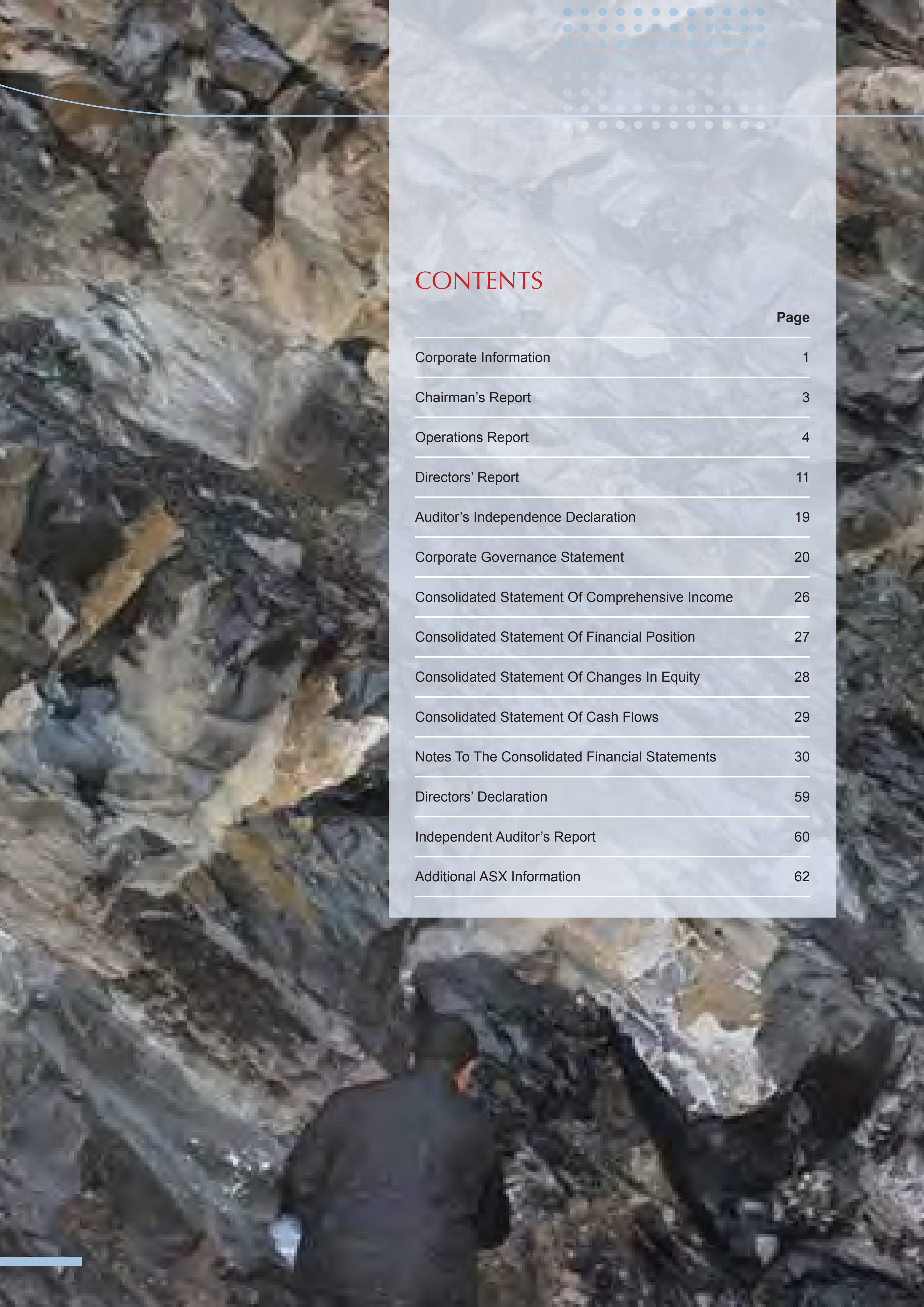
tangiers petroleum limited

ABN 80 072 964 179

ANNUAL REPORT
31 DECEMBER 2012



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CORPORATE INFORMATION

DIRECTORS

Ms Eve Howell (Executive Chairman)

Mr Brent Villemarette (Executive Director)

Mr Max de Vietri (Non-Executive Director)

JOINT COMPANY SECRETARIES

Mr Robert Dalton

Ms Krystel Kirou

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ASX CODES

Shares	TPT
Options	TPTOA

LONDON STOCK EXCHANGE - AIM

Shares	TPET

FRANKFURT STOCK EXCHANGE

Shares	POQ

COUNTRY OF INCORPORATION AND DOMICILE

Australia

▲ *Jack-Up Rig*

Seismic Survey Acquistion ▼

Dear Shareholder,

I am pleased to present Tangiers Petroleum Limited's Annual Report for 2012 and provide an overview of the significant achievements made by your company over the past 12 months.

Following the acquisition of a 677 sq km 3D offshore seismic program in Morocco and interest shown by the European investment community, a London AIM listing was completed on 3 February 2012. By August 2012, however, your company had less than $1 million in cash reserves and over $70 million in imminent financial obligations on its combined acreage in Morocco and Australia.

In September 2012, with a new board appointed, significant efforts were put to the immediate raising of capital crucial for the continued existence of your company and to the negotiation of farmout arrangements to cover permit obligations in Morocco and Australia.

On the closure of farmout deals on both the Moroccan and Australian acreage, your company will have cash of some $14 million as well as being fully funded for all its exploration commitments up to end 2014. In addition, your company will have retained valuable exposure of 25% and 27% in these assets respectively.

The Moroccan farmout, which now only requires the approval of the Moroccan government, brings in a valuable partner in Galp Energia, a major Portuguese E&P company with a market capitalisation of some A$12 billion and operations in eight African countries. Galp is a fully integrated company with interests in exploration, development, production, refining and marketing. It is the principal service-station retailer in Portugal and Spain as well as being a member of a significant deepwater-producing consortium in Brazil.

The full-carry to a maximum of $33 million on well cost negotiated with Galp on the Tarfaya Block in Morocco, is comparable to deals achieved in surrounding acreage. It is important to note that well cost will be relatively low on our Tarfaya Block, which covers an area of predominantly shallow-water shelf. Contrary to our neighbours, we will be able to utilise a jack-up rig or small semi-submersible, typically around half the cost of a large semi-submersible or a drillship required for the deeper-water permits which surround us. In addition, the full repayment of past costs far exceeds the past cost repayments achieved in other deals for blocks in this region of offshore Morocco.

On completion of the Galp farmout, Tangiers Petroleum Limited will retain a 25% interest in the Tarfaya Block in addition to a cash reimbursement totalling $10.5 million comprising of a refund of past costs and bank guarantee.

In Australia, a Heads of Agreement was signed in November 2012 with CWH Resources Limited and a legally-binding farmout agreement is close to signature. CWH will fund the first $35 million of exploration expenditure on our Bonaparte Basin blocks, consisting of the WA-442-P and NT/P81 permits. These funds will cover commitments for a 3D seismic survey and 2 wells.

CWH is an ASX-listed company with headquarters in Chongqing, in south-west China. CWH has several sources of funding through its major shareholders, covering a variety of activities and has formally advised that it has significant and continuing financial support from its Chinese shareholders.

On completion of the CWH farmout, Tangiers Petroleum Limited will retain a 27% interest in the Bonaparte Basin blocks.

With the completion of the company's 'crisis turn-around' and appointment of a new management team, your company is now ideally placed to pursue the next leg of its growth strategy.

This desired growth in the assets of your company will be strongly grounded on the relevant professional and hands-on experience of its board and management team, targeting shallow-water and onshore petroleum assets in Africa for the immediate future.

The board has expressed a preference for oil E&P opportunities but pricing and infrastructure are parameters that will be considered for an involvement in an appropriate conventional gas opportunity that could bring value to your company. Unconventional gas will not be considered for the foreseeable future. Opportunities in new permit acquisitions, farm-in agreements, mergers and corporate acquisitions will be considered recognising your company's financial capabilities and its logistical limitations.

Above all, in capitalising on the opportunities in our chosen region of growth, the board will be keeping foremost in mind the benefit to the existing shareholders of Tangiers.

I wish to thank the present and past management, staff and contractors of Tangiers Petroleum Limited for their considerable efforts throughout the last 6 months.

Lastly, I wish to thank our faithful shareholders for their ongoing support and our new shareholders for the faith in the board and management of Tangiers Petroleum Limited.

The efforts of the new board and management of your company is, and will be, fully focused on the future growth in value of your company.

Eve Howell
Executive Chairman
Tangiers Petroleum Limited
22 March 2013

PROJECTS

Morocco Tarfaya Offshore Block, Australia WA-442-P & NT/P81, and NT/P83

OVERVIEW

The key operational activities for the year included:

Morocco

- Completion of the processing of the 3D seismic data over the Trident, Assaka and TMA prospects in the Tarfaya Block, offshore Morocco;
- The three prospects have been independently assessed by Netherland, Sewell and Associates (NSAI) and ISIS Petroleum Consultants (ISIS) to have combined best estimate unrisked Prospective Resources of 758 million barrels of oil;

Australia

- ISIS prepared a Competent Persons Report (CPR) on the 14 identified leads within the Milligans Fan oil play which provides combined estimate of gross unrisked mean Prospective Resources of 218 million barrels of oil;
- Additionally, a CPR prepared by ISIS for the Nova deep gas prospect provides an estimate of gross unrisked mean Prospective Resources of 3.46 trillion cubic feet of gas; and
- Commencement of planning for a 3D seismic survey in the Australian permits, WA-442-P and NT/P81.

Figure 1: Activity areas

Tarfaya Offshore Block - Kingdom of Morocco

75%

and Operator

The Tarfaya Block, offshore Morocco, comprises 8 contiguous permits covering an area of 11,281 sq km (approximately 2.8 million acres). The Tarfaya Offshore Block is situated approximately 600 km southwest of Morocco's capital, Rabat, inshore from the Canary Islands on Morocco's Atlantic Margin. The Block contains multiple prospects and leads within Jurassic sediments as well as emerging potential within the Tertiary, Cretaceous and Triassic Formations.

An active working petroleum system is identified within and adjacent to the Tarfaya Block in Jurassic carbonates which is evidenced by numerous oil shows and proven by the Cap Juby Field discovered in the 1960s. Oil seeps and gas chimneys are identified offshore and on seismic data; in addition an oil shale mine is located adjacent to the Tarfaya Block onshore. The Jurassic carbonate fairway and indeed the Moroccan Atlantic Margin are rapidly gaining recognition for the potential to host world-class oil discoveries with farm-in activity peaking in the latter half of 2012.

Tangiers Petroleum struck a farm-in agreement with Galp Energia, a Portuguese major, in December 2012. Tangiers will retain a 25 per cent interest in the Tarfaya Offshore Block, details of the deal are elaborated on below.

Heightened interest in 2012 resulted in several petroleum companies acquiring interests in the region, including multi-national Chevron who negotiated with the Moroccan government for the Cap Rhir Block to the North of Tarfaya, but of note and of signifance to Tangiers acreage the London Stock exchange-listed, Cairn Energy and Genel Energy acquired acreage surrounding the Tarfaya Offshore Blocks (Fig. 2) with a focus on the Jurassic carbonate play.

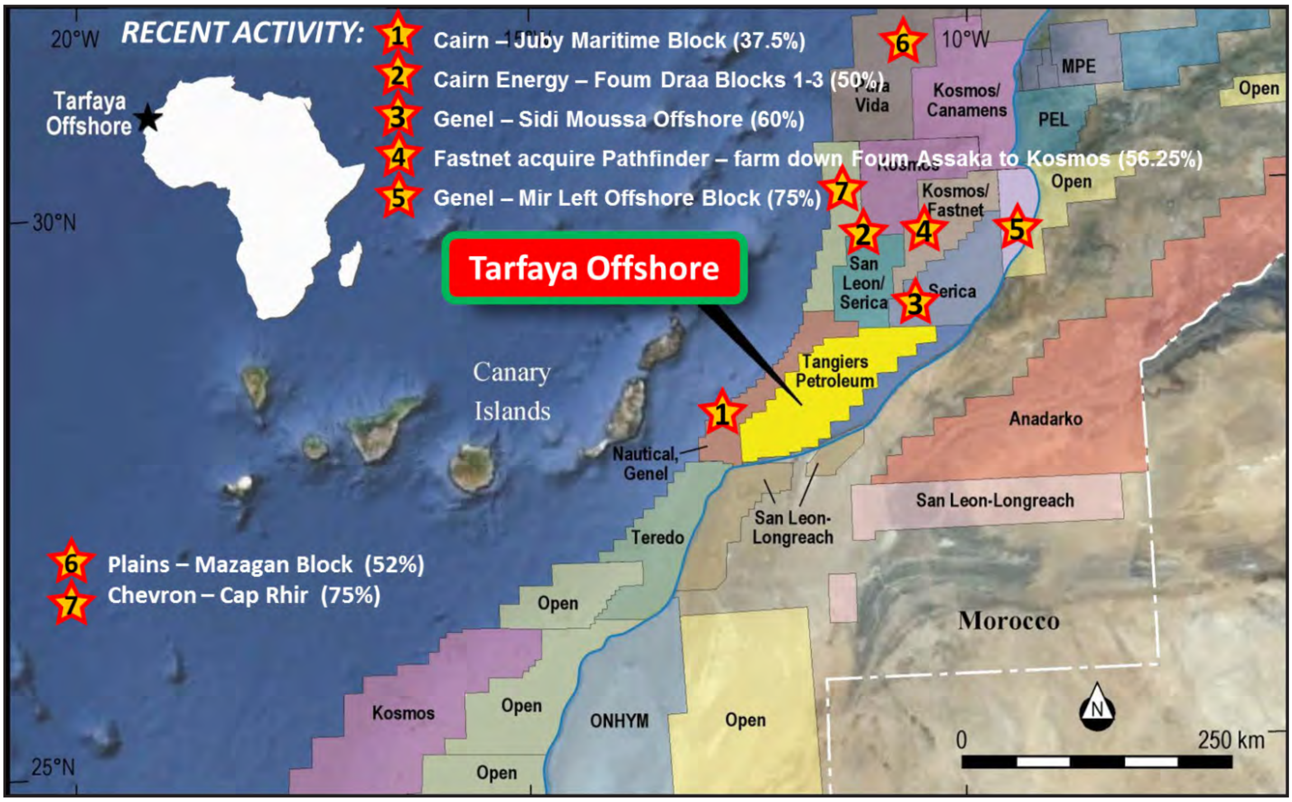


Figure 2. Recent Acquisition Activity in the Tarfaya Region


Analogue Jurassic Carbonate reefs north of Agadir.

These two companies are partners in the Cap Juby oil discovery situated to the west of the Tarfaya Block. They estimate that Cap Juby has the potential to recover 250 million barrels of oil. Genel has stated that a combination appraisal/exploration well is planned for 2014 as part of the plan to commercialise Cap Juby's potential.

Based on published work programs for the respective and combined acreage up to four exploration wells are anticipated to target the Jurassic carbonate fairway in this area over the next 12 to 18 months which highlights the perceived potential and the upside for Jurassic Prospects in the Tarfaya Block.

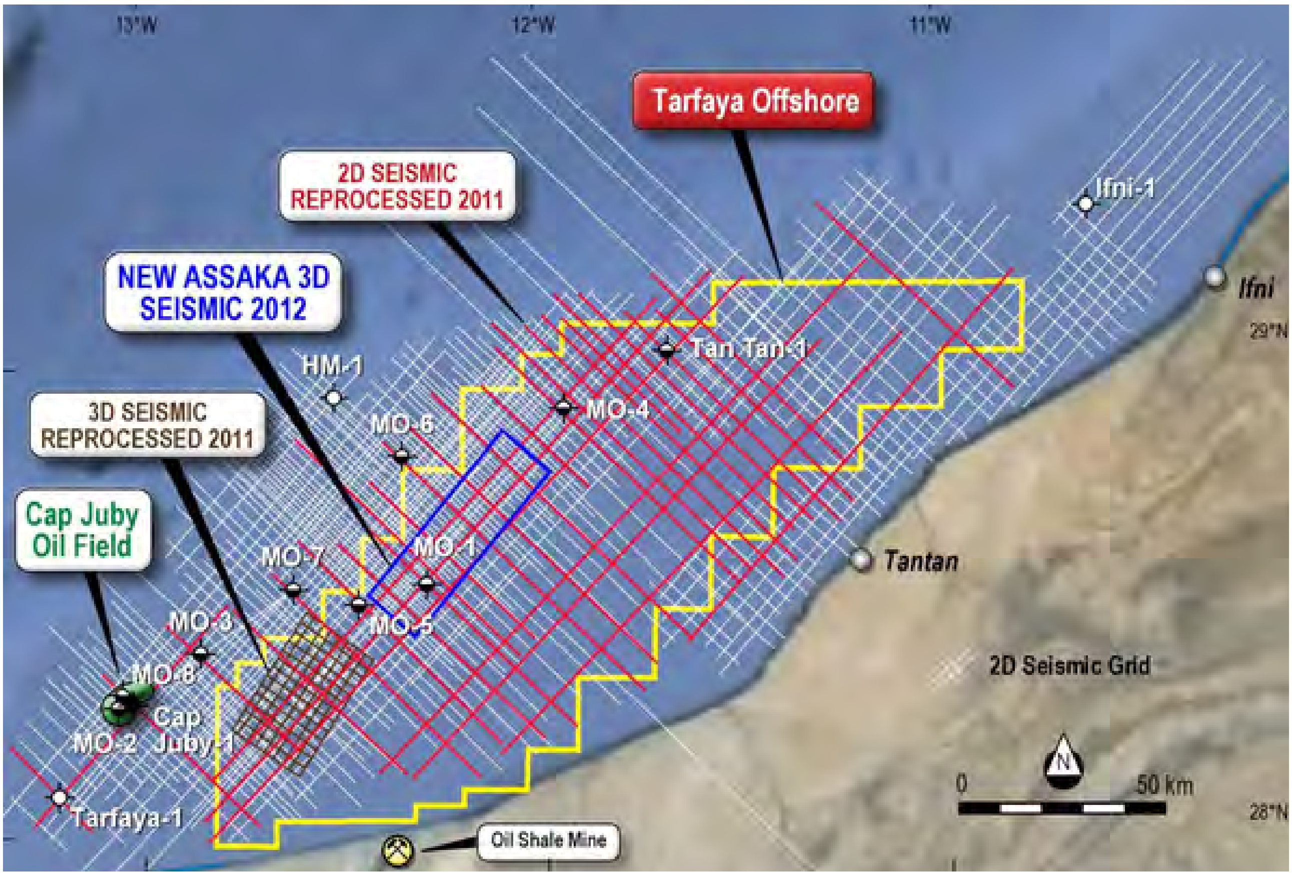


Figure 3: Map Showing the New Assaka 3D Seismic Acquisition, Reprocessed La Dam 3D plus vintage Seismic Data

Processing of the 677 sq km Assaka 3D seismic survey (Fig.3) by CGG Veritas has been completed. The new 3D data is of much better quality than the earlier 2D data and reveals the horizons and structures within the Jurassic section to a much greater extent. Deeper horizons are much better imaged and continuous, greatly assisting the mapping and also verifying the structural configuration of the prospects that were mapped on the 2D data. In addition, the overlying Cretaceous and Tertiary horizons are much clearer on the 3D data set and faults are better defined.

The Assaka 3D survey covers three of the Tarfaya Block's primary prospects in the Jurassic: Trident, TMA, and Assaka, which have been independently assessed by NSAI and ISIS to have combined best estimate gross unrisked original oil-in-place of 3,789 million barrels with corresponding best estimate Prospective Resources of 758 million barrels of oil (Table 1).

Prospects – Gross (100%) Oil Volumes (MMBBL)						
	Undiscovered OOIP (MMBBL)			Unrisked Prospective Oil Resources (MMBBL)		
Prospect	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Trident	853	2,115	5,273	85	423	2,109
TMA	289	956	3,262	29	191	1,305
Assaka	258	718	1,990	26	144	796
La Dam: Lwr – Upr J	164	546	1,874	17	109	749
Arithmetic Total	**1564**	**4,335**	**12,399**	**156**	**867**	**4,959**

Table 1: Tarfaya Block Prospects – Oil in Place and Prospective Resources (MMBBL)

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

A comparison of the new 3D data to older 2D seismic lines in the vicinity of the Trident prospect clearly highlights the superior definition and continuity of the seismic horizon (Bathonian-5) that defines the Trident structure. (Fig. 4). With the better definition of the Trident structure provided by the 3D dataset, Tangiers have re-evaluated the geological chance of success for the well and upgraded it from the previously advised 14 per cent (as independently assessed by NSAI in 2011) to 23 per cent. The Trident prospect is considered to be a potential company-maker in its own right.

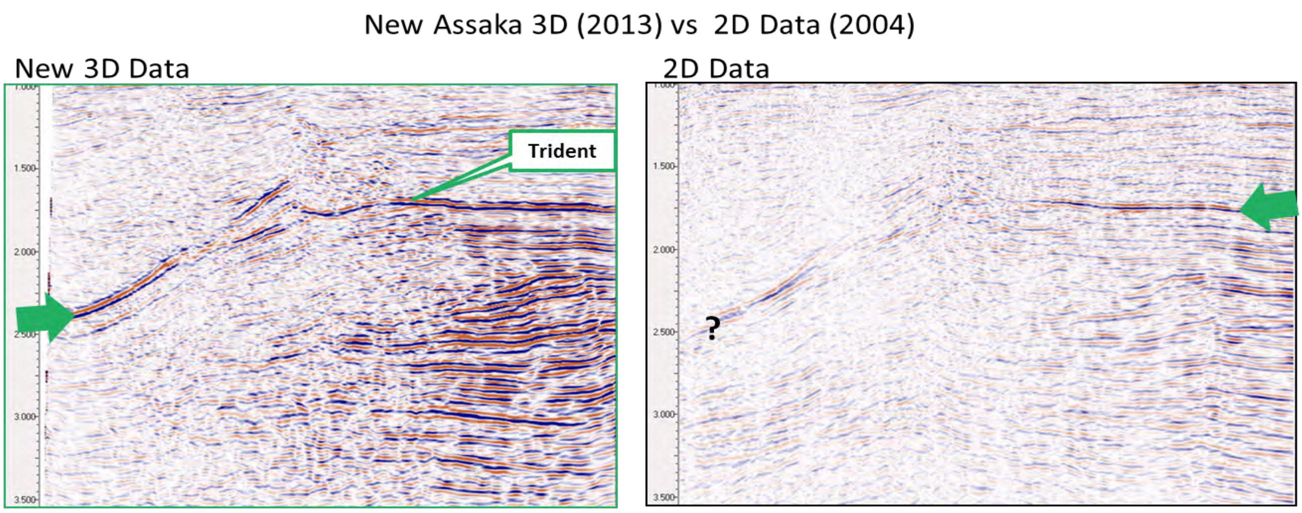


Fig.4 Comparison of new 3D data to previous 2D data

The Company also continues to focus exploration efforts towards maturing leads identified within the shallower Lower Cretaceous Sands, Upper Jurassic dolomite horizons, and rollover anticlines in Triassic grabens underlying the Jurassic section.

The four primary Jurassic prospects certified thus far by NSAI and ISIS within the Tarfaya Block have now all been covered with 3D seismic data. The La Dam prospect located to the south of the Trident, TMA and Assaka prospects contains best estimate gross unrisked original oil-in-place of 546 million barrels with corresponding best estimate Prospective Resources of 109 million barrels of oil. It is covered by a 580 sq km 3D seismic survey acquired in 2006 and reprocessed in 2011. Total best estimate gross undiscovered original oil-in-place for the four Jurassic prospects in the Tarfaya block is 4,335 million barrels with corresponding combined best estimate Prospective Resources of 867 million barrels of oil.

Tangiers has entered into a farm-out agreement with Galp Energia whereby Galp will earn a 50% interest in the Tarfaya Offshore Block by spending US$40.5 million, which includes a full carry on the exploration well of US$33 million and reimbursement of US$7.5 million for past costs. This essentially covers Tangiers financial obligations for the Tarfaya Offshore Block for the First Extension period (to August 2014).

The Company will retain 25% equity in the Tarfaya Offshore Block while Office National des Hydrocarbures et des Mines (ONHYM), the Moroccan state company, will maintain its 25% interest in the Tarfaya Offshore Block. As part of the agreement, Galp will assume operatorship and commence planning the first exploration well in the Tarfaya Offshore Block on the Trident Prospect.

The well will be designed to test the primary objective at Trident in an optimum location and also tag the two secondary objectives of Assaka and TMA.

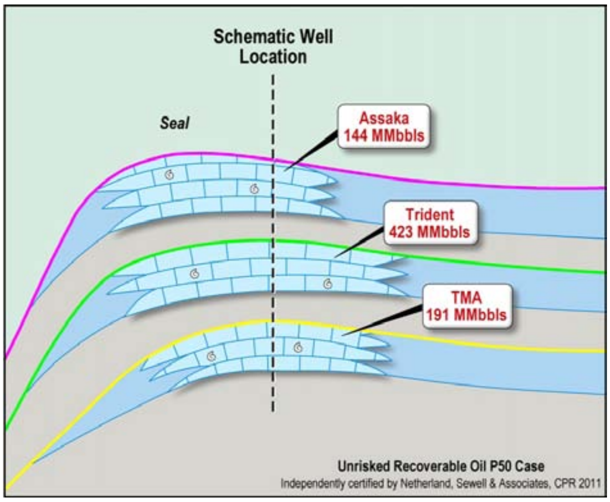


Fig.5. Schematic of Proposed Well

Location of Tarfaya Offshore Block

Argana Triassic Sandstone

Agadir formation – View across Tarfaya Offshore Block

WA-442-P & NT/P81 Bonaparte Basin Offshore Northern Australia

90%

and Operator

These two contiguous exploration permits encompass 3900 sq km and are located approximately 20 km offshore in the southern, shallow Federal waters off of the northern Western Australia and Northern Territory coasts, approximately 320 km southwest of Darwin (Figure 6). The permits are located in relatively shallow water with depths of less than 60 m and are covered with extensive 2D and modest 3D seismic data.

Situated southeast of the producing Blacktip gas field, these two permits offer multiple play types. There are structural, stratigraphic, and combination structural and stratigraphic oil plays in the Early Carboniferous Milligans Formation, a new deeper gas play concept within the Upper Paleozoic intervals plus the Carboniferous to Permian undeveloped Turtle and Barnett oil fields including the Messner and East Barnett oil leads in the same interval.

ISIS Petroleum Consultants has prepared a Competent Person's Report (CPR) for 14 leads identified in the Early-Mid Carboniferous Milligans Fan oil play. ISIS estimates the combined mean unrisked oil-in-place to be 683 million barrels. The combined estimate for gross unrisked mean Prospective Resources for the 14 leads is 218 million barrels of oil. The Milligans interval has produced oil and gas on drill stem tests of two well penetrations, Turtle-2 and Barnett-2, within the WA-442-P and NT/P81 Permit Areas. This serves to confirm the presence of an active petroleum system at this horizon.

The deeper gas play consists of two very large structures, Nova and Super Nova. These structures are believed to be located within Devonian aged sediments below the mapped Top Bonaparte horizon and underlie the Turtle and Barnett oil fields. An independent evaluation and CPR prepared by ISIS on the Nova prospect provides a gross mean unrisked gas-in-place estimate of 6.93 trillion cubic feet of gas. The corresponding estimate of gross mean unrisked Prospective Resources is 3.46 trillion cubic feet of gas.

The shallower undeveloped Turtle and Barnett oil fields were discovered in 1984 and 1985, respectively. Multiple oil bearing reservoirs have been encountered within the Carboniferous to Permian Keyling, Treachery, Kuriyippi, Tanmurra and Milligans formations.

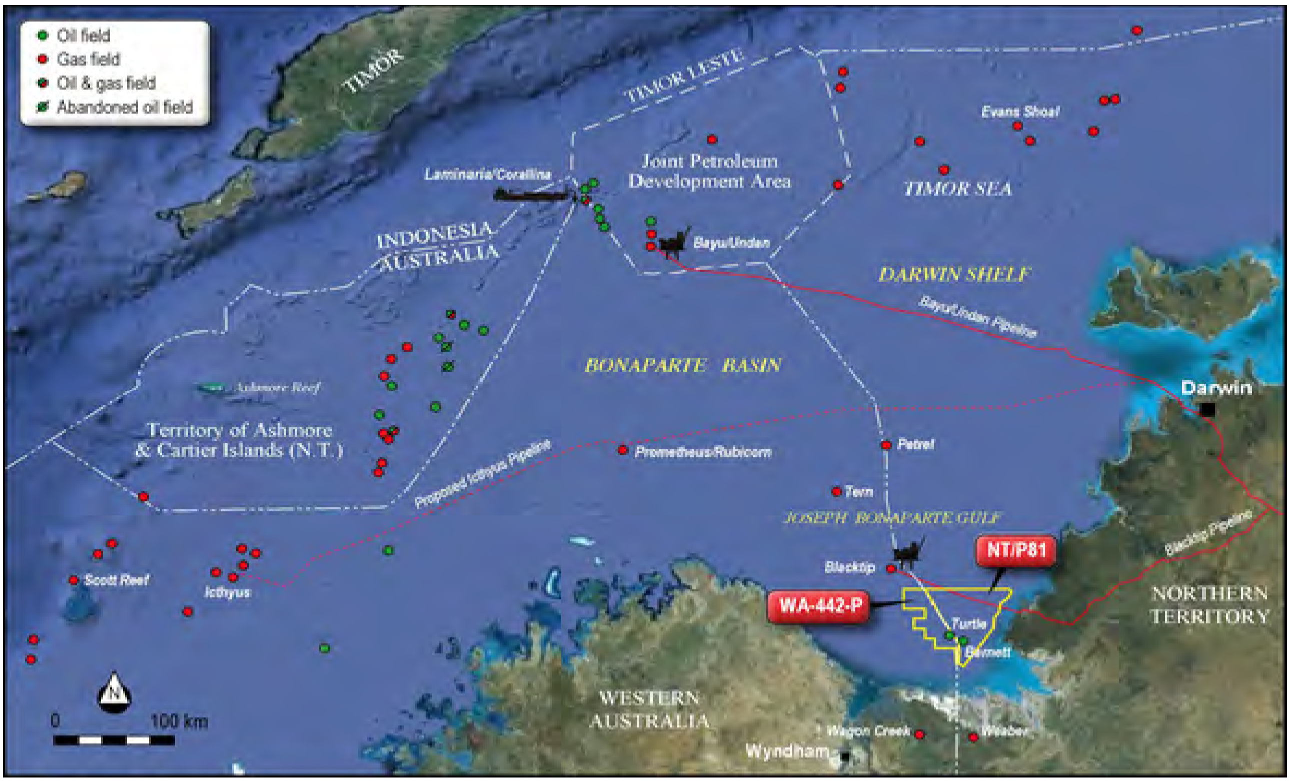


Fig.6 WA-442-P & NT/P81 Bonaparte Basin Offshore Northern Australia

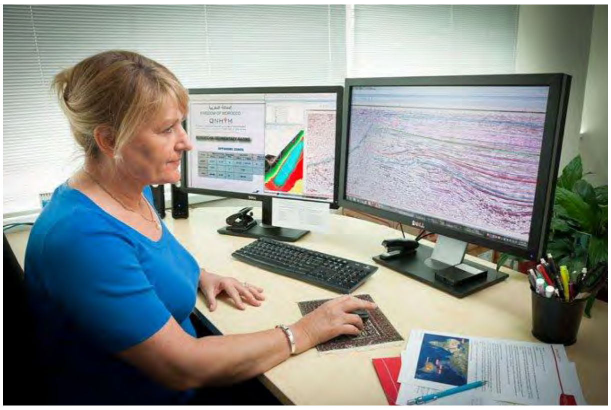
Three wells tested oil with the Barnett-2 well having flowed up to 921 barrels of oil per day on jet pump from the Early Permian Lower Treachery Sandstone. The crude oil was of excellent quality at 38.6° API gravity. Engineering and reservoir studies have been undertaken to assess suitable development concepts.

Tangiers has signed a non-binding heads of agreement (HOA) with CWH Resources for them to farm in to exploration permits WA-442-P and NT/P81 in the Bonaparte Basin. As part of the agreement, CWH will cover the first AUD $35 million in exploration costs in order to earn 70% equity in the permits and become the operator of the permits. Tangiers will retain 27% equity in WA-442-P and NT/P81 while Ansbachall, an existing joint venture partner in the permits, will maintain a 3% stake. The level of funding being put forth by CWH is expected to fulfil the remaining Firm Work Program Commitments of seismic acquisition and drilling for the two permits. The Joint Venture partners are planning to acquire a 3D seismic survey in the two permits and work has started on an environmental study in advance of the 3D seismic acquisition program.

NT/P83 Exploration Permit, Offshore Darwin, Arafura Sea

100%

and Operator



Tangiers acquired the NT/P83 exploration permit located some 120 km north of Darwin in the last bidding round for offshore acreage that closed on 12 April 2012. The permit was awarded in August 2012 and covers 15,540 sq km in water depths of less than 200 m. No wells have been drilled in the block although there have been shows of hydrocarbons in wells drilled to the east and west of the block. The large Evans Shoals and Abadi Gas Fields are located to the northwest of NT/P83. Evaluation by Tangiers Petroleum has shown that there are three main play types in the block. These are Palaeozoic subcrop and deep anticlinal closures, Jurassic reactivated tilted fault blocks and inversion structures and Cretaceous clastic stratigraphic plays in prograding shelf sands of the Puffin Formation and Darwin Radiolarite.

ATP 587 Cooper/Eromanga Basins, Onshore Queensland

100%

and Operator

Tangiers has withdrawn from ATP 587 and relinquished its interest in this onshore Cooper-Eromanga Basin exploration permit in Queensland. The block was a legacy asset which has received minimal exploration focus.

Your directors submit their report for the year ended 31 December 2012.

DIRECTORS AND KEY MANAGEMENT PERSONNEL

The names and details of the Company's directors and key management personnel in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Ms Eve Howell *(Executive Chairman, appointed 7 September 2012)*

Ms Howell is an experienced explorationist, executive and company director having worked over 40 years in the oil and gas industry. Ms Howell had previous senior roles with Woodside Energy Ltd and Apache Energy Ltd. With the former, she was Executive Vice President Northwest Shelf as well as CEO of the North West Shelf Project (Australia's largest resource project). She worked for 17 years for Apache Energy in senior roles in exploration and business development and as Managing Director. Ms Howell holds a B.Sc in Geology and Mathematics and an MBA. She is also a Non-executive Director of ASX listed Downer EDI Ltd and Mermaid Marine Australia Ltd.

Mr Brent Villemarette *(Executive Director)*

Mr Brent Villemarette is a petroleum engineer with more than 30 years experience in the oil and gas industry, both domestic and international. His experience spans a wide range of disciplines including exploration, development, operations, marketing, acquisitions and new ventures. He is presently Chief Operations Officer for Transerv Energy, which has assets in the onshore Perth Basin in Western Australia and in Alberta Canada. He has previously been Operations Director for Latent Petroleum, a private oil and gas exploration company co-founded with a small team of industry professionals engaged in commercialising the Warro tight gas field in the northern Perth Basin. He has also held the roles of International Reservoir Engineering Manager for New Ventures with Apache Corporation based in Houston, Texas, Reservoir Engineering Manager for Apache Energy Limited based in Perth, and several senior engineering positions in the US with Apache Corporation and Oryx Energy (formerly Sun E&P).

Mr Max de Vietri *(Non-Executive Director, appointed 7 September 2012)*

Mr de Vietri is a graduate geologist with 38 years of international experience. He has been instrumental in finding and championing the evaluation of significant hydrocarbon and mineral discoveries. He is an Officer of the National Order of Merit for the Islamic Republic of Mauritania, awarded in recognition of his inaugural efforts in starting the petroleum industry in Mauritania. Mr de Vietri is the Honorary Consul of the Republic of Mali in Perth awarded in recognition for his successful efforts in establishing the country as a petroleum province. Mr de Vietri has a Graduate Diploma in Business and is a Master in International Relations. He is currently completing a research doctorate in Political Science.

Ms Iva Stejskal ***(General Manager –Legal & Corporate, appointed 14 January 2013)***

Iva Stejskal has 10 years' experience as a lawyer and most recently worked for the Oyu Tolgoi copper and gold mine project in Mongolia. Prior to this, she worked as legal counsel for Roc Oil Company, based in Sydney. Her expertise includes resources, international and company law. Iva holds a law degree from Murdoch University, Western Australia. Iva also holds a PhD in marine biology from Queensland University and worked for Woodside and Apache Energy for 15 years in an environmental capacity.

Mr Robert Dalton ***(Chief Financial Officer, appointed 12 November 2012/ Joint Company Secretary, appointed 21 February 2013)***

Mr Dalton is a Chartered Accountant with over 12 years of experience in accounting and finance roles. He commenced his career at an international accounting firm and has since gained significant resources experience with Australian and International listed companies.

Mr Mark Ceglinski ***(Executive Chairman, resigned 7 September 2012)***

Mr Ceglinski is a corporate finance professional. He has held previous roles as Head of Corporate for a national Stockbroking Firm and was a Partner of International Accounting firms Arthur Andersen and Ernst & Young. He has sat on numerous boards and is currently a Director of Swings & Roundabouts Ltd. Previous Directorships include Chairman of Cougar Metals NL and Peak Coal Limited. He is a member of the Institute of Chartered Accountants, The Australian Institute of Company Directors, FINSIA and is a Master Stockbroker with the Stockbrokers Association.

Mr Graham Anderson ***(Non-Executive Director, resigned 7 September 2012)***

Mr Graham Anderson is a graduate of Curtin University and has over 25 years commercial experience as a Chartered Accountant. He operates his own specialist accounting and management consultancy practise, providing a range of corporate advisory and audit services to both public and private companies. From 1990 to 1999 he was an audit partner at Horwath Perth. He is currently a Non-Executive Director of APA Financial Services Ltd, Mako Energy Limited, Echo Resources Limited and Pegasus Metals Limited. Graham is Company Secretary of Iron Road Limited, Elemental Minerals Limited and a number of other ASX listed companies.

Mrs Margaret Hildick-Pytte ***(Director of Exploration, resigned 22 February 2013)***

Mrs Hildick-Pytte has a strong geological background, both commercially and academically, including roles as Senior Geologist for INPEX and Senior Geologist and Technology Coordinator for Chevron. Areas worked include USA, West Africa, India, China, Philippines, Venezuela, Columbia, Papua New Guinea, North Sea and the Barrow, Browse, Bonaparte and Perth basins in Australia. She is a founding member of the AAPG affiliated Society for Organic Petrology and holds a BSc and MSc in Geology. Margaret is currently undertaking an MSc in Petroleum Engineering at the University of New South Wales.

Mr Kelvin Tan ***(Manager-Corporate & Legal, appointed 13 December 2011/ Joint Company Secretary, appointed 23 August 2012, resigned 15 February 2013)***

Mr Tan is a barrister and solicitor of the Supreme Court of Western Australia and holds a current practicing certificate. He began his career with a national law firm where he was appointed a senior associate and gained significant experience in fields of resources and construction and large project dispute resolution. Over the past 14 years he has held various positions as legal and general counsel and has acted as company secretary with ASX listed and un-listed resource companies. He was previously a non-executive director of Peak Coal Ltd.

INTEREST IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Eve Howell	-	4,333,333
Brent Villemarette	-	4,771,222
Max de Vietri	-	2,166,667

JOINT COMPANY SECRETARIES

Ms Krystel Kirou

Mr Graham Anderson (resigned 23 August 2012)

Mr Kelvin Tan (appointed 23 August 2012, resigned 15 February 2013)

Mr Robert Dalton (appointed 21 February 2013)

DIVIDENDS

No dividends were paid or recommended during the year.

PRINCIPAL ACTIVITIES

The principal activity during the year of the Company was oil and gas exploration and the continued review of opportunities available to the Company.

OPERATING AND FINANCIAL REVIEW

The loss for the year was $4,771,796 (restated 2011: $5,281,713).

The Group has not yet reached a stage in its development where it is generating an operating profit. All the Group's efforts go into exploration.

At the end of the financial year, the Group had cash on hand of $4,174,910 (2011: $1,452,910). During the year, the Group paid $7,185,116 (2011: $2,253,407) of exploration expenditure. Total equity was $16,186,451 (restated 2011: $4,942,910), an increase of $11,243,541. The movement was as a result of the loss for the year and a further $15,343,055 raised through share issues. More information on the operating results, financial position and cash flow movements are included in the Financial Statements included in this Annual Report

During the year, the Group has continued its principal activities in Morocco and Australia. A full review of operations is set out in the Operations Report section of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 3 December 2012, the Company announced that it had entered into a farm out agreement with Galp Energia ("Galp"), for the assignment of a 50% interest in the Tarfaya Offshore Block. Galp will become the operator of the Tarfaya Offshore Block. The Company will hold a 25% interest, and the Office National des Hydrocarbures et des Mines ("ONHYM"), the Moroccan state company, will maintain its 25% interest in the Tarfaya Offshore Block. Under the terms of the agreement, Galp will expend US$40.5 million which will include up to US$7.5 million in back costs reimbursable to Tangiers and the cost of an exploration well, limited by a cap, to be drilled within the Tarfaya Offshore Block, in addition to the release of the US$3 million bank guarantee. This will fulfil the work program commitment for the First Extension Period for the Tarfaya Offshore Block. The transaction is subject to the required regulatory approvals, namely the approval of the Moroccan government and meeting all conditions precedent.

On 3 December 2012, the Company signed a non-binding Heads of Agreement ("HOA") with ASX-listed CWH Resources Limited ("CWH"). Under the terms of the HOA, CWH will fund $35 million in exploration activities to earn a 70% interest in blocks WA-442-P and NT/P81. The Company will maintain a 27% interest in the Joint Venture and Ansbachall will maintain a 3% interest. CWH will assume operatorship of the permits. The offer is subject to execution of a farmout agreement, due diligence and any necessary government approvals of the farmout agreement and change of operator.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial period.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Likely future developments in the operations of the Company are referred to in the Operation's report. Other than those factors referred to in that report, further information as to likely developments in the operations of the Company and expected results of those operations would, in the opinion of the Directors, be speculative and prejudicial to the interests of the Company and its shareholders.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations and proposed activities of the Company are subject to state and federal laws and regulations concerning the environment. As with most exploration projects, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

The Company's current activities are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 66,912,232 ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year 514,650 listed options with an exercise price of $0.16 and expiring on 31 October 2013, were exercised to acquire fully paid ordinary shares in the Company. Since the end of the financial year, 12,500 listed options with an exercise price of $0.16 and expiring on 31 October 2013 have been exercised.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year ended 31 December 2012, the Company paid premiums in respect of a contract insuring the Directors and Officers of the Company against liabilities incurred as Directors or Officers to the extent permitted by the Corporations Act 2001. Due to a confidentially clause in the contract, the amount of the premium has not been disclosed.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	
Number of meetings held	6	
Number of meetings attended:	Eligible	Attended
Ms Eve Howell	3	3
Mr B Villemarette	6	6
Mr Max de Vietri	3	3
Mr M Ceglinski	3	3
Mr G Anderson	3	3

COMMITTEE MEMBERSHIP

As at the date of this report the Company does not have a Remuneration, Nomination or Audit Committee and the role is completed by the full Board.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Tangiers Petroleum Limited support the principles of corporate governance. The Company's corporate governance statement and disclosures are contained in the annual report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporation Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the Corporation Act 2001.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the declaration on page 21 from the auditor of the Company. This declaration forms part of the directors' report.

No non-audit services were provided by the entity's auditor.

REMUNERATION REPORT (Audited)

This remuneration report for the year ended 31 December 2012 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001*("the Act") and its Regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent.

Details of Key Management Personnel

Executive Directors

Ms Eve Howell - Chairman - *Appointed 7 September 2012*

Mr Brent Villemarette - Director

Mr Mark Ceglinski - Chairman - *Resigned 7 September 2012*

Non-Executive Directors

Mr Max de Vietri - *Appointed 7 September 2012*

Mr Graham Anderson - *Resigned 7 September 2012*

Company Secretaries

Graham Anderson - *Resigned 23 August 2012*

Krystel Kirou

Kelvin Tan - *Appointed 23 August 2012, resigned 15 February 2013*

Robert Dalton - *Appointed 21 February 2013*

Other Key Management Personnel

Margaret Hildick-Pytte - Director of Exploration - *Resigned 22 February 2013*

Kelvin Tan – General Manager - Corporate and Legal - *Resigned 15 February 2013*

Robert Dalton – Chief Financial Officer - *Appointed 12 November 2012*

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

Remuneration Policy

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company bases its remuneration of employees and consultants on industry standards.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The achievement of this aim has been through the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

The recipients of options are responsible for growing the Company and increasing shareholder value. If they achieve this goal the value of the options granted will also increase. The options, therefore, provide an incentive to the recipients to remain with the Company and to continue to work to enhance the Company's value.

Remuneration Committee

The Company does not have a formal Remuneration Committee. The full Board attends to the matters normally attended to by a Remuneration Committee.

Non-Executive Director Remuneration

Shareholder approval is obtained in relation to the overall limit set for directors' fees. The directors must set individual Board fees within the limit approved by shareholders. The maximum aggregate remuneration approved for non-executive directors is currently $300,000, set at the Annual General Meeting of the Company held on 31 May 2011.

The level of fees is not linked to the directors' or the Company's performance.

Further, shareholders must approve the framework for any equity schemes and if a director is recommended for being able to participate in an equity scheme, this participation must be approved by the shareholders.

Executive Director Remuneration

The remuneration of executive Directors is consistent with the Board's plan to have a portion of the executive Directors total remuneration as long term variable remuneration in the form of share options. This provides a direct link between the increasing wealth of shareholders and executive Directors.

Executive Contractual Arrangements

Remuneration arrangements for KMP are formalised in employment agreements except for Mr Villemarette who is a third party contractor engaged through Villemarette Nominees Pty Ltd and Ms Hildick-Pytte who was a third party contractor engaged through Civil Design Construct Pty Ltd.

Executive Chairman

The Executive Chairman, Ms Howell, is employed under an ongoing contract which can be terminated with notice by either side.

Under the terms of the present contract, the Executive Chairman receives fixed remuneration of $250,000 per annum.

The Executive Chairman's termination provisions are as follows:

	Notice period	Payment in lieu of notice
Resignation	1 month	1 month
Termination for cause	None	None
Termination in cases of death, disablement, redundancy or notice without cause	1 month	1 month

Other KMP

All other KMP have rolling contracts.

Standard KMP termination provisions are as follows:

	Notice period	Payment in lieu of notice
Resignation	1 month	1 month
Termination for cause	None	None
Termination in cases of death, disablement, redundancy or notice without cause	1 month	1 month

Payments applicable to outgoing executives

During the 31 December 2012 financial year, Mark Ceglinski resigned from his position as Executive Chairman on 7 September 2012. Mr Ceglinski received a termination payment of $100,000 as agreed by the Board.

REMUNERATION REPORT (continued)

Remuneration of key management personnel of the Company and the Group

Table 1: Executive remuneration for the years ended 31 December 2012 and 31 December 2011:

		Primary Benefits				Post Employment					
		Salary & Fees	Cash STI	LTI	Non Monetary Benefits	Super-annuation	Retirement	Share-based payments(i)	Other	Total	% Performance Related
Executive directors											
E Howell^^	2012	79,166	-	-	7,056	-	-	836,371*	-	922,593	-
	2011	-	-	-	-	-	-	-	-	-	-
B Villemarette	2012	240,000	-	-	-	-	-	-	-	240,000	-
	2011	224,585	-	-	-	(648)	-	735,000**	-	958,937	-
M Ceglinski^	2012	211,087	-	-	-	18,998	-		100,000	330,085	-
	2011	84,167	-	-	-	7,575	-	-	-	1,071,742	-
								980,000***			
Other key management personnel											
M Hildick-Pytte^^^^^	2012	464,500	-	-	-	-	-	324,862	-	789,362	-
	2011	387,125	-	-	-	-	-	1,598,138**	-	1,985,263	-
K Tan^^^	2012	240,000	-	-	20,104	21,600	-	111,870	-	393,574	-
	2011	13,636	-	-	-	1,227	-	-	-	14,863	-
R Dalton^^^^	2012	23,974	-	-	(138)	5,994	-	-	-	29,830	-
	2011	-	-	-	-	-	-	-	-	-	-
Total	**2012**	**1,258,727**	**-**	**-**	**27,022**	**46,592**	**-**	**1,273,103**	**100,000**	**2,705,444**	-
	2011	**709,513**	**-**	**-**	**-**	**8,154**	**-**	**3,313,138**	**-**	**4,030,805**	-

^ Resigned 7 September 2012.

^^ Appointed on 7 September 2012.

^^^ Appointed as Joint Company Secretary on 23 August 2012. Mr Tan had met the definition of a key management person on his appointment as General Manager - Legal on 13 December 2011, resigned on 18 February 2013.

^^^^ Appointed as Chief Financial Officer on 12 November 2012 and as Joint Company Secretary on 21 February 2013.

^^^^^ Resigned on 22 February 2013.

* This balance includes 2,000,000 vested options and 2,333,333 options issued to EMR Resources, in which Ms Howell has a beneficial interest. 1,000,000 of these options vest when two material assets are acquired within the option period.

** 1,500,000 options vest if the share price exceeds $1.20 for five consecutive trading days.

*** 2,000,000 options vest if the share price exceeds $1.20 for five consecutive trading days.

(i) Share-based payments have been adjusted for the year ended 31 December 2011, see note 22 for further details.

Table 2: Non-Executive Directors' remuneration for the years ended 31 December 2012 and 31 December 2011:

		Primary Benefits				Post Employment					
		Salary & Fees	Cash STI	LTI	Non Monetary Benefits	Super-annuation	Retirement	Share-based payments(i)	Other	Total	% Performance Related
M de Vietri^^	2012	15,833	-	-	-	1,425	-	418,186*	-	435,444	-
	2011	-	-	-	-	-	-	-	-	-	-
G Anderson^	2012	30,000	-	-	-	-	-	-	-	30,000	-
	2011	40,000	-	-	-	-	-	490,000**	-	530,000	-
Total	**2012**	**45,833**	**-**	**-**	**-**	**1,425**	**-**	**418,186**	**-**	**465,444**	**-**
	2011	**40,000**	**-**	**-**	**-**	**-**	**-**	**490,000**	**-**	**530,000**	**-**
Grand Total Non-Executive Directors, Executive Directors and Other Key Management Personnel	**2012**	**1,304,560**	**-**	**-**	**27,022**	**48,017**	**-**	**1,691,289**	**100,000**	**3,170,888**	**-**
	2011	**749,513**	**-**	**-**	**-**	**8,154**	**-**	**3,803,138**	**-**	**4,560,805**	**-**

^ Resigned as a Non-Executive Director on 7 September 2012 and as Joint Company Secretary on 23 August 2012.

^^ Appointed on 7 September 2012.

* This balance includes 1,000,000 vested options and 1,166,667 options issued to EMR Resources, in which Mr de Vietri has a beneficial interest. 500,000 of these options vest when two material assets are acquired within the option period.

** 1,500,000 options vest if the share price exceeds $1.20 for five consecutive trading days.

(i) Share-based payments have been adjusted for the year ended 31 December 2011, see note 22 for further details

The amounts disclosed above do not include insurance premiums paid in relation to directors' and officers' liability insurance as the terms of the insurance policy
preclude disclosure of these amounts.

Table 3: Options granted, vested and lapsed during the year ended 31 December 2012:

31 December 2012	Year	Options awarded during the year No.	Awarded date	Fair value per option at award date ($)	Vesting date	Exercise price	Expiry date	No. vested during year	No. lapsed during year
Executive directors									
E Howell	2012	2,000,000	16-Nov-2012	$0.2406	16-Nov-2012	$0.28	26-Nov-2015	2,000,000	-
	2012	1,333,333	16-Nov-2012	$0.2406	16-Nov-2012	$0.28	26-Nov-2015	1,333,333	-
	2012	1,000,000	16-Nov-2012	$0.2406	*31-Dec-2013	$0.28	26-Nov-2015	-	-
B Villemarette	2012	-	-	-	-	-	-	-	-
	2011	-	2-Dec-2011	-	**31-Dec-2013	-	-	-	-
M Ceglinski	2012	-	-	-	-	-	-	-	-
	2011	-	2-Dec-2011	-	**31-Dec-2013	-	-	-	-
Non-executive directors									
M de Vietri	2012	1,000,000	16-Nov-2012	$0.2406	16-Nov-2012	$0.28	26-Nov-2015	1,000,000	-
	2012	666,667	16-Nov-2012	$0.2406	16-Nov-2012	$0.28	26-Nov-2015	666,667	-
	2012	500,000	16-Nov-2012	$0.2406	*31-Dec-2013	$0.28	26-Nov-2015	-	-
G Anderson	2012	-	-	-	-	-	-	-	-
	2011	-	2-Dec-2011	-	**31-Dec-2013	-	-	-	-
Other key management personnel									
M Hildick-Pytte	2011	-	2-Dec-2011	-	14-Jul-2012	-	-	1,000,000	-
	2011	-	2-Dec-2011	-	**31-Dec-2013	-	-	-	-
K Tan	2012	300,000	10-April-2012	$0.373	10-Apr-2012	$0.70	2-Apr-2015	300,000	-

*Estimated date the vesting condition of two material assets being acquired is likely to be met.
**Estimated date the legal vesting condition of the share price exceeding $1.20 for five consecutive days is likely to be met, full fair value has been recognised in the financial statements at grant date, due to market condition not impacting the vesting period for accounting purposes, see note 22 for further details.

Table 4: Value of options awarded, exercised and lapsed during the year ended 31 December 2012^:

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year	Remuneration consisting of share options for the year %
E Howell	1,042,600	-	-	90.65
M de Vietri	521,300	-	-	96.04
K Tan	111,870	-	-	28.42

^ For details of valuation of the options, including models and assumptions used, please refer to Note 16.

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

Shares issued on exercise of options

There were no remuneration options exercised during the financial year.

Signed in accordance with a resolution of the directors.

Eve Howell
Executive Chairman
22 March 2013

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Auditor's Independence Declaration to the Directors of Tangiers Petroleum Limited

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

Ernst & Young

Ernst & Young

R J Curtin
Partner
22 March 2013

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under Professional Standards Legislation

This Corporate Governance Statement has been established by the Board of Directors (the Board) and is intended to provide the framework within which the Board will achieve a high standard of corporate governance within Tangiers.

BOARD OF DIRECTORS

The Board of Directors of the Company is responsible for the corporate governance of the Company. The Board guides and monitors the business of the Company and management of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

BOARD OBJECTIVES

The broad objectives of the Board are:

- creating and building sustainable value for the shareholders;
- setting strategic direction for the Company;
- approving corporate policies and guidelines for the Company to ensure compliance with the law and the highest business and ethical standards.

Consistent with these objectives, the Board assumes the following responsibilities:

- developing initiatives for profit and asset growth;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- acting on behalf of, and being accountable to, the shareholders;
- identifying business risks and implementing actions to manage those risks; and
- developing and effecting management and corporate systems to assure quality.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least three Directors; and
- the Board should comprise directors with an appropriate range of qualifications and expertise

The Board shall meet at regular intervals and follow meeting guidelines set down to ensure all Directors are made aware of, and have available, all necessary information to participate in an informed discussion of all agenda items.

At every annual general meeting, one-third of the Directors (except for any Managing Director) must retire from office. A Director must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A retiring Director is eligible for re-election.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new Director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders or AGM.

REMUNERATION AND NOMINATION COMMITTEES

The Company does not have a formal Remuneration or Nomination Committee. The full Board attends to the matters normally attended to by a Remuneration Committee and a Nomination Committee. Given the composition of the Board and the size of the Company, it is felt that individual committees are not yet warranted, however, it is expected that as the Company's operations expand that each of these committees will be established.

Remuneration levels are set by the Company in accordance with industry standards to attract suitably qualified and experienced Directors and senior executives.

AUDIT COMMITTEE

As at the date of this report, the Company does not have an Audit Committee of the Board of Directors.

IDENTIFICATION AND MANAGEMENT OF RISK

The Board's collective experience will enable accurate identification of the principal risks which may affect the Company's business. Management of these risks will be discussed by the Board at periodic (at least annual) strategic planning meetings. In addition, key operational risks and their management will be recurring items for deliberation at Board meetings.

ETHICAL STANDARDS

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices. To this end, the Board has developed and adopted a Code of Conduct.

MANAGEMENT OF THE BOARD

The full Board will hold scheduled meetings on at least a monthly basis and any additional meetings at such time as may be necessary to address a specific matter that may arise. In between meetings, decisions will be adopted by way of written resolution.

CHAIRMAN

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with its committees.

ENVIRONMENT

The Company aims to ensure that the highest standard of environmental care is achieved and that it complies with all relevant environmental legislation.

BUSINESS RISK

The Board monitors areas of operational and financial risk and considers strategies for appropriate risk management arrangements. Where necessary the Board will draw on the expertise of appropriate external consultants to assist in dealing with or mitigating areas of risk which are identified.

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company develops policies that are designed to ensure that strategic, operational, legal, reputational and financial risks are identified, monitored, assessed and effectively and efficiently managed to enable achievement of the Company's business objectives.

The Board's collective experience will enable accurate identification of the principal risks which may affect the Company's business. Management of these risks will be discussed by the Board at periodic (at least annual) strategic planning meetings. In addition, key operational risks and their management will be recurring items for deliberation at Board meetings.

SHAREHOLDERS

The Board aims to ensure that shareholders are at all times fully informed in accordance with the spirit and letter of the Australian Securities Exchange's continuous disclosure requirements.

Publicly released documents are made available on the Company's internet web site at www.tangierspetroleum.com

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The Shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

APPROACH TO DIVERSITY

The Company has established a diversity policy which sets out the beliefs, goals and strategies of the Company. The Company recognises the value of a diverse work force and believes that diversity supports all employees reaching their full potential, improves business decisions, business results, increases stakeholder satisfaction and promotes realisation of the company vision.

The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. A copy of the Company's diversity policy has been posted on the Company's website.

GENDER DIVERSITY

The Company is committed to gender diversity at all levels of the organisation. The Board is responsible for establishing and monitoring on an annual basis the achievement against gender diversity objectives and strategies, including the representation of women at all levels of the organisation. The proportion of women within the whole organisation as at the date of this report is as follows:

	Women	Men	Total	Female Representation
Board of directors	1	2	3	33%
Other key management personnel	1	1	2	50%
Other employees	2	-	2	100%
	4	3	7	57%

The Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

COMPLIANCE TO ASX CORPORATE GOVERNANCE PRINCIPLES

The table given below sets out Tangiers current compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (Best Practice Recommendations or BPR). Although the Best Practice Recommendations are not mandatory, the company is required to provide a statement in its annual report disclosing the extent to which the Company has followed the Best Practice Recommendations and reasons for departure. With the appointment in late 2012 of a Chief Financial Officer and a General Manager – Legal and Corporate, the Company is planning to conduct a full review of its corporate governance principles during 2013.

	BEST PRACTICE RECOMMENDATION	COMMENT
1.	**Lay solid foundations for management and oversight**	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Board Charter details the specific responsibilities of the Board. The Executive Directors also constitute members of the Company's senior management team and have the day to day conduct and management of the Company's operations, Formal letters of appointment substantially covering the issues suggested in the BPR will be put into place with respect to Directors and senior management personnel.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	The Board will monitor the performance of senior management, including measuring actual performance against planned performance. However, at this point in time, based on the number of employees and the size of the Company's operations, no formal evaluation process has yet been implemented. By reason of changes in the members of the Board (September 2012) during the reporting period, the limited number of senior management personnel and with new personnel joining the Company late in the reporting period evaluation of the senior management team has been deferred into the next period.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	The Company will explain any departures (if any) from best practice recommendations 1.1 and 1.2 in its annual reports in the relevant periods.
2.	**Structure the board to add value**	
2.1	A majority of the board should be independent Directors.	At present, the Company's Board does not have a majority of independent directors within the meaning of the BPR or the Company's Board Charter. Ms Eve Howell and Mr Brent Villemarette are both Executive Directors and members of the senior management team. Mr Max de Vietri is the only non-executive director and is not employed by the Company. The Board is of the view that until there is a significant expansion in the Company's operations, its current members are able to fully discharge the Board's functions. The Board will develop a process by which Directors may seek independent legal advice (at the Company's cost) in relation to any matters that he or she deems appropriate.

2.2	The chair should be an independent director.	The Chairperson is not an Independent Director within the meaning of the BPR or the Company's Board Charter as Ms Howell is the Executive Chairman and is employed by the Company.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	The role of the chair and function of the chief executive officer are currently exercised by the same individual until such time that the size of the Company warrants a separate chief executive officer.
2.4	The board should establish a nomination committee.	No formal nomination committee has been adopted by the Company as yet. The Board, as a whole, currently serves as a nomination committee. The Board considers that the Company is not yet of a size that warrants the establishment of a nomination committee.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Chairman will review the composition of the Board and the performance of each Director to ensure that it continues to have a mix of skills and experience necessary for the conduct of the Company's activities. By reason of changes in the members of the Board (September 2012) during the reporting period, evaluation of the Board and individual Directors has been deferred into the next period.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	The Company will provide details of each Director, such as their skills, experience and expertise relevant to their position, together with an explanation of any departures (if any) from best practice recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 in its future annual reports.
3.	**Promote ethical and responsible decision-making**	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	The Company's Corporate Governance documents include a Board Code of Conduct which sets out the minimum standard of conduct and integrity to be observed by all Directors and Company employees.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Refer to section on Approach to Diversity on page 21 of this report. The Company's Diversity Policy is published on its website.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	The Company aims to achieve an appropriate mix of diversity on its Board, in senior management and throughout the organisation. The Board has determined that no specific measurable objectives will be established until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.

3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Refer to section on Gender Diversity on page 21 of this report which summaries the representation of female employees in the organisation.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	A copy of the Company's diversity policy has been posted on the Company's website.
4.	**Safeguard integrity in financial reporting**	
4.1	The board should establish an audit committee.	The Board is of the view that at the Company's present stage of development and in the context of its current operations and the constitution of the Board, it is premature for the Company to establish an audit committee. This will be reviewed as the Company and the Board expands. The full Board attends to the matters normally attended to by an audit committee.
4.2	The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	The full Board attends to the matters normally attended to by an audit committee and operates under a formal written charter.
4.3	The audit committee should have a formal charter.	The full Board attends to the matters normally attended to by an audit committee and operates under a formal written charter.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	The Company has and will continue to explain departures (if any) from best practice recommendations 4.1, 4.2 and 4.3 in its annual reports in the relevant periods.
5.	**Make timely and balanced disclosure**	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has a continuous disclosure program in place designed to ensure the compliance with ASX Listing Rule disclosure and to ensure accountability at a Board level for compliance and factual presentation of the Company's financial position. This program will be reviewed and updated during the upcoming year.
5.2	Companies should provide the information indicated in Guide to Reporting on Principle 5.	The Company will provide an explanation of any departures (if any) from best practice recommendation 5.1 in its annual reports in the relevant periods.
6.	**Respect the rights of shareholders**	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company currently does not have a shareholder communications policy, but intends on developing and implementing a relevant policy in the coming year.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	The Company will provide an explanation of any departures (if any) from best practice recommendation 6.1 in its annual reports in the relevant periods.

7.	**Recognise and manage risk**	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company has developed a draft Risk Management Policy which aims to ensure that material business risks are identified and mitigated and this will be implemented in the coming year.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The Board is responsible for designing and implementing continuous risk management and internal control systems and providing reports at relevant times.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Board will seek this relevant assurance from the individuals appointed to perform the role of Chief Executive Officer and the Chief Financial Officer.
7.4	Companies should provide the information indicated in the Guide to Reporting on Principle 7.	The Company will provide an explanation of any departures (if any) from best practice recommendations 7.1, 7.2 and 7.3 in its annual reports in the relevant periods.
8.	**Remunerate fairly and responsibly**	
8.1	The board should establish a remuneration committee.	The Board is of the view that at the Company's present stage of development and in the context of its current operations and the constitution of the Board, it is premature for the Company to establish a separate remuneration committee. This will be reviewed as the Company and the Board expands. The full Board attends to the matters normally attended to by a remuneration committee.
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	The full Board acts in the capacity of the remuneration committee and operates under a formal written charter.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The full Board acts in the capacity of the remuneration committee and operates under a formal written charter. The Company is developing an employee option plan.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	The Company will provide an explanation of any departures (if any) from best practice recommendations 8.1, 8.2 and 8.3 in its annual reports in the relevant periods.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 $	Restated 2011 $
Income	3(a)	46,827	94,304
Administrative expenses	3(b)	(1,826,625)	(789,724)
Occupancy expenses		(369,035)	(127,028)
Employee benefit expenses	3 (c)	(827,774)	(176,480)
Share-based payment expense	16	(1,691,289)	(3,906,791)
Depreciation and amortisation expense		(35,767)	(34,500)
Exploration expenditure expensed as incurred		(35,765)	-
Impairment of exploration expense		(30,528)	(340,889)
Interest expense		(1,840)	(605)
Loss before income tax		(4,771,796)	(5,281,713)
Income tax expense	4	-	-
Net loss attributable to members of the parent		(4,771,796)	(5,281,713)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		**(4,771,796)**	**(5,281,713)**
Basic and diluted loss per share (cents)	5	(4.50)	(6.32)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 $	Restated 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	4,174,910	1,452,219
Other receivables	7	307,949	376,695
Total Current Assets		4,482,859	1,828,914
Non-Current Assets			
Plant and equipment	8	43,710	51,725
Other financial assets	9	2,939,949	982,656
Exploration and evaluation expenditure	10	9,165,356	3,192,571
Total Non-Current Assets		12,149,015	4,226,952
TOTAL ASSETS		16,631,874	6,055,866
LIABILITIES			
Current Liabilities			
Trade and other payables	11	445,423	1,112,956
Total Current Liabilities		445,423	1,112,956
TOTAL LIABILITIES		445,423	1,112,956
NET ASSETS		16,186,451	4,942,910
EQUITY			
Contributed equity	12(a)	49,196,225	37,561,795
Reserves	12(b)	10,096,102	5,804,445
Accumulated losses	12(c)	(43,105,876)	(38,423,330)
TOTAL EQUITY		16,186,451	4,942,910

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Issued capital $	Restated Reserves $	Restated Accumulated losses $	Total equity $
Balance at 1 January 2011	**35,637,180**	**1,078,368**	**(33,141,617)**	**3,573,931**
Loss for the year	-	-	(5,281,713)	(5,281,713)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year, net of tax	-	-	(5,281,713)	(5,281,713)
Shares issued during the year	2,157,344	-	-	2,157,344
Options issued during the year	-	819,286	-	819,286
Share-based payments	-	3,906,791	-	3,906,791
Equity raising costs	(232,729)	-	-	(232,729)
Balance at 31 December 2011	**37,561,795**	**5,804,445**	**(38,423,330)**	**4,942,910**
Balance at 1 January 2012	**37,561,795**	**5,804,445**	**(38,423,330)**	**4,942,910**
Loss for the year	-	-	(4,771,796)	(4,771,796)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year, net of tax	-	-	(4,771,796)	(4,771,796)
Shares issued during the year	15,343,055	-	-	15,343,055
Share-based payments	-	4,291,657	-	4,291,657
Equity raising costs	(3,619,375)	-	-	(3,619,375)
Shares cancelled during the year	(89,250)	-	89,250	-
Balance at 31 December 2012	**49,196,225**	**10,096,102**	**(43,105,876)**	**16,186,451**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Interest received		52,365	94,304
Payments to suppliers		(2,470,246)	(1,254,754)
Net cash flows used in operating activities	6	(2,417,881)	(1,160,450)
Cash flows from investing activities			
Payments for plant and equipment		(30,342)	(28,390)
Payments for bank guarantee		(1,880,000)	-
Payments for exploration and evaluation activities		(7,185,116)	(2,253,407)
Net cash flows used in investing activities		(9,095,458)	(2,281,797)
Cash flows from financing activities			
Proceeds from issue of shares		15,343,055	2,976,630
Share issue costs		(1,019,007)	(232,729)
Net cash flows from financing activities		14,324,048	2,743,901
Net increase/(decrease) in cash and cash equivalents		2,810,709	(698,346)
Effects of exchange rate changes on cash and cash equivalents		(88,018)	-
Cash and cash equivalents at beginning of year		1,452,219	2,150,565
Cash and cash equivalents at end of year	6	4,174,910	1,452,219

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. CORPORATE INFORMATION

The financial report of Tangiers Petroleum Limited for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 22 March 2013.

Tangiers Petroleum Limited ("the parent entity") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and the Alternative Investment Market in London.

The nature of the operations and principal activities of the Group are described in the Operations and Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

(b) Compliance with IFRS

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

(c) New accounting standards and interpretations

(i) Changes in accounting policy and disclosure

From 1 January 2012, the Company has adopted the Standards and Interpretations mandatory from annual periods beginning on or after 1 January 2012. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Company.

(ii) Accounting Standards and Interpretations issued by not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below:

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

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(c) New accounting standards and interpretations (cont'd)

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

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(c) New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2012-2	Amendments to Australian Accounting Standards – *Disclosures – Offsetting Financial Assets and Financial Liabilities*	AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 January 2013**
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: • Repeat application of AASB 1 is permitted (AASB 1). • Clarification of a comparative information requirement when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 January 2013**
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right to set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014*
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below: **a.** Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. **b.** Allows irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. **c.** Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **d.** Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI). • The remaining change is presented in profit or loss.	1 January 2015	1 January 2015*

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(c) New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
		If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.		

*The impact of the adoption of these new and revised standards and interpretations has not been determined by the Group.
**These standards are effective 1 January 2013 however we expect them to have no impact on the financial report.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Tangiers Petroleum Limited and its controlled entities as at and for the period ended 31 December each year ('the Consolidated Entity' or 'Group').

Controlled entities are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain the benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by the parent company are accounted for at cost in the separate financial statements of the Parent less any impairment charges.

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

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

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

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

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

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

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(d) Basis of consolidation (cont'd)

A change in the ownership interest of a subsidiary, without the loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, derecognises the carrying amount of any non-controlling interest, derecognises the cumulative translation differences recorded in equity, recognises the fair value of the consideration received, recognises the fair value of any investment retained, recognises any surplus or deficit in profit or loss, reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

(e) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Tangiers Petroleum Limited is Australian dollars ($). For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using the functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

(iii) Group companies

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

(f) Exploration and evaluation expenditure

The accounting policy adopted by the Group is as follows:

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is underway to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(f) Exploration and evaluation expenditure (cont'd)

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with geological and geophysical and with an exploration well are capitalised as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potential commercial hydrocarbons are discovered, the exploration asset is written off through profit or loss as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

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

When proved reserves of oil are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and if required, any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. No amortisation is charged during the exploration and evaluation phase.

(iv) Farm-outs – in the exploration and evaluation phase

The Group does not record any expenditures made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as gain on disposal.

(g) Income tax

(i) Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

(ii) Deferred Tax

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(g) Income tax (cont'd)

- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes relating to items recognised directly in other comprehensive income or equity are recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(h) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(ii) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(j) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(k) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(l) Plant and equipment

Each class of plant and equipment is carried at cost or recoverable amount less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment is recognised at fair value on initial recognition and subsequently on the cost basis.

Subsequent directly attributable costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation of plant and equipment is calculated on a straight-line basis so as to write off the net costs of each asset over the expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Plant and Equipment	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the statement of comprehensive income.

(m) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(n) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(o) Provisions

General

Provisions are recognised when the Group has a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are recognised in respect of the employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

All other long-term employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

(p) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer to the Group, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the leased term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

(q) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to the members of the parent, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(q) Earnings per share (cont'd)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(r) Contributed equity

Ordinary shares are classified as equity and recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of new ordinary shares or options are recognised directly in equity as a deduction, net of tax, from the proceeds.

(s) Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

(t) Financial instruments

(i) Financial assets

Recognition and initial measurement

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Classification and subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The losses arising from impairment are recognised in profit or loss.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(t) Financial instruments (cont'd)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's positive intention and ability to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The losses arising from impairment are recognised in profit or loss. The Group did not have any held-to-maturity investments during the years ended 31 December 2012 and 2011.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are neither classified as any of the three preceding categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to profit or loss.

Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably measured. In the case of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "Prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

(iii) Financial liabilities

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss.

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(t) Financial instruments (cont'd)

Derecognition

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

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.

(u) Significant accounting judgements, estimates and assumptions

(i) Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale or whether activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Factors which could impact the future recoverability include the level of reserves and resources, future technological changes which could impact the cost of production, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(ii) Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16.

(iii) Recovery of deferred tax assets

Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgement about application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(u) Significant accounting judgements, estimates and assumptions (cont'd)

income differ significantly from estimates, the ability of the Group to realise the net deferred tax available at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

(v) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Going Concern

The financial report has been prepared on a going concern basis. In arriving at this position, the Directors have had regard to the fact that the Group will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

The Group has recorded a loss of $4,771,796 for the year ended 31 December 2012 and had a net cash outflow of $11,513,339 in connection with its operating and investing activities during the year. The Group had cash and cash equivalents at 31 December 2012 of $4,174,910.

The Group's forecast cashflow requirements for the 15 months ending 31 March 2014 reflects outflows from operating and investing activities in excess of its available cash resources at 31 December 2012. These requirements reflect a combination of committed and uncommitted but current planned expenditure. As referred to in the Director's Report, the Group announced on 3 December 2012 that it entered into a farm-out agreement with Galp Energia for an assignment of 50% interest in the Tarfaya Offshore Block. Under the terms of this agreement, the Group will receive US$7.5 million in back costs and Galp will also take assignment of the US$3 million bank guarantee and therefore the Group will have this additional cash available. At the date of this report, the only outstanding condition precedent to complete this transaction and for the Group to have additional US$10.5 million available cash are the approvals by the Moroccan Government. Management is confident that this approval will be granted shortly. Should the approvals be significantly delayed or not obtained, management are satisfied they will be able to source additional working capital to enable the Group to meet their ongoing working capital commitments as and when required.

In the unlikely event that the approvals are not obtained and the Group is unable to raise additional funds to meet the Group's ongoing working capital requirements when required, there is significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

	Consolidated 2012 $	Consolidated 2011 $
3. REVENUES AND EXPENSES		
(a) Income		
Interest income	46,827	94,304
	46,827	94,304
(b) Administrative expenses		
Consultancy and professional fees	618,064	261,019
Legal fees	225,797	41,320
Travel costs	350,991	268,192
Loss on foreign exchange	79,532	1,450
General and administration expenses	552,241	217,743
	1,826,625	789,724
(c) Employee benefit expenses		
Wages and salaries	684,109	114,997
Superannuation	59,846	4,369
Annual leave expense	16,299	12,015
Other employee expenses	67,520	45,099
	827,774	176,480

4. INCOME TAX

(a) The components of tax expense comprise:

	2012 $	2011 $
Current tax	-	-
Deferred tax	-	-
Income tax expense reported in the statement of comprehensive income	-	-

(b) The prima facie tax benefit on loss before income tax is reconciled to the income tax as follows:

	2012 $	2011 $
Loss before income tax expense	(4,771,796)	(5,281,713)
Prima facie tax benefit on loss before income tax at 30% (2011: 30%)	(1,431,539)	(1,584,514)
Under provision in prior year	-	185,183
Tax effect of:		
Foreign expenditure not brought to account	178,533	(275,465)
Non assessable items:		
Share based payments	507,464	1,172,037
	(745,542)	(502,759)
Deferred tax asset on temporary differences and tax losses not brought to account	745,542	502,759
Income tax expense for the year	-	-

4. INCOME TAX (continued)

(c) *Deferred income tax*

	Consolidated 2012 $	Consolidated 2011 $
Deferred tax liabilities	(559,933)	(335,197)
Deferred tax assets	3,004,743	2,034,465
Deferred tax assets not recognised on temporary differences and tax losses	(2,444,810)	(1,699,268)
Net deferred tax assets	-	-

The Company has unutilised tax losses for which no deferred tax asset is recognised on the reporting date of $9,347,122 (2011: $6,282,870) which are available indefinitely for offset against future tax gains subject to continuing to meet relevant statutory tests.

The deferred tax asset not brought to account will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) the Company is able to meet the continuity of business tests and/ or continuity of ownership.

5. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2012	Restated 2011
Net loss for the year	(4,771,796)	(5,281,713)
Weighted average number of ordinary shares for basic and diluted loss per share.	105,942,362	83,607,142

Options on issue are not considered dilutive to the earnings per share as the Company is in a loss making position.

At the reporting date, 66,924,732 options (2011: 52,449,647) representing potential ordinary shares that were not considered dilutive were on issue.

	Consolidated 2012 $	Consolidated Restated 2011 $

6. CASH AND CASH EQUIVALENTS

(a) Cash details

	2012 $	2011 $
Cash at bank and in hand	3,970,336	1,452,219
Short-term deposits	208,086	-
Bank overdrafts	(3,512)	-
	4,174,910	1,452,219

Cash at banks earns interest at floating rates based on daily deposit rates. Short-term deposits are made in varying periods between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

(b) Reconciliation of net loss after tax to net cash flows from operations

	2012 $	2011 $
Net loss	(4,771,796)	(5,281,713)
Adjustments for:		
Depreciation	35,767	34,501
Loss on foreign exchange	79,532	1,305
Share based payments	1,691,289	3,906,791
Loss on disposal of fixed assets	232	-
Impairment of exploration expenditure	30,528	-
Provisions	16,299	-
Changes in assets and liabilities		
Decrease/(increase) in receivables	68,769	(308,906)
Increase in trade and other payables	431,499	487,572
Net cash used in operating activities	(2,417,881)	(1,160,450)

7. OTHER RECEIVABLES

Current

	2012 $	2011 $
Accrued interest income	-	5,538
Goods and Services Tax (GST) receivable	125,014	171,584
Prepayments	35,124	98,335
Receivable from JV partners	65,588	-
Other	82,223	101,238
	307,949	376,695

Other receivables are non-interesting bearing and are generally on terms of 30 days.

(a) Allowance for impairment loss

Receivables past due but not considered impaired are nil (2011: Nil).

	Consolidated	
	2012	2011
	$	$
8. PLANT AND EQUIPMENT		
Cost – opening	115,131	86,741
Additions	31,342	28,390
Disposals	(5,211)	-
Cost – closing	141,262	115,131
Accumulated depreciation - opening	(63,406)	(28,905)
Disposals	1,621	-
Depreciation	(35,767)	(34,501)
Accumulated depreciation - closing	(97,552)	(63,406)
Net book value – opening	51,725	57,836
Net book value – closing	43,710	51,725

9. OTHER FINANCIAL ASSETS

	2012	2011
Bank guarantee – exploration (i)	2,897,223	982,656
Security deposit (ii)	42,726	-
	2,939,949	982,656

(i) Bank Guarantee – Exploration

The bank guarantee has been provided to Office National Des Hydrocarbures et des Mines (ONHYM), a government body in the Kingdom of Morocco, in respect of the Tarfaya Offshore Block. An additional amount of US$2 million has been paid during the year in relation to the first extension period.

It is expected that the funds will be released on satisfaction of the conditions precedent for the farm-in agreement which related to approvals from the Moroccan government.

The funds are not classified as cash and cash equivalents as they do not currently meet the definition per the accounting standards.

(ii)Security Deposit

The security deposit represents cash deposits made in the course of renting office space. The funds are not classified as cash and cash equivalents as they do not currently meet the definition per the accounting standards.

10. EXPLORATION ASSETS

	2012	2011
Opening balance	3,192,571	528,299
Additions	6,003,313	3,005,161
Exploration written off (i)	(30,528)	(340,889)
Closing balance	9,165,356	3,192,571

(i) During the year, the Group relinquished its interest in ATP 587 within the Cooper-Eromanga Basin in Queensland.

The ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas.

	Consolidated 2012 $	2011 $

11. TRADE AND OTHER PAYABLES

	2012 $	2011 $
Current		
Trade payables (i)	311,650	1,028,620
Other payables	133,773	84,336
	445,423	1,112,956

(i) Trade payables are non-interest bearing and are normally settled on 60 day terms.

12. CONTRIBUTED EQUITY AND RESERVES

(a) Ordinary Shares

	2012 $	2011 $
Ordinary shares	49,196,225	37,561,795
Issued and fully paid	54,520,884	39,267,079
Less: equity raising costs	(5,324,659)	(1,705,284)
	49,196,225	37,561,795

	Number	*$*
Movement in ordinary shares on issue		
At 1 January 2011	81,928,594	35,637,180
Exercise of listed options at $0.16 expiring 13 October 2013	514,650	82,344
Exercise of unlisted options at $0.20 expiring 31 August 2013	100,000	20,000
Exercise of unlisted options at $0.25 expiring 31 August 2013	100,000	25,000
Exercise of unlisted options at $0.30 expiring 31 August 2013	100,000	30,000
Share placement at $0.40 per share on 19 September 2011	5,000,000	2,000,000
Less: equity raising costs	-	(232,729)
At 31 December 2011	87,743,244	37,561,795
At 1 January 2012	87,743,244	37,561,795
Exercise of listed options at $0.16 expiring 13 October 2013	300,001	48,000
Share placement at GBP£0.33 on 2 February 2012	5,482,516	2,480,991
Share placement at $0.50 on 10 February and 1 March 2012	7,272,000	3,636,000
Share placement at $0.33 on 13 August 2102	2,364,333	780,230
Share placement at GBP£0.22 on 29 August and 4 September 2012	572,544	191,935
Share placement at GBP£0.18 on 7, 14 and 26 September 2012	11,682,722	3,407,479
Share placement at $0.28 on 9 and 20 November 2012	17,137,216	4,798,420
Cancellation of shares at $0.04 on 20 December 2012	(2,125,000)	(89,250)
Less: equity raising costs	-	(3,619,375)
At 31 December 2012	130,429,576	49,196,225

12. CONTRIBUTED EQUITY AND RESERVES (continued)

(b) Reserve

	Consolidated 2012 $	Consolidated Restated 2011 $
Movement in reserve		
At 1 January	5,804,445	1,078,368
Share based payments	4,291,657	4,726,077
Balance at 31 December	10,096,102	5,804,445

Options Reserve

The options reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. Refer to Note 16 for further details.

Options on Issue

There is no specific share option plan.

The fair value of the equity-settled share options granted is estimated as at the date of grant using an appropriate valuation model taking into account the terms and conditions upon which the options were granted.

(c) Accumulated Losses

	2012 $	2011 $
Balance at 1 January	(38,423,330)	(33,141,617)
Net loss for the year	(4,771,796)	(5,281,713)
Cancellation of shares	89,250	-
Balance at 31 December	(43,105,876)	(38,423,330)

(d) Capital management

Capital includes equity attributable to the equity holders of the Parent. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management manages and makes adjustments to the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may consider it appropriate to return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no dividends paid during 2012 (2011: nil).

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

The Group has no externally imposed capital requirements.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of cash and short-term deposits and trade and other payables.

The main purpose of these financial instruments is to finance the Group's operations. The main risks arising from the Group's financial instruments are market risk (including currency risk and interest rate risk), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

The Group holds the following financial instruments:

	2012	2011
	$	$
Financial Assets		
Cash and cash equivalents	4,174,910	1,452,219
Other receivables	307,949	376,695
Other financial assets	2,939,949	982,656
	7,422,808	2,811,570
Financial Liabilities		
Trade and other payables	445,423	1,112,956
	445,423	1,112,956

(a) Market risk

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US Dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

	31 December 2012			31 December 2011		
	USD	GBP	MAD	USD	GBP	MAD
	$	$	$	$	$	$
Cash and cash equivalents	-	359,497	(3,510)	-	-	9,665
Other financial assets	2,897,223	-	-	982,656	-	-
Trade and other payables	44,194	39,584	3,470	65,366	64,349	-

Sensitivity

Based on the financial instruments held at 31 December 2012, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $253,983 higher/$291,817 lower (2011 - $99,891 higher/$71,763 lower), the effect on equity would have been $253,983 lower/$291,817 higher (2011 - $99,891 lower/$71,763 higher). This is mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. The loss is more sensitive to movements in the AUD/USD exchange rates in 2012 than 2011 because of the increased amount of USD denominated financial assets. The Group's exposure to other foreign exchange movements is not material.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (cont'd)

(ii) Interest rate risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group's exposure to this risk relates primarily to the Group's cash and any cash on deposit. The Group does not use derivatives to mitigate these exposures. The Group manages its exposure to interest rate risk by holding certain amounts of cash in fixed and floating interest rate facilities. At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	31 December 2012		31 December 2011	
	Weighted average interest rate %	$	Weighted average interest rate %	$
Cash and cash equivalents	2.8%	4,174,910	1.93%	1,452,219
Other financial assets	0.66%	2,939,949	0.6%	982,656
		7,114,859		2,434,875

Sensitivity

As at 31 December 2012, had interest rates increased/decreased from the year end rates with all other variables held constant, the Group's post-tax loss for the year would have been $33,714 lower/$33,714 higher (2011 - $8,457 lower/$8,457 higher), the effect on equity would have been $33,714 higher/$33,714 lower (2011 - $8,457 higher/$8,457 lower).

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with maximum exposure equal to the carrying amount of the financial assets.

The Group's policy is to trade only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group except for cash and cash equivalents and other financial assets held in reputable major banks in Australia and Morocco.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings.

The following are the contractual maturities of financial liabilities:

	6 months	6-12 months	1-5 years	> 5 years	Total
2012					
Trade and other payables	445,423	-	-	-	445,423

	6 months	6-12 months	1-5 years	> 5 years	Total
2011					
Trade and other payables	1,112,956	-	-	-	1,112,956

(d) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values determined in accordance with accounting policies disclosed in Note 2.

14. RELATED PARTY DISCLOSURE

(a) Transactions with related parties

The terms and conditions of transactions with Directors and Executives and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to Non-Director related entities on an arm's length basis.

The aggregate amount recognised during the year to specified Directors and specified Executives and their related entities were as follows:

- Mr Graham Anderson is a Director of GDA Corporate Pty Ltd, who provide accounting and administration services to the Group. During the year, the Group paid $49,633 to GDA Corporate Pty Ltd up until 7 September 2012, when Mr Anderson ceased to be a Non-executive Director of the Group and therefore ceased to be a related party. There is no outstanding balance in relation to the payments above as at 31 December 2012 (2011: $7,517).

(b) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 15.

15. KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel

Executive Directors

Ms Eve Howell - Chairman - *Appointed 7 September 2012*
Mr Brent Villemarette - Director
Mr Mark Ceglinski - Chairman - *Resigned 7 September 2012*

Non-Executive Directors

Mr Max de Vietri - *Appointed 7 September 2012*
Mr Graham Anderson - *Resigned 7 September 2012*

Other Key Management Personnel

Margaret Hildick-Pytte - Director of Exploration – Resigned 22 February 2013
Kelvin Tan – General Manager – Corporate and Legal/Joint Company Secretary-*Resigned 18 February 2013*
Robert Dalton – Chief Financial Officer *- Appointed 12 November 2012/ Joint Company Secretary – Appointed 21 February 2013*

(b) Compensation for Key Management Personnel	2012 $	Restated 2011 $
Primary benefits	1,331,582	749,513
Post-employment benefits	48,017	8,154
Other benefits	100,000	-
Share-based payments	1,691,289	3,803,138
	3,170,888	4,560,805

The prior year numbers do not include insurance premiums paid in relation to directors' and officers' liability insurance as the terms of the insurance policy preclude disclosure of these amounts.

15. KEY MANAGEMENT PERSONNEL (continued)

(c) Option holdings of key management personnel

2012	Balance at beginning of period	Granted as remuneration	Net change other	Balance at end of period	Vested at 31 December 2012 Exercisable	Not Exercisable	Total
E Howell	-	4,333,333*	-	4,333,333	2,000,000	2,333,333	4,333,333
B Villemarette	4,771,222	-	-	4,771,222	3,271,222	1,500,000	4,771,222
M Ceglinski	5,271,222	-	(5,271,222)^	-	-	-	-
M de Vietri	-	2,166,667*	-	2,166,667	1,000,000	1,166,667	2,166,667
G Anderson	1,500,000	-	(1,500,000)^	-	-	-	-
M Hildick-Pytte	3,500,000	-	-	3,500,000	2,000,000	1,500,000	3,500,000
K Tan	-	300,000	-	300,000	300,000	-	300,000
R Dalton	-	-	-	-	-	-	-
Total	15,042,444	6,800,000	6,771,222	15,071,222	8,571,222	6,500,000	15,071,222

* 3,500,000 of these options were issued to EMR Resources, in which E Howell and M de Vietri have a benefical interest.
^ Net change due to resignation as Director.

2011	Balance at beginning of period	Granted as remuneration	Net change other	Balance at end of period	Vested at 31 December 2011 Exercisable	Not Exercisable	Total
M Ceglinski	2,000,000	-	3,271,222	5,271,222	3,271,222	2,000,000	5,271,222
B Villemarette	2,000,000	-	2,771,222	4,771,222	3,271,222	1,500,000	4,771,222
G Anderson	-	-	1,500,000	1,500,000	500,000	1,000,000	1,500,000
M Hildick-Pytte	-	-	3,500,000	3,500,000	1,000,000	2,500,000	3,500,000
K Tan	-	-	-	-	-	-	-
Total	4,000,000	-	11,042,444	15,042,444	8,042,444	7,000,000	15,042,444

(d) Shareholdings of key management personnel

Shares held in the Company (number)

31 December 2012	Balance at beginning of period	Exercised options	Net change Other	Balance at end of period
E Howell	-	-	-	-
B Villemarette	-	-	-	-
M Ceglinski	-	-	-	-
M de Vietri	-	-	-	-
G Anderson	-	-	-	-
M Hildick-Pytte	-	-	-	-
K Tan	-	-	-	-
R Dalton	-	-	-	-
Total	-	-	-	-

15. KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings of key management personnel (continued)

31 December 2011	Balance at beginning of period	Exercised options	Net change Other	Balance at end of period
B Villemarette	-	-	-	-
M Ceglinski	-	-	-	-
G Anderson	-	-	-	-
M Hildick-Pytte	-	-	-	-
Total	-	-	-	-

(e) Loans to Key Management Personnel

There are no loans between the entity and key management personnel.

(f) Other transactions with Key Management Personnel and their related parties

There are no other transactions between the entity and KMP and their related parties except as disclosed in Note 14.

16. SHARE-BASED PAYMENTS

	2012 $	Restated 2011 $
(a) Recognised share based payment transactions		
Share-based payment transaction recognised during the period were as follows:		
Options issued in consideration for services (i)	2,600,368	-
Expense arising from equity-settled share-based payment transactions	1,691,289	3,906,791
	4,291,657	3,906,791

(i) On 26 March 2012, the Company issued 3,274,124 options with an exercise price of $0.60, 3,500,000 options with an exercise price of $0.70 and on 16 November 2012, 213,733 options with an exercise price of £0.256 and 487,230 options with an exercise price of £0.242 to brokers in consideration for services in relation to equity capital raisings completed during the year. There are no voting rights attached to the options and they may be exercised at any time on or before 2 April 2015.

The fair value of these options were treated as a cost of the capital raising and offset against issued capital in the statement of financial position. The fair value was calculated at $2.6m

(b) Summary of options granted

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued as share based payments during the year:

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	12,500,000	$0.39	4,300,000	$0.17
Granted during the year	14,275,087	$0.47	8,500,000	$0.50
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(300,000)	$(0.25)
Expired during the year	-	-	-	-
Outstanding at the end of the year	26,775,087	$0.43	12,500,000	$0.39
Exercisable at the end of the year	17,275,087	$0.41	12,000,000	$0.39

16. SHARE BASED PAYMENTS (continued)

The outstanding balance as at 31 December 2012 is represented by:

Option Type	Number of options	Exercise Price	Expiry Date
Listed	4,000,000	$0.16	31 October 2013
Unlisted	1,000,000	$0.22	19 July 2014
Unlisted	6,000,000	$0.60	16 December 2014
Unlisted	1,000,000	$0.22	16 December 2014
Unlisted	500,000	$0.50	26 August 2014
Unlisted	3,274,124	$0.60	2 April 2015
Unlisted	3,800,000	$0.70	2 April 2015
Unlisted	213,733	£0.256	19 November 2015
Unlisted	487,230	£0.242	19 November 2015
Unlisted	6,500,000	$0.28	26 November 2015

(c) Weighted average remaining contractual life

The weighted average remaining contractual life of the share options outstanding as at 31 December 2012 is 2.10 years (2011: 2.55 years).

(d) Weighted average fair values

The weighted average fair value of options granted during the year was $0.29 (2011: $0.35).

(e) Range of exercise prices

The range of exercise prices for options outstanding at the end of the year was $0.16 - $0.70 (2011: $0.16 - $0.60).

(f) Option pricing model

The fair value of the equity-settled share options granted is estimated as at the date of grant using an appropriate model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the Black-Scholes model used for the year ended 31 December 2012.

	Tranche A	Tranche B	Tranche C	Tranche D
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	120%	120%	77%	77%
Risk free interest rate (%)	3.25%	3.25%	2.96%	2.96%
Expected life of the option (years)	3 years	3 years	3 years	3 years
Option exercise price ($)	$0.60	$0.70	£0.256	£0.242
Share price barrier	n/a	n/a	n/a	n/a
Share price at grant date ($)	$0.50	$0.50	£0.2975	£0.2975
Number of options	3,274,124	3,800,000	213,733	487,230
Value per option	$0.3587	$0.3465	£0.1646	£0.1687
Value per tranche	$1,174,428	$1,324,620	$53,903	$125,939

	Tranche E	Tranche F	Tranche G
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	92%	92%	92%
Risk free interest rate (%)	2.69%	2.69%	2.69%
Expected life of the option (years)	3 years	3 years	3 years
Option exercise price ($)	$0.28	$0.28	$0.28
Share price barrier	n/a	n/a	n/a
Share price at grant date ($)	$0.37	$0.37	$0.37
Number of options	3,000,000	2,000,000	1,500,000
Value per option	$0.2406	$0.2406	$0.2406
Value per tranche	$721,800	$481,200	$360,900

16. SHARE BASED PAYMENTS (continued)

- Tranche A, B, C and D, E: These options vest immediately.
- Tranche F: These options vest immediately but are being held in escrow voluntarily
- Tranche G: These options will vest when two material assets are acquired during the option period.

The following table lists the inputs to the Monte-Carlo model used for the year ended 31 December 2011.

	Tranche A	Tranche B	Tranche C	Tranche D
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	120%	120%	120%	120%
Risk free interest rate (%)	3.26%	3.26%	3.26%	3.81%
Expected life of the option (years)	2.63 years	3 years	3 years	3 years
Option exercise price ($)	$0.22	$0.22	$0.60	$0.50
Share price barrier	n/a	n/a	$1.20	n/a
Share price at grant date ($)	$0.70	$0.70	$0.70	$0.40
Number of options	1,000,000	1,000,000	6,000,000	500,000
Value per option	$0.588	$0.60	$0.49	$0.274
Value per tranche	$588,000	$600,000	$2,940,000	$137,000

- Tranche A: The options vest immediately.
- Tranche B: The options vest on the 14 July 2012 provided that the holder is employed or contracted to Tangiers at that time.
- Tranche C: The options vest if the share price exceeds $1.20 for five consecutive trading days.
- Tranche D: The options vest upon admission to the Alternative Investment Market (AIM) on the London Stock Exchange.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

17. SEGMENT INFORMATION

Identification of reportable segments

For management purposes the group is organised into two strategic units:
- Oil and Gas exploration and corporate head office in Australia
- Oil and Gas exploration in the Kingdom of Morocco.

Such structural organisation is determined by the nature of risks and returns associated with each business segment and define the management structure as well as the internal reporting system. It represents the basis on which the group reports its primary segment information to the Board.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the group is managed and provides a meaningful insight into the business activities of the group.

The following table presents details of revenue and operating profit by business segment as well as reconciliation between the information disclosed for reportable segments and the aggregated information in the financial statements. The information disclosed in the table below is derived directly from the internal financial reporting system used by the Board of Directors to monitor and evaluate the performance of our operating segments separately.

17. SEGMENT INFORMATION (continued)

	Restated Australia $	Morocco $	Adjustment and Eliminations $	Restated Consolidated $
Year ended 31 December 2012				
Revenue from external customers	-	-	-	-
Inter-segment revenue	-	-	-	-
Reportable segment (loss) after expenses before tax	(12,048,333)	-	7,276,537	(4,771,796)
Year ended 31 December 2011				
Revenue from external customers	-	-	-	-
Inter-segment revenue	-	-	-	-
Reportable segment (loss) after expenses before tax	(5,280,263)	(1,450)	-	(5,281,713)
Reportable segments assets at 31 December 2012	6,439,249	2,916,088	7,276,537	16,631,874
Reportable segments assets at 31 December 2011	2,982,758	3,073,108	-	6,055,866

	2012 $	2011 $
Reconciliation of reportable segment profit or loss		
Total profit or loss for reportable segments	(4,771,796)	(5,281,713)
Elimination of inter-segment profits	-	-
Profit before tax from continuing operations	(4,771,796)	(5,281,713)
Reconciliation of reportable segment assets		
Reportable segment assets	16,631,874	6,055,866
Total assets	16,631,874	6,055,866

Types of products and services

The consolidated entity currently has no revenue from products or services.

Major customers

The consolidated entity has no reliance on major customers.

Geographical areas

The consolidated entity non-current assets are located in Australia and Morocco.

18. COMMITMENTS AND CONTINGENCIES

The Group has entered into an agreement with the Office National Des Hydrocarbures et des Mines (ONHYM) of Morocco for the exploration and exploitation of the Tarfaya Offshore Block. Pursuant to that agreement, the Group is required to meet a minimum exploration work program. The Group secured a joint venture partner to participate in the exploration work program during the next 12-24 months, subject to approvals from the Moroccan government.

The Group has established an irrevocable bank guarantee for US$3,000,000 in favour of ONHYM in order to guarantee the fulfilment of the minimum exploration work program. The guarantee will expire no later than July 2014.

18. COMMITMENTS AND CONTINGENCIES (continued)

Exploration commitments

In order to maintain current rights of tenure to exploration permits, the entity has certain obligations to expend minimum amounts of money. The following exploration expenditure requirements have not been provided for in the financial report. These commitments may be met by capital raising by the Group or by farming in a third party. Alternatively the work commitment may be ignored and the permit relinquished and the related capitalised exploration assets would be written off.

	2012 $	2011 $
Within one year	9,330,000	1,800,000
After one year but not more than five years	49,890,000	163,500,000
More than five years	-	-
	59,220,000	165,300,000

19. EVENTS AFTER THE REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial period.

20. AUDITORS' REMUNERATION

The auditor of the Group is Ernst & Young for the year ended 31 December 2012.

	2012	2011
Amounts received or due and receivable by Ernst & Young for the audit and review of the financial report	35,000	-

The auditor of the Group was RSM Bird Cameron for the year ended 31 December 2011.

	2012	2011
Amounts received or due and receivable by RSM Bird Cameron for the audit and review of the financial report	-	33,000

21. INVESTMENT IN CONTROLLED ENTITIES

	Country of Incorporation	Ownership interest 2012 %	2011 %
DVM International SARL	Morocco	100	100
Tangiers (Australia) No.1 Pty Ltd (i)	Australia	100	-

(i) This subsidiary was incorporated during the year.

22. CORRECTION OF ERROR

On 2 December 2011, options were issued to directors and management, which were not accounted for correctly during the year ended 31 December 2011. At the time of the grant, the only condition attached to these options was a market condition, whereby the options would vest if the share price exceeds $1.20 for five consecutive trading days and therefore the whole fair value should have been recognised on the grant date of the options.

This error had the effect of understating the reserves by $2,717,273. This also had the effect of understating share-based payment expense, loss before tax, net loss attributable to members of the parent, and accumulated losses by $2,717,273 for the year ended 31 December 2011.

22. CORRECTION OF ERROR (continued)

	Previously Reported Balance $	Impact of Errors $	Restated Balance $
Consolidated Statement of Financial Position as at 31 December 2011			
Reserves	3,087,172	2,717,273	5,804,445
Accumulated Losses	(35,706,057)	(2,717,273)	(38,423,330)
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011			
Share-based payment expense	(1,189,518)	(2,717,273)	(3,906,791)
Loss before income tax	(2,564,440)	(2,717,273)	(5,281,713)
Net loss attributable to members of the parent	(2,564,440)	(2,717,273)	(5,281,713)

Basic and diluted loss per share have been restated to 6.32 cents per share for the year ended 31 December 2011.

23. PARENT ENTITY DISCLOSURES

	Parent Entity	
	2012 $	Restated 2011 $
Financial Position		
Assets		
Current assets	4,486,371	1,819,249
Non-current assets	4,846,589	4,238,067
Total assets	9,332,960	6,057,316
Liabilities		
Current liabilities	445,423	1,112,956
Total liabilities	445,423	1,112,956
Equity		
Contributed equity	49,196,225	37,561,795
Reserves	10,096,102	5,804,445
Accumulated losses	(49,959,367)	(38,423,330)
Total equity	9,332,960	4,944,360
Financial Performance		
Loss for the year	(12,048,333)	(5,280,263)
Other comprehensive income	-	-
Total comprehensive income	(12,048,333)	(5,280,263)

Guarantees

The Parent has established an irrevocable bank guarantee for US$3,000,000 in favour of ONHYM (note 18) the guarantee supports a line of credit facility for its subsidiary DVM International SARL of up to USD $3,000,000. The subsidiary has not utilised the facility at the reporting date.

Other Commitments and Contingencies

The Parent has no commitments to acquire property, plant and equipment, and has no contingent liabilities apart from the amounts disclosed in note 18.

DIRECTORS DECLARATION

In accordance with a resolution of the directors, I state that:

1. In the opinion of the directors:

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

      (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
      (ii) complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b); and

   (c) Subject to the matters discussed in Note 2(w), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the chief executive officer and chief financial officer in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 31 December 2012.

This declaration is made in accordance with a resolution of the directors.

Eve Howell
Executive Chairman

Dated: 22 March 2013

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Independent auditor's report to the members of Tangiers Petroleum Limited

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

Opinion

In our opinion:

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

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

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

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

Material uncertainty regarding continuation as a going concern

Without qualification to the audit opinion expressed above, we draw attention to Note 2(w) of the financial report. As a result of matters described in Note 2(w), there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 18 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
22 March 2013

ADDITIONAL ASX INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this Annual Report is as follows. The information is as of 18 March 2013.

DISTRIBUTION OF EQUITY SECURITIES

(i) *Ordinary share capital*

- 130,442,076 fully paid shares held by 1,507 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) *Options*

- 44,137,145 listed options quoted on the ASX with an exercise price of $0.16 and expiry date of 31 October 2013 held by 284 option holders.
- 1,000,000 unquoted options with an exercise price of $0.22 with an expiry date of 19 July 2014 held by 1 option holder.
- 6,000,000 unquoted options with an exercise price of $0.60 with an expiry date of 16 December 2014 held by 4 option holders.
- 1,000,000 unquoted options with an exercise price of $0.22 and an expiry date of 16 December 2014 held by 1 option holder.
- 500,000 unquoted options with an exercise price of $0.50 and an expiry date of 26 August 2014 held by 1 option holder.
- 3,274,124 unquoted options with an exercise price of $0.60 and an expiry date of 2 April 2015 held by 2 option holders.
- 3,800,000 unquoted options with an exercise price of $0.70 and an expiry date of 2 April 2015 held by 3 option holders.
- 213,733 unquoted options with an exercise price of £0.256 and an expiry date of 19 November 2015 held by 1 option holder.
- 487,230 unquoted options with an exercise price of £0.242 and an expiry date of 19 November 2015 held by 1 option holder.
- 6,500,000 unquoted options with an exercise price of $0.28 and an expiry date of 26 November 2015 held by 2 option holders. 2,000,000 of these options have been voluntarily escrowed until 26 November 2013.

The number of shareholders, by size of holding, is:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	228	28,817	0.02
1,001 - 5,000	227	716,045	0.55
5,001 - 10,000	204	1,709,274	1.31
10,001 - 100,000	687	26,579,067	20.38
100,001 - 9,999,999,999	193	101,408,873	77.74
Total	1,539	130,442,076	100.00

The number of listed option holders, by size of holding, is:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	30	3,892	0.01
1,001 - 5,000	26	100,392	0.23
5,001 - 10,000	29	234,682	0.53
10,001 - 100,000	129	5,662,872	12,83
100,001 - 9,999,999,999	73	38,135,307	86.40
Total	287	44,137,145	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.26 per unit	1,9246	273	96,684

RESTRICTED SECURITES

The Company has no Restricted Securities on issue

SUBSTANTIAL SHAREHOLDERS

The Company has no substantial shareholders.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

ACQUISITION OF VOTING SHARES

No issues of securities have been approved for the purposes of Item 7 of Section 611 of the Corporations Act 2001.

TAX STATUS

The Company is treated as a public company for taxation purposes.

FRANKING CREDITS

The Company has no franking credits.

TWENTY LARGEST SHAREHOLDERS

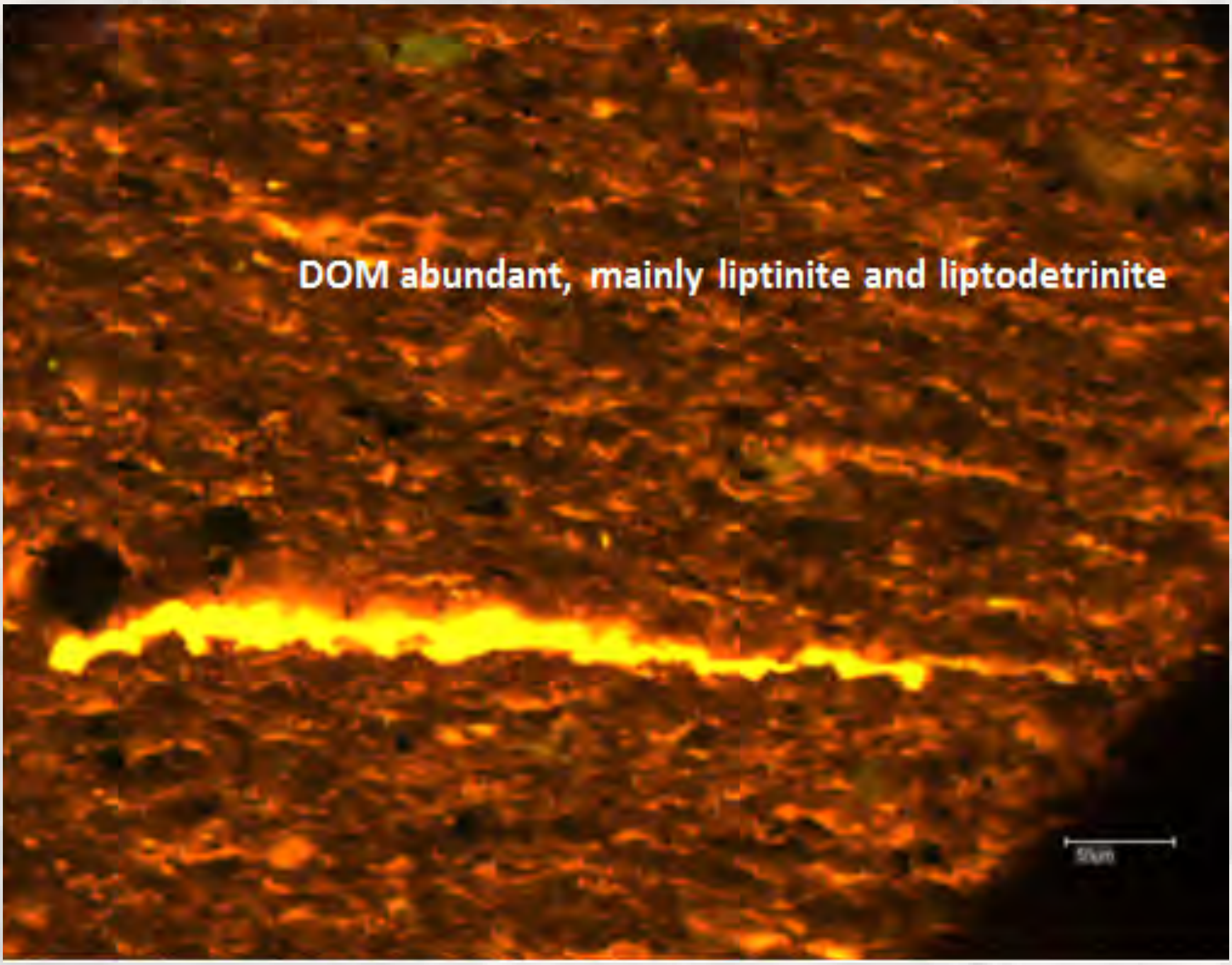
		Number Held	Percentage
1.	ABLETT PTY LTD <DAVID EDWARDS FAMILY A/C>	4,600,000	3.53
2.	PENINSULA INVESTMENTS (WA) PTY LTD	4,429,900	3.40
3.	AUSTRALIAN GLOBAL CAPITAL PTY LTD	4,029,900	3.09
4.	CITICORP NOMINEES PTY LIMITED	3,862,904	2.96
5.	BARCLAYSHARE NOMINEES LIMITED	2,401,279	1.84
6.	PHANTOM WA PTY LTD <KIRKHAM FAMILY A/C>	2,342,400	1.80
7.	MR LACHLAN COX <COX INVESTMENT A/C>	2,150,476	1.65
8.	DREAMLIGHT NOMINEES PTY LTD <THE TYREN A/C>	2,040,000	1.56
9.	EKCO INVESTMENTS PTY LTD	2,029,900	1.56
10.	BEAUFORT NOMINESS LIMITED <SSLNOMS>	1,753,067	1.34
11.	HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA>	1,623,387	1.25
12.	HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942>	1,582,432	1.21
13.	L R NOMINEES LIMITED <NOMINEE>	1,559,920	1.20
14.	TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS>	1,383,214	1.06
15	MR GREGORY ROSS	1,349,619	1.04
16.	PEEL HUNT HOLDINGS LIMITED <PMPRINC>	1,311,113	1.01
17.	HARGREAVES LANSDOWN (NOMINEES) LIMITED <HLNOM>	1,168,655	0.90
18.	ADIOLUS S DE RL	1,095,000	0.84
19.	AWF ENTERPRISES PTY LTD <FERDINANDS HOLDINGS FAM A/C>	1,070,851	0.82
20.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	1,042,314	0.80
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES		**42,826,331**	**32.83**

TWENTY LARGEST OPTIONHOLDERS

		Number Held	Percentage
1.	PENINSULA INVESTMENTS (WA) PTY LTD	3,500,000	7.93
2.	VILLEMARETTE NOMINEES PTY LTD	3,271,222	7.41
3.	BANKSIA INVESTMENTS PTY LTD <BANKSIA INVEST CORP S/F A/C>	2,491,100	5.64
4.	AUSTRALIAN GLOBAL CAPITAL PTY LTD	2,055,609	4.66
5.	ABLETT PTY LTD <DAVID EDWARDS FAMILY A/C>	2,000,000	4.53
6.	CITICORP NOMINEES PTY LIMITED	1,526,802	3.46
7.	BLUERISE HOLDINGS PTY LTD <THE BLUERISE A/C>	1,258,222	2.85
8.	JACOBS CORPORATION PTY LTD	1,198,346	2.72
9.	PHANTOM WA PTY LTD <KIRKHAM FAMILY A/C>	1,156,250	2.62
10.	EKCO INVESTMENTS PTY LTD	1,000,000	2.27
11.	DREAMLIGHT NOMINEES PTY LTD <THE TYREN A/C>	970,000	2.20
12.	MR MICHAEL GREENWOOD + MRS BELINDA CHRISTIAN-GREENWOOD <BC AND MG INVESTMENTS A/C>	937,000	2.12
13.	MR IAN WILLIAM DORRINGTON	900,000	2.04
14.	AWF ENTERPRISES PTY LTD <FERDINANDS HOLDINGS FAM A/C>	773,286	1.75
15.	MR GREGORY ROSS	773,010	1.75
16.	ONEDOG HOLDINGS PTY LTD <THE CONNOLLY SUPER FUND A/C>	770,000	1.74
17.	MR JAMES ROBERTSON	696,200	1.58
18.	MARKET PROPERTIES PTY LTD	525,000	1.19
19.	MR LACHLAN COX <COX INVESTMENT A/C>	500,000	1.13
20.	GRAHAM ANDERSON PTY LTD <ALNESS SUPER FUND A/C>	485,000	1.10
Totals: Top 20 holders of LISTED OPTIONS EXPIRING 31/10/2013 @ $0.16 (TOTAL)		**26,797,047**	**60.69**

TENEMENT SCHEDULE

Project	Tenement	Interest
Tarfaya Block - Morocco	Offshore 1-8	75% Working interest & operatorship
Northern Territory	NTP/83	100%
Turtle-Barnett - WA & Northern Territory	WA-442-P and NTP/81	90%



Lower Jurassic Issouka oil shale
High total organic carbon 4.63% - excellent potential source rock.