faith Regen's Mobile Midwives project. This will see prototypes of mobile clinics travelling throughout rural Southern and Northern Nigeria to provide access to healthcare for women and infants. The project is revolutionary in its commitment to meeting the Millennium 2015 health goals by increasing access to essential pre-natal and post-natal healthcare in isolated locations.
Côte d'Ivoire	• Afren donated food, cleaning products, bunk beds and clean mattresses to three local orphanages in Abobo, Aboisso and Bingerville.
East Africa	• In response to the devastating drought in East Africa, Afren made a humanitarian donation towards Save the Children's East African Food Crisis appeal. The funds were allocated to provide life-saving nutrition, water and healthcare for the victims of the drought.
Corporate	• Afren is supporting 67 families in a Family Strengthening Programme at the SOS Children's Village in Aboisso, Côte d'Ivoire, where they will be provided with access to medical care, educational tools, food, counselling and training in income generating activities.

Employment

Country	Project
Nigeria	• Afren supported skills training for 19 young people in Eastern Obolo. This initiative was designed to increase the human capacity of our Nigerian host communities by focusing on skills in welding, fabrications, structural and pipeline welding, auto mechanics and electrics, computer science, office management and crane operations.
Corporate	• Afren sponsored the University of Texas's Projects for Underserved Communities in Patriensa, Ghana for a third year. The PUC programme challenges graduate students to use their education and skills to make a positive impact on underdeveloped communities. Student led teams are working with the Patriensa community to develop a sustainable water sachet packaging and repurposing business.

Human Resources

1 Production growth
2 Organic reserves growth
3 Pursue materially accretive acquisitions
4 Operational efficiency and financial discipline
5 Corporate responsibility

We are totally committed to attracting, retaining and developing the highest calibre employees to support Afren's growth strategy and to build on our significant success. We aim to be an attractive employer, giving our people the tools and skills to enable them to achieve their full potential and to flourish in what is a diverse and fast-moving business.

We want our employees to feel valued and engaged. We know that by providing an excellent physical environment, upper quartile rewards, and challenging and interesting projects they will have the opportunity to deliver to the highest industry standards. It is critical for us that we motivate and retain our most important asset – our people.

We are dedicated to providing a fair environment and do not discriminate when making decisions on hiring or promotion on the grounds of race, colour, gender, age, religion or disability. During 2011, we have again seen significant growth in our organisation and have recruited 86 new employees. This is an increase of nearly 30% on 2010 numbers.

In addition, new acquisitions in East Africa and the Kurdistan region of Iraq meant new offices in Nairobi and Erbil to add to our international portfolio. We are extremely proud that over 97% of permanent employees in our overseas offices are local nationals.

Our voluntary staff turnover rose to 3% during 2011 from 2% in 2010. This is still an exceptionally low percentage and indicates a high level of employee engagement and satisfaction with the working environment.

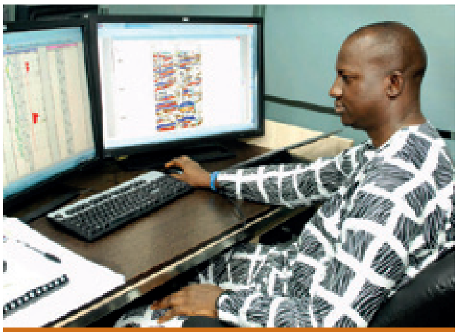
One of our key objectives in 2011 was to continue our impressive record of developing national staff and we are encouraged that our Intern Programme is going from strength to strength with the recruitment of 37 interns in Houston, London, Lagos and Abidjan. These talented graduates gained valuable technical and professional experience during their time with us working on projects in geosciences, reservoir engineering, drilling engineering, human resources, commercial, legal and finance areas.

Our graduate programme has been very successful with six graduates recruited during 2011 who are currently completing their training.

Two of our graduates have now returned to Lagos, one of whom we feature opposite.

In 2011 we invested over US$850,000 in training and development programmes including leadership and general management, technical, operational, finance, EHSS and IT programmes. We also introduced a structured online soft skills programme which is available to all staff. We will continue to support and develop our existing employees through structured learning and development programmes.

We are also sponsoring undergraduates through their degree programmes and partnering with top universities in the USA, UK, Nigeria and the Kurdistan region of Iraq to build new skills for the future.



Olusegun Babalola is a Nigeria-based geoscientist – a BSc graduate in Geology from the University of Ibadan recruited by Afren Nigeria in 2010. Olusegun's role as an operational geologist and interpreter with the Lagos team is also now benefiting from new ideas and techniques acquired during placements at the Company's London and Houston offices.

"Afren's enlightened training philosophy has made a positive impact on both the business and my job as a geoscientist," says Olusegun, a member of the America Association of Petroleum Geologists and the Nigerian Association of Petroleum.

"During my time with Afren in the UK and US, I expanded my network of highly experienced people and acquired important new skills too. Real time geosteering drilling, sub-surface interpretation, permit preparation and operational geology are just some of the valuable techniques now shaping my career."

Business Ethics

Strategic priorities
For more on our strategy see page 12

5 Corporate responsibility

We are committed to conducting business according to the highest ethical standards – reinforcing our efforts to uphold this principle in 2011. Our policies set out standards for our employees' behaviour. We require our people to comply with our business ethics, as we do our suppliers.

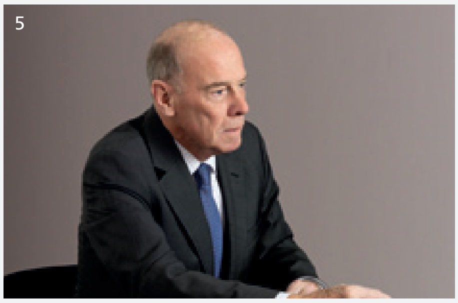
As an international company with offices in a number of jurisdictions, it is our policy to comply with all governmental laws, rules and regulations applicable to our business. We are fully aware of our obligations relating to the US Foreign Corrupt Practices Act and the UK Bribery Act and have taken steps to implement 'adequate procedures' to prevent corrupt practices either within our organisation or being carried out by third parties on our behalf.

In 2011 we updated our Code of Business Conduct to provide further guidance on a range of topics and to ensure compliance with the UK Bribery Act. During the year the UK Government issued the Bribery Act 'Adequate Procedures' guidance. We developed and implemented compliance procedures which we cascaded through the organisation during 2011 via a compulsory training programme for all employees. Consisting of information sessions, we delivered to employees in our offices in Nigeria, Côte d'Ivoire, Kenya, USA and England, reaching over 250 officers and key contractors. Afren expects compliance with standards of integrity and adherence to policies and internal controls throughout the organisation.

We remain vigilant in the important area of corporate governance. The Code of Business Conduct Policy is part of our employee handbook which we require all new staff to read, confirming that they understand and will abide by its requirements. The whistle blowing policy and procedure established in 2009 to alert us to potential malpractices remains in place. An independently operated and confidential ethics reporting facility is available worldwide so employees can raise issues or concerns regarding business conduct independently of the normal management chain. Employees can send emails or call telephone numbers in countries throughout the world to report any concerns they may have about business conduct. Calls are handled independently by Safecall and may be made in total confidence.

In 2011 Afren received a total of two reports. Reports are investigated by the Group General Counsel & Company Secretary and Senior Independent Director with support from the relevant departments as required. A senior management steering group meets quarterly to review cases, identify trends and manage the associated ethical and reputational risks. The Audit and Risk Committee monitors cases reported, the management of cases and the results of high risk investigations undertaken.

Afren's Board of Directors



1. Mr Egbert Imomoh
Non-Executive Chairman
Mr Imomoh, a founder of Afren, was previously Managing Director and Executive Chairman of Afren Energy Resources Limited. He successfully led the growth of Afren's Nigerian asset base, established a number of successful indigenous partnerships and achieved the First Oil milestone at the Okoro Setu project.

Prior to establishing Afren's Nigerian subsidiary, Mr Imomoh served as Deputy Managing Director of Shell Petroleum Development Company (Nigeria), one of Shell Group's largest operating companies. The Society of Petroleum Engineers has named Mr Imomoh as its 2013 President, and has served on its board as Regional Director for Africa.

2. Dr Osman Shahenshah
Chief Executive
Dr Shahenshah is a founder of Afren and has over 20 years' experience in oil and gas finance. His international career began with Credit Suisse First Boston and has included senior positions in the oil and gas finance groups of the International Finance Corporation (the private sector arm of the World Bank), and the investment banking divisions of Dresdner Kleinwort Wasserstein and Mediocredito Centrale.

Dr Shahenshah has been actively involved in the African oil and gas sector for more than 15 years, working with companies including Shell, Chevron, Total, Eni S.p.A and the Nigerian National Petroleum Corporation. He holds a PhD from the University of Pennsylvania, a Master's Degree from Columbia University and a Bachelor's Degree from Brown University.

3. Mr Shahid Ullah
Chief Operating Officer
Mr Ullah has held senior management positions at Western Atlas and Baker Hughes, where he was responsible for managing petroleum interests and assets. In particular, he brings extensive technical and commercial knowledge of the African petroleum industry to Afren. Mr Ullah holds a degree in Petroleum Engineering from the University of Texas and received executive development training at Oxford University and the London Business School. He is a member of the Engineering Advisory Board at the University of Texas.

4. Mr Darra Comyn
Group Finance Director
Mr Comyn was previously the Group Finance Director for ITE Group plc and Expomedia Group Plc (both international groups focused on emerging markets); and in the oil industry with Chevron Oil UK and Dragon Oil where he was Group Financial Controller and Company Secretary.

Mr Comyn is a Chartered Accountant with a degree in Economics from Trinity College, University of Dublin.

5. Mr Peter Bingham
Non-Executive Director
Mr Bingham is a Non-Executive Director of Afren. With over 40 years' experience in international financial markets, Mr Bingham began his career at Barclays Bank group. He subsequently held a succession of Directorships, first in London at branch level, then in Barclays merchant banking division and BZW – now known as Barclays Capital – where he set up the credit risk management team, all before becoming Head of Banking at BZW and serving as a member of the central Barclays Group Credit Committee.

6. Mr John St. John
Non-Executive Director
Mr St. John was appointed to the Board of Afren in November 2006. He was formerly Global Head of Equity Capital Markets at Dresdner Kleinwort, Commerzbank and Lehman Brothers and European Head of Equity Capital Markets at Citigroup, formerly Salomon Brothers. He was also until recently the Chairman of Equity Capital Markets at Nomura International plc. John is a founding Partner of STJ Advisers. He has acted as an adviser on over US$100 billion of equity and equity-linked issuance in all major markets worldwide.

7. Mr Ennio Sganzerla

Non-Executive Director

Mr Sganzerla, a senior oil industry practitioner with a wealth of African upstream experience, has been an adviser to the Afren Board since November 2006. He was previously Senior Vice President (E&P) at Eni, having joined the group in 1971. From 1997, he was responsible for Eni's largest business unit encompassing the North Sea, America, Australasia and Russia, with production in excess of 500,000 boepd. Over the course of his wide-ranging career at Eni, he was instrumental in establishing and building Eni's presence in Congo, and played an active role in increasing Eni's position in Nigeria and Gabon as Regional VP for Africa.

Mr Sganzerla was also active in leading the Group's M&A activities, including the acquisition of Lasmo plc and British Borneo.

8. Mr Toby Hayward

Non-Executive Director

A qualified chartered accountant, Mr Hayward has held a number of senior Equity Capital market positions in London. As Head of Oil and Gas Equity Capital Markets at Canaccord Adams he led a range of Initial Public Offerings (IPOs), including Afren's IPO, before moving on to his post as Managing Director and Head of Corporate Broking at Jefferies International Limited, where he was responsible for all international equity and equity linked transactions together with corporate broking and Nomad responsibilities.

9. Mr Patrick Obath

Non-Executive Director

Mr Obath, an East African national, is a senior energy industry practitioner, having held a number of senior management positions in a career spanning over 36 years, including 20 years with Shell International, Shell Kenya, Shell Tanzania and Shell Oil Products Africa (Shell).

Mr Obath currently also serves as Chairman of PZ Cussons EA Limited and is a non-executive Director at Standard Chartered Bank Kenya Limited and Kenya Power and Lighting Company Limited. Mr Obath has a B.Sc. (Hons) in Mechanical Engineering from the University of Nottingham. He is Chairman of the Kenya Private Sector Alliance and has received a number of East African Honorary recognitions, including the Order of the Grand Warrior (OGW) by H.E. the President of the Republic of Kenya, the National Peace Award, Kenya, and the Order of the Moran of the Burning Spear (MBS) by H.E. the President of the Republic of Kenya.

1. Mr Iain Wright

Associate Director

With over 25 years in the industry, Mr Wright has extensive international geosciences experience and has served in both development and exploration geology roles. He has held senior positions with Randall & Dewey, Baker Hughes, Qatar Petroleum, Conoco (UK) and Anadrill Schlumberger. Mr Wright received a BSc (Hons) from the City of London Polytechnic and is a Certified Petroleum Geologist (CPG) with the AAPG, a fellow with the Geological Society, the SPE and PESGB.

2. Mr Galib Virani

Associate Director

Mr Virani joined the Company in 2005 following a career in the City of London in Corporate Finance and Mergers & Acquisitions. As Director of Acquisitions, Mr Virani has played a key role in the inorganic growth of the Company's asset base over the last 7 years. He has also participated in the Company's financing and in diversifying the shareholder base.

Mr Virani is an East African national and a member of the JSE Africa Board Advisory Committee. He is a Fellow of the Securities Institute, and has a Master of Finance & Investment (with Distinction) and a Master of Philosophy in Emerging Market Finance.

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and audit report of Afren plc for the year ended 31 December 2011. The Corporate Governance Statement on pages 64 to 72 forms part of this Directors' Report.

PRINCIPAL ACTIVITIES

The Group's principal activities are oil and gas exploration, development and production in Africa and the Kurdistan region of Iraq. The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 13 and 14 to the consolidated financial statements.

BUSINESS REVIEW

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the review's requirements is set out within the Chairman and Chief Executive's Statement, the Review of Operations and the Financial Review, which are incorporated into this report by reference. These sections also include details of expected future developments in the Group's business and details of the Key Performance Indicators used by management.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 20 to the financial statements.

Details of significant events since the balance sheet date are contained in note 34 to the financial statements.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Operations. The financial position of the Group at the year end, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 46 to 51. In addition, note 20 of the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments and hedging activities. Note 20 also describes its exposures to credit risk and liquidity risk.

Afren's net production at the 2011 exit rate of approximately 50,000 boepd, together with expected production start-up in the Kurdistan region of Iraq in mid-2012 and the fact that exploration expenditure in 2012 will be funded via planned operational cash flows, provides confidence that the Group will continue to generate sufficient working capital for the foreseeable future.

On the basis of the above, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year was US$125.4 million (2010: US$45.9 million). The Directors have not recommended the payment of a dividend (2010: US$nil).

THE DIRECTORS AND THEIR INTERESTS

The Directors who served during the year and subsequently, together with their and their families' beneficial interests in shares in the Company, were as follows:

	Committees			Ordinary shares of £0.01 each		
Name	Audit and Risk	Nomination	Remuneration	At 27 March 2012	At 31 December 2011*	At 31 December 2010**
Egbert Imomoh Chairman		●†		3,972,246	3,972,246	3,672,246
Osman Shahenshah Chief Executive				4,293,856	4,181,515	4,181,515
Constantine Ogunbiyi(i) Director				–	1,295,676	1,295,676
Shahid Ullah Chief Operating Officer				3,268,961	3,268,961	3,268,961
Darra Comyn Group Finance Director				–	–	–
Peter Bingham Non-Executive Director	●†		●	–	–	–
Toby Hayward Senior Non-Executive Director	●	●		205,000	205,000	205,000
Ennio Sganzerla Non-Executive Director	●	●	●	24,000	24,000	24,000
John St. John Non-Executive Director	●		●†	175,823	175,922	50,922

* Or resignation, if earlier
** Or on appointment, if later
(i) Stepped down 4 January 2011
† Chairman of Committee

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 80 to 81.

SUPPLIER PAYMENT POLICY
The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of the payment, and abide by the terms of the payment. Trade creditors of the Group at 31 December 2011 were equivalent to 36 days' purchases (2010: 30 days), based on the actual year end balance.

CHARITABLE AND POLITICAL DONATIONS
During the year, the Group made charitable donations of US$1,667,000, the majority of which related to African- and Kurdistan-focused charities and institutions (2010: US$582,000).

No political donations were made in either 2011 or 2010.

CAPITAL STRUCTURE
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 28. The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The ordinary shares reflect 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 31.

No person has any special rights of control over the Company's share capital, and all issued shares are fully paid. Details of significant shareholdings are set out below.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on pages 64 to 72.

In respect of the Group's assets in Ghana, Block 10A in Kenya, the Seychelles and Ethiopia, our partners may have a right of first refusal to acquire the Company's interest should a competitor directly or indirectly take control of the Company. In relation to the Ebok asset, our partner Oriental would have a similar right of first refusal to acquire our interest upon a direct or indirect change of control. In addition, under the terms on which the Senior Secured Notes of US$500 million were issued, upon a change of control, each holder of the notes has the right to require Afren to repurchase all or any part of its holding.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

SUBSTANTIAL SHAREHOLDINGS
As of 26 March 2012 (being the latest practicable date prior to publication of the Annual Report), interests notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

	%
Vidacos Nominees (Standard Life)	8.79%
AllianceBerstein LP	8.28%
Investec Asset Management Ltd	4.49%
HSBC Client Holdings UK Limited	4.93%
GLG Partners LP	3.60%
Legal & General Group Plc	3.01%
Deutsche Bank AG	3.01%

Percentages are based on the issued share capital at the date of notification.

ACQUISITION OF THE COMPANY'S OWN SHARES

At the end of the year the Directors had authority, under the shareholders' resolutions of 29 April 2010, to purchase through the market 97,832,886 of the Company's ordinary shares at prices, per share, ranging between one penny and the higher of (i) the amount equal to 105% of the average of the closing middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which the ordinary share is purchased and (ii) the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulations 2003 (in each case exclusive of expenses). This authority expires on 30 June 2012.

AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

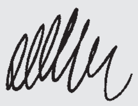
At the Annual General Meeting of the Company, resolutions will be proposed to receive these accounts and the Directors' and auditors' reports and to re-elect all Directors at the Annual General Meeting, in accordance with the Company's Articles of Association and the UK Corporate Governance Code.

Resolutions will also be proposed to:

- reappoint Deloitte LLP as the Company's auditors
- authorise the Directors to fix Deloitte LLP's remuneration as auditors
- grant the Directors authority to allot ordinary shares
- buy back the Company's ordinary shares
- allow a general meeting to be held at not less than 14 days' notice.

For a more detailed explanation of these and other amendments, please refer to the Notes on Resolutions set out in the Notice of Annual General Meeting.

On behalf of the Board



Osman Shahenshah
Chief Executive
27 March 2012

Corporate Governance Statement

INTRODUCTION FROM THE CHAIRMAN

We are committed to the highest standards of corporate governance and consider it critical for upholding our business integrity wherever we work around the world. The Board has been fully briefed on the new UK Corporate Governance Code. Key areas include annual re-election of all Directors, Board diversity, external evaluation, greater emphasis on risk, and a clear explanation of business model and strategy. We welcome these changes and are committed to complying with them.

As part of our planned and continuing strengthening of the Board, I am pleased to welcome as a new Non-Executive Director to the Board, Mr Patrick Obath. Mr Obath has an exceptional industry track record combined with significant East African experience that will prove useful as we move into an active operational phase across our regional portfolio.

We have a solid and experienced leadership team, which is collectively responsible for the Company's long-term success and has a clear understanding of its roles and responsibilities. We promote an honest and open environment in which both Executive and Non-Executive Directors can constructively contribute to the Company's development.

I am satisfied that the members of the Board, in particular the Non-Executive Directors, have sufficient time to undertake their roles at Board and Committee level with the Company, so as to be able to discharge their responsibilities effectively. At our Annual General Meeting in June 2012, we will put all of our Directors up for re-election in compliance with the Code and anticipate continuing to put all Directors up for re-election annually.

Our 'good governance' culture is robust and is fully focused on maintaining high ethical standards and strong personal integrity. This is formalised in our Group Code of Business Conduct, which has been adopted across the business and clearly sets out expectations of how our employees should behave. We have reviewed and updated the Code in the light of the Bribery Act 2010 and have also rolled out an Anti-Bribery Policy across the Group.

This section of the Afren annual report describes how the Company has applied the main principles and complied with the provisions of the UK Corporate Governance Code (the Code) throughout the year and, where specific provisions may not appear to have been met, provides an explanation.

Further information on the Code can be found at www.frc.org.uk.

I hope this report gives you a clear understanding of how we comply with the UK Corporate Governance Code and our governance arrangements.

Egbert Imomoh
Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

This statement explains how the Directors applied the principles of the UK Corporate Governance Code during the year ended 31 December 2011. The Directors consider that the Company complied in full with the provisions set out in Section 1 of the UK Corporate Governance Code for the whole of the year ended 31 December 2011.

BOARD COMPOSITION AND INDEPENDENCE

The Board currently has nine members made up of three Executive Directors, five independent Non-Executive Directors and the Non-Executive Chairman. Nine Directors served on the Board in the 2011 financial year. Constantine Ogunbiyi stepped down as Executive Director on 4 January 2011, following his appointment as Chief Executive of First Hydrocarbon Nigeria (FHN). Mr Obath joined the Board on 2 February 2012 as a Non-Executive Director.

The Board considers that there is an appropriate balance between Executive and Non-Executive Directors for governing the business effectively and promoting shareholder interests. It also considers that both Executive and Non-Executive Directors have the necessary skills, knowledge and experience to enable them to govern the business effectively.

Our Non-Executive Directors contribute international operational know-how and were chosen for their wide range of skills and experience. They understand the sectors in which we operate and have valuable knowledge of international capital markets. In addition, they bring in-depth understanding of the health, safety, environmental, political and community challenges we face.

Each Non-Executive Director is appointed for a three-year fixed term, renewable by mutual agreement. All Non-Executive Directors' appointment letters are available for inspection at the registered address of the Company.

The Non-Executive Directors:

- scrutinise, measure and review the performance of management
- assist in strategy development
- review the Group's financial information
- ensure appropriate and effective systems of internal control and risk management
- review the relationship with the external Auditors through the Audit & Risk Committee
- review the remuneration of and succession planning for the Board.

The Chairman and Non-Executive Directors met twice during the financial year without the Executive Directors being present.

The Directors are listed below:

AFREN BOARD OF DIRECTORS

Board member	Position	Year appointed	Year of vacation of office	Executive Director	Non-Executive Director
Egbert Imomoh	Non-Executive Chairman	2005			X
Osman Shahenshah	Chief Executive	2004		X	
Toby Hayward	Non-Executive Director	2009			X
Peter Bingham	Non-Executive Director	2005			X
John St. John	Non-Executive Director	2007			X
Ennio Sganzerla	Non-Executive Director	2009			X
Patrick Obath[1]	Non-Executive Director	2012			X
Shahid Ullah	Chief Operating Officer	2008		X	
Darra Comyn	Group Finance Director	2010		X	
Constantine Ogunbiyi[2]	Executive Director	2008	2011	X	

1 Appointed on 2 February 2012.
2 Stepped down on 4 January 2011.

BOARD STRUCTURE

The Board is responsible for providing leadership, setting the Group's strategic objectives and key policies, ensuring that appropriate resources are in place to enable the Group to meet its objectives, reviewing the Group's performance and overseeing the Group's internal control systems and is responsible to shareholders for the proper management of the Group. At the end of the period of this report, the Board comprised of a Non-Executive Chairman, three Executive Directors and four Non-Executive Directors.

Afren benefits from an experienced Board with extensive African experience and relationships plus a broad range of commercial, financial and other relevant expertise. Brief biographies are included on pages 58 and 59.

The Nomination Committee periodically reviews the composition of the Board including the balance between Executive and Non-Executive Directors and considers succession planning for both Executive and Non-Executive Directors and the Group's senior management. It is also responsible for the process for new Board appointments and makes recommendations to the Board on the appointment of new Directors and is responsible for ensuring that appointments are made on merit and against objective criteria.

In making appointments to the Board, the Nomination Committee considers the skills, experience and knowledge of the existing Directors and assesses which of the potential candidates would bring the most benefit to the Board. It considers the potential candidate's knowledge and experience of the territories in which we operate, the oil and gas industry, capital markets and the regulatory environment, and that, in the case of Non-Executive Director appointments they have sufficient time to devote to the role. The Chairman ensures that any new Directors are provided with a full induction on joining the Board. Non-Executive Directors are appointed for an initial term of three years, which may be extended by mutual agreement subject to satisfactory performance. The letters of appointment of each Non-Executive Director are available for inspection at the registered office of the Company.

The Board meets on at least five occasions during the year to review trading performance, budgets and funding, set and monitor strategy, examine acquisition opportunities and report to shareholders. The Chief Executive holds informal meetings with the Chairman and Non-Executive Directors to discuss issues affecting the Group, such as target objectives, strategy, key performance indicators and remuneration matters.

The Board has a formal schedule of matters specifically reserved to it for decisions and responsibility for developing and implementing the Group's strategic and financial objectives is delegated to the senior management of the Group. The roles of Chairman and Chief Executive are separate and the responsibilities of Chairman and Chief Executive are independently defined. It is the Chairman's responsibility to ensure that the principles and processes of the Board are maintained, including the provision of accurate, timely and clear information in relation to the Group and its business.

The Chairman is also responsible for encouraging debate and constructive criticism, speaking and acting for the Board and representing the Board to shareholders, and presenting shareholders' views to the Board.

The Board considers that none of the Chairman's other commitments interfere with the discharge of his responsibilities to the Company. It is also satisfied that he makes sufficient time available to serve the Group effectively. The Group does not have a Deputy Chairman, but has identified Mr Bingham to act as Chairman should the need arise at short notice.

INDEPENDENCE

The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a Director's circumstances change in a way that warrants reconsideration. Following a review of Board composition, the Company has reassessed the independence of all its Non-Executive Directors. It regards all as 'independent' within the meaning of the term as defined in the UK Corporate Governance Code.

The Board has a policy that it uses to determine the independence of its Directors. This policy provides that the test of independence is whether the Director is independent of management and any business or other relationship that could materially interfere with the exercise of objective and unfettered or independent judgement by the Director or the Director's ability to act in the best interests of the shareholders.

Where a Director is considered by the Board to be independent, but is affected by circumstances that may give rise to a perception that the Director is not independent, the Board has undertaken to explain the reasons why it has reached its conclusion. The Board considers relationships with management, major shareholders, associated companies and other parties with whom the Group transacts business against predetermined materiality thresholds, all of which are set out in the policy.

Tested against this policy, the Board considers that each of the Directors has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to exercise independent judgement or act in the best interests of the Company.

The Board gave particular consideration to the independence of Mr Peter Bingham and Mr John St. John. This is because, historically, Non-Executive Directors were eligible for share option awards prior to the Company's admission to the Official List of the United Kingdom Listing Authority in December 2009. Mr Bingham and Mr St. John are the only independent Non-Executive Directors who still have unexercised options. The Share Option Scheme Rules were amended in November 2009 to prohibit the award of share options to Non-Executive Directors. Since Afren's admission to the Official List, no share options have been granted to any Non-Executive Director. We take the view that this does not impact the independence of the Non-Executive Directors. For more information see the Directors' Remuneration Report.

Some of the Directors hold, or previously held, positions in companies with which we have commercial relationships. The Board has assessed all of the relationships between the Company and companies in which the Directors hold or held positions. It has concluded that, in all cases, the relationships do not interfere with the Director's exercise of objective, unfettered or independent judgement or their ability to act in the best interests of our business.

In the case of Mr St. John, the Board has considered the fact that he is a shareholder in St. John Advisors Ltd and a partner in STJ Advisors LLP, two companies in the financial advisory sector with which Afren has had commercial dealings. It is Mr St. John's breadth of expertise, experience, knowledge and connections gained while providing capital markets advice to companies that brings significant value to the Board. Prior to Mr St. John's appointment, the Board assessed the relationships between Afren and St. John Advisors Ltd and STJ Advisers LLP. It remains satisfied that Mr St. John is able to apply objective, unfettered and independent judgement and act in the best interests of the Company, notwithstanding his role with St. John Advisors Ltd and STJ Advisers LLP.

In addition, any commercial dealings with St. John Advisors and STJ Advisers have been approved by the independent Non-Executive Directors, as they will be should they continue in the future. Mr St. John and the Executive Directors absent themselves fully from these deliberations.

Transactions during the year that amounted to related party transactions under the International Financial Reporting Standards (IFRS) are outlined in note 35 to the financial statements. The Company does not consider the level of fees paid to St. John Advisors Ltd and STJ Advisers LLP to be material to either business. All transactions with Directors, including Mr St. John, qualify under the exemption for smaller related party transactions in respect of the Related Party Rules of the UKLA Listing Authority.

SENIOR INDEPENDENT DIRECTOR

Mr Toby Hayward is the Senior Independent Director. Mr Hayward was selected for the role because of his experience and expertise. In his role as Senior Independent Director, Mr Hayward is available to assist in resolving shareholder concerns should alternative channels be exhausted or inappropriate.

BOARD COMMITTEES

The Board has delegated certain responsibilities and duties to a number of key Committees – in particular the Audit & Risk, Remuneration and Nomination, each of which has defined terms of reference that are summarised below and available in full on the Company website. The Board is kept fully informed of the work of these Committees. A summary of the operations of these Committees is also set out below.

Each Committee and Director has the authority to seek independent professional advice where necessary, at Afren's expense, to discharge their respective duties. In addition, each Director and Committee has access to the advice of the Company Secretaries, Ms Shirin Johri and Mr Elekwachi Ukwu.

The Directors have collective responsibility for the conduct of the Group's business and are expected, wherever possible, to attend all Board meetings, relevant Committee meetings and the Annual General Meeting (AGM). A table detailing the Directors' attendance at each of the Company's scheduled Board and Committee meetings during 2011 is included below.

BOARD AND COMMITTEE MEMBERS' ATTENDANCE

The number of Board and Committee meetings held during 2011, together with details of each Director's attendance, is shown below:

	Number of Board meetings held while a Board member	Number of Board meetings attended	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings*/**	5	5	3	2	2
Egbert Imomoh	5	5			2
Osman Shahenshah	5	5			
Toby Hayward	5	5	3		2
Peter Bingham	5	5	3	2	
John St. John	5	5	3	2	
Ennio Sganzerla	5	5	3	2	2
Patrick Obath[1]	5	–			
Shahid Ullah	5	5			
Darra Comyn	5	5			
Constantine Ogunbiyi[2]	5	–			

* During the year the Board agreed to increase the number of scheduled Board meetings from four to five. In addition to the five scheduled meetings, the Board also met on a quorate basis on 12 other occasions to address specific matters.
** In addition to the one scheduled meeting, the Nomination Committee met on a quorate basis on four other occasions to discuss the recruitment of an additional Non-Executive Director.
1 Appointed on 2 February 2012.
2 Stepped down on 4 January 2011.

During the year ended 31 December 2011, the Board's scheduled activities included:

- receiving reports from key businesses within the Group
- receiving regular reports on the financial position of the Group and the various businesses within it
- approving the budget and long-term plan
- approving preliminary and full-year results
- discussing and approving strategy
- considering opportunities for business development
- discussing risk management and controls, including a detailed review of the Risk Register
- receiving reports from the Remuneration Committee, Audit Committee and Nomination Committee
- receiving reports on governance issues affecting the Group
- conducting a review of Board effectiveness.

Board performance evaluation

The Board undertakes a formal and rigorous review of its performance and that of its Committees each financial year. In the year under review the evaluation was led by an independent external consultant, Tom Bonham Carter of Armstrong Bonham Carter LLP. The evaluation process involved comprehensive interviews with each Director and the Company Secretary. The evaluation covered the Board, the Committees and each Director.

Feedback from the evaluation process was provided to the Board in the form of a presentation and a written report to the Board. The review identified that the Board had a number of strengths which was exemplified in the record of the Company in acquiring and developing assets and its balance sheet management. The review also suggested areas for further development covering the development of strategy, Board composition and succession planning, monitoring operations, and stakeholder management.

The Board has addressed these issues since the review and will continue to do so going forward.

Training and development

All new Directors receive a personalised induction programme, tailored to their experience, background and particular areas of focus, which is designed to develop their knowledge and understanding of the Group. The Chairman agrees the personalised induction plan for each new Director and ensures that it is appropriately tailored. In the last year the Board received training focusing on recent corporate governance developments. The Board intends to hold one meeting overseas each year, to facilitate the Directors' understanding of the Group's international operations.

Future Board changes

At the time of the Company's next Annual General Meeting Mr John St. John will step down from the Audit and Risk and Remuneration Committees, Mr Patrick Obath will join the Audit and Risk and Remuneration Committees, and Mr Toby Hayward will be appointed as Chairman of the Remuneration Committee.

In May 2011 the Financial Reporting Council began consulting on possible amendments to the Code that would require companies to publish their policy on boardroom diversity and report against it annually, as recommended by Lord Davies in his 'Women on Boards' report published in February 2011, and to consider the board's diversity amongst other factors, when assessing its effectiveness. The Nomination Committee is considering, as part of its general review of the Board, requirements of diversity, specifically gender.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee comprises Mr Peter Bingham (Chairman), Mr John St. John, Mr Ennio Sganzerla and Mr Toby Hayward. The Board has determined that Mr Hayward (a chartered accountant) and Mr St. John (who has extensive experience in financial markets) have recent and relevant financial experience through their previous and current roles. The other Committee members also have a range of financial, commercial and other relevant experience. Mr St. John will step down as a member of the Committee after the AGM and will be replaced by Mr Patrick Obath.

The Chairman of the Company, the Chief Executive, Group Finance Director and other senior executives attend meetings of the Committee by invitation. Deloitte LLP (Deloitte) is also invited to attend meetings of the Audit and Risk Committee. The Committee also meets privately with Deloitte representatives at least once a year (and as and when required) to discuss any matters the auditors may wish to raise without Executive Directors being present. During the year the Committee met on three occasions, at each of which there was full attendance.

The Committee's remit includes reviewing the internal control framework, internal audit process, financial reporting practices and external audit process, and recommending to the Board whether to reappoint the external auditor. It also ensures that the Board regularly assesses business risks, and risk management and mitigation strategies. In doing so, the Committee places reliance on reports from executive management, external audit and internal audit reviews.

In monitoring the financial reporting practices, the Audit and Risk Committee reviewed the accounting policies, areas of judgement, going concern assumption and compliance with accounting standards, the Disclosure and Transparency rules and the UK Corporate Governance Code. During the year the Committee reviewed, prior to publication, the half-year and annual financial statements and other major statements affecting the Group that concerned price sensitive information. The Group maintains a Risk Register. The Register contains the key risks faced by the Group, including their likelihood and impact, as well as the controls and procedures implemented to mitigate these risks. The content of the Register is determined through regular discussions with senior management and is reviewed by the Audit and Risk Committee. These key risks are summarised on pages 22 to 25 of the Business Review section of this Annual Report.

The Audit and Risk Committee has a policy for assessing whether to employ the external auditors to supply services other than audit services, and closely monitors the level of audit and non-audit services the external auditors provide to the Group. Non-audit services are normally limited to assignments that are closely related to the annual audit, or where the work is of a nature that a detailed understanding of the Group is necessary.

The external auditors are specifically excluded from providing internal audit services, litigation support, remuneration advice and legal advice services. The Committee assesses every other piece of non-audit work separately, and places it depending on which professional services firm it considers best suited. In addition, any non-audit work with a total fee greater than 25% of the annual audit fee must be approved by the Chairman of the Audit and Risk Committee prior to the appointment being made.

The Board is satisfied that this policy is conducive to the maintenance of auditor independence and objectivity. During the year external auditors performed a significant amount of non-audit related work in relation to the acquisition of the Group's interests in the Kurdistan region of Iraq, as well as Tax advisory services, work that would ordinarily be performed by external auditors for companies involved in such projects. The Audit and Risk Committee is satisfied that the carrying out of this work has not impaired the independence of the external auditors. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 7 to the financial statements.

The Audit and Risk Committee has recommended to the Board that the current auditors, Deloitte LLP, be reappointed as external auditor. In making the recommendation, it has taken into consideration the independence matters noted above and the past service of the auditors who were first appointed in 2005 following a full tender process. The Committee has also considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditor.

A summary of key matters discussed by the Audit Committee during the financial year is shown below.

TABLE 1: KEY MATTERS CONSIDERED BY THE AUDIT AND RISK COMMITTEE IN 2011

Theme	Agenda items
Financial reporting	Judgemental issues regarding the results for the year ended 31 December 2010 including review of accounting policies Independent auditor's report in respect of the results for the year ended 31 December 2010 Draft full-year results and associated documentation for the year ended 31 December 2010 Judgemental issues regarding the results for the six months ended 30 June 2011 Independent auditor's report in respect of the results for the six months ended 30 June 2011 Draft half-year results and associated documentation for the six months ended 30 June 2011 Plans for the preparation of the full-year results for the year ended 31 December 2011
Internal controls	Review of internal controls Proposed whistle-blower policy implementation and arrangements for employees to raise concerns in confidence Reports on whistle-blower confidential hotline activity Further development of internal control systems
Internal audit	Conclusion of a comprehensive internal audit effectiveness review Anti-Bribery policy implementation and arrangements Consideration of internal audit plan for 2012 Regular reviews of internal audit findings
Independent auditor	Review of the policy regarding non-audit work undertaken by the independent auditor Review of audit and non-audit fees paid to the independent auditor and its independence Recommendation regarding the reappointment of the independent auditor Approval in line with policy of non-audit work undertaken by the independent auditor
Risk	Annual review of risks Review of Group risk register Latest guidance from the FRC regarding going concern and liquidity risks

NOMINATION COMMITTEE

The Nomination Committee currently comprises Mr Egbert Imomoh (Chairman), Mr Ennio Sganzerla and Mr Toby Hayward. This meets at least once a year and is responsible for reviewing and recommending to the Board suitable candidates for appointment as Directors of the Company. It regularly reviews the structure, size and composition (including the skills, knowledge and experience) required on the Board. There is a formal, rigorous and transparent procedure for the appointment of new Board Directors, based on merit and against objective criteria.

The Nomination Committee met five times during the year to deal with the recruitment of additional Non-Executive Directors and consider the composition of the Board. The searches for Non-Executive Directors involved the use of independent recruitment consultants.

The table below shows a summary of key matters discussed by the Nomination Committee during the financial year.

TABLE 2: KEY MATTERS CONSIDERED BY THE NOMINATION COMMITTEE IN 2011

Theme	Agenda items
Board balance	Recruitment of additional independent Non-Executive Directors
Succession planning	Executive and Non-Executive Directors Senior management
Board appointments	Election and re-election of Directors in accordance with the Company's Articles of Association and UK Corporate Governance Code Chairman's external commitments 'Women on Boards' report from Lord Davies

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises Mr John St. John (Chairman), Mr Ennio Sganzerla and Mr Peter Bingham. It is responsible for:

- making recommendations to the Board on Afren's overall framework for remuneration and its cost, and, in consultation with the Chairman and Chief Executive determining remuneration packages of each Executive Director;
- reviewing the scale and structure of Executive Directors' remuneration and the terms of their service or employment contracts, including share-based schemes, other employee incentive schemes adopted by Afren from time to time, and pension contributions. Executive Directors of the Company are not permitted to participate in discussions or decisions of the Committee regarding their own remuneration; and
- ensuring that payments made on termination are fair to the individual and Afren. The remuneration of the Non-Executive Directors is determined by the Chairman and the other Executive Directors outside the framework of the Remuneration Committee.

The Remuneration Committee has taken into account the feedback received at the last AGM in relation to the Directors' Remuneration Report and has consulted with shareholders in recent months to ensure full communication of Afren's approach to Directors, remuneration going forward. Details of the Directors' remuneration and the work of the Remuneration Committee can be found in the Remuneration Report on pages 73 to 81.

Internal controls

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report. This is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance).

The Board is responsible for the Group's system of internal control and for the ongoing review of its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss. In compliance with provision C.2.1 of the UK Corporate Governance Code, the Board regularly reviews the effectiveness of the Group's system of internal control.

The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

As well as regular ongoing reviews of the Group's system of internal control, the Board also performed a specific assessment for this annual report. It considered all significant aspects of internal control arising during the period covered by the report, including relevant internal audit work undertaken. The Audit Committee assists the Board in discharging its review responsibilities.

The function of the Group's Director of Business Process is to carry out internal audit and compliance monitoring work, supported by independent specialist consultants as required.

The reporting line is to the Group Finance Director, however reports of work undertaken are also provided to the Chairman of the Audit Committee and any requests from the Audit Committee of specific review areas are included in the work programme, and the Chairman of the Audit Committee has direct access to the Group's Director of Business Process. The Board and the Audit Committee have considered the need for a formal internal audit department but consider the current structure to be most suitable for the present. The Audit Committee will review this annually and it is the intention of the Company to establish an internal audit function within the next 12 months.

Control framework and activities

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The various committees are key elements of the overall control structure. These include the Executive Committee, which meets at least bi-monthly and is responsible for all strategic and operational activities day to day.

The Group has developed a formal structured business planning process, which operates on an annual cycle. The Board approves the consolidated annual budget, and performance against budget is monitored and reported to the Board.

The Group's risk assessment process is described on pages 20 to 21. The Audit and Risk Committee and senior executives of the Company regularly review significant risks, their potential impact on the Group's financial position, and actions taken to manage those risks during the year.

UK Bribery Act 2010

The UK Bribery Act 2010 received royal assent on 8 April 2010. In 2011 the UK Government issued the Bribery Act 'Adequate Procedures' guidance. We developed an Anti-Bribery Policy and implemented compliance procedures which have been cascaded through the organisation during the course of 2011 via a compulsory training programme for all employees. This training, consisting of information sessions, was delivered to employees in our offices in Nigeria, Côte d'Ivoire, Kenya, USA and England, and has reached over 250 officers and key contractors. Afren expects compliance with high standards of integrity and adherence to policies and internal controls throughout the organisation.

Assessment

During the course of its review of the system of internal control, the Board has not identified, nor been advised of, any failings or weaknesses which it has determined to be significant.

The Board remains satisfied with the arrangements by which staff can raise concerns in confidence about possible improprieties in relation to financial reporting or other matters, as well as via an external reporting line.

RELATIONSHIPS WITH SHAREHOLDERS

The Board represents the shareholders and is accountable to them for creating and delivering value through effective governance of the business. It is fully committed to maintaining regular shareholder communication for which it has developed a strategy for engaging and communicating with shareholders, key aspects of which are outlined below.

In addition to frequent dialogue with major institutional shareholders, meetings are regularly held following significant announcements. Press releases were issued throughout the year and the Company maintains a website (www.afren.com) where all press releases are posted, together with major corporate presentations and Reports and Accounts.

Additionally, this Annual Report, which is sent to all registered shareholders, contains extensive information about the Group's activities. The Board welcomes enquiries from individual shareholders, both on matters relating to their shareholdings and the business of the Group. It also encourages shareholders to attend the Annual General Meeting (AGM) to discuss the Group's progress, make their views known and to raise any matters of concern directly. Through regular meetings, the CEO, CFO and Investor Relations Team maintain a dialogue with institutional shareholders on strategy, performance, plans and objectives. The Company reports formally to shareholders twice a year with its half-year and full-year results. The CEO and CFO give presentations on the full-year results to institutional investors, analysts and the media.

With offices in London, the Group's Investor Relations department acts as a focal point for contact with investors throughout the year. The Chairman meets regularly with institutional investors to hear their views and discuss issues of mutual importance and communicates the views of investors to the Board as a whole. The senior independent Director is also available to meet shareholders at their request. All Non-Executive Directors are available to meet with major shareholders if requested.

CONFLICTS OF INTEREST

The Company amended its Articles of Association in June 2008 to deal with, along with other issues, the provisions on conflicts of interest in the Companies Act 2006 which came into force in October 2008. Following this the Company established procedures for the disclosure and review of any conflicts of interest, actual or potential, which the Directors may have and for the authorisation of such conflict matters by the Board.

In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006. The procedure operates to ensure the disclosure of conflicts, and for the consideration and, if appropriate, their authorisation by non-conflicted Directors. The Board may review the authorisation of a conflict matter, and the terms of authorisation, at any time. The Nomination Committee supports the Board in this process, both by reviewing requests from Directors for authorisations of situations of actual or potential conflict and making recommendations to the Board. It can also review any situations of actual or potential conflict that the Board has previously authorised, and make recommendations as to whether the authorisation remains appropriate.

INSURANCE COVER

The Company maintains Directors' and Officers' liability insurance cover, the level of which is reviewed annually.

ELECTION AND RE-ELECTION

The Board is committed to transparency in determining Board membership. All new Directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting (AGM) after their appointment. Subsequently, Directors are subject to re-election by shareholders every three years. In accordance with the UK Corporate Governance Code, the Directors will comply with the Corporate Governance Code recommendation to submit themselves for re-election every year if they wish to continue serving and are considered by the Board to be eligible.

COMPANY SECRETARIES

Ms Shirin Johri is the Group Company Secretary and has been called to the New York Bar. Ms Johri is supported by Mr Elekwachi Ukwu, who is the Joint Company Secretary. An England & Wales solicitor, Mr Ukwu has also been called to the Nigerian Bar. The Company Secretaries are responsible for developing and maintaining the information systems and processes that enable the Board to fulfil its role. They are also responsible to the Board for ensuring that Board procedures are complied with and advice on governance matters. All Directors have access to the Company Secretaries, whom the Board has the power to appoint and remove.

CODE OF BUSINESS CONDUCT

At Afren, we uphold the highest ethical standards for the conduct of our business activities. We operate with integrity and honesty both throughout the organisation and with all our external stakeholders that include governments, business partners, shareholders, contractors and local communities.

In March 2009 the Board approved a Code of Business Conduct to formalise Afren's commitment to high ethical standards and to reinforce prompt and consistent action in maintaining these standards. The Code of Business Conduct was updated in 2011 to provide further guidance on a range of topics and to ensure compliance with the UK Bribery Act. The Code sets out the standards of business ethics to which we expect all employees, including Directors, to adhere regardless of their position or location. Consultants, contractors and business partners are also expected to act in accordance with the Code, which is available on our website at www.afren.com.

The Group operates a whistle-blowing policy which is reviewed annually. In addition to Afren's existing policies and procedures, an independent, external reporting line allows employees in any country to report concerns regarding fraud or other unethical practices in confidence. The service is provided by Safecall who report to a senior management team responsible for determining the best course of action.

SHARE DEALING CODE

The Company has a Share Dealing Code which covers dealings by Directors, Persons Discharging Managerial Responsibilities (PDMR) and relevant employees. The Code complies with the provisions set out in the Model Code contained in Annex 1 to Listing Rule 9 of the UK Listing Authority Listing Rules. It restricts dealings in shares and other relevant securities by PDMRs and employees during designated prohibited periods and at any time when they are in possession of unpublished, price-sensitive information.

MARKET DISCLOSURE

We are committed to maintaining the highest standards of disclosure. These ensure that all investors and potential investors have the same timely access to relevant information, to assist them in making informed decisions. We publish copies of announcements to the market, investor presentations, the Annual Report and other relevant information on our website.

Directors' Remuneration Report

INTRODUCTION

On the following pages we set out the Remuneration Report for 2011. The report comprises the following five sections:

- Introduction and background
- Remuneration Committee overview
- Remuneration policy and philosophy
- Components of remuneration
- Non-Executive Directors; and
- Detailed audited information.

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to the Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be put to shareholders for approval.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The Report has therefore been divided into separate sections for audited and unaudited information.

INFORMATION NOT SUBJECT TO AUDIT

INTRODUCTION AND BACKGROUND

Following the 2011 Annual General Meeting, the Company actively engaged with shareholders and the Voting Advisory Agencies to better understand the concerns on the 2010 Directors' Remuneration Report.

The following concerns were highlighted in the 2010 Directors' Remuneration Report and the following actions have been taken:

Concern	Action
Option Award to Finance Director	It is now Company Policy that the 2005 Share Option Scheme, which was established when the Company was listed on AIM, is used solely as a recruitment tool and to reward significant promotions, including to Executive Director.
Overall Company dilution limit at 12%	A significant proportion of options and warrants were issued historically to incentivise Directors and Contractors who are no longer with the Company. Whilst the Company's goal is to reduce the dilution limit over time to 10%, in fact the awards held by the Company's Directors in relation to Afren's equity schemes account for only 3% of total shares in issue.
Significant increase in CEO and COO base salaries	Following the move from AIM to the Main Board in 2008, we benchmarked base salaries to the relevant Main Board and Industry peer groups with reference to a number of third-party remuneration surveys. Base salaries for 2012 have been frozen at 2011 levels.
Greater disclosure required on Annual Bonus	We have in the 2011 Directors, Remuneration Report highlighted and reported on the Key Performance Indicators which are used in determining the Annual Bonus.
Performance Share Plan should include an additional performance metric to TSR	We have included an additional non-TSR related performance metric to determine the level of payout.
Independence of Remuneration Committee Chairman	John St. John will step down from the Remuneration Committee in favour of the Senior Non-Executive Director, Toby Hayward. In addition, Patrick Obath will join the Remuneration and Audit Committees.

During these meetings, we also took the opportunity to provide greater context to Afren's remuneration philosophy. Since the Company was listed on AIM in 2005, it has grown over a relatively short period of time into one of the leading Main Board listed upstream oil and gas companies. At 31 December 2011, the Company employed 272 employees, operating in 12 countries and across a portfolio of 29 licences and assets. This represents exceptional growth over a very short period of time, utilising highly specialised skill set. This growth has been accompanied by a significant increase in our 2P and 2C reserves base to 995 mmboe from a standing start. These achievements have resulted in the market capitalisation of the Company increasing from US$13 million at IPO to US$2,100 million by March 2012. This growth has only been possible through the recruitment of specialised and exceptional operational, technical and financial human talent. The scarcity of such human talent is compounded by the fact that we operate in some of the most insecure and politically unstable oil and gas provinces in the world. The Company continues to aggressively recruit across its operations, in particular in Nigeria, Côte d'Ivoire, the Kurdistan region of Iraq, Kenya, Madagascar, Tanzania, in addition to continuing to grow its management and technical offices in London and Houston.

The competition for such human talent continues to intensify given the significant focus on Africa and the Middle East by the Majors, African National Oil Companies, Asian National Oil Companies, private equity groups and US independent oil companies. Our relative 'peer group' for compensation purposes is therefore increasingly evolving and the peer group are in the main not quoted on the London Stock Exchange. In order to sustain this growth trajectory, it is therefore essential that we offer packages which include the potential for competitive incentive payments. Our policy is to position the salaries of senior executives at competitive levels using a range of third-party benchmarks. Given the Company's growth, and following the move from AIM to the Main Board, salaries were identified as being significantly behind the target position and so we have been progressively reducing the gap. Base salaries have, however, been frozen in 2012.

Directors' Remuneration Report

continued

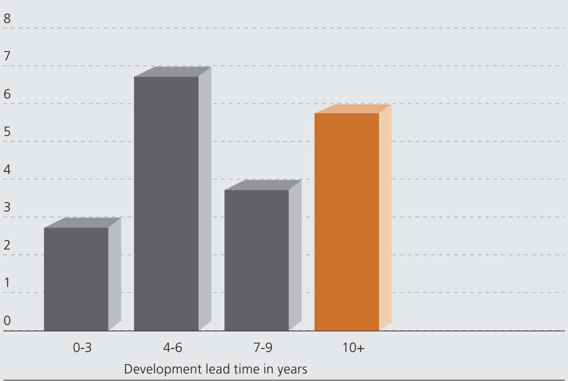
We recognise that these are sensitive issues, but we have acted in a manner which we believe is in the long-term interests of the Company and importantly its shareholders. With this in mind, the Remuneration Committee and Board of Directors firmly believe in the linkage of the remuneration of Executive Directors with the needs of shareholders through a policy which recognises and rewards long-term shareholder value added and sets an appropriate balance between fixed and performance-related incentives.

As set out in the preceding sections of this Annual Report, Afren's corporate objectives are designed to continue to drive long-term growth and deliver sustained value for shareholders. The Company's remuneration policy is strongly linked to performance against corporate objectives using a scorecard of Key Performance Indicators (KPIs). It is therefore important that the Company's remuneration policy is one that can incentivise, motivate and retain key employees, as well as attracting new personnel of a calibre able to sustain the Company's growth rate for both existing and new projects and countries.

Details of Afren's remuneration policy are set out below. The following key elements of Afren's approach to Directors' remuneration during 2011 and looking forward to 2012 are:

- Base annual salaries have been frozen for 2012;
- Annual bonus awards take account of both business and individual performance;
- Participation in the Group's Performance Share Plan. No Director was granted share options under the 2005 Share Option Scheme in 2011. Going forward, it is not intended to award share options under the Share Option Scheme except in exceptional circumstances and only then to recruit or retain senior staff; furthermore, if share options are awarded in the future they will be subject to performance criteria; and
- Payment of the 'First Oil Reward' to all staff, including Directors, involved in the Ebok project. The First Oil Reward was put in place at the time of Field Development Plan submission by Afren and its partner Oriental, to reward exceptional performance and a successful fast track appraisal and development of the Ebok project. The costs of the First Oil Reward have been funded by the Ebok project. Following the successful appraisal drilling in December 2009, after which Afren quadrupled gross 2P reserves to 105.6 mmboe, the Company fast-tracked the development with First Oil achieved in record time in March 2011 (less than two and a half years). Comparable development lead times for offshore Nigeria are shown in the table below:

Development lead time of offshore Nigeria fields with FSO/FPSO since 1965
(Number of fields)



Source: Deloitte PetroView

This value creation from achieving First Oil at Ebok has occurred over the full cycle of appraisal, resulting in a significant increase in reserves, through development, production and ultimately cash flow generation. The First Oil Reward recognises the efforts and successes of all staff involved since appraisal and development began in 2008, and was an integral part of our remuneration strategy for the year.

REMUNERATION COMMITTEE

Composition

The members of the Remuneration Committee are Mr John St. John (Chairman), Mr Peter Bingham and Mr Ennio Sganzerla. At the time of the Company's next Annual General Meeting, Mr John St. John will step down from the Remuneration Committee and he will be replaced as Chairman by Mr Toby Hayward. In addition, Mr Patrick Obath will join the Remuneration Committee. All, including Mr Hayward and Mr Obath, are Non-Executive Directors.

Role and responsibilities

The Remuneration Committee's responsibilities are set out in its terms of reference which are available in the Corporate Governance section of the Company's website. These include:

- setting and managing a remuneration strategy which will attract, motivate and retain a top quality executive team ensuring outstanding levels of achievement;
- determining the terms of employment and remuneration for the Chief Executive, Executive Directors and the Executive Team and ensuring that they reflect their individual performance and achievement of Company objectives;
- setting and maintaining performance parameters which incorporate mechanisms to encourage consistent and sustainable levels of Company performance including growth, shareholder value, risk management and profitability; and
- approval of the design and targets of share incentive plans requiring shareholder approval.

No Director plays a part in any discussion about his or her own remuneration.

Executive Directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought and fees in excess of £10,000 from all such appointments are accounted for to the Company, except where specific approval is gained from the Board.

The Remuneration Committee met twice during the year for which each member was present. Although not a member of the Committee, Dr Osman Shahenshah was invited to attend one of the Committee meetings during the year but he was not involved in discussions relating to his own remuneration.

In addition to the scheduled Remuneration Committee meetings, the members of the Remuneration Committee have worked extensively with the management of the Company during the year to meet with shareholders and with voting advisory bodies to address the areas of concern raised by the shareholders at the Company's last AGM.

ADVISERS

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Committee's main advisers are MM&K Limited. MM&K provided services to Afren exclusively in connection with Directors' and executives' remuneration, save that Higher Talent Limited, a subsidiary of MM&K, has assisted the Company to recruit HR and reward professionals.

REMUNERATION POLICY AND PHILOSOPHY

Afren's philosophy is that remuneration should be fully aligned with the long-term strategic objectives of the business, its risk appetite and its values. As set out in the preceding sections of this Annual Report, Afren's strategic corporate objectives are long-term growth and increased shareholder value, whilst recognising the interests of all relevant stakeholders. The policy clearly links equity, bonus and salary awards to individual and Company performance.

Afren's remuneration policy has been designed to attract, retain and motivate key executive talent to produce exceptional performance and add long-term value in a competitive, risky and sometimes hostile environment. Accordingly, Executive Directors' annual salaries are benchmarked against a number of executive salary surveys for FTSE 250 and oil and gas companies, annual bonuses are determined using a scorecard of both corporate and personal KPIs as a guideline, whilst long-term equity incentives are linked directly to shareholder value.

In addition, the Remuneration Committee believes it is an essential element of Afren's remuneration strategy to make rewards to recognise exceptional performance which directly and materially affects the value of the Company. The First Oil Reward paid to those Directors and employees responsible for the successful development of the Ebok project, achieved through strong operational efficiency and financial discipline and which accelerates Afren's progress towards its core corporate objectives, is an example of this.

The Company's policy is that performance-related remuneration should represent a significant majority of an Executive Directors' total package. In 2011, the amount of annual bonus paid when added to the value of vested PSP awards represented approximately 72% of the total remuneration realised by the Chief Executive. For other Executive Directors, on average, performance-related reward represented about 69% of their total realised remuneration. The pay and employment conditions of other employees in the Group were taken into account when determining Directors' remuneration for 2011.

The main elements of the remuneration strategy, policy and package for Executive Directors, which is the same as for all Company employees, can be summarised as follows:

Strategy	Policy	Package
To provide a remuneration package that: • Helps to attract, retain and motivate in a competitive and challenging environment • Is aligned to shareholders' interests • Is competitive in the oil and gas industry in Africa and the Kurdistan region of Iraq • Encourages exceptional performance • Is fair and transparent • Can be applied consistently across the Group	• Base salaries will be competitive • Balance remuneration between short- and long-term rewards to reflect Company and personal KPIs • Short-term reward in cash • Long-term reward in shares • Cash awards to reflect exceptional medium- to long-term achievement	**Short Term:** Base salary Annual bonus scheme **Long Term:** Share Option Scheme in exceptional circumstances for new joiners and upon a significant promotion Performance Share Plan Exceptional Bonus Awards, in line with industry standards, to achieve pre-defined objectives where exceptional results can significantly enhance the prospects of the Company (such as the First Oil Reward) **Benefits:** Pension scheme Life cover Family PHI and Dental cover Critical Illness and Income Protection insurance

BASE SALARY

Afren's move from AIM to the FTSE 250 resulted in a step change in base salaries to align these with a more relevant peer group, which was implemented in 2010 for 2011. After taking account of shareholder feedback and the prevailing economic conditions, the Remuneration Committee has decided to freeze 2012 salaries at the 2011 levels. The Company uses the Deloitte Executive Survey and Deloitte Beyond the Board Survey as well as the Mercer UK Oil and Gas Exploration and Production Survey in order to benchmark appropriate remuneration levels.

ANNUAL BONUS SCHEME

The Annual Bonus Scheme recognises both the Company's and individual performance. The relative Company weighting is set at 80% for Directors and is based on the Company's Key Performance Indicators, namely:

- Reserves and resources growth
- Inorganic reserves growth
- Production growth
- Improvement in operational efficiency
- Maintenance of exceptional EHSS performance

In 2011, the Company recorded exceptional performance against the Key Performance Indicators:

KPI	Performance
Reserves and resources growth	Growth in 2P reserves of 132% to 185 mmboe and growth of 2C resources of 1,349% to 810 mmboe
Inorganic growth	Acquisition of interests in the Kurdistan region of Iraq at a cost of US$0.68 per bbl; completion, through FHN, of a 45% interest in Block OML 26
Production growth	Exceeded group exit production target of 50,000 barrels of oil per day
Improvement in operational efficiency	Normalised operating cost per barrel of US$17.9/boe compared to US$18.1/boe in 2010
Maintenance of exceptional EHSS performance	Strong improvement in both Lost Time Incident Frequency (0.22 compared to 2.41 in 2010) and Total Recordable Incident Rate (1.96 compared to 9.33 in 2010)

2011 was therefore an exceptional year for Afren, measured against its Key Performance Indicators. The achievement of First Oil from Ebok, together with the successful drilling of two infill wells at Okoro, has meant the Company has achieved its exit working interest target of 50,000 boepd. Progress has been made on all of our East African Exploration assets in terms of seismic data acquired and our readiness to drill in 2012. Significant reserves growth has been achieved both with the acquisition of our interests in Barda Rash and, through FHN, OML 26, as well as organic growth through the development of our existing assets. These successes have been achieved against a background of high standards of EHSS performance and the application of financial discipline which leaves the Company well positioned to capitalise on further growth opportunities going forward. Further details on the results for each of the above KPIs for 2011 are shown on pages 16 and 17. The respective weighting of each of the KPIs used in determining the level of bonus paid is rebased each year to reflect the evolution of Afren's corporate objectives.

In light of the above, the Remuneration Committee determined that the overall achievement for the year had exceeded the targets set such that the maximum bonus of 100% of salary was awarded.

EXCEPTIONAL BONUS AWARDS

The Remuneration Committee may make an award to Directors and staff in respect of exceptional achievements over the medium- to long-term and to reward the efforts of those staff and Directors involved, and in doing so generated significant shareholder value.

At the start of the Ebok project it was agreed by Afren and its partner, Oriental, that a First Oil Reward scheme would be put in place to reward the Afren team as Technical Service Provider, subject to exceptional performance criteria being met. In 2011, the Remuneration Committee resolved to make a First Oil Reward in respect of the exceptional technical performance of the Directors and staff, which resulted in a significant increase in shareholder value through increased reserves from development and through the resulting cash flows from production. This was transformational for Afren, and was a catalyst enabling the subsequent acquisition of two PSC's in the Kurdistan region of Iraq and other fundraising to take place. The First Oil Reward recognises the performance of all Directors and staff involved in the project since development began in 2008.

The Remuneration Committee considered all the circumstances and on the basis of this exceptional performance decided to reward the staff and Directors involved in this project a First Oil Reward of US$7 million, of which US$3 million is rewarded to the Directors, and paid in cash. Because this Reward was funded through the project, the net cost to Afren is significantly reduced. Details of payments to individual Directors can be found in the table on page 79.

BENEFITS IN KIND

The Executive Directors receive certain benefits in kind, principally private medical insurance, club membership and critical illness cover.

Pension contribution

UK-based Executive Directors are members of the Company pension scheme, and are subject to the same scheme rules as all other staff. The scheme is a defined contribution scheme and the Company contributes 10% of salary subject to the participant contributing at least 5% of their salary. The US-based Executive Director, Shahid Ullah, receives a Company contribution equal to 10% of his salary and bonus subject to the participant contributing at least 5% of his salary and bonus and subject to statutory limits on contributions.

AFREN EQUITY SCHEMES

The Remuneration Committee believes that the ability of employees to acquire a meaningful equity stake in the Company is an essential element of Afren's overall remuneration policy.

To that end, in 2005 the Company adopted a share option scheme and in 2008 a Performance Share Plan (PSP) in connection with which options and performance share awards have been granted to a wide range of employees, including Executive Directors.

The 2005 Share Option scheme

The Share Option scheme was adopted before the Company's shares were admitted to the Official List of the London Stock Exchange plc. It is now the Remuneration Committee's current policy to grant options under this scheme only in exceptional circumstances for recruitment purposes and for rewarding significant promotions, including to Executive Director.

The 2008 Performance Share Plan

The Performance Share Plan (PSP) was introduced in 2008 before the Company's shares were admitted to the Official List of the London Stock Exchange plc. Under the PSP, eligible employees, including Directors, who have been selected to participate, receive an award of shares in the Company. Share awards may be made annually and the maximum value of an award for any Director may not exceed 200% of base annual salary, except that the Remuneration Committee may decide to increase this limit to 300% in exceptional circumstances. The awards are subject to achieving or exceeding the performance criteria set out for the individuals.

Ordinarily, an award, normally in the form of a conditional share award or a nominal cost share option, vests three years after the award date subject to the Company's Total Shareholder Return (TSR) performance relative to the TSR of a selected peer group of companies. An award may vest in full only if Afren's position in the peer group is at or above the 75th percentile. 30% of an award vests for median performance and nothing vests if Afren's TSR is below the median. There is pro rata vesting for performance between the median and upper quartile.

For future awards under the PSP, the Remuneration Committee has included an additional metric to accompany TSR in measuring performance.

The current peer group is as follows:

Borders & Southern Petroleum	Hardy Oil & Gas	Salamander Energy
Bowleven	Heritage Oil Plc	Serica Energy
Cairn Energy	Ithaca Energy	SOCO International
Desire Petroleum	JKX Oil & Gas	Sterling Energy
EnQuest	Melrose Resources	Tullow Oil
Falkland Oil and Gas	Petroceltic International	Valiant Petroleum
Gulf Keystone Petroleum	Premier Oil	
Gulfsands Petroleum	Rockhopper Exploration	

The Remuneration Committee will continue to monitor the relevance of the current peer group, taking account of the following factors:

- The industry within which the Company operates, specifically taking into account the international nature of the Company's business;
- The UK listing environment the Company is now part of; and
- The market capitalisation, turnover and number of countries in which the Company operates.

The Remuneration Committee will take into account the Company's underlying financial performance as well as relative TSR performance in determining the extent to which PSP awards should vest.

Details of PSP share awards granted to Directors to date are included on page 81.

Employee Benefit Trust

An Employee Benefit Trust was established in 2011 following approval by shareholders but has not been utilised to date and currently holds no shares in the Company.

DIRECTORS' CONTRACTS

It is the Company's policy that Executive Directors should have contracts of an indefinite term providing for a maximum of one year's notice. The Directors have no entitlement to any bonus or other additional payment on severance of their contract. Each Director would be considered on an individual basis and any payment would be entirely at the Company's discretion. The details of the Directors' contracts are summarised below:

Name of Director		Date of contract	Notice period
Osman Shahenshah	Chief Executive Officer	27 February 2009	12 months
Constantine Ogunbiyi*	Executive Director	12 June 2008	12 months
Shahid Ullah	Chief Operating Officer	16 April 2008	6 months
Darra Comyn	Group Finance Director	16 March 2010	6 months

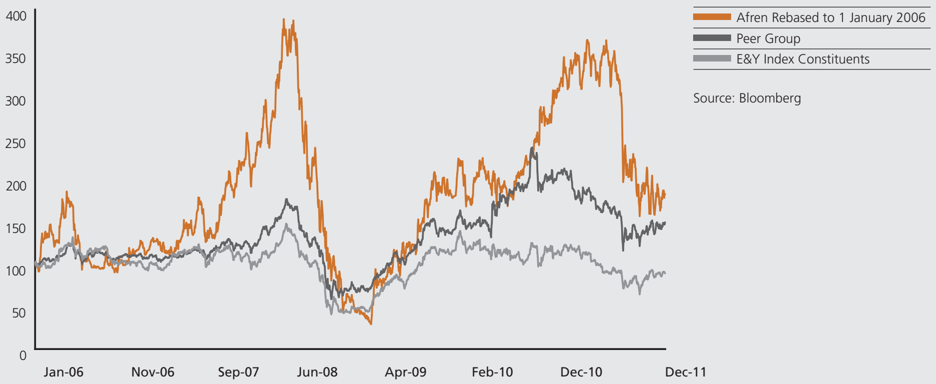
* Resigned as a Director of Afren plc on 4 January 2011.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board based on independent surveys of fees paid to non-executive directors of similar companies. The notice period for the Chairman and for all Non-Executive Directors is three months. The Chairman, in recognition of his role as both Chairman of a Main Market listed company and ambassador for the Company, is paid a basic fee of £200,000 (US$322,000) p.a. The basic fee paid to each other Non-Executive Director is between £51,000 (US$82,000) and £60,000 (US$97,000) p.a., and the senior Non-Executive Director receives £70,000 (US$113,000) p.a. The Non-Executive Directors do not participate in the share option scheme, although the awards from 2008 and earlier remain in place, and are not eligible to join the Company's pension scheme.

TOTAL SHAREHOLDER RETURNS (TSR)

Five year return index as at 31 December 2011



The graph shows the relative performance of Afren plc against the Peer Group Average and the Ernst & Young Oil & Gas Index since 1 January 2006. The selected indices give the most appropriate benchmark for other similar-sized oil and gas companies and the Peer Group is used by the Company for the performance criterion for its Performance Share Plan awards.

The Peer Group is as set out on page 78 under the description of the 2008 Performance Share Plan.

AUDITED INFORMATION

DIRECTORS' EMOLUMENTS

Name of Director	Fees/basic salary US$'000	Annual bonus US$'000	First Oil Reward US$000	Benefits in kind US$'000	Pension contributions US$'000	Total 2011 US$'000	Total 2010 US$'000
Executive							
Osman Shahenshah	1,009	1,009	1,260	22	96	3,396	1,521
Constantine Ogunbiyi*	–	–	–	–	–	–	785
Shahid Ullah	673	624	1,000	20	25	2,342	1,168
Darra Comyn	605	605	840	6	60	2,116	909
	2,287	2,238	3,100	48	181	7,854	4,383
Non-Executive							
Egbert Imomoh**	408	–	–	9	–	417	317
Peter Bingham	97	–	–	–	–	97	73
John St. John	89	–	–	–	–	89	73
Toby Hayward	113	–	–	–	–	113	78
Ennio Sganzerla	83	–	–	–	–	83	73
	790	–	–	9	–	799	614
	3,077	2,238	3,100	57	181	8,653	4,997

* Resigned as a Director of Afren plc on 4 January 2011.

** Egbert Imomoh's fee includes fees and other allowances received for work carried out with related entities and an allowance for the costs incurred working from home, totalling US$86,000 for the year (2010: US$81,000).

Three of the Executive Directors were members of the Company's defined contribution scheme during 2011 (2010: three).

Governance

DIRECTORS' EQUITY INTERESTS

Share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options held and granted during the year under the 2005 Share Option Scheme are as follows:

Name of Director	As at 1 January 2011	Granted	Exercised	Lapsed	Date granted	As at 31 December 2011	Share price at grant date	Exercise price	Exercisable from	Exercisable to
E Imomoh	400,000	–	–	–	28.06.05	400,000	36p	20p	28.06.05-01.03.07	27.06.15
	500,000	–	–	–	28.06.05	500,000	36p	50p	28.06.05-01.03.06	27.06.15
	500,000	–	–	–	28.06.05	500,000	36p	100p	28.06.05-01.03.07	27.06.15
	600,000	–	–	–	30.05.06	600,000	63p	63p	30.05.07-30.05.09	29.05.16
	250,000	–	–	–	28.03.07	250,000	53.5p	80p	28.03.07-28.03.10	27.03.17
	250,000	–	–	–	28.03.07	250,000	53.5p	120p	28.03.07-28.03.10	27.03.17
	250,000	–	–	–	28.03.07	250,000	53.5p	180p	28.03.07-28.03.10	27.03.17
	750,000	–	–	–	23.01.09	750,000	20.25p	23.25p	23.01.10-23.01.12	23.01.19
C Ogunbiyi*	100,000	–	–	–	28.06.05	100,000	36p	20p	28.06.05-01.03.07	27.06.15
	150,000	–	–	–	28.06.05	150,000	36p	50p	28.06.05-01.03.06	27.06.15
	250,000	–	–	–	28.06.05	250,000	36p	100p	28.06.05-01.03.07	27.06.15
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.07-30.05.09	29.05.16
	300,000	–	–	–	26.06.07	300,000	67.5p	70p	26.06.08-26.06.10	25.06.17
	250,000	–	–	–	25.04.08	250,000	144.5p	150p	25.04.09-25.04.11	25.04.18
	750,000	–	–	–	25.04.08	750,000	144.5p	190p	25.04.09-25.04.11	25.04.18
	1,250,000	–	–	–	23.01.09	1,250,000	20.25p	23.25p	23.01.10-23.01.12	23.01.19
	2,750,000	–	–	–	30.12.09	2,750,000	84.75p	84.75p	30.12.10-30.12.12	30.12.19
O Shahenshah	1,150,000	–	–	–	28.06.05	1,150,000	36p	20p	28.06.05-01.03.07	27.06.15
	850,000	–	–	–	28.06.05	850,000	36p	50p	28.06.05-01.03.06	27.06.15
	550,000	–	–	–	28.06.05	550,000	36p	100p	28.06.05-01.03.07	27.06.15
	600,000	–	–	–	30.05.06	600,000	63p	63p	30.05.07-30.05.09	29.05.16
	416,666	–	–	–	28.03.07	416,666	53.5p	80p	28.03.07-28.03.10	27.03.17
	416,667	–	–	–	28.03.07	416,667	53.5p	120p	28.03.07-28.03.10	27.03.17
	416,667	–	–	–	28.03.07	416,667	53.5p	180p	28.03.07-28.03.10	27.03.17
	3,000,000	–	–	–	23.01.09	3,000,000	20.25p	23.3p	23.01.10-23.01.12	23.01.19
	5,800,000	–	–	–	30.12.09	5,800,000	84.75p	84.8p	30.12.10-30.12.12	30.12.19
S Ullah	1,500,000	–	–	–	23.01.09	1,500,000	20.25p	23.25p	23.01.10-23.01.12	23.01.19
	1,500,000	–	–	–	30.12.09	1,500,000	84.75p	84.75p	30.12.10-30.12.12	30.12.19
D Comyn	650,000	–	–	–	30.12.09	650,000	84.75p	84.75p	30.12.10-30.12.12	30.12.19
	1,200,000	–	–	–	29.03.10	1,200,000	103p	103.00p	29.03.11-29.03.13	28.03.20
P Bingham	125,000	–	–	–	28.06.05	125,000	36p	50p	28.06.05-01.03.06	27.06.15
	130,000	–	–	–	28.06.05	130,000	36p	100p	28.06.05-01.03.07	27.06.15
	145,000	–	–	–	21.06.07	145,000	69p	70p	21.06.07-21.06.08	20.06.17
J St. John	400,000	–	–	–	21.06.07	400,000	69p	70p	21.06.07-21.06.09	20.06.17
Total	28,350,000	–	–	–		28,350,000				

* Resigned as a Director of Afren plc on 4 January 2011.

There have been no variations to the terms and conditions or performance criteria for the share options during the financial year.

In relation to the grant of share options, John St. John and Peter Bingham were appointed Non-Executive Directors and awarded share options whilst the Company was AIM listed on the basis that their experience and support to the executive team in relation to technical and financial expertise would, and will continue, to add significant value to the business. Whilst they retain options granted when the Company was AIM listed, no additional share options have been granted to any Non-Executive Director following admission to the Official List of the United Kingdom Listing Authority and the Share Option Scheme Rules have been amended to prohibit the grant of share options to Non-Executive Directors.

The options granted on 28 June 2005, 28 March 2007, 25 April 2008 and those granted to Peter Bingham on 21 June 2007 have no performance criteria attached to them. Those granted to John St. John on 21 June 2007 only vest if a closing share price for the Company of over £1.00 has been achieved for a three-month period. The options granted on 30 May 2006 will only vest if the share price has increased by 40% over the market price at date of grant for a period of ten days.

The options granted on 23 January 2009 and 30 December 2009 will only vest if the share price has increased by 40% over the market price at date of grant for a period of three months.

Details of options exercised by Executive Directors during the year are shown in the table above.

PERFORMANCE SHARE AWARDS

Awards to Directors granted during the year under the PSP are as follows:

	Date of grant	Date of vesting	Market price at date of grant	Maximum number of shares
O Shahenshah	31.03.2011	31.03.2014	£1.63	788,644
S Ullah	31.03.2011	31.03.2014	£1.63	530,048
D Comyn	31.03.2011	31.03.2014	£1.63	473,186

Details of the PSP awards which vested during the year are as follows:

	Date of grant	Number of awards vested	Market price at date of grant	Market price at date of vesting
O Shahenshah	01.06.2008	234,939	£1.66	£1.68
E Imomoh	01.06.2008	176,204	£1.66	£1.68

Details of awards for Directors who served during the year are as follows:

	Date of grant	As at 1 January 2011	Granted	Vested	Lapsed	As at 31 December 2011
O Shahenshah	01.06.2008	361,446	–	234,939	126,507	–
	19.06.2009	1,526,012	–	–	–	1,526,012
	31.03.2011	–	788,644	–	–	788,644
C Ogunbiyi*	01.06.2008	240,964	–	–	–	240,964
	19.06.2009	1,017,341	–	–	–	1,017,341
S Ullah	19.06.2009	1,322,600	–	–	–	1,322,600
	31.03.2011	–	530,048	–	–	530,048
D Comyn	31.03.2011	–	473,186	–	–	473,186
E Imomoh	01.06.2008	271,084	–	176,204	94,880	–

* Resigned as a Director of Afren plc on 4 January 2011.
** Or date of resignation, if earlier.

MARKET PRICE OF ORDINARY SHARES

In connection with the information provided above on Directors' equity interests, the closing market price of the ordinary shares at 31 December 2011 was 85.7p and the range during the year was 73.6p to 171.2p.

APPROVAL

This report was approved by the Board of Directors on 27 March 2012 and signed on its behalf by:

Mr John St. John
Chairman, Remuneration Committee
27 March 2012

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

I confirm to the best of my knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Osman Shahenshah
Chief Executive
27 March 2012

Independent Auditors' Report
to the members of Afren plc

We have audited the financial statements of Afren plc for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the Directors' statement, contained within the Director's Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Bevan Whitehead (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
27 March 2012

Group Income Statement

For the year ended 31 December 2011

	Notes	2011 US$000's	2010 US$000's
Revenue	5	596,663	319,447
Cost of sales		(294,315)	(190,451)
Gross profit		**302,348**	**128,996**
Administrative expenses		(26,867)	(29,500)
Other operating income/(expenses)			
– derivative financial instruments	20	(12,525)	(8,894)
– service fees receivable from associate company		6,250	–
– impairment charge on exploration and evaluation assets	6	(1,055)	(1,614)
Operating profit	7	268,151	88,988
Investment revenue		560	298
Finance costs	9	(57,110)	(11,320)
Other gains and (losses)			
– foreign currency gains		1,190	305
– fair value of financial liabilities and financial assets	20	(70)	(8,100)
– dilution gain on investment in associate company	14	14,683	9,953
– gain on derivative financial instruments on shares of associate company	20	7,964	–
Share of loss of an associate company	14	(14,003)	(1,328)
Profit from continuing operations before tax		221,365	78,796
Income tax expense	29	(96,003)	(32,923)
Profit from continuing operations after tax		125,362	45,873
Discontinued operations			
Loss for the year from discontinued operations	23	(3,654)	(614)
Profit for the year		121,708	45,259
Earnings per share from continuing activities			
Basic	10	12.3c	5.1c
Fully diluted	10	11.9c	4.9c
Earnings per share from all activities			
Basic	10	12.0c	5.0c
Fully diluted	10	11.5c	4.8c

Group Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 US$000's	2010 US$000's
Profit after tax	121,708	45,259
Total comprehensive income attributable to equity holders of Afren plc	121,708	**45,259**

Balance Sheets

As at 31 December 2011

	Notes	Group 2011 US$000's	Group 2010 US$000's	Company 2011 US$000's	Company 2010 US$000's
Assets					
Non-current assets					
Intangible oil and gas assets	11	713,679	443,761	–	–
Property, plant and equipment					–
– Oil and gas assets	12	1,668,619	759,167	–	–
– Other	12	7,401	6,919	3,242	2,387
Prepayments		583	1,983	–	–
Investments in subsidiaries	13	–	–	507,076	202,238
Derivative financial instruments	20	13,358	–	13,358	–
Investments in associates	14	21,753	11,227	–	–
		2,425,393	**1,223,057**	**523,676**	**204,625**
Current assets					
Inventories	15	67,119	39,055	–	–
Trade and other receivables	17	145,616	41,343	1,094,356	723,642
Derivative financial instruments	20	684	–	–	–
Cash and cash equivalents	18	291,693	140,221	36,122	5,258
		505,112	220,619	1,130,478	728,900
Assets held for sale	23	–	2,812	–	–
Total assets		**2,930,505**	**1,446,488**	**1,654,154**	**933,525**
Liabilities					
Current liabilities					
Trade and other payables	19	(317,364)	(196,614)	(59,015)	(75,804)
Current tax liabilities		(39,572)	(19,423)	–	–
Borrowings	20	(157,807)	(89,254)	–	–
Deferred consideration and payables on acquisitions	22	(216,720)	–	–	–
Obligations under finance leases	27	(18,135)	–	–	–
Derivative financial instruments	20	(10,280)	(4,927)	(10,155)	–
		(759,878)	(310,218)	(69,170)	(75,804)
Net current (liabilities)/assets		**(254,766)**	**(86,787)**	**1,061,308**	**653,096**
Non-current liabilities					
Provision for decommissioning	21	(31,627)	(35,119)	–	–
Deferred tax liabilities	25	(124,497)	(63,470)	–	–
Borrowings	20	(682,212)	(178,467)	(530,633)	–
Obligations under finance leases	27	(117,372)	–	–	–
Derivative financial instruments	20	(7,565)	(499)	(7,565)	–
		(963,273)	(277,555)	(538,198)	–
Total liabilities		(1,723,151)	(587,773)	(607,368)	(75,804)
Net assets		**1,207,354**	**858,715**	**1,046,786**	**857,721**
Equity					
Share capital	28	18,673	17,007	18,673	17,007
Share premium	28	918,142	896,812	918,142	896,812
Merger reserve	28	179,359	–	179,359	–
Other reserves	33	26,385	22,764	28,819	25,198
Retained earnings/(accumulated losses)		64,795	(77,868)	(98,207)	(81,296)
Total equity		**1,207,354**	**858,715**	**1,046,786**	**857,721**

The financial statements of Afren plc, registered number 05304498 were approved by the Board of Directors and authorised for issue on 27 March 2012. They were signed on its behalf by:

Darra Comyn
Group Finance Director
27 March 2012

Cash Flow Statements

For the year ended 31 December 2011

	Notes	Group 2011 US$000's	Group 2010 US$000's	Company 2011 US$000's	Company 2010 US$000's
Operating profit/(loss) for the year		268,151	88,988	(14,048)	(22,952)
Depreciation, depletion and amortisation		160,129	93,979	1,289	1,355
Derivative financial instruments		3,246	6,482	(7,859)	–
Impairment of oil and gas assets		1,055	1,614	–	–
Share-based payments charge		7,310	8,333	3,394	6,945
Operating cash-flows before movements in working capital		439,891	199,396	(17,224)	(14,652)
Cash used in operating activities of discontinued activities		(3,628)	(28)		
(Increase)/decrease in trade and other operating receivables		(110,994)	16,046	(4,092)	(10,358)
Increase/(decrease) in trade and other operating payables		45,565	(11,793)	(28,955)	3,968
(Increase)/decrease in inventory (crude oil)		(25,220)	5,895	–	–
Current tax paid		(8,147)	–	–	–
Foreign exchange adjustments		77	(199)	216	(10)
Net cash generated/(used) in operating activities		**337,544**	**209,317**	**(50,055)**	**(21,052)**
Purchases of property, plant and equipment:					
– oil and gas assets		(414,434)	(295,443)	–	–
– other		(4,479)	(3,209)	(2,144)	(1,031)
Exploration and evaluation expenditure		(91,140)	(59,739)	–	–
Acquisition of participating interest on licences in Kurdistan Region of Iraq		(369,418)	–	–	–
Cash received on disposal of equipment of discontinued operations		355	–	–	–
Advances to Group undertakings		–	–	(305,312)	(171,222)
Investment in subsidiaries		–	–	(312,188)	(7,799)
Decrease/(increase) in inventories – spare parts and materials		1,327	(10,386)	–	–
Purchase of investments		(750)	(1,998)	–	–
Investment revenue		560	298	514	209
Acquisition of subsidiaries, net of cash acquired	32	–	2,289	–	–
Net cash used in investing activities		**(877,979)**	**(368,188)**	**(619,130)**	**(179,843)**
Net issue of ordinary share capital – equity raising		180,722	–	180,722	–
Issue of ordinary share capital – warrants, options, share awards and LTIP exercises		19,071	5,191	19,071	5,191
Costs of share issues – Black Marlin acquisition		–	(2,381)	–	(2,381)
Net proceeds from borrowings		734,725	100,217	527,683	–
Repayment of borrowings and finance lease		(193,769)	(110,970)	–	–
Interest and financing fees paid		(50,019)	(14,493)	(28,833)	–
Net cash provided by/(used in) financing activities		**690,730**	**(22,436)**	**698,643**	**2,810**
Net increase/(decrease) in cash and cash equivalents		150,295	(181,307)	29,458	(198,085)
Cash and cash equivalents at beginning of year		140,221	321,312	5,258	203,117
Effect of foreign exchange rate changes		1,177	216	1,406	226
Cash and cash equivalents at end of year	18	**291,693**	**140,221**	**36,122**	**5,258**

Statements of Changes in Equity

For the year ended 31 December 2011

	Share capital US$000's	Share premium account US$000's	Other reserves US$000's	Merger reserve US$000's	Accumulated losses US$000's	Total equity US$000's
Group						
At 1 January 2010	15,702	755,169	17,272	–	(129,895)	658,248
Issue of share capital	1,305	144,024	–	–	–	145,329
Deductable costs of share issues	–	(2,381)	–	–	–	(2,381)
Share-based payments for services	–	–	9,359	–	–	9,359
Other share-based payments	–	–	313	–	–	313
Reserves transfer relating to loan notes	–	–	(2,474)	–	2,474	–
Reserves transfer on exercise of options, awards and LTIP	–	–	(2,206)	–	2,206	–
Reserves transfer on exercise of warrants	–	–	–	–	2,088	2,088
Shares to be issued	–	–	500	–	–	500
Total comprehensive income for the year	–	–	–	–	45,259	45,259
Balance at 31 December 2010	**17,007**	**896,812**	**22,764**	**–**	**(77,868)**	**858,715**
Issue of share capital	1,666	21,330	–	179,359	–	202,355
Share-based payments for services	–	–	13,404	–	–	13,404
Other share-based payments	–	–	45	–	–	45
Reserves transfer relating to loan notes	–	–	(2,194)	–	2,194	–
Reserves transfer on exercise of options, awards and LTIP	–	–	(7,134)	–	7,134	–
Exercise of warrants designated as financial liabilities	–	–	–	–	11,627	11,627
Other movements	–	–	(500)	–	–	(500)
Total comprehensive income for the year	–	–	–	–	121,708	121,708
Balance at 31 December 2011	**18,673**	**918,142**	**26,385**	**179,359**	**64,795**	**1,207,354**

Statements of Changes in Equity

For the year ended 31 December 2011

	Share capital US$000's	Share premium account US$000's	Other reserves US$000's	Merger reserve US$000's	Accumulated losses US$000's	Total equity US$000's
Company						
At 1st January 2010	15,702	755,169	19,706	–	(105,828)	684,749
Issue of share capital	1,305	144,024	–	–	–	145,329
Deductable costs of share issues	–	(2,381)	–	–	–	(2,381)
Share-based payments for services	–	–	9,359	–	–	9,359
Other share-based payments	–	–	313	–	–	313
Reserves transfer relating to loan notes	–	–	(2,474)	–	2,474	–
Reserves transfer on exercise of options and warrants and LTIP	–	–	(2,206)	–	2,206	–
Exercise of warrants designated as financial liabilities	–	–	–	–	2,088	2,088
Other movement	–	–	500	–	–	500
Total comprehensive income for the year	–	–	–	–	17,764	17,764
Balance at 31 December 2010	**17,007**	**896,812**	**25,198**	**–**	**(81,296)**	**857,721**
Issue of share capital	1,666	21,330	–	179,359	–	202,355
Share-based payments for services	–	–	13,404	–	–	13,404
Other share-based payments	–	–	45	–	–	45
Reserves transfer relating to loan notes	–	–	(2,194)	–	2,194	–
Reserves transfer on exercise of options, awards and LTIP	–	–	(7,134)	–	7,134	–
Exercise of warrants designated as financial liabilities	–	–	–	–	11,627	11,627
Other movements	–	–	(500)	–	–	(500)
Total comprehensive expense for the year	–	–	–	–	(37,866)	(37,866)
Balance at 31 December 2011	**18,673**	**918,142**	**28,819**	**179,359**	**(98,207)**	**1,046,786**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

Afren plc (the Company, and together with its subsidiaries, the Group) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in note 4 and in the Chairman and Chief Executive's Statement and Review of Operations on pages 8 to 11 and 26 to 29. These financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

Adoption of new and revised Standards

At the date of authorisation of these financial statements, the following Standards, amendments and Interpretations which have not been applied in these financial statements were in issue but are not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax – Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investment in Associates and Joint Ventures

The adoption of IFRS 9 will impact both the measurement and disclosure of financial instruments. The Group does not intend to early adopt the standard. The Directors anticipate that the adoption of the other Standards and Interpretations in future periods will have no material impact on the financial position of the Group.

2. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and oil inventory which is subject to certain commodity swap arrangements that have been measured at fair value.

Going concern

The financial statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the Going Concern section of the Directors' Report.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operational policies of an entity so as to gain benefit from its activities. Entities over which the Company exercises joint control are accounted for using proportional consolidation, under which the Group records its share of revenue, expenditure, assets and liabilities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

As a consolidated Group income statement is published, a separate profit and loss account for the Parent Company has not been published in accordance with section 408 of the Companies Act 2006.

2. ACCOUNTING POLICIES continued

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Property, plant and equipment – other

Property, plant and equipment are stated at cost less depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost of the tangible fixed assets, less anticipated disposal proceeds, on a straight-line basis over their estimated useful economic life as follows:

Leasehold improvements	over life of lease
Fixtures and equipment*	over three years
Computer hardware and software	over three years
Gas plant	over six and a quarter years

* All artwork/paintings are depreciated over an economic useful life of fifteen years.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. the corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the period in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis, such as a unit of production method, is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Oil and gas assets and intangible exploration and evaluation assets
The Group follows the successful efforts method of accounting for intangible exploration and evaluation (E&E) costs. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

If prospects are deemed to be impaired ('unsuccessful') on completion of the evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in single field cost centres. These costs are then depreciated on a unit of production basis.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are amortised in accordance with the Group's depletion and amortisation accounting policy.

Revenues
Revenue represents the sales value, net of VAT and royalties paid in kind or where the financial obligation does not fall directly to Afren, of the Group's share of oil liftings in the year together with gas and tariff income and interest income. Oil and gas revenue is recognised when goods are delivered and title has passed. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Commercial reserves
Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

Depletion and amortisation – oil and gas assets
All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs.

Any impairment identified is charged to the income statement as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

Decommissioning
Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

The unwinding of the discount on the decommissioning is included as a finance cost.

Impairment
Non-current assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events are defined in IFRS 6 in respect of E&E assets and include the point at which determination is made as to whether commercial reserves exist.

Where there has been an indication of a possible impairment, management assesses the recoverability of the carrying value of the asset by comparison with the estimated discounted future net cash flows based on management's expectation of future production, oil prices and costs. Any identified impairment is charged to the income statement.

2. ACCOUNTING POLICIES continued

Investment in subsidiaries

Investment in subsidiaries held by the Company as fixed assets are stated at cost less any provision for impairment.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of consolidated financial statements, the results and financial position of each Group company are expressed in US dollars which is the functional currency of the Company and the presentational currency for the consolidated financial statements of the Group.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising are included in the profit and loss for the period.

For the purposes of presenting consolidated financial statements, the assets and liabilities of each Group company are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences (if any) arising are recognised in other comprehensive income and accumulated in equity. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of. At present the Group has no subsidiaries with functional currencies other than US dollars.

Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates of tax expected to apply in the period when the liability is settled or the asset realised.

Share-based payments

The Group makes equity-settled share-based payments to certain employees, Directors and other third parties. Equity-settled share-based schemes are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant, measured by use of an appropriate valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period to exercise, based on the Group's estimate of shares that will eventually vest.

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and exercise price. This expense is accrued by reference to the share price of the Company at the balance sheet date.

Pensions

Payments to a defined contribution pension scheme are charged as an expense as they fall due.

Inventories

Inventories (spare parts and materials) are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cash flows associated with the purchase of spare parts and materials are classified in investment activities with the oil and gas assets. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

Inventories (oil and butane inventories) are stated at the lower of cost and net realisable value other than certain oil inventory in Côte d'Ivoire, which is settled via a reduction in the amount recoverable in respect of realised gas sales from the Lion Gas Plant. The inventory subject to this swap is recorded at its fair value.

Finance costs and debt

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Financial costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Derivative financial instruments

The Group has entered into swaps and call options to economically protect against exposures to variability in the price of a proportion of Okoro and Côte d'Ivoire crude oil production for 2008 to 2012. Derivative financial instruments are stated at fair value. The gains and losses arising out of changes in fair value of these derivative financial instruments together with settlements in the period are accounted for in other operating income/(expense) in the income statement in the period in which they are incurred.

In 2011 the group entered into a number of deferred put options in respect of production from the Ebok field. The new instruments were classified as cash flow hedges. Each period the portion of the gains and losses on the hedging instruments that is determined to be an effective hedge is taken to equity and the ineffective portion, as well as any change in time value, is recognised in the income statement.

The Group has also entered into certain put and call option contracts in relation to its associate, FHN. Derivative financial instruments are stated at fair value. The gains and losses arising out of changes in fair value of these derivative financial instruments together with settlements in the period are accounted for in other operating income/(expense) in the income statement in the period in which they are incurred.

Available for sale investments

Available for sale investments are initially measured at cost, including transaction costs. Gains and losses arising from changes in fair value of available for sale investments are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Trade receivables

Trade receivables are measured at initial recognition at their fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade payables

Trade payables are stated at amortised cost.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Investment in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments, plus any gain arising on non-dilutive, third-party equity investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations to make or has made payments on behalf of the associate.

2. ACCOUNTING POLICIES continued

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition above the cost of acquisition (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

IAS 28 is currently not specific on how changes in an investee's net assets that are not the investor's share of the investee's profit or loss or other comprehensive income, or that are not distributions received are accounted for. The Group's policy in these circumstances is to recognise these gains (or losses) through the income statement when they occur.

Sojitz loan notes and senior loan notes

Sojitz loan notes were regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the Sojitz loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, was included in equity. Issue costs were apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Senior loan notes are recognised initially at fair value, net of transaction costs incurred. Senior loan notes are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the senior loan notes. Interest is calculated by applying the coupon rate on to the redemption value.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition and the sale is expected to be completed within one year of the classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, key assumptions and other key sources of estimation uncertainty at the balance sheet date that may have a significant effect on the amounts recognised in the financial statements.

Oil and gas assets

Management is required to assess the oil and gas assets for indicators of impairment. Note 12 discloses the carrying value of tangible oil and gas assets. As part of this assessment in the current year, management has carried out an impairment test (ceiling test) on certain tangible oil and gas assets (Côte d'Ivoire assets). Management also performed an impairment test upon its Barda Rash asset, on transfer from intangible exploration and evulation assets as required by IFRS 6. This test compares the carrying value of the assets at the balance sheet date with the expected discounted cash flows from each project. For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves of the assets and a range of assumptions, including an internal oil price profile benchmarked to mean analysts' consensus and a 10% discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks.

Intangible exploration and evaluation assets

Management is required to assess impairment in respect of intangible exploration and evaluation assets. Note 12 discloses the carrying value of such assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgements on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Share-based payments and FHN options
Management is required to make assumptions in respect of share based payments and FHN options of the inputs used to calculate the fair values of share-based payment arrangements and options. Details of these can be found in note 31 and note 20.

Fair value of Black Marlin acquisition
The assets and liabilities acquired following the completion of Black Marlin Energy Holdings Limited acquisition by the Company in 2010 were recorded at fair value at the completion date, as outlined further in note 32. The estimates of such fair values required significant judgement to be applied, particularly in respect of intangible exploration and evaluation assets. Management generally assigns fair values to intangible exploration and evaluation assets to equal the excess of the purchase price consideration over and above the other assets and liabilities acquired, when this represents the most reliable indication of fair value.

Decommissioning
The Group has decommissioning obligations in Nigeria and Côte d'Ivoire. The extent to which a provision is required depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied. The decommissioning provision will be updated each year to reflect Management's best estimates.

Taxation and Royalties
The application of tax legislation in jurisdictions in which the Group operates can be uncertain and subject to interpretation. As disclosed in note 29, the Group has significant tax liabilities which may be subject to revision as the Group's tax filings and royalties are agreed with the relevant authorities in future periods.

4. SEGMENTAL REPORTING
Geographical segments
The Group operates in five geographical markets which form the basis of the information evaluated by the Group's chief operating decision maker: Nigeria, Cote d'Ivoire, Other West Africa, Eastern Africa and Middle East and North Africa. This is the basis on which the Group records its primary segment information. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the Group.

2011	Nigeria US$000's	Cote d'Ivoire US$000's	Other West Africa US$000's	Eastern Africa US$000's	Middle East and North Africa US$000's	Unallocated US$000's	Consolidated US$000's
Sales revenue by origin	546,830	49,833	–	–	–	–	596,663
Operating gain/(loss) before derivative financial instruments	279,312	20,825	(287)	(1,158)	(26)	(17,990)	280,676
Derivative financial instruments losses	(11,253)	(1,272)	–	–	–	–	(12,525)
Segment result	268,059	19,553	(287)	(1,158)	(26)	(17,990)	268,151
Investment revenue							560
Finance costs							(57,110)
Other gains and losses – foreign currency gains							1,190
Other gains and losses – dilution gain on investment in associate company							14,683
Other gains and losses – gain on derivative financial investments on shares of associate company							7,964
Other gains and losses – fair value of financial assets and liabilities							(70)
Share of loss of an associate							(14,003)
Profit from continuing operations before tax							221,365
Income tax expense							(96,003)
Profit from continuing operations after tax							125,362
Loss from discontinued operations							(3,654)
Profit for the period							121,708
Segment assets – non-current	1,390,155	139,110	71,461	216,577	588,827	19,263	2,425,393
Segment assets – current	364,871	60,356	4,420	1,756	20,155	53,554	505,112
Segment liabilities	(726,401)	(49,617)	(6,955)	(43,582)	(312,794)	(583,802)	(1,723,151)
Capital additions – oil and gas assets	660,628	270	–	–	4,945	–	665,843
Capital additions – exploration and evaluation*	72,674	939	10,059	18,105	583,880	750	686,407
Capital additions – other	1,657	268	–	2	–	2,570	4,479
Capital disposal – other	–	–	–	(2,122)	–	–	(2,122)
Depletion, depreciation and amortisation	(143,952)	(14,331)	–	(1)	–	(1,845)	(160,129)
Exploration costs write off	–	–	(262)	(793)	–	–	(1,055)

* During the year, Exploration and evaluation additions of US$415.4 million in respect of the Barda Rash licence were transferred to oil and gas assets in the Middle East and North Africa segment.

4. SEGMENTAL REPORTING continued

2010	Nigeria US$000's	Cote d'Ivoire US$000's	Other West Africa US$000's	Eastern Africa US$000's	Middle East and North Africa US$000's	Unallocated US$000's	Consolidated US$000's
Sales revenue by origin	286,546	32,568	–	131	–	202	319,447
Operating gain/(loss) before derivative financial instruments	128,053	(2,583)	(2,051)	(248)	–	(25,289)	97,882
Derivative financial instruments losses	(3,270)	(5,624)	–	–	–	–	(8,894)
Segment result	124,783	(8,207)	(2,051)	(248)	–	(25,289)	88,988
Investment revenue							298
Finance costs							(11,320)
Other gains and losses – fair value of financial assets and liabilities							(8,100)
Other gains and losses – foreign currency losses							305
Share of loss of an associate							8,625
Profit from continuing operations before tax							78,796
Income tax expense							(32,923)
Profit from continuing operations after tax							45,873
Loss from discontinued operations							(614)
Profit from continuing operations after tax							45,259
Segment assets – non current	805,105	153,270	68,459	192,548	–	3,675	1,223,057
Segment assets – current	172,251	15,818	6,107	2,046	–	24,397	220,619
Assets held for sale	–	–	–	2,812	–	–	2,812
Segment liabilities	(352,857)	(110,545)	(5,090)	(47,967)	–	(71,314)	(587,773)
Capital additions – oil and gas assets	362,879	121	–	–	–	–	363,000
Capital additions – exploration and evaluation	59,462	1,722	7,559	192,470	–	–	261,213
Capital additions – other	488	453	–	270	–	2,188	3,399
Capital disposal – other	(815)	–	–	–	–	–	(815)
Depletion, depreciation and amortisation	(76,708)	(15,668)	–	(3)	–	(1,600)	(93,979)
Exploration costs write back/(write-off)	370	–	(1,984)	–	–	–	(1,614)

Business segments

The operations of the Group comprise one class of business, being oil and gas exploration, development and production.

Included in revenues for Nigeria for the year ended 31 December 2011 are US$546.5 million (2010: US$286.5 million) which arose from the Group's largest customer.

Non-current assets held in the UK at 31 December 2011 totalled US$3.2 million (2010: US$2.4 million). Non-current assets held in Other West Africa at 31 December 2011 included US$21.7 million (2010: US$20.3 million) relating to Keta Block, Ghana, US$31.1 million (2010: US$30.1 million) relating to the La Noumbi permit in Congo (Brazzaville) and US$18.7 million (2010: US$18.1 million) relating to JDZ Block One in São Tomé & Príncipe. Non-current assets held in East Africa at 31 December 2011 included US$72.7 million (2010: US$62.1 million) related to Block L17/L18, Block 1 and Block 10A in Kenya, US$59.0 million (2010: US$58.4 million) relating to the Ethiopean Blocks 2 & 6 and 7 & 8, US$37.8 million (2010: US$35.6 million) related to the Madagascar Block 1101, US$40.2 million (2010: US$36.2 million) relating to Seychelles Block A, B, C and US$6.8 million (US$nil) relating to Tanga Block in Tanzania.

5. REVENUE

	2011 US$000's	2010 US$000's
Oil revenue	576,776	298,484
Gas revenue	19,887	20,631
Other revenue	–	332
	596,663	319,447

Additional revenue includes service fees from associates and investment revenue.

6. EXPLORATION COSTS WRITE-OFF

	2011 US$000's	2010 US$000's
Exploration costs written off	1,055	1,614
	1,055	1,614

Amounts written off in 2011 primarily relate to the relinquishment of the Group's interest in Ethiopia Blocks 2 and 6.

7. PROFIT FOR THE YEAR

The profit for the year is stated after charging:	2011 US$000's	2010 US$000's
Staff costs (note 8)	56,783	38,239
Depletion, depreciation and amortisation	160,128	93,979
Property lease rentals	3,544	2,191
FPSO operating lease rentals	29,069	25,643
Boats, helicopters and other lease rentals	25,089	16,759
An analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	320	312
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	358	256
Total audit fees	678	568
– Audit related assurance services	244	129
– Taxation compliance services	46	27
– Other taxation advisory services	350	146
– Corporate finance services	117	1,174
Total non-audit fees	757	1,476

Audit related assurance services in 2011 include the fees related to the review of the Group's interim and quarterly reporting. In 2010, corporate finance services primarily represented services provided in respect of the acquisition of Black Marlin and related investment circular, being work that would ordinarily be performed by external auditors for companies involved in such projects and is in-line with the Company's policy on non-audit services.

7. PROFIT FOR THE YEAR continued

A proportion of the Group's staff costs shown above are recharged to the Group's joint venture partners and a proportion is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets. The amount ultimately remaining in the income statement was US$25.1 million (2010: US$11.6 million).

Reconciliation of profit after tax to normalised profit after tax	**2011 US$000's**	2010 US$000's
Profit after tax from continuing activities	125,362	45,873
Unrealised losses on derivative financial instruments*	3,246	6,482
Finance costs on settlement of borrowings	7,431	–
Cost of acquisition of Black Marlin	–	3,913
Share-based payment charge	7,310	8,333
Foreign exchange losses	(1,190)	(305)
Fair value financial liabilities	70	8,100
Gain on derivative financial instruments on shares of associate company	(7,964)	–
Gain on investment in associate company	(14,683)	(9,953)
Share of associate's derivative financial instruments losses	5,554	–
	125,136	**62,443**

* Excludes realised losses on derivative financial instruments of US$9.3 million (2010: US$2.4 million).

Normalised profit after tax is a non-IFRS measure of financial performance of the Company, which in management's view provides a better understanding of the Company's underlying financial performance. This may not be comparable to similarly titled measures reported by other companies.

8. STAFF COSTS

The average monthly number of employees (including Executive Directors) employed was as follows:	**2011**	2010
Administration	48	31
Professional	224	188
	272	**219**

Their aggregate remuneration comprised:	**2011 US$000's**	2010 US$000's
Wages and salaries	40,294	22,529
Share-based payments	13,424	9,295
Social security costs	935	5,169
Pension costs	2,130	1,246
	56,783	**38,239**

Details of Directors' remuneration are provided in the part of the Directors' Remuneration Report described as having been audited.

9. FINANCE COSTS

	2011 US$000's	2010 US$000's
Bank interest payable	12,802	10,521
Borrowing costs amortisation and facility fees	17,807	9,042
Interest on finance lease	6,312	–
Interest on loan notes	55,155	1,138
Corporate facility interest payable	967	–
Unwinding of discount on loan notes	2,454	2,787
Unwinding of discount on decommissioning and deferred consideration	8,482	1,468
	103,979	24,956
Less: capitalised interest	(46,869)	(13,636)
	57,110	**11,320**

During the year borrowing costs were capitalised to the Ebok field using a weighted average rate of approximately 11.03% (2010: 4.6%). The increase in the weighted average rate during the year arose due to the Company's issue of the Senior Secured Loan notes which have a coupon rate of 11.5%. Following approval of the development plan for the Barda Rash field in Kurdistan Region of Iraq, borrowing costs were capitalised using a weighted average rate of 11.85% (2010: nil). Further, the Okoro infill wells drilling commenced in the fourth quarter 2010 and therefore borrowing costs incurred during the year relating to the Okoro project were capitalised using a weighted average rate of approximately 4.4% (2010: 3.2%) related to the specific project borrowings rate.

10. EARNINGS PER ORDINARY SHARE

	Year ended 31 December 2011	2010
From continuing and discontinued operations		
Basic	12.0c	5.0c
Diluted	11.5c	4.8c
From continuing operations		
Basic	12.3c	5.1c
Diluted	11.9c	4.9c

The profit and weighted average number of ordinary shares used in the calculation of the earnings per share are as follows:

	2011	2010
Profit for the period used in the calculation of the earnings per share from continuing and discontinued operations (US$000's)	121,708	45,259
Profit for the period used in the calculation of the diluted earnings per share from continuing and discontinued operations (US$000's)	121,708	45,259
Loss for the period from discontinued operations **(US$000's)**	3,654	614
Profit used in the calculation of the basic and diluted earnings per share from continuing activities (US$000's)	**125,362**	**45,873**

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2011	2010
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,016,720,136	908,821,987
Effect of dilutive potential ordinary shares:		
Share-based schemes awards	38,956,799	33,609,396
Warrants	273,330	898,464
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**1,055,950,265**	**943,329,847**

In 2010, 9.9 million potential ordinary shares were anti-dilutive and were therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share in 2010. There were no significant anti-dilutive potential ordinary shares in 2011.

11. INTANGIBLE OIL AND GAS ASSETS

Costs of exploration – pending determination

	Group US$000's
At 1 January 2010	184,161
Additions	74,274
Acquisition of subsidiaries (see note 32)	186,940
Amounts written off	(1,614)
At 1 January 2011	443,761
Additions	686,407
Transfer to tangible oil and gas assets	(415,434)
Amounts written off	(1,055)
At 31 December 2011	**713,679**

Additions during the period included US$415.4 million in respect of the Barda Rash licence in Kurdistan Region of Iraq acquired during the period and was transferred from intangible exploration and evaluation assets to tangible oil and gas assets following approval of the field development plan by the government. Additions also include US$168.4 million in respect of Ain Sifni licence in Kurdistan Region of Iraq.

12. PROPERTY, PLANT AND EQUIPMENT

	Production US$000's	Development US$000's	Gas plant US$000's	Total US$000's
GROUP				
Oil and gas assets				
Cost				
At 1 January 2010	481,002	164,679	27,956	673,637
Additions	33,935	329,063	–	362,998
At 1 January 2011	514,937	493,742	27,956	1,036,635
Additions	42,173	623,442	228	665,843
Effect of changes to decommissioning estimates	(7,507)	(8,876)	–	(16,383)
Transfer from development to production	1,097,319	(1,097,319)	–	–
Transfer from intangible oil and gas assets	–	415,434	–	415,434
At 31 December 2011	1,646,922	426,423	28,184	2,101,529
Depletion, depreciation and amortisation				
At 1 January 2010	175,367	6,044	5,554	186,965
Charge for the year	86,060	–	4,443	90,503
At 1 January 2011	261,427	6,044	9,997	277,468
Charge for the year	150,999	–	4,443	155,442
At 31 December 2011	412,426	6,044	14,440	432,910
Carrying amount				
At 31 December 2010	253,510	487,698	17,959	759,167
At 31 December 2011	**1,234,496**	**420,379**	**13,744**	**1,668,619**

The gross capitalised interest included in the oil and gas assets amounted to US$89.7 million as at 31 December 2011 (2010: US$42.7 million). Additions during the year include US$168.3 million relating to MOPU and FSO at Ebok field, offshore Nigeria, held under finance lease as disclosed on note 27. Included in depletion, depreciation and amortisation charge during the year is US$8.2 million (2010: US$nil) attributable to the assets under finance lease.

12. PROPERTY, PLANT AND EQUIPMENT continued

	Leasehold improvements US$000's	Fixtures and equipment US$000's	Computer hardware and software US$000's	Total US$000's
GROUP				
Other property, plant and equipment				
Cost				
At 1 January 2010	4,686	3,795	3,811	12,292
Additions	238	858	2,109	3,205
Additions – acquisition of subsidiary	94	100	–	194
Disposal	(448)	(221)	(146)	(815)
At 1 January 2011	4,570	4,532	5,774	14,876
Additions	1,316	1,155	2,008	4,479
Reclassification of assets previously held for sale	–	2,812	–	2,812
Disposal	–	(2,122)	–	(2,122)
At 31 December 2011	5,886	6,377	7,782	20,045
Accumulated depreciation				
At 1 January 2010	1,961	1,541	1,794	5,296
Charge for the year	938	1,000	1,538	3,476
Disposal	(448)	(221)	(146)	(815)
At 1 January 2011	2,451	2,320	3,186	7,957
Charge for the year	1,749	1,106	1,832	4,687
At 31 December 2011	4,200	3,426	5,018	12,644
Carrying amount				
At 31 December 2010	2,119	2,212	2,588	6,919
At 31 December 2011	**1,686**	**2,951**	**2,764**	**7,401**

	Leasehold improvements US$000's	Fixtures and equipment US$000's	Computer hardware and software US$000's	Total US$000's
COMPANY				
Other property, plant and equipment				
Cost				
At 1 January 2010	1,392	1,162	2,673	5,227
Additions	81	128	822	1,031
At 1 January 2011	1,473	1,290	3,495	6,258
Additions	861	345	938	2,144
At 31 December 2011	2,334	1,635	4,433	8,402
Accumulated depreciation				
At 1 January 2010	742	654	1,120	2,516
Charge for the year	216	161	978	1,355
At 1 January 2011	958	815	2,098	3,871
Charge for the year	205	46	1,038	1,289
At 31 December 2011	1,163	861	3,136	5,160
Carrying amount				
At 31 December 2010	515	475	1,397	2,387
At 31 December 2011	**1,171**	**774**	**1,297**	**3,242**

13. INVESTMENTS

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Subsidiaries				
Shares at cost in subsidiary undertakings	–	–	507,076	202,238

US$298.3 million was injected on acquisition by the Company into Beta Energy Limited which acquired interests in Barda Rash and Ain Sifni PSCs in Kurdistan Region of Iraq. The rest of the movement during year mainly relates to additional investment in Afren's US subsidiary, Afren USA inc.

A list of the significant investments in subsidiaries and associated undertakings, including the name, proportion of ownership interest, country of operation and country of registration, is given below:

Name	Principal activity	%	Country of operation	Country of registration
Directly held				
Afren Congo Limited	Oil and gas exploration, development and production	100	Congo	Bahamas
Afren USA inc.	Service company	100	USA	USA, Delaware
Black Marlin Energy Holdings limited	Holding company	100	Dubai	British Virgin Islands
Beta Energy Limited	Oil and gas exploration, development and production	100	Kurdistan Region of Iraq	England and Wales
Indirectly held				
Afren JDZ One Limited	Oil and gas exploration, development and production	100	Norway	Norway
Dangote Energy Equity Resources Limited	Oil and gas exploration, development and production	49(i)	Nigeria	Nigeria
Afren Energy Resources Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Okoro Limited	Holding company	100	UK	England & Wales
Afren Global Energy Resources Limited	Oil and gas exploration, development and production	50(i)	Nigeria	Nigeria
Afren Investments Oil & Gas (Nigeria) Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Energy Services Limited	Service company	100	Nigeria	Nigeria
Afren Exploration and Production Nigeria Alpha Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Exploration and Production Nigeria Beta Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Nigeria Holdings (Nigeria) Limited	Holding company	100	Nigeria	Nigeria
Afren CI One Corporation	Oil and gas exploration, development and production	100	Côte d'Ivoire	Cayman
Afren Cote D'Ivoire Limited	Oil and gas exploration, development and production	100	Côte d'Ivoire	Cayman
Lion GPL SA	Oil and gas exploration, development and production	100	Côte d'Ivoire	Côte d'Ivoire
East African Exploration (K) Limited	Oil and gas exploration, development and production	100	Kenya	Kenya
East African Exploration (Seychelles) Limited	Oil and gas exploration, development and production	100	Seychelles	British Virgin Islands
East African Exploration (Madagascar) Limited	Oil and gas exploration, development and production	100	Madagascar	British Virgin Islands
East African Exploration (Ethiopia) Limited	Oil and gas exploration, development and production	100	Ethiopia	British Virgin Islands
Afren Energy Ghana Limited	Oil and gas exploration, development and production	100	Ghana	Bahamas
Afren Resources Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria

(i) Accounted for via proportional consolidation as the Group exercises joint control over the day-to-day operations and management decisions of these entities.

14. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
At the beginning of the year	11,227	604	–	604
Additions during the year	9,846	1,998	–	–
Dilution gain during the year	14,683	9,953		
Share of associates loss	(14,003)	(1,328)	–	(604)
At the end of the year	**21,753**	**11,227**	–	–

We recognised a dilution gain of U$$14.7 million (2010: US$ 9.9 million) arising from our proportionate share of the increase in the net asset value of First Hydrocarbon Nigeria's (FHN) balance sheet following a third party equity injection. The third party equity injection in FHN resulted in the Group exercising 6.75 million of the call options it holds over FHN shares in order to maintain the 45% shareholding. See note 20 for further details on the Group's options relating to FHN.

Aggregated amounts related to associates, representing Afren's interest, were as follows:

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Total assets	333,610	14,268	5,159	1,178
Total liabilities	(277,363)	(2,802)	(3,275)	939
Revenues	–	–	–	–
Group's share of net loss from associates	(14,003)	(1,328)	–	(604)

In 2011, FHN completed the acquisition of OML26, onshore Nigeria and at the same time secured US$280 million in new financing. In 2010, FHN had a commitment amounting to US$132.7 million in respect of an outstanding completion payment on the acquisition of OML26, onshore Nigeria.

As at 31 December 2011 Afren plc held 226,421,354 ordinary shares in Gasol plc representing 20.9% of its issued share capital. The closing price on 31 December 2011 was 0.47p per share. The fair value of the shares as at 31 December 2011 was US$1.6 million compared with a book value of US$nil. The Company and the Group share of the unrecognised losses of Gasol plc was US$1.1 million as at 31 December 2011.

The financial information accounted for using the equity method as at 31 December 2011 has been taken from the unaudited management information of FHN and Gasol plc as at that date. Gasol plc's year end is 31 March.

15. INVENTORIES

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Oil and gas inventory	43,594	14,204	–	–
Spare parts and materials	23,525	24,851	–	–
	67,119	**39,055**	–	–

Spare parts and materials are stated net of a provision of US$1.2 million (2010: US$3.0 million) to write down the inventory to recoverable amount.

16. INTEREST IN JOINT VENTURES

The Group has a 49% share of Dangote Energy Equity Resources Limited (DEER), a jointly controlled entity which is involved in operations in JDZ Block One.

The Group has a 50% interest in Afren Global Energy Resources Limited (AGER), a jointly controlled entity. AGER holds the Production Sharing Contracts for OPLs 907 and 917.

The Group's share of DEER's and AGER's assets, liabilities, income and expenses of the jointly controlled entities at 31 December 2011 and 2010 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2011		2010	
	50% share in AGER US$000's	49% share in DEER US$000's	50% share in AGER US$000's	49% share in DEER US$000's
Current assets	1,329	1,486	1,316	1,189
Non-current assets	4,708	18,698	4,690	18,076
	6,037	20,184	6,006	19,265
Current liabilities	(6,446)	(12,344)	(6,363)	(11,514)
Non-current liabilities	–	–	–	–
	(409)	**7,840**	**(357)**	**7,751**
Administrative expenses	50	6	56	9
Bank interest received	–	(11)	–	21
Loss/(profit) before and after income tax	**50**	**(5)**	**56**	**(12)**

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 US$000's	2010 US$000's	2011 US$000's	2010 US$000's
Trade and other debtors	130,101	29,708	13,067	12,088
Prepayments and accrued income	14,242	10,219	737	1,995
VAT recoverable	1,273	1,416	1,124	1,402
Due from subsidiary undertakings*	–	–	1,066,098	695,767
Due from joint ventures	–	–	13,330	12,390
	145,616	**41,343**	**1,094,356**	**723,642**

* The amount in the Company is shown net of a provision for doubtful debt of US$25.4 million (2010: US$25.4 million).

Prepayments and accrued income in respect of the Group includes US$6.2 million (2010: US$1.5 million) accrued income on crude and gas sales and US$3.8 million (2010: US$5.2 million) in prepayment of operating costs.

There were no material past due not impaired receivables at either balance sheet date, nor any material bad debt provisions (other than as disclosed above in respect of intercompany balances).

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Cash and cash equivalents	291,693	140,221	36,122	5,258

Cash and cash equivalents comprise cash held by the Group and Company in the form of short-term bank deposits with an original maturity of three months or less and earn interest at respective short-term deposit rates. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents at 31 December 2011 includes US$31.2 million (2010: US$31.9 million) that is restricted. This relates to short-term restrictions on project cash, pending completion of certain milestones and cash deposit for some of the letters of credit described in note 26.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Trade creditors	11,588	23,779	3,124	1,447
Other creditors and operated partners	115,988	72,262	413	11,437
Accruals	187,260	98,408	38,635	9,368
PAYE and social security	2,297	2,165	1,917	2,120
VAT payable	231	–	–	–
Due to subsidiary undertakings	–	–	14,926	51,432
	317,364	**196,614**	59,015	**75,804**

Group accruals include interest payable of US$2.0 million (2010: US$3.5 million) relating to the bank borrowings described in note 20, and US$24.3 million (2010: US$0.3 million) of coupon interest relating to loan notes described in note 24.

20. BORROWINGS AND OTHER FINANCIAL INSTRUMENTS

Borrowings

	Group			
	2011		2010	
	Current US$000's	**Non-current US$000's**	Current US$000's	Non-current US$000's
Loan notes (note 24)	–	481,739	41,390	–
Bank borrowings	157,807	200,473	47,864	178,467
	157,807	682,212	**89,254**	**178,467**

	Company			
	2011		2010	
	Current US$000's	**Non-current US$000's**	Current US$000's	Non-current US$000's
Loan notes (note 24)	–	481,739	–	–
Bank borrowings	–	48,894	–	–
	–	530,633	–	–

In March 2010 the Group entered into a bank facility agreement, for a maximum of five years, secured against the Ebok field reserves. The facility is repayable in semi-annual instalments determined by borrowing base calculations linked to the certified reserves of the Ebok field. The amount drawndown, including certain capitalised financing costs amounted to US$217.8 million (US$213.4 million net of financing arrangement costs) and US$107.4 million (US$98.6 million net of financing arrangement costs) as at 31 December 2011 and 31 December 2010 respectively. Interest on the loan is based on LIBOR plus a margin of 5.5% as at 31 December 2011 and 31 December 2010.

On 3 August 2011, the Company entered into a US$50 million facilities agreement (the Socar facility) with Socar Trading S.A. The Socar facility has a term of the earlier of (i) 23 months from the date of the agreement (i.e. 3 July 2013) or (ii) 90 days from the date that Afren's Ebok Crude Oil Purchase Contract with Socar terminates (the later of 4 September 2012 or the cumulative lifting of 18.5 mmbbl of crude oil from the EBok field). The Socar facility has an interest rate of LIBOR plus 4.5%.

20. BORROWINGS AND OTHER FINANCIAL INSTRUMENTS continued

In November 2011, the Group obtained a bank facilicy of up to US$200 million in respect of acquisitions in the Kurdistan Region of Iraq. The outstanding balance was US$100.0 million as at 31 December 2011 (US$95.9 million net of financing arrangement costs), (2010: US$nil). The facility is for an 18-month term and interest on the facility is based on LIBOR plus 9.0%. Subsequent to year end an agreement was reached and the full facility was repaid in March 2012.

Bank borrowings at the year end included US$nil, (2010: US$27.5 million (US$25.5 million net of financing arrangement costs)), relating to the Okoro development facility from BNP Paribas. Interest on the loan was based on LIBOR plus a margin of 3.75% as at 31 December 2010. The facility was repayable in semi-annual instalments determined by borrowing base calculations linked to the certified reserves of the Okoro field. The loan was secured by the assets of the Okoro field. In February 2011 the full outstanding obligation was repaid.

The 2008 acquisition of operations in Côte d'Ivoire was financed by a financing package arranged through BNP Paribas. The outstanding balance on the financing package at 31 December 2011 was US$nil, (2010: US$71.2 million (US$69.8 million net of financing arrangement costs)). Interest on the senior debt was based on LIBOR plus a margin of between 3.25% and 3.5% as at 31 December 2010. Interest on the subordinate debt was based on LIBOR plus a margin of 4.25%. The senior debt included certain financial covenants which were assessed on a quarterly basis. In February 2011 the full outstanding obligation was repaid.

Borrowings also include a balance of US$nil, (2010: US$33.3 million (US$32.4 million net of financing arrangement costs)), relating to an unsecured loan facility from First City Monument Bank plc (FCMB). Interest on the loan was based on LIBOR plus a margin of 4.45%. In February 2011 the full outstanding obligation was repaid.

Financial risk management

In respect of financial risk management, at the balance sheet date, the Group's principal financial assets are cash and cash equivalents, trade and other receivables and any derivative asset. The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due. The Group uses projected cash flows to monitor funding requirements for the Group's activities.

The Group uses both short-term and long-term cash flow projections to monitor funding requirements and ensure there is sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest %	Less than 1 month US$000's	1-3 months US$000's	3 months to 1 year US$000's	1-5 years US$000's	After 5 years US$000's	Total US$000's
31 December 2011							
Non-interest bearing	nil	31,521	277,592	197,139	–	–	506,252
Finance lease liability	6%	2,148	6,443	17,181	103,088	34,363	163,223
Variable interest rate borrowings	8.4%	29,389	50,097	221,391	874,310	–	1,175,187
Total		**63,058**	**334,132**	**435,711**	**977,398**	**34,363**	**1,844,662**

	Weighted average effective interest %	Less than 1 month US$000's	1-3 months US$000's	3 months to 1 year US$000's	1-5 years US$000's	Total US$000's
31 December 2010						
Non-interest bearing	nil	13,177	50,405	152,455	–	216,037
Variable interest rate borrowings	4.6%	6,667	8,908	88,967	203,778	308,320
Total		**19,844**	**59,313**	**241,422**	**203,778**	**524,357**

The amounts reported in the balance sheet relating to borrowings (excluding interest) mature as follows:

	2011 US$000's	2010 US$000's
Due within one year	157,807	89,254
Due within two to five years	682,212	178,467
	840,019	**267,721**

Derivatives financial instruments

Derivative financial instruments	Group 2011 Current US$000's	Group 2011 Non-current US$000's	Group 2010 Current US$000's	Group 2010 Non-current US$000's
Financial assets	684	13,358	–	–
Financial liabilities	(10,280)	(7,565)	(4,927)	(499)
	(9,596)	**5,793**	**(4,927)**	**(499)**

	Group 2011 US$000's	Group 2010 US$000's
Charge to the income statement		
Realised derivative financial instrument loss	(9,279)	(2,412)
Unrealised derivative financial instruments loss	(3,246)	(6,482)
	(12,525)	**(8,894)**
Gain on derivative financial instrument in associate company	7,964	–
Loss from fair value of warrants	(70)	(8,100)

Derivative financial instruments	Company 2011 Current US$000's	Company 2011 Non-current US$000's	Company 2010 Current US$000's	Company 2010 Non-current US$000's
Financial assets	–	13,358	–	–
Financial liabilities	(10,155)	(7,565)	–	–
	(10,155)	**5,793**	–	–

In 2007 the Group entered into derivative financial instruments (swaps and call options) to economically protect against exposures to variability in the price of Okoro crude oil production for the period 2008 to 2010. During the first half of 2009 an additional derivative contract in respect of the Okoro crude was entered into for the period 2009 to 2011. The Group receives a minimum amount if the market falls, but receives a set discount from the market price if the oil price is above that minimum. The arrangement protects the Group against the risk of a significant fall in the price of crude oil by establishing a minimum price for the Okoro crude. During 2008 on acquisition of the CI-11 field in Côte d'Ivoire, the Group entered into similar instruments to protect against variability in price of the CI-11 crude oil production for the period from 2008 to 2012. In February 2011 the CI-11 instruments were transferred to cover the production from the Ebok field. The loss of US$1.9 million (2010: US$8.9 million loss) arising during the year as a result of the changes in fair value of these derivative financial instruments has been accounted for in the income statement net of cash realisations, as hedge accounting was not applied.

In February 2011 and May 2011, the Group entered into a number of deferred put options in respect of production from the Ebok field. The Group will receive a minimum amount if the market falls. These new instruments have been classified as cash flow hedges, with a portion of the gains and losses on the instruments that are determined to be an effective hedge taken to equity and the ineffective portion, as well as any change in time value, recognised in the income statement for each period. During the period the loss incurred of US$10.6 million, net of cash realisations, relating to these instruments was charged to the income statement in relation to the change in time value.

In addition to the above commodity derivatives, the change in July 2008 of the functional currency of the holding company from pounds sterling to US dollar resulted in certain sterling denominated warrants being accounted for as derivatives from that date, as they are no longer convertible at a fixed price in that company's functional currency. As a result of the warrants exercised during the year, the fair value of the remaining warrants at 31 December 2011, recorded within other creditors, was US$0.04 million (2010: US$11.2 million) and the resultant loss during the year of US$0.07 million (2010: US$8.1 million loss) has been taken to the income statement.

In 2010 and 2011 the Group entered into certain put and call option contracts in relation to its associate, FHN. There are three option contracts in existence; two of the option contracts are with equity investors of FHN and there is also a call option between Afren and FHN. The Group recorded a net gain of US$8.0 million (2010: US$nil) in respect of these instruments.

The first option contract with an equity holder of FHN is a call option agreement over 7.2 million FHN shares. The Group can exercise the call option any time during the 2.5 years over the equity investment. The investor can exercise their put option for 90 days after the call option expires. The Group has also granted a put option to an equity investor of FHN over 15 million FHN shares, exercisable two years after the equity investment. This option will lapse if not exercised within 150 days of this date. As consideration for providing this put option, FHN granted Afren 30 million call options with a 10 year term. During the year, 6.75 million of these options were exercised when the Group's investment was diluted. FHN has 135 million of issued ordinary shares as at 31 December 2011.

20. BORROWINGS AND OTHER FINANCIAL INSTRUMENTS continued

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments:

	Carrying amount		Fair value	
	2011 US$000's	2010 US$000's	**2011 US$000's**	2010 US$000's
Financial assets				
Derivative financial instruments – Level 2	1,609	–	1,609	–
Derivative financial instruments – Level 3	12,433	–	12,433	–
Cash and cash equivalents	291,693	140,221	291,693	140,221
Trade and other receivables	137,561	31,124	137,561	31,124
	443,296	171,345	443,296	171,345
Financial liabilities				
Derivative financial instruments – Level 2	10,280	5,426	10,280	5,426
Derivative financial instruments – Level 3	7,565	–	7,565	–
Trade creditors	11,588	23,779	11,588	23,779
Other creditors and accruals	303,248	170,670	303,248	170,670
Deferred consideration and payables on acquisitions	216,720	–	216,720	–
Borrowings – BNP Paribas	–	25,533	–	26,111
Borrowings – FCMB	–	32,400	–	32,365
Borrowings – Côte d'Ivoire	–	69,795	–	67,374
Borrowings – Ebok	213,444	98,603	228,999	101,520
Borrowings – Kurdistan Region of Iraq	95,942	–	100,318	–
Borrowings – Socar	48,894	–	47,463	–
Loan notes	481,739	41,390	527,391	42,801
	1,389,420	467,596	1,453,572	470,046

Level 2 fair value measurements have been determined by reference to observable data in quoted markets at the balance sheet date.
Level 3 fair value measurements are those derived from valuation techniques that include at least one input for the asset or liability that are not based on observable market data (unobservable inputs). Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise management determines a reasonable estimate for the input.

The only movement in level 3 financial instruments has been the exercise of 6.8 million options resulting in a reduction in value of US$3.1 million and an increase in the option valuation of US$8.0 million recorded as a gain in the income statement.

The fair value of bank borrowings and loan notes have been determined by discounting future cash outflows relating to the borrowings and loan notes respectively.

For the level 3 financial assets and liabilities, changing certain inputs to reasonably possible alternative assumptions may change the fair value significantly. Where significant, the effect of a change in these assumptions to a reasonably possible alternative assumption is outlined in the table below. These sensitivities have been calculated by amending the fair value of the level 3 financial assets at 31 December for a change in each individual assumption, as outlined below, whilst keeping all other assumptions consistent with those used to calculate the fair value recognised in the financial statements.

	Change in assumption	**2011 US$000's**	2010 US$000's
Financial assets			
Derivative financial instruments	Increase in share price by 8%	2,355	–
	Decrease in share price by 8%	2,355	–
	Increase in volatility by 2.5%	1,245	–
	Decrease in volatility by 2.5%	1,245	–
Financial liabilities			
Derivative financial instruments	Increase in share price by 8%	1,670	–
	Decrease in share price by 8%	1,670	–
	Increase in volatility by 2.5%	545	–
	Decrease in volatility by 2.5%	545	–

Sensitivity analysis

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings. The Group has managed the interest rate risk by using a mix of fixed and variable rates on convertible bonds, loan notes and bank borrowings respectively.

The following table demonstrates the sensitivity to changes in LIBOR rate, with all other variables held constant, of the Group's profit before tax.

2011	Increase	Decrease in Group profit US$000's	Decrease	Increase in Group profit US$000's
Interest payable	1%	(2,200)	1%	2,200

2010	Increase	Increase in Group loss US$000's	Decrease	Decrease in Group loss US$000's
Interest payable	1%	(3,047)	1%	3,047

Oil price risk

The Group's exposure to the risk of changes in oil price relates primarily to the Group's derivative financial instruments. The terms of the derivative financial instruments are such that the Group will receive a minimum amount if the market falls, but will receive a set discount from the market price if the oil price is above that minimum. The effect on Group loss and equity of changes in the oil price on the fair value of the derivative financial instruments is shown below:

	Positive/ (adverse) 2011 US$000's	Positive/ (adverse) 2010 US$000's
Increase in oil price by 10%	(16,533)	(1,518)
Decrease in oil price by 10%	18,776	2,669

Foreign exchange risk

The impact of a 10% change in the sterling to US dollar exchange rate is shown below:

	Positive/ (adverse) 2011 US$000's	Positive/ (adverse) 2010 US$000's
Increase in exchange rate by 10%	(161)	(1,994)
Decrease in exchange rate by 10%	161	1,994

In 2010 the majority of foreign exchange risk was as a result of the outstanding warrants held by FCMB which are financial liabilities of the Group. The impact of a 10% change in the Nigerian Naira to US dollar exchange rate would not be material in 2011 or in 2010.

Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding needs are met through a combination of debt and equity.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed above after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents and excludes finance lease.

	2011 US$000's	2010 US$000's
Borrowings	840,019	267,721
Less: cash and cash equivalents	(291,693)	(140,221)
	548,326	127,500
Equity	1,207,354	858,715
Net debt ratio	45.4%	14.8%

The movement from 2010 is attributable to higher external borrowings during 2011, principally as a result of the Company's senior notes, additional drawdown on the Ebok facility, Socar facility and Ain Sifni funding all described above, which is offset by repayment during the year of some of the borrowings existing in 2010 and an increase in equity attributable to the equity raised in July 2011 and warrants and options exercised during the year.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group reviews the credit risk of the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group. The Group's business is diversified in terms of both region and the number of counterparties and, other than transactions with major oil companies with high credit rating and government organisations in Côte d'Ivoire, the Group does not have significant exposure to any single counterparty or group of counterparties with similar characteristics. The credit risk on cash is limited because the majority is deposited with banks with good credit ratings assigned by international credit rating agencies or with governmental guarantee. The Group's total maximum exposure to credit risk as at 31 December 2011 was US$428.7 million (2010: US$171.3 million) made up of cash and bank balances and trade and other receivables (excluding prepayments).

21. PROVISION FOR DECOMMISSIONING

	Group	
	2011 US$000's	2010 US$000's
At 1 January	35,119	21,836
Addition during the year	10,839	11,815
Unwinding of discount	2,052	1,468
Effect of change in abandonment cost estimate	(16,383)	–
At 31 December	31,627	**35,119**

The provision for decommissioning is in respect of Ebok, Okoro and CI-11 fields. The provision represents the present value of the amounts that are expected to be incurred up to 2023. Additions during the year relates to additional wells drilled and production facilities installed at the Ebok field. During the year an independent specialist evaluated the decommissioning costs for the three fields and the study led to the adjustment of the amounts previously provided for. Management believe the estimates form a reasonable basis for the expected future costs of decommissioning.

22. DEFERRED CONSIDERATION AND PAYABLES ON ACQUISITIONS

US$196.7 million (US$200 million, undiscounted) relating to the acquisition of the 60% participating interest in Barda Rash PSC, Kurdistan Region of Iraq was paid on 7 March 2012 and therefore reported as deferred consideration in the balance sheet as at 31 December 2011. In addition, US$20 million relating to the 20% participating interest in Ain Sifni PSC, Kurdistan Region of Iraq, was outstanding as at 31 December 2011.

23. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	Group	
	2011 US$000's	2010 US$000's
Marine and land seismic equipment	–	2,500
Operational vehicles	–	312
	–	**2,812**

A loss of US$3.7 million (2010: US$0.6 million) has been disclosed in the period as arising from discontinued operations. This loss relates to the seismic business of Black Marlin Energy Holdings Limited (Black Marlin) which was acquired by Afren as part of its acquisition of the issued share capital of Black Marlin in 2010. The trade and assets of this business were identified as held for sale on acquisition as an active programme was in place at 31 December 2010 for the sale of the business.

However, during the period under review it was decided by management that the business would no longer be sold but that it would be abandoned, with the assets of the business (largely marine and land seismic vehicles and equipment) either put into use by Afren in other parts of the Group or sold on a piecemeal basis.

These assets have therefore been reclassified in the period out of assets held for sale and into property, plant and equipment and had a carrying value of US$0.7 million as at 31 December 2011. The results of the business remain classified as discontinued in both periods.

24. LOAN NOTES

Sojitz loan notes	Group 2011 US$000's	Group 2010 US$000's
Liability component at 1 January	41,652	37,492
Unwinding of discount	2,454	2,787
Coupon interest	105	1,138
Interest paid	(366)	(1,151)
Amortised issue costs	1,155	1,386
Settlement of the liability	(45,000)	–
	–	**41,652**
Reported in:		
Interest payable in current liabilities	–	262
Borrowings – current liabilities	–	41,390
Total liability component	–	**41,652**

Senior secured loan notes	Group and Company 2011 US$000's	Group and Company 2010 US$000's
Balance as at 1 January	–	–
Proceeds on issue	500,000	–
Unamortised costs of issue	(18,261)	–
	481,739	–

On 9 October 2008 Afren entered into a strategic alliance with Sojitz, a Japanese investment and industrial conglomerate, to jointly pursue acquisition opportunities of scale in Africa. Sojitz invested US$45 million in the form of loan notes in Afren which were to become convertible bonds at the time of entering into or announcing joint acquisitions. The loan notes bore a coupon based on LIBOR plus a margin of 2%. The net proceeds from the issue of the loan notes were split between a liability component and an equity component at the date of issue. The liability component of the loan notes was US$nil as at 31 December 2011 (2010: US$41.4 million). The interest charged for the year was calculated by applying an effective interest rate of 2.5% (2010: 8.7%) to the liability component. The full outstanding balance of US$45 million on the notes was repaid in February 2011.

On 27 January 2011, Afren offered US$450 million of aggregate principal amount of its 11.5% senior secured notes due 2016 (the Notes) and on 11 February 2011, Afren announced an offering of an additional US$50 million of its 11.5% senior secured notes due 2016. The Notes are guaranteed on a senior basis by certain subsidiaries of Afren plc and on a senior subordinated basis by Afren Resources Limited. Part of the proceeds of the offering were used to settle borrowings amounting to US$175.6 million (net of issue costs) and accrued interest of US$1.3 million. Also payable was an early redemption fee on the previously existing Sojitz notes, amounting to US$2.5 million.

Interest amounting to US$52.5 million (before capitalisation of some of the interest to oil and gas assets under development) , and the Sojitz fee, has been charged to the Income statement for the period to 31 December 2011. Total expenses of the offering incurred amounted to US$22.1 million which are being amortised over the life the Notes.

25. DEFERRED TAXATION

	2011 US$000's	2010 US$000's
Property, plant and equipment	92,772	36,760
Intangible oil and gas assets	39,817	39,817
Decommissioning provision	(10,579)	(4,247)
Other temporary differences	2,487	(8,860)
	124,497	**63,470**

25. DEFERRED TAXATION continued

Analysis of movement during the year – 2011	At 1 January 2011 US$'000's	Charge for the year US$'000's	Acquisition of subsidiaries US$'000's	At 31 December 2011 US$000's
Property, plant and equipment	36,760	56,012	–	92,772
Intangible oil and gas assets	39,817	–	–	39,817
Decommissioning provision	(4,247)	(6,332)	–	(10,579)
Other temporary differences	(8,860)	11,347	–	2,487
	63,470	**61,027**	**–**	**124,497**

Analysis of movement during the year – 2010	At 1 January 2010 US$'000's	Charge for the year US$'000's	Acquisition of subsidiaries US$'000's	At 31 December 2010 US$'000's
Property, plant and equipment	21,441	15,319	–	36,760
Intangible oil and gas assets	–	–	39,817	39,817
Decommissioning provision	(3,255)	(992)	–	(4,247)
Other temporary differences	(5,726)	(3,134)	–	(8,860)
	12,460	**11,193**	**39,817**	**63,470**

At the balance sheet date the Group and Company also had tax losses (primarily arising in the UK) of US$98.3 million (2010: US$105.3 million) and US$67.0 million (2010: US$54.2 million) respectively, in respect of which a deferred tax asset has not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered. Such losses can be carried forward indefinitely. The Group and Company had temporary differences of US$2.3 million (2010: US$25.2 million) and US$3.8 million (2010: US$10.9 million) respectively, in respect of share-based payments, property, plant and equipment and pensions in respect of which deferred tax assets have not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered.

Deferred tax has not been recognised on undistributed earnings of subsidiaries as the Group has no intention to remit the earnings to the UK in the foreseeable future.

26. CONTINGENT LIABILITIES

	As at 31 December	
	2011 US$000's	2010 US$000's
Performance bond issued by a bank in respect of OPL 907/917	24,100	24,100
Standby letter of credit in respect of contractual agreements of the Okoro FPSO, Ebok MOPU/FSO	12,000	12,000
Standby letter of credit in respect of Madagascar exploration activities	500	–
Indemnity in respect of FHN's standby letter of credit	6,500	–
Performance bond issued by a bank in respect of Ethiopia exploration activities	1,050	1,050
Performance bond issued by a bank in respect of Kenya exploration activities	488	488
	44,638	**37,638**

In November 2011 the Company issued an indemnity to a bank that issued a standby letter of credit in respect of FHN's financing arrangements and, in December 2011, the Group obtained a standby letter of credit from a bank guaranteeing the exploration activities in Madagascar.

As part of the contractual arrangements on the Ofa field in Nigeria, Afren may be liable to contribute up to a maximum of US$500,000 in respect of abandonment should certain events specified in the contract occur.

Additional amounts may also be payable in relation to JDZ Block One if proved reserves are discovered and upon approval of a field development programme. The amount payable is based on the level of proven reserves and prevailing oil and gas prices and is subject to adjustment upon any subsequent amendments to such oil and gas reserves.

27. OBLIGATIONS UNDER FINANCE LEASE

	Group	
	2011 US$000's	2010 US$000's
Amounts payable under finance leases:		
Within one year	25,772	–
In the second to fifth years inclusive	103,088	–
After five years	34,363	–
Less: future finance charges	(27,716)	–
Present value of lease obligations	**135,507**	–
Amounts payable under finance leases:		
Within one year	18,135	–
In the second to fifth years inclusive	84,435	–
After five years	32,937	–
Present value of lease obligations	**135,507**	–
Analysed as:		
Amounts due within one year	18,135	–
Amounts due after one year	117,372	–
Present value of lease obligations	**135,507**	–

The Group has a seven-year lease of a Mobile Offshore Production Unit (MOPU) and a Floating Storage Offloading Vessel (FSO) from Mercator Offshore (Nigeria) Limited in respect of the production operations of the Ebok field, offshore Nigeria. The carrying amount of the Group's lease obligations approximates its fair value. For the year ended 31 December 2011,the effective interest rate was 6% (2010: n/a).

28. SHARE CAPITAL, SHARE PREMIUM AND MERGER RESERVE

	2011 US$000's	2010 US$000's
Authorised		
1,200 million ordinary shares of 1p each (equivalent to approx US$1.59 cents) (2010:1,200 million)	19,111	19,111

	Equity share capital allotted and fully paid		Share premium	Merger reserve
	Number	$000's	$000's	$000's
Allotted equity share capital and share premium				
As at 1 January	970,948,864	17,007	896,812	–
Issued during the year for cash (i)	99,163,620	1,613	18,821	179,359
Non-cash shares issued (ii)	3,327,604	53	2,509	–
As at 31 December	**1,073,440,088**	**18,673**	**918,142**	**179,359**

(i) The provisions of the Companies Act 2006 relating to Merger relief (s612 and s613) have been applied to the equity raising through a cash box structure, resulting in the creation of a merger reserve, after deducting the cost of share issue of US$3.4 million.

(ii) Non-cash shares issued includes the issue of shares to settle professional fees in line with contractual terms for services rendered to the Group. In addition, shares were issued to eligible staff members on maturity of the 2008 LTIP.

29. TAXATION

	2011 US$000's	2010 US$000's
UK corporation tax	–	–
Overseas corporate tax	53,329	21,730
Prior period adjustment	(18,353)	–
	34,976	21,730
Deferred tax	47,611	11,193
Prior period adjustment	13,416	–
	61,027	11,193
	96,003	32,923

The current tax can be reconciled to the overall tax charge as follows:

	2011 US$000's	2010 US$000's
Pre-tax profit	221,365	78,796
Tax at the UK corporate tax rate of 26.5% (2010: 28%)	58,662	22,063
Tax effect of items which are not deductible for tax	21,785	15,687
Items not subject to tax	(16,135)	(18,832)
Tax effect of share of associate results	3,711	(2,415)
Effect of different tax rates	39,469	2,231
Prior period adjustments	(4,937)	–
Recognised tax losses	(14,596)	5,985
Loss not recognised	8,044	8,204
Tax charge for the year	96,003	32,923

The detailed mechanics of the Group's tax filing arrangements for certain subsidiaries are subject to agreement with the local tax authorities and while the Group is satisfied that the 2011 and 2010 charge is its best estimate of its tax position, adjustments may be required once these discussions have been finalised.

30. OPERATING LEASE AND CAPITAL COMMITMENTS

	Group		Company	
	2011 US$000's	2010 US$000's	2011 US$000's	2010 US$000's
Minimum lease payments under operating leases recognised in income for the year	57,702	44,593	1,128	1,128

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2011 US$000's	2010 US$000's	2011 US$000's	2010 US$000's
Within one year	108,798	97,168	1,623	1,153
In the second to fifth years	79,952	29,100	6,493	2,762
After five years	21,967	–	2,029	–
	210,717	126,268	10,145	3,915

Operating lease commitments include rentals of US$15.2 million (2010: US$14.8 million) within one year and US$7.5 million (2010: US$22.2 million) between two and five years for the FPSO that is used on the Okoro field production and US$3.1 million (2010: US$12.7 million) within one year, for the terminal, security boats and field transport rentals in respect of the Okoro field. In addition, US$68.4million (2010: US$65.2 million) within one year primarily relates to the lease of rig and field operating rentals in respect of the Ebok field. Other operating lease represents rentals payable by the Company and Group for certain of its office properties.

	2011 US$000's	2010 US$000's
Capital commitments – Group		
Oil and gas assets – Development	130,499	231,691
Oil and gas assets – Exploration and Evaluation	196,530	124,594
	327,029	356,285

31. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Group operates a share option scheme for employees. The Group's policy is to award options to employees on appointment or completion of their probationary period and periodically thereafter. Options are issued at market price on the grant date and have vesting periods of up to three years. The options expire after 10 years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

Details of the share options outstanding during the year are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of year	56,604,342	0.90	55,687,999	0.72
Granted during year	4,369,500	1.42	4,425,000	1.12
Exercised during year	(3,617,500)	0.62	(2,415,657)	0.80
Lapsed during year	(804,167)	0.87	(1,093,000)	0.84
	56,552,175	**0.42**	**56,604,342**	**0.90**
Exercisable at end of year	21,236,677	0.54	22,971,677	0.72

The weighted average remaining contractual life of the options outstanding at 31 December 2011 was 7.1 years (2010: 7.7 years).
The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2011 was 158p (2010: 108p).

In 2011 options were granted on 5 January, 31 March, 9, 20 and 31 May, 21 June, 31 August, 1, 19 and 20 September, 4 October, 22 November and 5 December. The aggregate of the estimated fair values of the options granted on those dates was US$3.5 million.

In 2010 options were granted on 19, 26 and 29 January, 29 March, 23 April, 18 June, 1 September, 22 October, and 2 November. The aggregate of the estimated fair values of the options granted on those dates was US$2.4 million.

The options granted during the year have been valued by reference to the Barrier option valuation model, consistent with the prior year. The inputs into the Barrier model were as follows:

	2011	2010
Weighted average share price (pence)	89.5	112.7
Weighted average exercise price (pence)	41.9	112.3
Weighted average target price before eligibility to exercise (barrier) (pence)	45.8	157.2
Expected volatility	40%	40%
Expected life (years)	3	3
Risk free rate	4.0%	4.0%
Expected dividends	–	–

The volatility of Afren shares was again reviewed following a further 12 months of share price data. The volatility was measured utilising several formulae, including an Exponentially Weighted Moving Average model and a GARCH (Generalised Autoregressive Conditional Heteroscedasticity) model, and over several time periods. These gave a range of estimates for the share price volatility which is in line with the prior year. Therefore the volatility assumption was reduced, but will remain under review going forwards.

31. SHARE-BASED PAYMENTS continued

The Company and Group recognised total expenses related to equity settled share-based payment transactions in the form of options in 2011 of US$3,663,000 and US$5,660,000 respectively, of which US$5,633,000 related to employees, including Executive Directors, of the Group (2010: US$3,681,000 and US$5,119,000 respectively, of which US$5,040,000 related to employees, including Executive Directors, of the Group).

Long Term Incentive Plan

Equity-settled share award scheme

An alternative share plan was introduced during 2007 (with first grants made in June 2008) to give awards to Directors and staff subject to outperforming a comparator group of similarly focused oil and gas exploration and production companies in terms of shareholder return over a three-year period. The Afren Performance Share Plan awards a number of shares to Directors and staff based on a multiple of salary. However, these shares only vest after a three-year period and the full award is made only if Afren has performed in the top quartile when compared against a selected peer group of upstream oil and gas companies: Borders & Southern Petroleum plc, Bowleven, Cairn Energy, Desire Petroleum, Enquest, Falkland Oil & Gas, Gulf Keystone Petroleum, Gulfsands Petroleum, Hardy Oil & Gas, Heritage Oil, Ithaca Energy, JKX Oil & Gas, Melrose Resources, Petroceltic International, Premier Oil, Rockhopper Exploration, Salamander Energy, Serica Energy, Soco International, Sterling Energy, Tullow Oil and Valiant Petroleum. If Afren does not achieve at least median performance in the peer group, no shares will be awarded. At the median level, 30% of the shares will vest and there is a sliding scale between median and top quartile performance where only a percentage of the total award will vest.

Awards are forfeited if the employee leaves the Group before the awards vest, except under certain circumstances, e.g. redundancies, where the number of awards vesting will be prorated according to the length of time the employee has been employed during the three-year vesting period.

Details of the share awards outstanding are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of period	21,310,821	0.01	16,766,515	0.01
Granted during the period	7,887,532	0.01	4,895,609	0.01
Exercised in period	(1,327,604)	0.01	(6,677)	0.01
Forfeited during the period	(4,116,648)	0.01	(344,626)	0.01
Outstanding at end of period	**23,754,101**	**0.01**	**21,310,821**	**0.01**
Exercisable at end of period	–	0.01	62,081	0.01

The awards outstanding at the end of 31 December 2011 have a weighted average remaining contractual life of 2.3 years (2010: 2.3 years) and an exercise price of £0.01 (2010: £0.01).

The aggregate of the fair value of the options granted during the year ended 31 December 2011 was US$9.2 million (31 December 2010: US$5.2 million).

The fair values were calculated using a stochastic model. The inputs used for fair valuing awards granted during the two periods were as follows:

	2011	2010
Weighted average share price (pence)	158.6	129.0
Weighted average exercise price (pence)	1.0	1.0
Expected volatility	40%	40%
Expected life (years)	3	3
Risk free rate	–	–
Expected dividends	nil	nil

The volatility of Afren shares was again reviewed following a further 12 months of share price data. The volatility was measured utilising several formulae, including an Exponentially Weighted Moving Average model and a GARCH (Generalised Autoregressive Conditional Heteroscedasticity) model, and over several time periods. These gave a range of estimates for the share price volatility which is in line with the prior year. Therefore the volatility assumption was reduced, but will remain under review going forwards.

The Company and Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the year ended 31 December 2011 of US$4,465,000 and US$7,616,000 respectively (2010: US$2,604,000 and US$3,832,000 respectively).

Share Award Scheme

Equity-settled share award scheme

As part of the incentives to attract the Jefferies, Randall & Dewey technical team, a number of shares were awarded in 2008, subject to continuing employment in the most part, to the team. None of this team was eligible to an award under the Long Term Incentive Plan. The timing of the shares issued range from six months to three years over which the fair value was spread.

Details of the awards outstanding during the year are as follows:

	2011		2010	
	Number of share awards	**Weighted average exercise price £**	Number of share awards	Weighted average exercise price £
Outstanding at the beginning of the period	397,576	0.01	982,656	0.01
Granted during the period	–	0.01	–	
Exercised in the period	(397,576)	0.01	(585,080)	0.01
Lapsed in the period	–	0.01		0.01
Outstanding at the end of the period	**–**	**0.01**	**397,576**	**0.01**
Exercisable at the end of the period	–	0.01	–	0.01

The weighted average share price of awards exercised in the year to 31 December 2011 was £1.53.

The weighted average remaining contractual life of the options outstanding at 31 December 2011 was nil (2010: 0.4 years).

All awards have an exercise price of £0.01.

No awards were made in 2011 or 2010.

As the exercise price for these awards is nominal and there are no market-based vesting criteria, the awards granted were valued using the share prices on dates of grant which was 137p on a weighted average basis. The Company and Group recognised total expenses related to equity-settled share-based payment transactions in relation to the above awards in the year ended 31 December 2011 of US$89,000 and US$103,000 respectively (2010: US$351,000 and US$408,000 respectively).

Other equity-settled share consideration (other warrants)

From time to time, the Company will give consideration for services or assets in the form of warrants.

Details of the warrants outstanding during the year are as follows:

	2011		2010	
	Number of warrants	**Weighted average exercise price £**	Number of warrants	Weighted average exercise price £
Outstanding at beginning of year	2,545,000	0.70	2,545,000	0.70
Granted during the year	–	–	–	1.00
Exercised during the year	(1,725,000)	0.70	–	–
Outstanding at end of year	**820,000**	**0.70**	**2,545,000**	**0.70**
Exercisable at end of year	820,000	0.70	2,545,000	0.70

The weighted average remaining contractual life of the options outstanding at 31 December 2011 was 3.0 years (2010: 1.6 years).

No warrants were granted in 2011 or 2010.

The Company and Group recognised total costs of US$45,000 (2010: US$140,000) related to equity-settled share-based transactions in the form of warrants in 2011.

32. ACQUISITION OF SUBSIDIARIES

On 7 October 2010, the Company completed the acquisition of Black Marlin Energy Holdings Limited (Black Marlin) having received all necessary approvals. The acquisition comprised exploration acreage covering 12 assets in Kenya, Madagascar, Ethiopia and Seychelles. Afren issued 76,776,096 ordinary shares to holders of Black Marlin shares in return for 100% of the issued share capital. Afren's closing share price on completion was 114.5p. In addition, 1 million outstanding options to acquire Black Marlin shares were converted to acquire Afren shares on substantially equivalent terms and conditions.

The book values of identifiable assets and liabilities acquired and their fair value to the Group was as follows:

	Book value US$000's	Fair value adjustments US$000's	Fair value to the Group US$000's
Intangible oil and gas assets	16,428	170,512	186,940
Marine and land seismic equipment and operational vehicles	5,287	(2,475)	2,812
Other property, plant and equipment	407	(213)	194
Trade and other receivables	7,229	(288)	6,941
Cash and cash equivalents	2,395	(106)	2,289
Trade and other payables	(7,527)	(11,521)	(19,048)
Deferred tax liability	–	(39,817)	(39,817)
	24,219	116,092	140,311

Total consideration	**140,311**

Total consideration	140,311
Cash and cash equivalents acquired	2,289
Less non-cash consideration*	(140,311)
Cash inflow on acquisition	**2,289**

* Non-cash consideration relates to shares and options issued as described above.

The acquired business recorded a loss after taxation of US$30.8 million in the year ended 31 December 2010 of which US$29.4 million was made during the period from the beginning of the year to the acquisition date and a US$1.4 million loss was recorded after acquisition, which included US$0.6 million attributable to discontinued operations. The revenue for the year ended 31 December 2010 was US$7.1 million of which US$6.6 million arose from the discontinued operations.

Acquisition related costs amounting to US$3.9 million were recognised as an expense in the prior year and were included in administrative expenses in the consolidated income statement.

If the acquisition had completed on 1 January 2010, the total Group revenues for 2010 would have been US$324.7 million of which US$319.5 million is from continuing activities. The total Group profit for 2010 would have been US$14.9 million and that from continuing activities US$28.6 million. This proforma information is for illustrative purposes only and is not necessarily an indication of the revenues and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

33. OTHER RESERVES

	Translation reserve US$000's	Loan notes US$000's	Share-based payment reserve US$000's	Other movements US$000's	Total US$000's
Group					
At 1 January 2010	(831)	4,668	13,435	–	17,272
Share-based payments for services	–	–	9,359	–	9,359
Other share-based payments	–	–	313	–	313
Transfer to accumulated losses	–	(2,474)	(2,206)	–	(4,680)
Other movements	–	–	–	500	500
At 31 December 2010	**(831)**	**2,194**	**20,901**	**500**	**22,764**
Share-based payments for services	–	–	13,404	–	13,404
Other share-based payments	–	–	45	–	45
Transfer to accumulated losses	–	(2,194)	(7,134)	–	(9,328)
Other movements	–	–	–	(500)	(500)
At 31 December 2011	**(831)**	**–**	**27,216**	**–**	**26,385**

	Translation reserve US$000's	Loan notes US$000's	Share-based payment reserve US$000's	Other movements US$000's	Total US$000's
Company					
At 1 January 2010	1,603	4,668	13,435	–	19,706
Share-based payments for services	–	–	9,359	–	9,359
Other share-based payments	–	–	313	–	313
Transfer to accumulated losses	–	(2,474)	(2,206)	–	(4,680)
Other movements	–	–	–	500	500
At 31 December 2010	**1,603**	**2,194**	**20,901**	**500**	**25,198**
Share-based payments for services	–	–	13,404	–	13,404
Other share-based payments	–	–	45	–	45
Transfer to retained earnings	–	(2,194)	(7,134)	–	(9,328)
Other movements	–	–	–	(500)	(500)
At 31 December 2011	**1,603**	**–**	**27,216**	**–**	**28,819**

Translation reserve arose on change of functional currency of the Company and certain subsidiaries to US dollar in prior years.

Loan notes reserve represented the equity component of the proceeds following the issue of Sojitz loan notes in 2008.

Share-based payment reserve represents the fair value of the options, share awards, warrants and LTIP granted under the Company's share-based schemes.

Other movements represents reserve for shares to be issued in respect of contractual arrangements on acquisition of certail oil and gas exploration licences which were carried in 2011.

34. POST BALANCE SHEET EVENTS

On 1 March 2012 Afren announced its offering of US$300 million of its 10.25% senior secured notes due 2019. Part of the proceeds of the offer are to be used to repay and cancel the borrowing facility in respect of acquisitions in the Kurdistan Region of Iraq which had a carrying amount of US$95.9 million as at 31 December 2011.

35. RELATED PARTY TRANSACTIONS

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Amounts owed by and to such subsidiaries are disclosed in notes 17 and 19 respectively. Transactions between the Company and it subsidiaries were as follows:

2011	Subsidiaries US$000's	Joint ventures US$000's
Net loan advances	375,448	940
Investments	304,838	–

2010	Subsidiaries US$000's	Joint Ventures US$000's
Net loan advances	227,971	(1,932)
Investments	148,110	–

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors, transactions with Directors and Directors' interests is provided in the audited part of the Directors' Remuneration Report.

	2011 US$000's	2010 US$000's
Short-term employee benefits	5,363	4,835
Other long-term benefits	180	165
First oil bonus	3,101	–
Share-based payment	3,803	3,331
	12,447	8,331

Trading transactions

	Sale of goods/services		Purchase of goods/services		Amounts owed to related parties	
	Year ended 2011 US$000's	Year ended 2010 US$000's	Year ended 2011 US$000's	Year ended 2010 US$000's	Year ended 2011 US$000's	Year ended 2010 US$000's
St. John Advisors Ltd	–	–	288	479	28	–
STJ Advisors LLP	–	–	1,150	–	–	–
First Hydrocarbon Nigeria Ltd	6,250	–	–	–	(6,326)	–

St John Advisors Ltd and STJ Advisors LLP are the contractor companies for the consulting services of John St. John, a Non-Executive Director of Afren, for which they receive fees, including contingent completion and success fees, from the Company. Both St John Advisors and STJ Advisors LLP also receive monthly retainers of £15,000 and £30,000 under contracts which started from 27 June 2008 and 15 December 2011 respectively. The contracts have a twelve month period which automatically continues unless terminated by either party.

In addition, a separate contract was entered into with STJ Advisors LLP in 2010 for consulting services provided in relation to the issue of the senior secured loan notes which completed on 27 January 2011.

First Hydrocarbon Nigeria Limited (FHN) became an associate of Afren plc during 2010. FHN has an outstanding payable to Afren of US$6.3 million at 31 December 2011 (2010: US$nil). Further information on Afren's investment in FHN is disclosed in note 14.

Licences (not audited)

Country	Date acquired	WI (%)	Operator	Partner	Work programme
Nigeria					
Ebok[7]	Q1 2008	100%/50%[2]	Afren	Oriental	💧 A
Okoro[7]	Q2 2006	95%/50%[2]	Afren	Amni	💧 A
Okwok[7]	Q3 2009	70%/56%[2]	Afren	Oriental	A
OML 115[7]	Q1 2010	100%/40%[2]	Afren	Oriental	E
OML 26	Q3 2010	45%[4]	Afren	FHN	💧 A
OPL 310	Q4 2008	91%/70%[2]	Afren	Optimum	E
OPL 907	Q1 2008	51.25%/41%[2,3]	AGER[6]	GEC	E
OPL 917	Q1 2008	70%/42%[2,3]	AGER[6]	GEC	E
Ofa	Q2 2007	32.5%	Afren	IEL	A
Kurdistan Region of Iraq					
Barda Rash	Q3 2011	60%	Afren	KRG, Komet	A
Ain Sifni	Q3 2011	20%	Hunt Oil Middle East	Hunt Oil Middle East	E
Côte d'ivoire					
Block CI-11	Q3 2008	47.96%	Afren	PETROCI	💧
Block CI-01	Q3 2008	65%[1]	Afren	PETROCI	A E
Lion Gas Plant	Q3 2008	100%	Afren	PETROCI	💧
Ghana					
Keta Block	Q4 2007	35%	Eni	GNPC	E
Nigeria & São Tomé & Principe JDZ					
Block 1	Q1 2005	4.41%[5]	Total	Total	E
Congo (Brazzaville)					
La Noumbi	Q2 2006	14%	Maurel et Prom	Eni	E
Ethiopia					
Blocks 7 & 8	Q3 2010	30%	Africa Oil	Africa Oil	E
Kenya					
Block 10A	Q3 2010	20%	Tullow Oil	Africa Oil	E
Block L17/L18	Q3 2010	100%	Afren	–	E
Block 1	Q3 2010	50%	Afren	Lion Petroleum	E
Seychelles					
Blocks A,B,C	Q3 2010	75%	Afren	Avana Petroleum	E
Madagascar					
Block 1101	Q3 2010	90%	Afren	Candax	E
Tanzania					
Tanga Block	Q1 2011	74%	Afren	Petrodel	E
South Africa					
Block 2B	Q1 2011	25%[8]	Thombo	Thombo	E

(1) Direct participating interest. Afren also holds rights over an additional 15% interest.
(2) Afren effective working interest pre/post cost recovery.
(3) Held through AGER in which Afren holds a 50% economic interest.
(4) Held through FHN in which Afren holds a 45% interest.
(5) Afren has a 49% interest in DEER which has a 9% working interest in JDZ Block 1.
(6) Afren Global Energy Resources.
(7) Note on the Okoro Setu project, Afren is the technical service provider to Amni, the named operator. On the Ebok project, Okwok and OML 115, Afren is the technical service provider to Oriental Energy Resources.
(8) Subject to customary approvals; working interest increases to 50% and operatorship transferred to Afren upon completion of seismic acquisition programme.

Key
💧 Production   E Exploration   A Appraisal/planned development

Oil and Gas Reserves (Not Audited)

at 31 December 2011

Working Interest basis before all royalties

	Nigeria			Côte d'Ivoire			Nigeria – São Tomé & Príncipe			Kurdistan region of Iraq			Total Group		
	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe
Group proved and probable reserves															
At 31 December 2010	77.5	–	77.5	0.4	11.2	2.3	–	–	–	–	–	–	77.9	11.2	79.8
Revisions of previous estimates	(2.4)	–	(2.4)	0.2	0.8	0.4	–	–	–	–	–	–	(2.2)	0.8	(2.0)
Discoveries and extensions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–	114.0	–	114.0	114.0	–	114.0
Divestments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Production	(6.2)	–	(6.2)	(0.1)	(2.5)	(0.6)	–	–	–	–	–	–	(6.3)	(2.5)	(6.8)
At 31 December 2011	68.9	–	68.9	0.5	9.5	2.1	–	–	–	114.0	–	114.0	183.4	9.5	185.0
Contingent resources															
At 31 December 2010	29.8	–	29.8	12.9	66.0	24.2	1.9	–	1.9	–	–	–	44.5	66.0	55.9
Revisions of previous estimates	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Discoveries and extensions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–	754.2	–	754.2	754.2	–	754.2
Divestments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2011	29.8	–	29.8	12.9	66.0	24.2	1.9	–	1.9	754.2	–	754.2	798.7	66.0	810.1
Total reserves and contingent resources															
At 31 December 2010	107.3	–	107.3	13.3	77.2	26.6	1.9	–	1.9	–	–	–	122.4	77.2	135.7
Revisions of previous estimates	(2.4)	–	(2.4)	0.2	0.8	0.4	–	–	–	–	–	–	(2.2)	0.8	(2.0)
Discoveries and extensions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–	868.2	–	868.2	868.2	–	868.2
Divestments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Production	(6.2)	–	(6.2)	(0.1)	(2.5)	(0.6)	–	–	–	–	–	–	(6.3)	(2.5)	(6.8)
At 31 December 2011	98.7	–	98.7	13.4	75.5	26.4	1.9	–	1.9	868.2	–	868.2	982.1	75.5	995.1

Notes:

- Reserves and resources above are stated on a working interest basis (i.e. for the Nigerian contracts our net effective ultimate working interest based on working interest to payback (95% to 100%) and WI post payback (50%)).
- Proved plus Probable (2P) reserves have been prepared in accordance with the definitions and guidelines set forth in the 2007 PRMS approved by the SPE.
- Contingent resources are those quantities of petroleum that are estimated to be potentially recoverable from known accumulations but for which the projects are not yet considered mature enough for commercial development due to one or more contingencies.
- NGL output and the wholly Afren owned Lion Gas Plant is not included in 2011 production.
- Quantities of oil equivalent are calculated using a gas-to-oil conversion factor of 5,800 scf of gas per barrel of oil equivalent.
- The oil price used by NSAI and RPS Energy for their independent reserve and resource assessments at 31/12/11 was US$100/bbl flat.
- The Group provides for depletion and amortisation of tangible fixed assets on a net entitlement basis, which reflects the terms of the licenses and agreements relating to each field.

Glossary of Terms

AGM
Annual General Meeting

appraisal well
A well drilled to follow up a discovery and evaluate its commercial potential

bbls
barrels of oil

bcf
billion cubic feet of gas

boe
barrels of oil equivalent

boepd
barrels of oil equivalent per day

bopd
barrels of oil per day

capital employed
equity plus interest-bearing debt

CR
Corporate Responsibility

deg API
a measure of how heavy or light a petroleum liquid is compared with water

dwt
dead weight tonnage

E&P
Exploration and Production

EHSS
environment, health, safety and security

farm-in
to acquire an interest in a licence from another party

farm-out
to assign an interest in a licence to another party

FPSO
Floating Production Storage and Offloading vessel

ft
feet

GOR
Gas Oil Ratio

H1
first half

H2
second half

Hydrocarbons
compounds containing only the elements hydrogen and carbon; they may exist as solids, liquids or gases

JDZ
Joint Development Zone

joint venture or JV
a group of companies who share the cost and rewards of exploring for and producing oil or gas from a permit or licence

JSE
Johannesburg Stock Exchange

km^2
square kilometres

licence or permit
area of specified size, which is licensed to a company by the government for production of oil and gas

LSE
London Stock Exchange

Major
Major international oil company

m
metres

mmbbl, mmbbls
million barrels

mmboe
millions of barrels of oil equivalent

mmcfd
million cubic feet of gas per day

MOPP
Mobile Offshore Production Platform

MOU
Memorandum of Understanding

OML
Oil Mining Licence

operator
a company which organises the exploration and production programmes in a permit or licence on behalf of all the interest holders in the permit or licence

OPL
Oil Prospecting Licence

Q1
first quarter

Q2
second quarter

Q3
third quarter

Q4
fourth quarter

spud
to commence drilling a well

STOIIP
Stock Tank Oil Initially In Place

tcf
trillion cubic feet of gas

working interest (WI)
Afren's share of the field based on Afren's equity share of the field including pre-payback and post-payback equity percentages and before deduction of all royalties

1P
proven

2P
proven and probable

3P
proven, probable and possible

3D
three-dimensional

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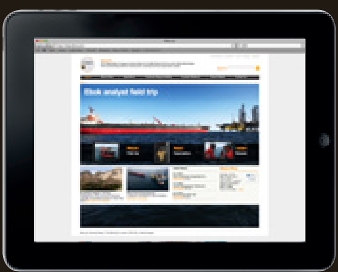

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