Afren plc Annual Report and Accounts 2007

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The premier pan-African independent oil and gas company

6

indigenous partnerships in Nigeria

16

assets in seven African countries as at April 2008

15-20,000

barrels expected to be produced in 2008 from the current portfolio

2007: A LANDMARK YEAR

It is a source of great pride that Afren has grown to become the largest pure-play independent exploration and production company in Africa, by market capitalisation. This position has been achieved in the space of just three years, with 2007 being especially notable in our successful development.

The Company's growth has been fuelled by developing, and then adhering to, a differentiated growth strategy:

> A pure play African venture
> Partnering with Indigenous Companies, Governments and National Oil Companies
> Growing the African component in the shareholder base
> Monetising Gas

True to this strategy, 2007 was a year in which we continued the expansion and diversification of our portfolio through a number of carefully chosen partnerships.

HIGHLIGHTS

> Okoro Setu on-track for the Company's first organic oil production
> Acquisition of Devon Energy's interests in Ghana, Angola and Côte d'Ivoire (announced post period-end)
> Farm-in agreement signed with Oriental Energy Resources Limited for the development of the Ebok field, offshore Nigeria (announced post period-end)
> Co-operation agreement signed with E.ON Ruhrgas AG and African LNG Holdings Limited (announced post period-end)
> Production Sharing Contracts signed for OPL 907 and OPL 917 within the gas-rich Anambra basin onshore Nigeria (announced post period-end)
> Participation agreement signed with Excel Exploration & Production Limited for the development of the Eremor field in Nigeria
> $230 million borrowing base rolling facility secured to finance the Okoro Setu Project
> Completion of $316 million total equity fund raisings ($236 million announced post period-end)
> Closed $50 million unsecured loan acquisition facility in Nigeria

Achievements and Ambitions

$600 M+

total capital raised in debt and equity

Our goal is clear: to provide Afren's shareholders with steady, continuous growth, achieved through strategically chosen acquisitions that steer the Company firmly forward.

In 2007 and into 2008 we were successful in continuing to lay the foundations that will achieve that goal. We have succeeded in building out our portfolio of development and exploration assets; indeed, we are now active in seven African countries, underpinning our pure-play African focus.

Our activities have been given even greater momentum by a strong investor appetite as we seek to create the premier pan-African exploration and production company.

2008

- $236 million raised after placing 95 million ordinary shares
- Farm-in Agreement with Oriental Energy Resources for the development of the Ebok Field, offshore Nigeria
- Announced strategic acquisition of Devon Energy's interests in Côte d'Ivoire
- Co-operation agreement signed with E.ON Ruhrgas AG and African LNG Holdings Limited
- Production Sharing Contracts signed for OPL 907 and OPL 917

2007

- Sail Away Ceremony of Armada Perkasa FPSO
- Acquisition of Devon Energy's interests in Ghana and Angola
- Completion of first exploration well on La Noumbi licence
- Closing of $50 million unsecured loan
- Agreement signed for participation in the Eremor Field
- Completion of $65 million Equity Raising
- Farm-in Agreement with Independent Energy for participation in the Ofa Field
- Okoro Setu Project Development Plan receives Government Approval
- $230 million debt facility secured for the Okoro Setu Project

2006

- Completion of appraisal drilling on the Okoro field OML 112, offshore Nigeria
- Completion of acquisition of Heritage Congo Limited
- Establishment of International Advisory Board
- Completion of $75 million convertible Bond Issue
- Acquisition of Heritage Oil Corporation's interests in the Republic of Congo
- Agreement for the development of the Okoro and Setu fields in OML 112, offshore Nigeria

2005

- £11 million raised after placing 24.4 million ordinary shares
- Agreement for participation in the development of the Ogedeh Field, offshore Nigeria
- Acquisition of licence interests in Gabon
- £7.5 million raised after placing 21.4 million ordinary shares
- Completion of Block 1 JDZ transaction
- Admission to AIM and completion of £8 million placing

THE SAIL AWAY CEREMONY OF THE ARMADA PERKASA FPSO

4 December 2007 was a significant day for the Company as the Sail Away ceremony of the Armada Perkasa, our new Floating Production, Storage and Offtake (FPSO) vessel, took place in Singapore. The vessel, which is owned and operated by Bumi Armada Berhad, was bound for the Okoro Setu development where it will offer storage capacity of 360,000 barrels of crude oil and a total liquids processing capacity of 27,000 barrels a day. Joining the celebrations was a group of 20 Afren employees, flown in by the Company from Nigeria to represent the 200 local personnel who will be manning this crucial link in the Okoro Setu production chain.

Afren: Rooted in Africa

At Afren we have been highly successful in embedding the Company into one of the most dynamic marketplaces in the world. We are not just a business in Africa, but a genuinely local enterprise with deep roots in the African energy landscape. Our Chairman, Dr Rilwanu Lukman, brings an expert understanding of the region. We also benefit significantly from the skills of some of Africa's most seasoned professionals, both on our Board and in senior management.

We actively recruit from within local communities, and our Lagos office is staffed entirely by Nigerian employees. Afren is dedicated to maintaining strong intra-community ties and we work directly with community leaders to provide not only high-quality employment but scholarships for tomorrow's energy professionals. In turn, our strong local credentials position us to build lasting relationships with Indigenous Companies, National Oil Companies and Governments. Indeed, in early 2008, we were able to announce our sixth such partnership (with Oriental Energy Resources Limited).

This credibility has translated into tangible technical and financial achievements. From the fast-track development of the Okoro Setu project and the successful drilling of three exploration and appraisal wells, to the raising of more than $600 million in debt and equity since inception, Afren is delivering.

AFRICA: NO.1 IN PROVED RESERVES GROWTH

We believe our investment in Africa, in terms of time, capital and expertise, is well directed. The continent is rich in opportunity: it is the world's fastest-growing resource-base on proved reserves, and out-performs other growth areas such as Europe, the Middle East and South America.

Africa is especially attractive because:
> It yields high-margin barrels.
> Its established industry and infrastructure make operations more effective, cost-effective and faster to develop.
> Gas commercialisation is in its infancy, with exceptional growth opportunities ahead.

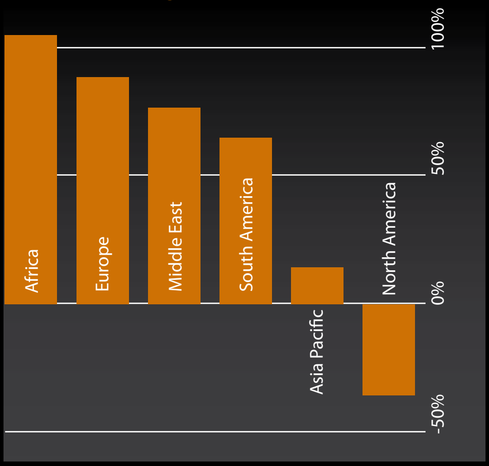
WEST AFRICA: SIGNIFICANT RESERVES

Within Africa, Afren is active in some of the continent's most productive countries, owning 16 assets (subject to completion) across Nigeria, the Joint Development Zone of Nigeria-São Tomé & Príncipe, Gabon, Angola, Congo Brazzaville, Côte d'Ivoire and Ghana.

The potential of West Africa is considerable:
> Proved oil reserves of 50 billion barrels, with some 77% in Nigeria and 18% in Angola.
> Proved gas reserves of 219 tcf, with 81% in Nigeria.

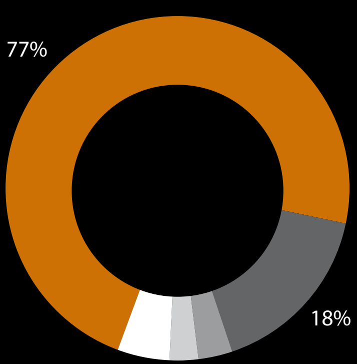
With many proven fields overlooked or undeveloped by the Majors, Afren is well positioned and resourced to exploit this significant regional opportunity.

Proved reserves growth 1985 to 2005

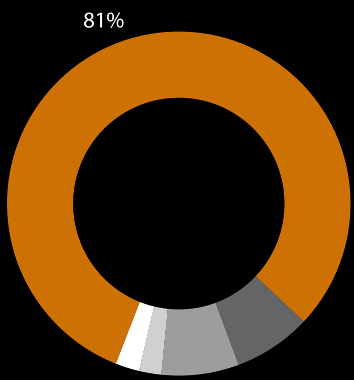


Source: Waterous & Co, OPEC Annual Statistical Bulletin 2003, BP Statistical Review of World Energy

Proved oil reserves
Total 50 billion barrels



Proved gas reserves
Total 219 trillion cubic feet



- Nigeria
- Angola
- Equatorial Guinea
- Congo
- Gabon

Source: Waterous & Co, OPEC Annual Statistical Bulletin 2003, BP Statistical Review of World Energy

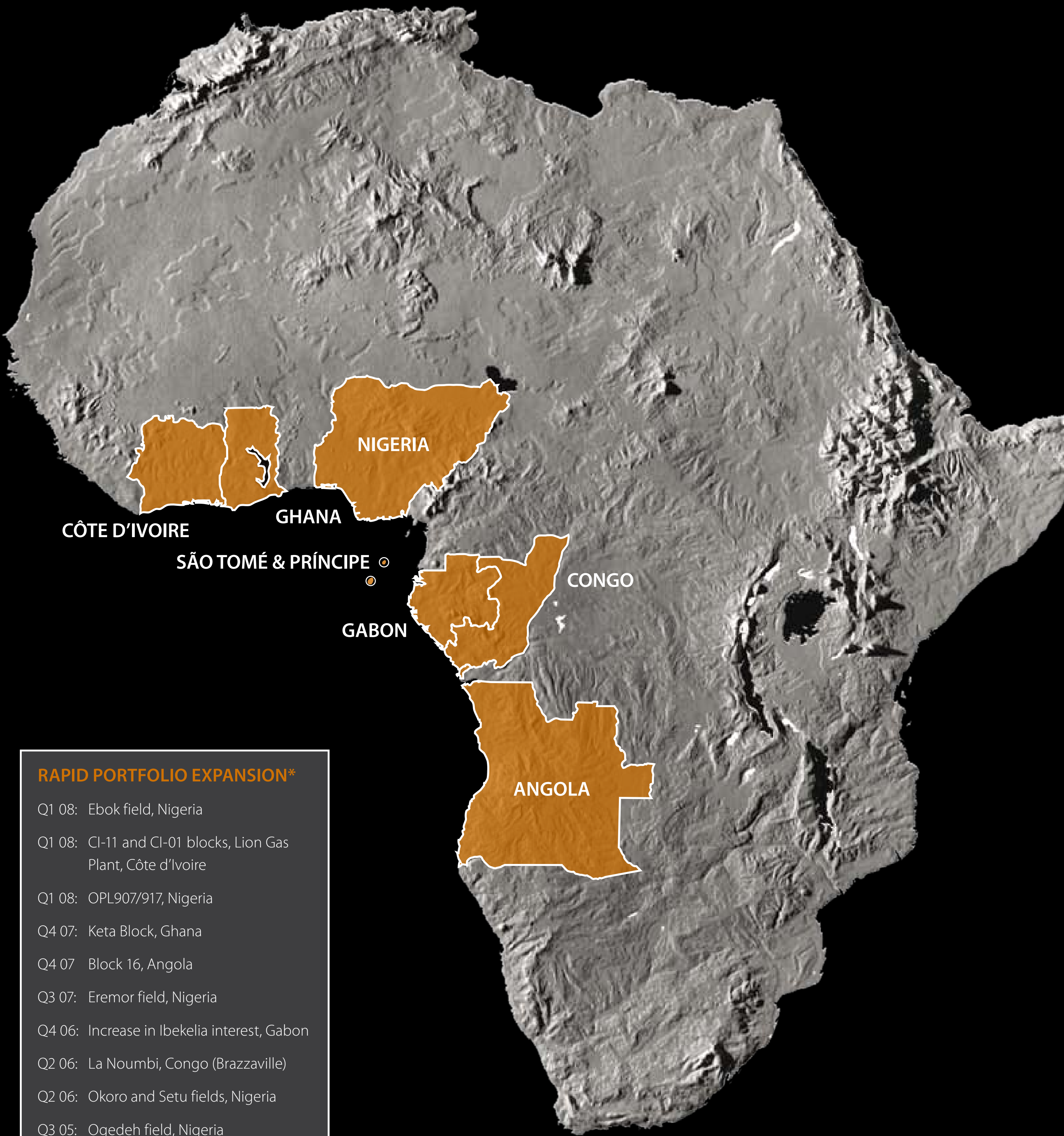
Portfolio Review

During the year, Afren made significant progress in building out its asset base, maintaining a blend of development and exploration interests across seven African countries. Our foothold in the world's fastest-growing proved resource-base is significant, and growing.

DEVELOPMENT AND EXPLORATION SUMMARY

Country	Acquired	WI (%)	Local Partner/ Operator	Work Programme
Côte d'Ivoire*				
Block CI-11	Q1 08	47.96%	Afren	Production
Block CI-01	Q1 08	80.00%(1)	Afren	Development
Lion Gas Plant	Q1 08	100.00%	Afren	Production
Nigeria				
Okoro	Q2 06	50.00%	Amni	Development
Setu	Q2 06	50.00%	Amni	Appraisal
Ogedeh	Q3 05	50.00%	Bicta	Appraisal
Eremor	Q3 07	50.00%	Excel	Development
OPL 907	Q1 08	41.00%**	GEC	Appraisal
OPL 917	Q1 08	42.00%**	GEC	Appraisal
Ebok	Q1 08	40.00%	Oriental	Appraisal
Ghana*				
Keta	Q4 07	95.00%	Afren	Exploration
Congo (Brazzaville)				
La Noumbi	Q2 06	14.00%	Maurel et Prom	Exploration
Nigeria – São Tomé & Príncipe JDZ				
Block 1	Q1 05	4.41%	Chevron	Exploration
Angola*				
Block 16	Q4 07	15.00%	Maersk	Exploration
Gabon				
Iris Marin	Q2 05	16.67%	Sterling Energy	Exploration
Ibekelia	Q2 05	20.00%	Sterling Energy	Technical Evaluation Agreement

* Subject to completion
** Held through AGER joint venture in which Afren holds a 50% combined interest.
(1) 65% direct interest and 15% additional rights.



RAPID PORTFOLIO EXPANSION*

Q1 08: Ebok field, Nigeria

Q1 08: CI-11 and CI-01 blocks, Lion Gas Plant, Côte d'Ivoire

Q1 08: OPL907/917, Nigeria

Q4 07: Keta Block, Ghana

Q4 07 Block 16, Angola

Q3 07: Eremor field, Nigeria

Q4 06: Increase in Ibekelia interest, Gabon

Q2 06: La Noumbi, Congo (Brazzaville)

Q2 06: Okoro and Setu fields, Nigeria

Q3 05: Ogedeh field, Nigeria

Q2 05: Iris Marin block and Ibekelia Licence Area, Gabon

Q1 05: Block 1, Nigeria-São Tomé & Príncipe JDZ

Q1 05: IPO on AIM

* Announced

Chairman and Chief Executive's Statement

DR RILWANU LUKMAN
Chairman and Founder

OSMAN SHAHENSHAH
Chief Executive and Founder

DELIVERY ON A CLEAR AND DIFFERENTIATED STRATEGY

When we come to write the story of the early years of Afren, we are sure that 2007 will be regarded as pivotal: a year of portfolio expansion, operational achievement and demonstrable delivery for shareholders on a focused and differentiated strategy:

> A PURE-PLAY AFRICAN VENTURE
The year 2007, and 2008 year-to-date, saw an increase in Afren's portfolio to 16 assets in seven African countries. Our resources are not distracted or diluted by exploring opportunities elsewhere. We are focused on Africa, both geographically and in utilising the African expertise and experience on the Board, in management and at every level of the Company.

> PARTNERSHIPS WITH INDIGENOUS COMPANIES, GOVERNMENTS AND NATIONAL OIL COMPANIES
We are partnered with six indigenous companies in Nigeria and the national oil company in Côte d'Ivoire.

> GROWING AFRICAN COMPONENT IN THE SHAREHOLDER BASE
The continued support by Nigerian financial institutions ($50 million loan and participation in the $230 million Okoro Setu Project Development Facility), including First City Monument Bank and Guaranty Trust Bank, is a strong endorsement of both Afren's established credibility in its principal operating region and to the maturity and funding capacity of the regional financial sector. We see increasing local participation from the growing African capital markets base in the near future.

> GAS MONETISATION
We envisage a major opportunity here which is good business, good for local economic development and good for the environment. The confluence of these three factors will create an exciting and innovative platform for growth. To this effect, we have signed a co-operation agreement with E.ON Ruhrgas AG and African LNG Holdings Limited (post period-end). Our intention is to jointly develop, collect and monetise gas for domestic and export purposes in Nigeria, and build a rapidly expanding gas asset portfolio.

In 2007, Afren put in place the drilling capability, financing structure, development plan and the production capacity for the Okoro Setu project. First oil from Okoro Setu is expected shortly, marking Afren's first organic oil production less than two years after signing the agreement with our indigenous partner. It is an exciting time for the Company as first oil production is a reflection of our team's dedication, hard work and technical competence. With development drilling under way, the Company is on track for a production target of 15,000 to 20,000 barrels of oil per day in 2008.

By industry standards, such progress is exceptional and illustrates the focused, and entrepreneurial approach that we are bringing to this and other projects. It is also a testament to our ability to work across all functions and disciplines – operational, financial, legal and strategic – in pursuit of our clear and defined goals.

AFREN – THE AFRICAN CONSOLIDATION PLAY

We have established a unique position in Africa through our focused and differentiated approach, coupled with our entrepreneurial culture and strong corporate governance principles.

Africa is the fastest-growing global resource-base, with reserves having doubled over the last two decades. Currently, 15% of oil and gas supplied to the US originates from West Africa, and this is projected to rise to 25% over the next decade. The Nigerian Government has set ambitious targets for realising value from its significant energy resources, and is looking to more than double production from 2.1 million to 5 million barrels per day. The Government's ambitious production targets are leading to a sharp focus on undeveloped assets, the majority of which are still owned by the major international oil companies. We are on the verge of witnessing the emergence of a secondary market, similar to that previously seen in the North Sea and the Gulf of Mexico.

Additionally, acreage is being increasingly awarded to indigenous companies who, in turn,

are looking to partner with independents who can offer a combination of technical expertise and/or financial resources. This presents a compelling opportunity for Afren to make a significant contribution to Nigeria's production ambitions, through its partnership approach. With our credentials in Africa now well established, Afren is an attractive partner. In 2007 and into 2008, we formed four additional partnerships in Nigeria and announced the acquisition of Devon Energy's assets in Ghana, Angola and Côte d'Ivoire, capitalising on established relationships in each of the three countries.

KEY PARTNER RELATIONSHIPS

At the heart of Afren's growing success has been our ability to attract partners of the highest calibre, whether they be Indigenous Companies, National Oil Companies, or major utility and oil and gas companies. The following partnerships were formed over the period into 2008:

AFREN AND ORIENTAL ENERGY RESOURCES LIMITED

In April 2008, we announced our sixth partnership in Nigeria with Oriental Energy Resources Limited ("Oriental") to jointly develop the offshore Ebok field which was awarded to Oriental by the ExxonMobil / Nigerian National Petroleum Corporation Joint Venture. This asset is a material proved undeveloped opportunity, with the potential to add significant reserves and production to Afren's existing portfolio.

Afren also has a collaborative agreement with Oriental to access similar proved underdeveloped opportunities from Majors in Nigeria.

AFREN AND PETROCI: STRATEGIC ENTRY INTO CÔTE D'IVOIRE

We announced after the period-end (expected completion subject to consents in first half 2008), the acquisition of Devon Energy's interests in Côte d'Ivoire, comprising a 47.96% working interest and operatorship of the producing Block CI-11; a direct 65% interest and operatorship with rights over an additional 15% interest in the undeveloped Block CI-01; and a 100% interest in the onshore Lion Gas Plant.

This offered a clear strategic fit with Afren's existing portfolio, and the Company has both acquired a fully functioning business in Côte d'Ivoire, with 100 experienced staff, and established a strategic partnership with PETROCI (the national oil company of Côte d'Ivoire). The acquisition offers a combination of production, near-term development, appraisal and exploration upside, as well as midstream interests and a full local workforce that we will now look to expand further. The acquisition significantly strengthens Afren's existing portfolio, by delivering:

> an increase in Afren's existing 2P reserve base by 28 mmboe (operator estimates as at 30 June 2007);
> immediate production and cash flow alongside production start-up at the Okoro Setu project in Nigeria;
> a material and balanced platform in a new country with significant upside; and
> portfolio and product diversification with oil, gas and high-value liquid extraction.

AFREN, E.ON RUHRGAS AG AND AFRICAN LNG HOLDINGS

In January 2008, we announced a co-operation agreement with E.ON Ruhrgas AG ("E.ON Ruhrgas") and liquefaction partner African LNG holdings ("African LNG"), to investigate the availability and accessibility of gas in Nigeria, with a focus on the Anambra Basin and South Eastern regions. The parties have the intention to jointly develop, collect and monetise the gas for domestic and export purposes.

AFREN AND GLOBAL ENERGY COMPANY LIMITED

Through a Joint Venture with Global Energy Company Limited, a leading Nigerian-based international oil and gas company active across the Gulf of Guinea, Afren has signed Production Sharing Contracts for OPL 907 and OPL 917 (post period-end). The JV partnership, Afren Global Energy Resources Limited, has taken a 41% interest in OPL 907 and a 42% interest in OPL 917, and will act as operator of both assets. Afren has a combined 50% interest in the JV, with GEC holding the remaining 50%.

The licences are located in the gas-rich Anambra Basin, with estimated remaining gas resources in excess of five trillion cubic feet of gas. Despite this potential, the basin remains largely unexplored with only 30 wells drilled to date, leading to six discoveries.

This exciting venture, coupled with our other indigenous partnerships with Amni International Petroleum Development Company, Bicta Energy, Excel Exploration & Production Limited, Independent Energy Limited, and Oriental Energy Resources form an integral part of our growth strategy as we continue to develop a broad asset base.

AFREN – A LEADING PARTICIPANT IN GULF OF GUINEA GAS MONETISATION

The Gulf of Guinea has over 200 trillion cubic feet of gas reserves, with more than 80% of those reserves situated in Nigeria. The Nigerian Government's 2008 Gas Master Plan focuses on diversifying gas usage between domestic and export purposes. Exploration, aggregation and reduction of flaring are integral to the Gas Master Plan. Against this background, any future joint efforts through the co-operation agreement with E.ON Ruhrgas and African LNG will work towards a multi-faceted gas solution, including an LNG export facility. Afren remains at the forefront in contributing to the Government's ambitions to develop Nigeria into a major gas producer and assist with the reduction of gas flaring in the region.

LNG will be a key source of new supply to meet increasing global gas demand and is highlighted as a key element in diversifying the gas supply-base of E.ON Ruhrgas. With the depletion of indigenous supplies from the US and Europe, and a lack of flexibility of piped alternatives, LNG is emerging as a swing supplier in an increasingly global market.

The co-operation agreement with E.ON Ruhrgas and African LNG to develop downstream solutions allows Afren to capitalise on the anticipated growth in global LNG demand, without diluting its upstream focused strategy.

The art featured above on this page is Animal Village by Tola Wewe

Chairman and Chief Executive's Statement continued

OPERATIONS UPDATE

NEAR-TERM DEVELOPMENT AND PRODUCTION EXPECTATION FROM NIGERIA

THE FLAGSHIP OKORO SETU PROJECT

In May 2007, a five-year contract was awarded to Bumi Armada Berhad for the Armada Perkasa FPSO. The vessel has an oil storage capacity of 360,000 barrels and a processing capacity of 27,000 barrels of liquids a day. Her crew is made up mainly of Nigerian nationals. Many are from the onshore community local to the Okoro Setu fields. With the necessary upgrade work completed, and the 10-point fixed mooring system for the FPSO installed in January 2008, the vessel arrived on location in March 2008.

A rig-installed platform will be used to provide the well-head access for the production wells. The structures were fabricated in Nigeria at the naval dockyard on Victoria Island. The sub-sea drilling template was installed in January 2008 and the jacket and main decks were installed in April 2008. Pipelines connect the well-head platform to the FPSO and will transport oil and gas-lift gas. Manufacture of the flexible flow-lines is complete and installation will occur shortly.

EREMOR

The Eremor-1 well will be re-completed as a production well with standard down-hole sand control. A second production well is planned to follow soon after production has commenced and initial field performance has been established. We expect first oil production in fourth quarter 2008. Netherland Sewell & Associates recently issued a certified reserves report with oil reserves of 2.9 mmbbl (1P) and 4.1 mmbbl (2P).

OGEDEH

Several development options are being evaluated together with the owners of the adjacent marginal fields Ajapa and Akepo. A cluster development is considered to be the optimal approach, with appraisal drilling provisionally scheduled for fourth quarter 2008.

OFA

In 2007, Afren and IEL carried out a test programme on three of the eight potential oil zones using a hydraulic workover rig. An Electric Submersible Pump (ESP) was used to supplement the natural flow.

The lower-most zone (N4000) initially produced oil at rates of up to 1,000 bopd but production was not sustained due to water production. A second test of the N1000/M8800 zones was undertaken and despite initial minor oil production, the zones only produced formation water. Following the test results, Afren has taken the decision not to proceed with the development at the present time and will assess the potential for other field development options with our partner IEL.

EXPLORATION

The addition in 2007 of the Keta Block in Ghana and Block 16 in Angola (subject to final consents) has significantly upgraded the high-impact nature of our exploration portfolio; together, they offer significant oil resource potential.

GHANA: KETA BLOCK

In November 2007, Afren announced the signing of an agreement to acquire, subject to final government approvals, a 95% operated interest in the Keta Block located offshore eastern Ghana in the Volta River Basin, which covers a total area of 5,500km^2. The primary play type is very similar to that successfully proven by recent drilling in the Jubilee and Odum discoveries. The block is covered by 1,600km^2 of 3D seismic that has recently been re-processed, with a marked improvement in data quality. Further technical evaluation of the re-processed seismic data is ongoing. A commitment well is planned for fourth quarter 2008 and the Transocean Deepwater Discovery has been contracted. The first well will target the Cuda prospect, which we estimate to contain over 300 mmbbl of mean Prospective Resources.

ANGOLA: BLOCK 16

The acquisition of a 15% stake in Block 16, subject to final approvals, provides Afren with entry into acreage with high exploration potential. Block 16 is located offshore Angola within the Lower Congo Basin and covers an area of 4,936km^2. The Block is covered by a total of 3,764km^2 of 3D seismic. Three commitment wells are scheduled to be drilled, commencing in third quarter 2008.

In relation to Cabinda Block B, Afren allowed its option over a 5% stake to lapse, following the Government's decision to include the block in the up-coming licensing round.

GABON: LOW-COST EXPLORATION

The THAM-1 well was completed earlier this year, and was plugged and abandoned with oil shows. The current licence period expired in March 2008 and a decision has been taken by the Joint Venture to relinquish the Themis Marin block.

Afren increased its equity interest in the Iris Marin permit from 12.86% to 16.67%. The Charlie prospect on the Iris Marin permit will be drilled in mid-2008, and Afren estimates the prospect to have gross potential resources of 35 mmbbl. Afren is also currently negotiating an Exploration and Production Sharing Contract with the Gabonese authorities in respect of the Ibekelia licence which is expected to be finalised in 2008.

CONGO: LA NOUMBI

Afren holds a 14% interest in this high-impact exploration licence, with multiple reservoir targets covering an area of 2,830km^2. Despite poor reservoir permeability at the Doungou-1 well (drilled in August 2007), the well revealed a working hydrocarbon system in the primary sub-salt target levels. Preliminary interpretation of the new seismic data-set has identified several attractive prospects mapped at several stratigraphic levels. Economic evaluation of the more promising prospects confirms Afren's view in relation to the highly attractive prospectivity of the block. Technical evaluation is ongoing and the partners plan to drill one or two exploration wells in fourth quarter 2008, subject to rig availability.

A MILESTONE PARTNERSHIP

The Gulf of Guinea offers considerable potential for gas production: reserves there exceed 200 trillion cubic feet, with more than 80% situated in Nigeria.

In January 2008, and in keeping with our strategy of finding a solution for gas and forging key alliances with strategic partners, Afren signed a co-operation agreement with E.ON Ruhrgas AG and African LNG Holdings. Our joint focus will be on the Anambra Basin and South Eastern regions, to develop, collect and monetise gas for domestic and export purposes. This is in line with the Nigerian Government's 2008 Gas Master Plan, in which exploration, aggregation and the reduction of flaring are integral elements.

Chairman and Chief Executive's Statement continued

NIGERIA: OPL 907 AND OPL 917
The two licences in the Anambra basin cover an area totalling over 3,500km^2 and contain existing gas discoveries that require further appraisal. A number of additional leads and prospects have been identified. The near-term work programme includes additional data gathering and analysis on the existing discoveries. Additional 2D seismic data will be acquired over the existing discoveries later in 2008, prior to appraisal drilling in 2009. The seismic will also evaluate the identified exploration leads and prospects.

NIGERIA – SÃO TOMÉ & PRÍNCIPE JDZ: BLOCK 1
Further drilling on Block 1 is expected, following the exploration wells to be drilled on the adjacent Blocks 2, 3 and 4 that are scheduled to begin in early 2009.

FINANCIAL REVIEW
Afren raised over $360 million in equity and debt financing over the course of the year. Cash reserves across the Group amounted to $91.8 million at the end of the year, with long-term debt of $146.7 million. Post period end the company successfully raised $236 million, through a significantly over-subscribed equity offering.

The Group made a loss of $39.0 million compared with a $15.8 million loss in 2006. The increased loss was largely due to the inclusion of an exploration write-off of $12.0 million (2006: $nil) consisting of $7.1 million relating to the Ofa well test operations in Nigeria; $2.1 million associated with drilling of the Doungou-1 well on the La Noumbi licence in Congo; $2.4 million for the THAM-1 well on the Admiral prospect and other associated costs in Themis Marin; and the costs incurred with the lapsed option over Cabinda Block B ($0.4 million).

In addition, an accounting loss on hedging of $6.0 million was incurred, reflecting the marked-to-market position of certain instruments taken out by Afren to protect against low oil prices for a proportion of Afren's oil sales from the Okoro Setu Project, as required under our loan agreement. There is no cash impact of these instruments until after production start-up.

Total administrative expenses for the group were $18.1 million, an increase of $5.5 million from 2006, mainly due to the Company's expanded operational and business development activities, reflected in an increase in staff numbers from an average of 25 in 2006 to 38 in 2007. Net interest and financing costs for the Group in 2007 amounted to $2.7 million (2006: $2.9 million). Overall costs are similar despite increased debt levels, as the majority of the interest cost is related to the development of the Okoro Setu project, and is therefore capitalised.

RISKS AND RESPONSIBILITIES
Afren has made a commitment to perform responsibly and positively towards its staff and contractors, the physical environments and the host communities that its business may affect. In 2007, our operations focused on the development of the Okoro Setu project. We worked closely with key contractors to manage EHSS and security issues which resulted in excellent performance; no injuries, environmental or security incidents. Within the Okoro Setu Project Community Development Programme, we awarded 78 secondary and tertiary scholarships to the youth of Eastern Obolo. We also contributed towards a community development micro-credit scheme and our contribution resulted in a 30% increase of available micro-credit funds.

2008: A TRANSFORMATIONAL LEAP IN AFREN'S DEVELOPMENT
Through our focused and differentiated strategy we have built a diversified portfolio of 16 assets in 7 African countries in less than 36 months. This represents unparalleled portfolio growth amongst the peer group of international independents.

Operationally, the team has demonstrated a high degree of technical competence, and its energetic and entrepreneurial approach, with development drilling on the Okoro Setu project in Nigeria commencing a mere 20 months after signing the agreement with our indigenous partner.

Financially, we remain in a strong position, and will benefit during the course of 2008 from maiden revenue from Côte d'Ivoire and Nigeria. We have proved prudent in financing our expansion, optimising the capital structure to maximise shareholder value growth. The Company will continue to seek opportunities to further increase local participation from the growing African capital markets base.

We believe that the Afren story has only just begun. The acquisition and strategic entry into Côte d'Ivoire provides immediate production; we expect production ramp-up from the Okoro Setu project and the Eremor field; and we're looking ahead to an exciting high-impact exploration programme from the existing portfolio.

Through our partnership-based approach, we will continue to consolidate asset opportunities. Where appropriate, we will also create further shareholder value through participating in selective corporate consolidation.

In summary, Afren has built an exciting foundation on which to achieve transformational growth, and create substantial shareholder value, through 2008 and beyond.

DR RILWANU LUKMAN
Chairman and Founder

OSMAN SHAHENSHAH
Chief Executive and Founder

ACQUIRING IMMEDIATE PRODUCTION IN CÔTE D'IVOIRE

In March 2008, Afren's goal to expand its portfolio took a significant step forward with the acquisition of the interests of Devon Energy Corporation in Côte d'Ivoire (subject to final approvals).

This strategic acquisition will give Afren immediate access to the production, proven reserves and cash flow of a fully functioning business. Afren took a 47.96% working interest and operatorship of the producing Block CI-11; a direct 65% interest and operatorship (with rights over an additional 15% interest) in the undeveloped Block CI-01; and a 100% interest in the onshore Lion Gas Plant (LGP) effective 30 June 2007.

The effect of the acquisition (which is subject to final approvals) will be to give Afren net daily volumes of approximately 3,000 entitlement boepd from upstream oil and gas production and NGL extraction. It also represented combined net 2P reserves of approximately 28 mmboe as at 30 June 2007.

Review of Operations

MR EGBERT IMOMOH
Executive Chairman, Afren Nigeria

Afren's principal development assets are located in Nigeria:
> Okoro Setu – 2P reserves of 42 mmbbl
> Eremor – 2P reserves of 4 mmbbl
> Ogedeh – contingent resources of 10 mmbbl

NIGERIA

The Flagship Okoro Setu development

1. BACKGROUND

The Okoro Setu field lies within OML 112 in the eastern part of the offshore Niger Delta. OML 112 was awarded to Amni International Petroleum Development Company Limited (Amni) in 1993 as part of the Nigerian Government's indigenous licensing programme.

In 2006, Afren entered into a Production Sharing and Technical Services Agreement with Amni to further appraise and develop the Okoro Setu fields within a defined exclusive area in the eastern part of the Block. In accordance with this agreement, Afren is meeting the development costs for the field and providing technical services to Amni. Afren will recover its costs, plus an additional uplift, through production.

2. FIELD TECHNICAL BACKGROUND

The Okoro Field was discovered in 1973 by Japan Petroleum with the Okoro-1 well. In 2006, Amni and Afren further appraised the field with the Okoro-3 and Okoro-3 Side Track (ST) wells. Okoro-3 encountered oil in the "Upper Hydrocarbon Sand", and Okoro-3ST found both "Upper and Lower Hydrocarbon Sand" to be oil-bearing. The reservoir sands are excellent-quality, unconsolidated, delta top sands which will require sand control completion techniques for the production wells. Okoro oil is approximately 23 deg API with low viscosity and a low GOR. Reservoir pressure and temperature are normal.

These successful results allowed Amni and Afren to move forward with a Field Development Plan (FDP) for the Okoro field, which was approved by the Nigerian Government in March 2007. Major contracts for the production facilities were awarded in May 2007 and development drilling commenced in February 2008.

The initial development will comprise five horizontal or highly deviated wells to target the Upper and Lower Hydrocarbon sands, which were found to be oil-bearing in the Okoro-1, 3 and 3ST wells. The production wells are planned to have high angle/horizontal reservoir completions of up to 1,500ft in length. The objective of the well design is to achieve optimum oil flow from the wells while controlling reservoir drawdown and sand production.

The Setu field is located 7km north of Okoro and was discovered by Amni in 2002 with the Setu East-1 well. Five oil-bearing zones were encountered in the Agbada Formation and all were successfully tested. Rates above 1,900 bopd were tested from each of the zones. An appraisal well, Setu East-2 was drilled 3km to the west but was not successful. Work is ongoing to determine the optimal development plan for the field.

3. FIELD DEVELOPMENT PLAN

The Okoro development wells will be drilled from a single location and will be supported by a steel well-head structure. Well fluids will be transported via flexible pipelines to the Armada Perkasa FPSO, which is spread-moored appropriately 800m south east of the field. The FPSO will process the fluids, producing stabilised crude for storage in the FPSO. Produced water will be discharged after clean-up, while gas produced will be utilised for fuel, as well as for gas-lift, to aid well productivity.

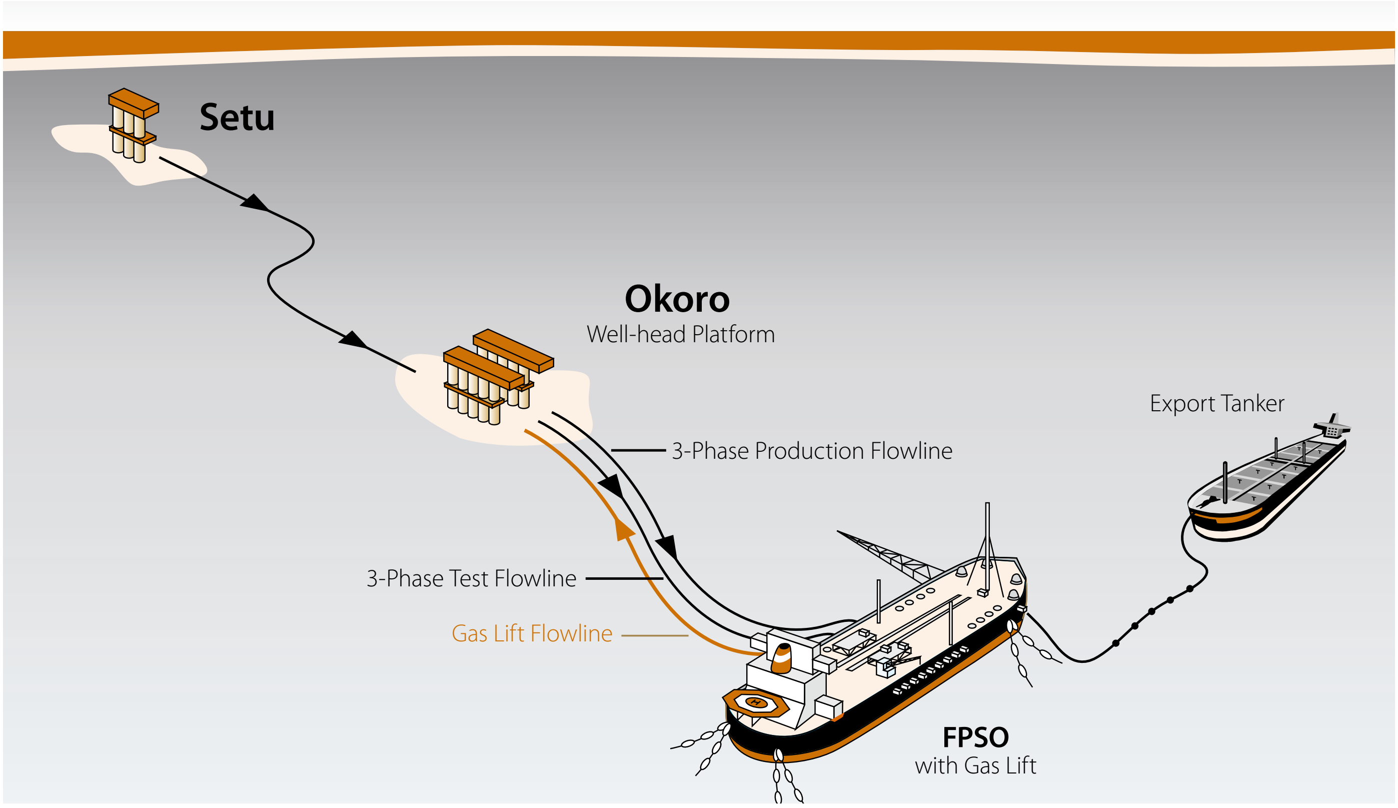
4 OPERATIONS UPDATE

FLOATING PRODUCTION STORAGE AND OFFTAKE ("FPSO") AND UPGRADE

In May 2007, a five-year firm contract was awarded to Bumi Armada Berhad, a subsidiary of a major Malaysian conglomerate, for the Armada Perkasa FPSO. The 72,000 dwt vessel was built in 1975 as a trading tanker and converted for FPSO duty 10 years ago. It has an oil storage capacity of 360,000 barrels and a processing capacity of 27,000 barrels of liquids a day. Two gas-lift compressors provide a total of 20 mmcf/d for gas-lift activities for the production wells. Her crew is made up mainly of Nigerian nationals, many from the onshore community local to the Okoro field. Work required to upgrade the FPSO for Okoro-specific duty commenced in July 2007, and was completed in January 2008. The vessel arrived in Nigeria in March 2008. The 10-point fixed mooring system for the FPSO was installed in January 2008. The FPSO has been hooked up to the anchor system.

WELL-HEAD PLATFORM (WHP) AND TEMPLATE

It was decided to utilise a rig-installed platform to provide the well-head access for the production wells. This concept provides an alternative to a more conventional steel-piled jacket structure which requires a derrick barge for installation. The UK-based contractor UWG was selected to provide their version of a



rig-installed platform known as CoSmos. Included in the contract was the supply of a nine-slot drilling template. These structures were all designed in the UK but have been fabricated by a Nigerian contractor CMES at the naval dockyard in Lagos. The sub-sea drilling template was installed in January 2008.

FLOWLINES

Pipelines connect the WHP to the FPSO and will transport produced fluids and gas-lift gas. It was decided that installing flexible pipes from a reel on the back of a work boat offered advantages over fixed steel pipe installed by a conventional pipe laybarge. A contract was duly awarded to a US-based company DeepFlex Inc. for the manufacture and installation of their patented polycarbonate flexible lines. Manufacture is complete and installation will occur shortly.

5. PRODUCTION OUTLOOK

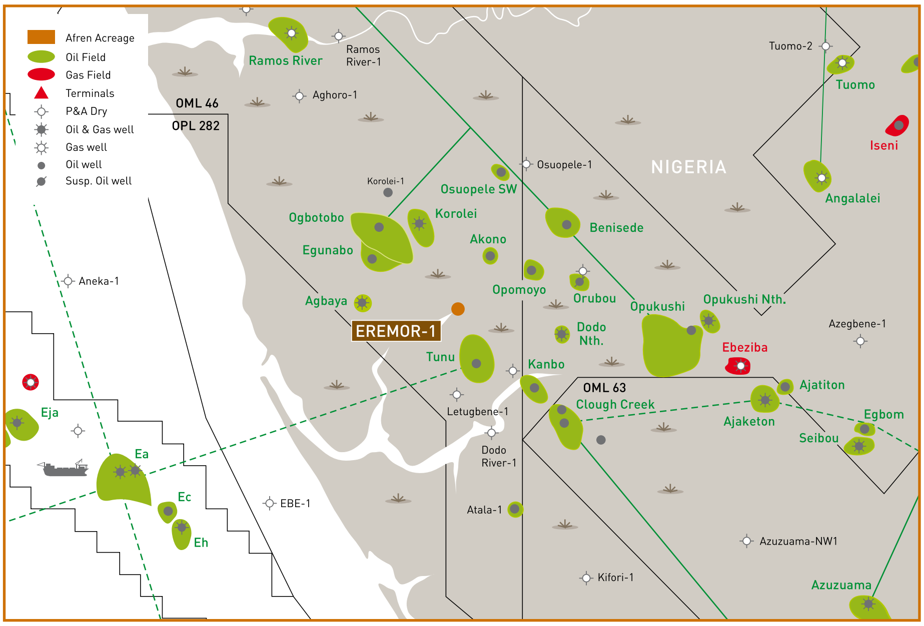
Amni and Afren estimate the combined STOIIP range for the Upper and Lower Sands in the Okoro field is 80 – 102 – 130 mmbbl (P90 – P50 – P10). The combined range of oil reserves for the Upper and Lower Sands in the Okoro Field are estimated to be 28 – 38 – 52 mmbbl (P90 – P50 – P10) assuming the recovery factor to be in the 30–45% range.

Reservoir modelling suggests that a field recovery factor in excess of 30% is achievable with an initial five-well development. The well design has been optimised using reservoir modelling with the proposed completion design giving an anticipated flow rate of circa 15,000 bopd.

The STOIIP range for Setu is currently assessed by Amni and Afren at 8 – 12 – 18 mmbbl (P90 – P50 – P10), of which 2 – 4 – 6 mmbbl (P90 – P50 – P10) are estimated to be recoverable reserves assuming all five zones are developed. Development modelling work on the field is ongoing.

The art featured above is The Royal Family by Tola Wewe

Review of Operations
continued



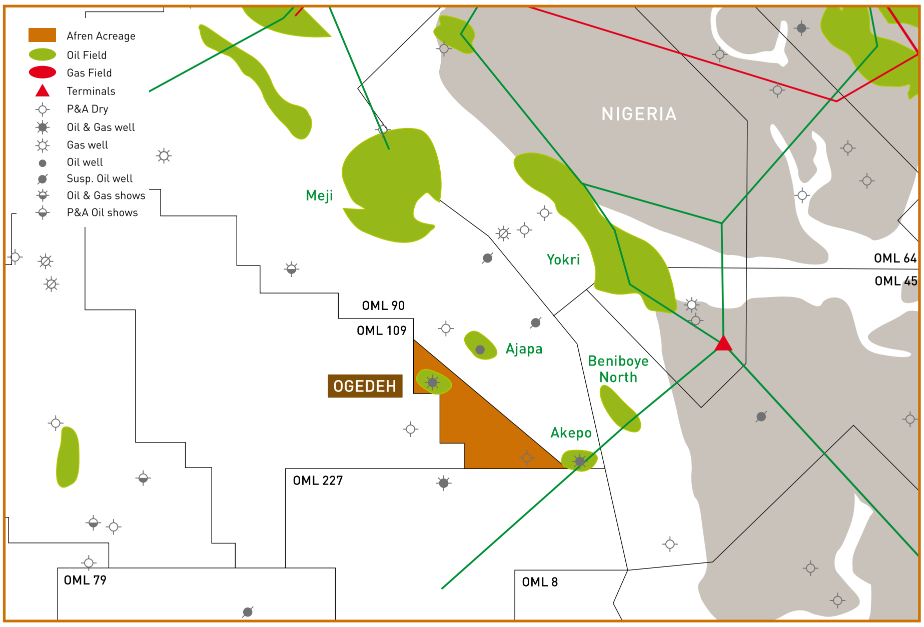
Near-term focus on acquisition and exploitation of undeveloped fallow oil fields

EREMOR

1. BACKGROUND

In July 2007, Afren entered into a Financing and Technical Services Agreement with Excel Exploration & Production Ltd ("Excel"), a well-established indigenous Nigerian company, for the development of the Eremor Field. Eremor was awarded to Excel as part of the 2003 Marginal Field round and is located in OML 46 in the western Niger Delta.

Under the terms of the agreement, Afren will finance the development activities and will recover costs preferentially from oil production revenue until payback is achieved. Thereafter, profit oil is shared equally between Afren and Excel.



OGEDEH

1. BACKGROUND

In August 2005, Afren signed a Financing and Production Sharing Agreement with Bicta Energy and Management System Ltd ("Bicta") for the development of the Ogedeh field. The field was awarded to Bicta as part of the 2003 Nigerian Marginal field licensing round. Ogedeh is situated in OML90 in the shallow waters in the Western Niger Delta.

Under the terms of the agreement, Afren will finance the appraisal and development activities and will recover costs preferentially, with an uplift, from oil production revenue until payback is achieved. Thereafter, profit oil will be shared equally between Afren and Bicta. The Ogedeh field forms part of Afren's ongoing strategy to participate in, and deliver value from, small undeveloped fields in Nigeria. Afren will

2. FIELD TECHNICAL BACKGROUND

The field was discovered by Shell in 1978 with the Eremor-1 well. Five separate oil and gas zones were encountered, with the D3.0 oil zone being the most attractive. Three additional wells were drilled between 1984 and 1990 which delineated the field. Eremor-1 was re-entered and the D3.0 was production-tested in 2005. Good oil samples of low GOR 22 deg API oil were recovered and the test data indicates that production rates of up to 2,000 bopd are achievable.

3. FIELD DEVELOPMENT PLAN AND OUTLOOK

The Eremor-1 well was suspended and will be re-completed as a production well, using down-hole sand control. A second production well is planned to follow after production has commenced and initial field performance has been established.

The original plan to construct a pipeline to the nearby Shell-operated Tunu flow station is being reviewed. Alternative export solutions are actively being pursued, with the preferred option being a barge facility to process the Eremor crude and then transport the treated crude to the Brass Creek manifold. First oil production is expected in fourth quarter 2008.

The oil-in-place range for the D3.0 zone is 8-30 mmbbl, with a mean of 17 mmbbl. The initial two-well development programme is expected to produce 4-5 mmbbl, with an initial production rate of 2,000 bopd from the re-entered well. Netherland Sewell & Associates recently issued a certified reserves report with oil reserves of 2.9 mmbbl (1P) and 4.1 mmbbl (2P).

continue to use its local expertise to develop partnerships on proven undeveloped fields formerly held by the Majors and awarded to indigenous operators.

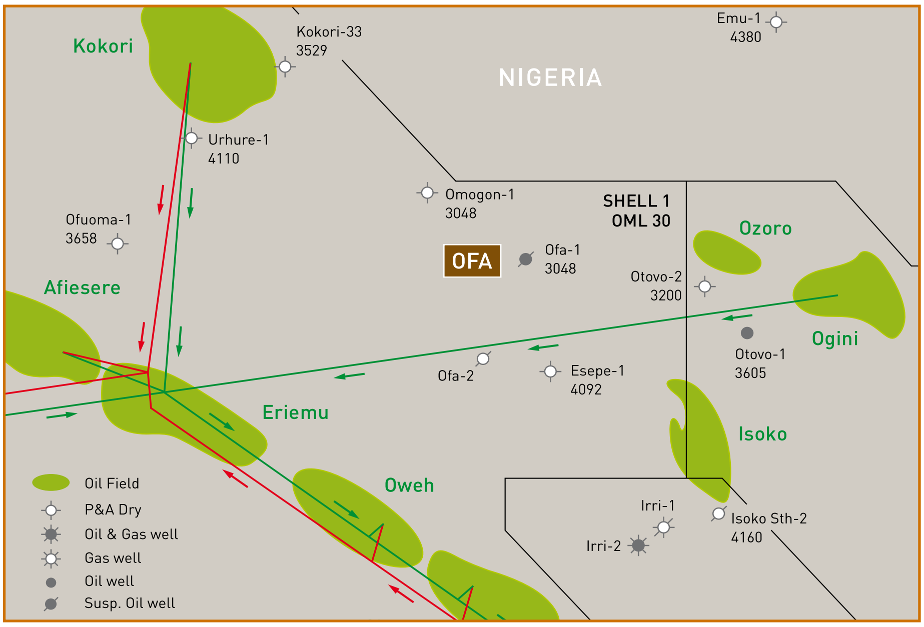
2. FIELD TECHNICAL BACKGROUND

The Ogedeh-1 discovery well was drilled in 1993 by Chevron; oil and gas were discovered in two separate sandstones in the Agbada formation at depths between 5,500 and 9,000ft. The field is covered by good-quality 3D data. A full technical evaluation of the existing data has been carried out by Afren, resulting in gross Contingent Resources for the field ranging from 5-15 mmbbl oil. Additional exploration potential is recognised at several shallow levels, and will be tested by the first appraisal/development well. This could add an additional 5-10 mmbbl of resources.

3. FIELD DEVELOPMENT PLAN AND OUTLOOK

Several development options are being reviewed, in conjunction with the owners of the other marginal fields in OML 90, Ajapa and Akepo. A cluster-development is currently the favoured concept. Appraisal drilling is planned on the Ajapa field in second quarter 2008 and a well is provisionally scheduled for fourth quarter on Ogedeh. The results of the drilling activity will guide the final development concept.

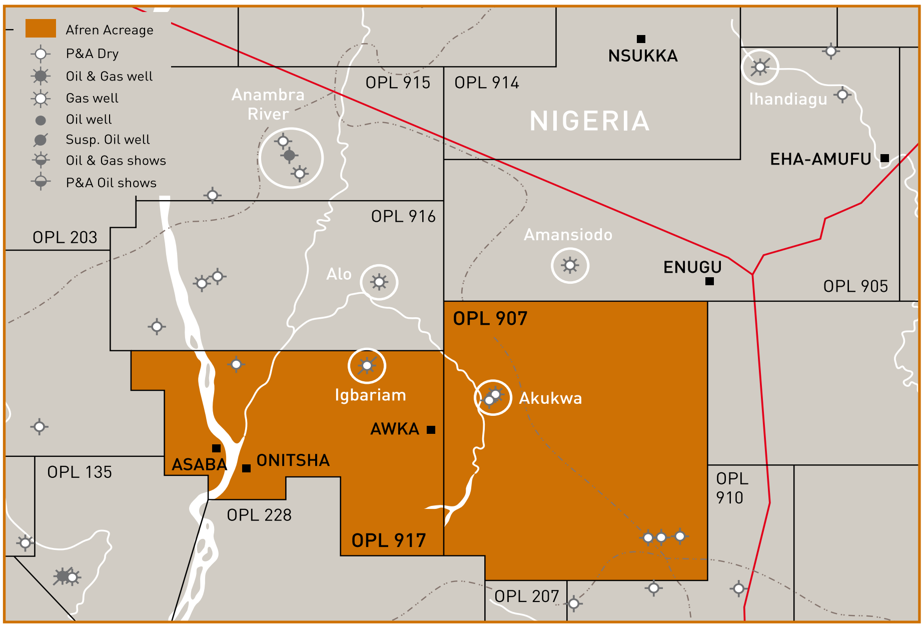
Review of Operations
continued



OFA

1. BACKGROUND

In May 2007, Afren entered into a Farm-in Agreement with Independent Energy Limited ("IEL") for the appraisal and development of the Ofa field ("Ofa"). Ofa was awarded to IEL as part of the 2003 Marginal Field round and is located in OML 30 onshore in the northern Niger Delta.



ANAMBRA BASIN

IN PURSUIT OF OUR GAS MONETISATION STRATEGY

In March 2008, Afren announced the signature of Production Sharing Contracts for two licences, OPL 907 and 917 in the Anambra Basin, located onshore to the north of the well-known Niger Delta hydrocarbon province. Exploration activity occurred with some success in the Anambra Basin from the 1950s to the 1980s. Six discoveries were made from a total of 30 exploration wells, without the benefit of modern seismic data techniques.

The discoveries made were predominantly gas and were not followed up due to the lack of a gas market. The basin is under-explored and is considered to have potential gas resources in excess of 5 tcf. Recent initiatives launched by the Nigerian Government in developing the country's gas resources have now made the Anambra Basin an attractive commercial proposition.

2. FIELD TECHNICAL BACKGROUND

The field was discovered by Shell with the Ofa-1 well in 1970; up to eight potential oil-bearing zones were encountered. Shell completed the well in the deepest zone (N4000) in 1979 and unsuccessfully attempted to flow the well under natural depletion. The lack of flow was believed to be due to the heavy nature of the crude oil. An independent assessment by Gaffney Cline & Associates was undertaken in 2006, and estimated that the combined oil in place for the Ofa field could be up to 150 mmbbl.

In 2007, Afren and IEL carried out a test programme on three of the eight potential oil zones using a hydraulic workover rig. An electric submersible pump (ESP) was used to supplement any natural flow in order to determine if commercial flow-rates could be achieved.

The lowermost zone (N4000) initially produced oil at rates up to c. 1,000 bopd but production was not sustained due to production of water. A second test of the N1000/M8800 zones was undertaken but despite initial minor oil production, the zones only produced formation water. Following these test results, Afren has decided not to proceed with development at the present time, but will assess the potential for other field development options with its partner IEL.

Afren holds the interest in the licences through a Joint Venture with Global Energy Company Limited of Nigeria, a leading indigenous company engaged in providing services to the oil and gas industry. The JV partnership, Afren Global Energy Resources ("AGER") holds a 41% interest in OPL 907 and a 42% interest in OPL 917, and will act as operator for both assets.

OPL 907

The licence covers 1,462km^2 and contains the Akukwa gas and condensate discovery which was discovered by Shell/BP in 1955. A second well was drilled in 1956 which encountered over 500 ft net gas pay in Cretaceous sandstones. The current data-sets, and in particular the quality of the seismic data, are not sufficient to quantify the size of the discovery. The first stage of the initial work programme will include collation and evaluation of the existing data, followed by the acquisition of 2D seismic data and the drilling of one or more appraisal wells on the Akukwa discovery. The other JV participants are indigenous Nigerian companies: Buston Energy Resources Ltd (25%), Allene Exploration & Production Ltd (14%), Kaztec Engineering Ltd (5%), VP Energy Ltd (3%), De Atai Oil Services International Ltd (2%) and Bepta Oil & Gas Ltd (10%).

OPL 917

The licence covers 2,284km^2 and contains the Igbariam discovery. The Igbariam-1 well was drilled by Shell/BP in 1971, with gas and condensate discovered in Cretaceous sandstones. A total of over 200ft of net hydrocarbon pay was encountered but the well was not tested.

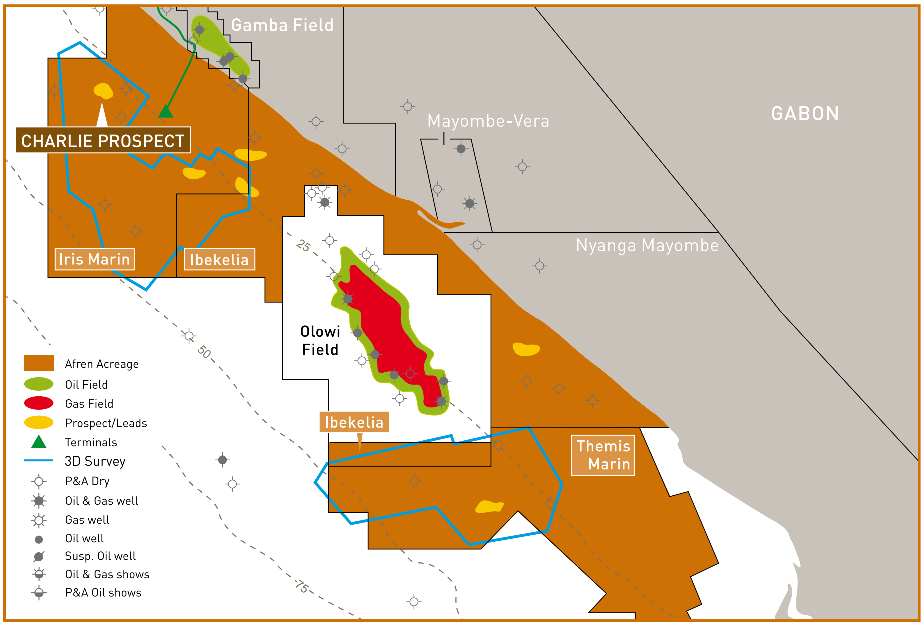
The first part of the initial work programme will include a full evaluation of the existing data, followed by the acquisition of 2D seismic data and the drilling of at least one appraisal well on the Igbariam discovery.

The other JV participants are indigenous Nigerian companies: Petrolog Oil & Gas Ltd (18%), VP Energy Ltd (17%), De Atai Oil Services International Ltd (10%) and Goland Petroleum Development Company Ltd (13%).

FORWARD WORK PROGRAMME

The work programme for both licences is very similar and will be carried out in conjunction. Data collection and evaluation is ongoing and plans to acquire new 2D seismic data in late 2008 are underway, with drilling expected in 2009. The community engagement programme has also commenced.

Review of Operations
continued

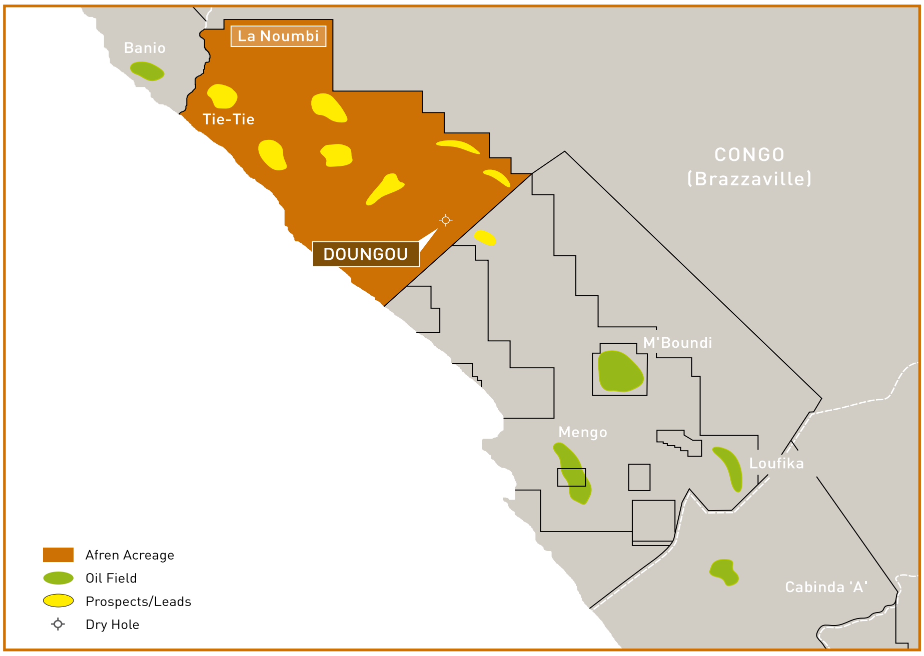


GABON

1. BACKGROUND

Afren has held licence interests in the shallow water area of Gabon since 2005. The primary exploration target in the area is the prolific pre-salt Gamba sandstone. The permits are adjacent to the Olowi Field, and are on-trend with the producing Etame complex to the south which is reservoired in the Gamba. All of the licences are operated by Sterling Energy plc ("Sterling") with Addax Petroleum as the other JV partner.

The Iris Marin and Themis Marin permits are held under separate Exploration and Production Sharing Contracts ("EPSC").



CONGO

1. BACKGROUND

Afren holds a 14% interest in the La Noumbi exploration permit, onshore Congo in Brazzaville. The acreage is on-trend with the M'Boundi field to the south and similar plays are expected in La Noumbi.

The co-venture partners are Maurel et Prom, holding a 48.5% interest and acting as the operator, and Burren Energy plc holding a 37.5% interest. The Burren equity is in the process of being transferred to Eni SPA as a result of the latter's corporate acquisition.

2. THEMIS MARIN

Following extensive seismic re-processing and interpretation throughout the last eighteen months, the technical evaluation of the block was completed during the year.

The remaining commitment well, THAM-1, drilled the Admiral prospect and was spudded on 30 December 2007, drilling to a total depth of 1,330m. Operations were completed in mid-January. The well encountered the Gamba reservoir deep to prognosis with only minor oil shows. The probable cause of failure is the lack of closure at the well location. The current licence period expired in March 2008, and a decision was taken by the partners to relinquish the block.

3. IRIS MARIN PERMIT – EXPLORATION DRILLING IN 2008

Together with the adjacent blocks, and following extensive seismic reprocessing and interpretation, a prospect inventory for the acreage was compiled during the year. The most attractive prospect, Charlie, will be drilled in 2008 using the Todco 156 drilling rig, with Addax acting as drilling operator. Afren estimates the prospect to have gross mean resources of 35 mmbbl, with a relatively high probability of success.

Afren, along with co-venture partners, increased their equity interest in the Iris Marin permit from 12.86% to 16.67% following the mid-2007 withdrawal of Petroleum Oil & Gas Corporation Pty Limited of South Africa (PetroSA). The licence is currently in the third term and the Charlie well will fulfil the remaining work commitment.

4. IBEKELIA LICENCE AREA – CONVERSION TO AN EXPLORATION AND PRODUCTION SHARING CONTRACT (EPSC)

Afren has a 20% interest in Ibekelia, in conjunction with joint venture partners Sterling and Addax. In June 2007, the group agreed to go forward and negotiate an EPSC with the Gabonese authorities. This was progressing at year-end 2007 and is expected to be finalised by mid-2008.

2. 2007 ACTIVITY

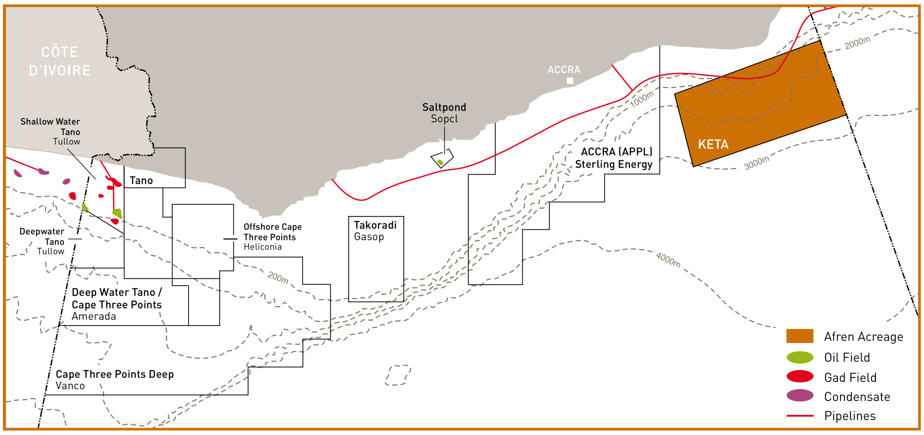
2D seismic acquisition was completed in the early part of the year resulting in a total of 940km of new, good-quality seismic data. The data has been combined with reprocessed older 2D seismic data acquired in the 1980s by previous operators to provide thorough seismic coverage of the most prospective areas of the block.

The Doungou-1 exploration well was spudded on 13 August and reached a total depth of 2,602m on 26 September 2007. This is the first exploration well drilled by the current Joint Venture. The well encountered good oil shows at several levels but the reservoir quality in the primary Djeno/Vandji formation target was poor due to low permeability. The well was plugged and abandoned.

3. OUTLOOK: FURTHER EXPLORATION WELLS TO BE DRILLED IN 2008

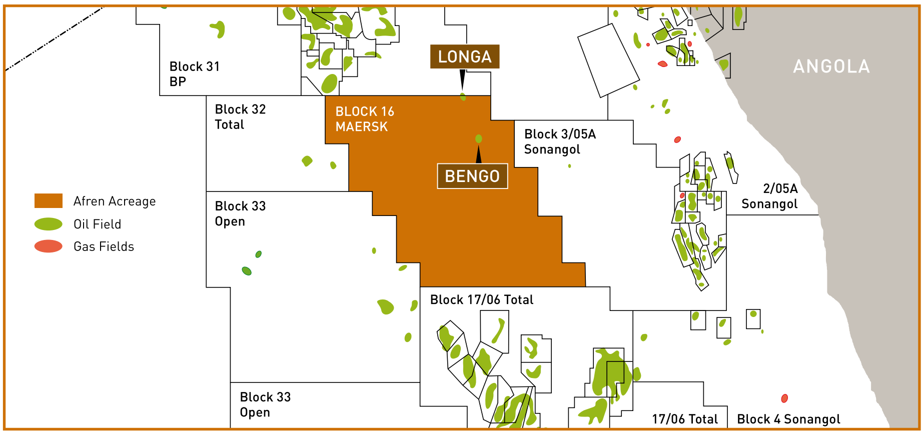
Preliminary interpretation of the new seismic data set has demonstrated that several attractive prospects are mapped at a variety of stratigraphic levels. Although technical evaluation is ongoing, Afren anticipates that one or two exploration wells will be drilled in fourth quarter 2008, subject to rig availability.

Review of Operations
continued



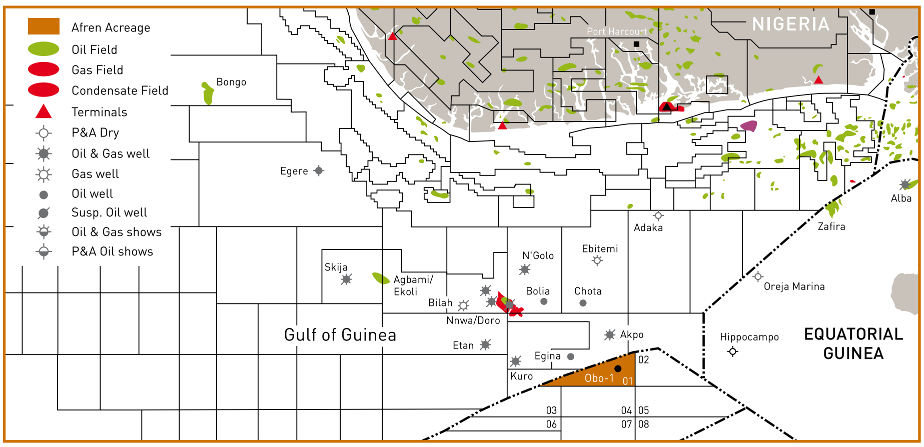
GHANA
KETA BLOCK

In November 2007, Afren announced that it had entered into agreement with Devon to acquire, (subject to final approvals) a 95% working interest and operatorship of the Keta Block, which is located offshore Eastern Ghana, positioned at the heart of the Volta River Basin. GNPC holds the remaining 5% interest and is carried through the exploration period. The block covers an area of 5,500km², in water depths ranging from 1,000m to 2,800m.



ANGOLA
BLOCK 16

Also, in November 2007, Afren announced the acquisition (subject to final approvals) of a 15% working interest in Block 16 from Devon Energy Corporation ("Devon"). The Joint Venture partners on the block are Maersk – the operator (50%), Odebrecht (15%) and Sonangol (20%). Block 16 is situated offshore Angola within the Lower Congo Basin and it covers an area of 4,932km² in water depths ranging from 250m to 1,500m.



NIGERIA – SÃO TOMÉ & PRÍNCIPE JOINT DEVELOPMENT ZONE
BLOCK 1

Afren holds a 4.41% net working interest in the JDZ Block-1 exploration licence through a 49% equity interest in Dangote Energy Equity Resources Limited. The Obo-1 well was drilled early in 2006, and discovered both oil and gas with a total of 150ft of net pay.

Previous exploration activity in the area was focused on the shallow water and onshore area, mainly targeting tertiary plays and was unsuccessful. The remaining highly attractive potential on the Keta Block lies within the deep water sandstones of the Upper Cretaceous section. This play type is very similar to that successfully proven by recent drilling in the Jubliee and Odum discoveries. This success has finally confirmed Ghana's emergence as a major hydrocarbon province.

The Keta block is covered by 1,600km^2 of good quality 3D seismic that has recently been re-processed with a marked improvement in data quality. Further technical evaluation of the re-processed seismic data is ongoing, prior to drilling.

OUTLOOK: EXPLORATION DRILLING, FOURTH QUARTER 2008

Exploration drilling is planned for fourth quarter 2008 with the first well targeting the Cuda prospect which is estimated to contain over 300 mmbbl of mean potential resources.

The adjacent blocks form part of the prolific deep water Angola oil province and contain several billion barrel oil fields in the deep water. Block 16 has seen a total of nine well penetrations resulting in a number of small discoveries; most notable are Bengo and Longa.

OUTLOOK: EXPLORATION DRILLING SCHEDULED FOR 2008

A three-well exploration programme is planned to commence in the second half of 2008, targeting prospects located in the deep water part of the block.

OPERATIONS UPDATE: FURTHER TECHNICAL STUDIES

Operational activity in 2007 has been limited to further technical studies.

OUTLOOK

Exploration drilling on the adjacent Blocks 2, 3 and 4 is expected in early 2009 and further drilling on Block 1 will commence after the neighbouring drilling activity has been completed. The results and lessons learned from this activity will be of high importance in the further cost effective exploration of Block 1.

Corporate Social Responsibility

AFREN COMMUNITY DEVELOPMENT VISION

"To contribute towards making a significant and sustainable impact on the livelihoods in the area of our operation."

There are many factors that measure the success of a business, and at Afren we believe that a company's performance as good corporate citizens is key.

Efficient, profitable operations and due concern for people and the environment are by no means mutually exclusive. We further believe that by proving ourselves as responsible, efficient and conscientious operators we will become the partners of choice in the region, further helping to expand our asset portfolio.

At the heart of our business is the Afren Corporate Social Responsibility framework, which governs our approach to people, the environment and stakeholders. It is necessarily comprehensive, and comprises six key elements:

> The four key areas of Environment, Health, Safety and Social ("EHSS") standards are encompassed by the Afren EHSS Management System. This demands that any risk in these areas is assessed, defined and managed.

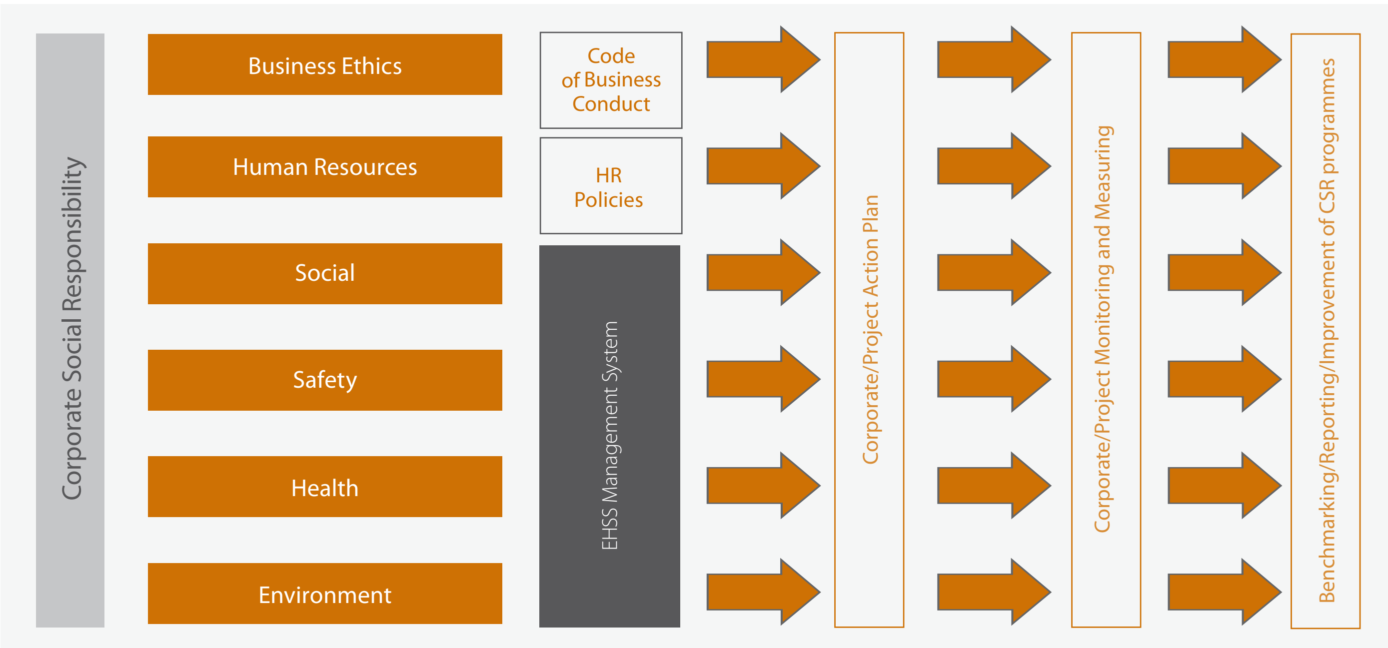
Clearly, the safety and welfare of our employees and the public is non-negotiable and no business imperative is allowed to override it. Similarly, we set – and are benchmarking our progress towards – high environmental standards, governing everything from emissions and marine life to recycling and energy conservation.

During 2007, just one example of the EHSS system in action was our safe and successful operations in the Okoro field. This excellent performance meant that there were no injuries to workers, nor any environmental or security incidents.

EHSS is not only applied to our day-to-day operations, but also to our partner-operated assets.

> Our HR Policies stipulate that every employee, regardless of gender, race or colour, is entitled to a safe place of work, and to be treated with respect and dignity. The policies set out our expectations and give guidance for managers and other leaders. We have also set out clear standards regarding non-discrimination and equal opportunity.

> The area of ethics and standards is addressed by a comprehensive Code of Business Conduct that formalises Afren's commitment to best practice, and the prompt and consistent action required to maintain it. The Code touches every part of our business, including corporate governance, the full range of EHSS and security issues, employees' responsibilities, working with business partners, and company assets.



Corporate Social Responsibility ("CSR") Elements

Values
Policies
Procedures

Secondary school students in the eastern Obolo Community

AFREN: EMBEDDED IN THE COMMUNITY

A company is no more than the quality and well-being of its people, and our commitment to local communities extends beyond providing high-quality employment. We have originated a Community Development Vision which also addresses key issues such as health, education and skills.

Communities involved in the Okoro Setu project have seen our commitment at first hand. For example, we awarded 78 secondary and tertiary scholarships to young people in eastern Obolo. We also contributed towards a community development micro-credit scheme, resulting in a 30% increase in micro-credit funds available for local business enterprises.

In 2007, we also established a Community Relations Committee to represent local stakeholders and select further community development projects.

As a business whose energies and resources are directed exclusively in Africa, it is fitting that we should seek to be involved in furthering African development. This has led us to a range of activities: for example, in 2007 we were proud to celebrate the rich diversity of African art with our sponsorship of the Contemporary African Masters Exhibition in London, showcasing the remarkable talent of six African artists.

In a different vein, we are supporting research into identifying skills gaps in oil-producing African countries. We have signed a co-operation agreement with the United Nations Institute for Training and Research (UNITAR) and the Centre for Research in Entrepreneurship and Society, a non-profit organisation, and will be working with regional stakeholders to address issues revealed by the research.

As a young company, we believe we are bringing fresh ideas to the benefit of our people, environments and the wider energy industry in Africa. We look forward to building on this work, by developing and improving our management systems in 2008 and beyond.

The FPSO crew including members of the eastern Obolo Community at the FPSO ceremony, Keppel Shipyard, Singapore

Financial Review

Afren uses a number of Key Performance Indicators (KPIs) to asses the development and impact of its strategic objectives:

ASSET GROWTH

16

assets in seven African countries as at April 2008 (2006: nine assets in five countries)

SHAREHOLDER VALUE

approx 425%

growth in share price achieved since IPO* (2006: 200% growth)

TARGET PRODUCTION

15-20,000

barrels produced per day during 2008 from its current portfolio.

*Share price data at IPO and market close on 31 December 2007.

The Afren Group is presenting its full year results in US Dollars for the first time. The decision to change was taken due to the increasing dominance of the US dollar in both funding and expenditure, and with the expectation that revenues will also be predominantly received in US dollars.

FINANCING

Afren has raised significant funding during the year for the development of the Okoro field and the growth of the business. In April, $15 million of equity funds were raised via a private placement with Standard Bank ($10 million) and BNP Paribas. Also in April, Afren signed a $230 million borrowing base rolling facility, with BNP Paribas as lead bank, to finance the Okoro project. A further $65 million of equity funds were raised in a private placement in June and a $50 million unsecured five-year loan was taken out in September with First City Monument Bank (FCMB) of Nigeria. The FCMB facility was fully drawn down in September and, as at the end of 2007, $34 million had been drawn down of the BNP Paribas borrowing base facility.

Post period-end, in March 2008, the Company successfully raised $236 million, through a significantly over-subscribed equity offering.

Cash reserves across the Group amounted to $91.8 million at the end of the year, giving the Group a sound basis for the high investment programme planned in 2008. After taking into consideration debt of $146.7 million, gearing at year end amounted to 50%.

ASSETS

Total non-current assets more than doubled from $90.4 million at the end of 2006 to $193.6 million at the end of 2007. This reflects the heavy investment in Okoro where the carrying value has grown from $43.0 million to $138.3 million. Other significant balances relate to La Noumbi ($28.0 million – see also below) and JDZ block 1 ($16.8 million).

NET INCOME

Afren's results for the year showed a loss of $39.0 million compared with a $15.8 million loss in 2006. The increased loss reflects a number of themes, both operational and accounting, with three main drivers.

EXPLORATION COSTS

In 2007 a total of $12.0 million was written off (2006: nil). The write off consisted of four elements.

In 2007 Afren signed an agreement with Independent Energy Limited (IEL) to fund a re-entry into a well and carry out a well test on the Ofa field in Nigeria. In this agreement, Afren funded 100% of the capital costs in return for a 50% interest in the economic return from the field after recovering costs. The well test, was carried out in September 2007 but the results were inconclusive due to operational issues. A further test was carried out in November and Afren concluded that the test was not encouraging enough to warrant a full development. Therefore the full costs of the well and associated expenses have been written off in the 2007 accounts, a total of $7.1 million.

The first prospect (Doungou-1) on the La Noumbi licence in Congo was drilled by the operator, Maurel & Prom, during August and September. Although the results were encouraging for the area as a whole, as it proved the existence of a working hydrocarbon system with oil and gas shows, the low permeability of the reservoir led to the well being plugged and abandoned. The well costs have been written off ($2.1 million); however the encouraging result for the remaining potential of the licence has led to the management decision not to write off any further costs on the licence at this time. The value of the licence has been further justified by the completion of a prospect inventory of the block, listing a further eight good quality prospects.

During December 2007 and January 2008, the Admiral prospect in the Themis Marin licence in Gabon was drilled by the operator, Sterling Energy. The well was drilled on budget within 11 days, but the reservoir target was encountered low to prognosis with limited hydrocarbon shows. The current licence period expired in March 2008, and a decision was taken by the partners to relinquish the block. As such, Afren has written down all the costs on the licence to the end of 2007, a total of $2.4 million.

In November 2006 Afren negotiated an option relating to the central block in Angola Cabinda, for a non-refundable deposit of $0.4 million. That licence has since been included in the 2008 licensing round for Angola and it appears unlikely that the option will remain of attractive value. Afren is reviewing its position over the option, but has taken the decision that it would be imprudent to assume value for the option at this time.

Impairment tests were carried out on both developments with booked reserves (Okoro and Eremor) and both showed comfortably higher economic values based on discounted cash flows than their carried value even down to $40 per barrel oil prices. A review was carried out of all the other intangible carried values with particular emphasis on the higher value La Noumbi licence. For this a review of the several prospects on the block has been undertaken. Taking the risked values of just three of these prospects showed a higher value than the carrying value, so no further impairment is required.

HEDGING

In May 2007, as part of the financing arrangements for the Okoro field, Afren entered into a series of swaps and call options to economically protect against exposure to the variability in the price of Okoro oil production for 2008, 2009 and 2010. The arrangement protects the Group against the risk of a significant fall in the price of crude by establishing a minimum price for a proportion of the Okoro crude. However, the Group will receive a set discount from the market price if the oil price is above that minimum. In this way, no up front costs are payable and the Group enjoys the benefits of the majority of any oil price upside. These derivative instruments have to be marked to market for each period and the gains and losses arising out of the changes in fair value are accounted for in the income statement. During the second half of the year, there was a significant strengthening in the oil price, with Brent moving from around $70 per barrel in May to over $90 per barrel in December. The change in fair value of the instruments equates to a loss of $6.0 million which has been included in the 2007 net income. It is unlikely that there will be significant further losses on these instruments, except for changes in discount rate and the unwinding of the discount in 2008, 2009 and 2010 when the economic effect of the instruments will occur.

ADMINISTRATIVE EXPENSES

The total administrative expenses for the Group for 2007 was $18.1 million, some $5.5 million higher than in 2006. The increase in costs reflects a number of factors. Firstly, the growth of the Group is reflected in the increased staff numbers as Afren matures. From average staff numbers of 25 across the Group in 2006, there was a increase of over 50% to 38 in 2007. At the year end staff numbers totalled 51. In order to attract the quality of professional required for a growing but still higher risk business, attractive packages are necessary including an equity element. The total expense includes a charge of $3.3 million relating to the options and related National Insurance Costs (NIC) for 2007 (2006: $1.8 million). The NIC is particularly high due to the Afren share price reaching a new high at the year end and the NIC charge ($1.5 million; 2006: $0.3 million) being based on marking to market the options and calculating the total employer NIC cost on the gain. Secondly, significant effort went into reviewing and analysing new opportunities and deals through the year. The costs related to the deals that did not complete are expensed, but there is a significant intangible gain as the team gains knowledge and experience in this arena that can be brought to fruition in the successful deals completed. A third factor that has impacted the administrative expenses is the weakening of the US dollar through the year. As the majority of these costs are denominated in either sterling or Naira, the dollar equivalent has grown by approximately 15% year-on-year due to the exchange rate.

NET INTEREST

Net interest and financing costs for the Group in 2007 amounted to $2.7 million (2006: $2.9 million). Overall costs are similar despite increased debt levels reflecting the fact that the majority of the interest cost is related to the development of the Okoro project, and thus capitalised. Total gross interest expense (including facility fees, amortisation of costs and unwinding of discount where applicable) came to $16.2 million (2006: $5.2 million), of which $11.1 million was capitalised (2006: $nil). Interest income came to $2.5 million (2006: $2.3 million).

OUTLOOK

2008 is expected to be a year of transition for Afren. First oil is expected during the first half as Okoro comes on stream and other developments such as Eremor will be progressed. The Côte d'Ivoire acquisition is expected to complete shortly providing further revenue and balance to the portfolio.

Board of Directors

>01 DR RILWANU LUKMAN, KBE
Légion d'honneur
Chairman (Non-Executive)
A founder of Afren, Dr Lukman is an internationally known and respected figure in the oil and gas industry. Some of Dr Lukman's key appointments have included: Secretary General of OPEC (6 years), President of OPEC (9 sessions), Nigerian Minister of Petroleum Resources, Special Adviser to the Nigerian President for Oil and Gas, Nigerian Minister of Foreign Affairs, Nigerian Minister of Mines, and Founder and Chairman of the African Petroleum Producers' Association. Dr Lukman is currently the Honorary Adviser on Energy and Strategic Matters to the President of Nigeria.

He holds a Bachelor of Science degree from the Royal College of Mines, Imperial College (London), and follow-on diplomas, including doctorates, from the University of Leoben (Austria), McGill University (Montreal), University of Bologna (Italy), Ahmadu Bello University and the University of Maiduguri in Nigeria.

>02 DR OSMAN SHAHENSHAH
Chief Executive
Dr Shahenshah was part of the team that founded Afren. He has over 20 years' experience of oil and gas finance. His international career began with Credit Suisse First Boston and has included senior positions in the oil and gas finance groups of the International Finance Corporation (private sector arm of the World Bank), and the investment banking divisions of Dresdner Kleinwort Wasserstein and Mediocredito Centrale. Dr Shahenshah has been actively involved in the African oil and gas sector for more than 15 years, working with companies including Shell, Chevron, Total, ENI and the Nigerian National Petroleum Corporation. He holds a PhD from the University of Pennsylvania, a Master's Degree from Columbia University and a Bachelor's Degree from Brown University.

>03 MR EVERT JAN SIBINGA MULDER
Chief Operating Officer
Mr Mulder has worked within the international oil and gas industry for almost 25 years, including positions within Addax Petroleum ("AXC.L"), Shell, Weatherford and Halliburton. Mr Mulder has significant Nigerian experience having worked with both Addax Petroleum and Shell in Nigeria. Most recently, he was the Chief Operating Officer of Addax Petroleum, Nigeria's largest independent oil producer. Whilst there, he was responsible for increasing the daily average oil production from 30,000 bopd to 75,000 bopd in 24 months, while maintaining reserves. Mr Mulder spent over 10 years with the Shell group, holding various senior positions including Head of Commercial Planning in Nigeria and Head of Production Technology for Shell Expro in the UK. He was also formerly the Business Development Manager and the Global Manager of Reservoir Description for Haliburton. Mr Mulder, a Dutch citizen, holds a Master's Degree in mining engineering from the Technical University of Delft, Netherlands.

>04 MR EGBERT IMOMOH
Executive Chairman
Afren Nigeria
Mr Imomoh has had 36 years' experience with the Shell group of companies, in Nigeria, the UK and the Netherlands. Recently, he served as Deputy Managing Director of Shell Petroleum Development Company (Nigeria) ("SPDC"), one of the Shell Group's largest operating companies, which is responsible for operating a joint venture that produces approximately one million barrels of oil per day.

Trained in Mechanical and Petroleum Engineering, Mr Imomoh held a wide variety of senior positions throughout the Shell Group, including Chief Petroleum Engineer in SPDC, Technical and Planning Manager to Deputy Managing Director in SPDC. He is a member of the Society of Petroleum Engineers and has served on its board as Regional Director for Africa.

>05 MR CONSTANTINE OGUNBIYI
Executive Director
Prior to his recent appointment as Executive Director, Mr Ogunbiyi has been an Associate Director and Special Assistant to the Chairman, General Counsel for the group as well as a Director of Afren's wholly owned Nigerian subsidiary. Mr Ogunbiyi assisted in the establishment of Afren in late 2004. He has over 10 years' experience of private equity, acquisition, structured, trade and project finance, and public and private partnerships in the African energy and infrastructure sectors in particular.

Prior to joining Afren, he was the Deputy Head of Cadwalader, Wickersham & Taft LLP's Africa Practice. Before this, Mr Ogunbiyi spent four and a half years with Herbert Smith's International Finance and Banking Department. He has also served as a strategic adviser to the New Partnership for Africa's Development (NEPAD) Business Group and the Southern African Development Community's (SADC) Banking Association's PPP Unit. He holds a LLB with German Law from King's College, University of London, a diploma in German Public and Civil Law from the University of Passan (Germany) and Legal Practising Qualifications from the Oxford Institute of Legal Practice.

>06 MR GUY PAS
Non-Executive Director
Mr Pas is an international executive with a background in senior financial and investment management roles relating to African natural resources. Following an early career as a commodity and trade finance officer at Chase Manhattan Bank, Mr Pas was a founding partner of the Addax and Oryx Group, a group of international petroleum marketing and producing companies operating in Africa. He has participated in the development of several listed mining companies focused on Africa. Mr Pas also manages Synergy Resources Fund, an unlisted fund investing in mineral resources, and Vector XXI Finance, a Geneva-based investment advisory company. Mr Pas holds a Cum Laude degree in Applied Economics from Antwerp University.

>07 MR PETER BINGHAM
Non-Executive Director
Mr Bingham is a senior financial executive with over 40 years' experience in international financial markets, primarily at the Barclays Bank Group. Mr Bingham successively held directorships at the London branch level, in the Group's merchant banking division, and at BZW (now Barclays Capital) where he set up the credit risk management team. Mr Bingham ultimately became Head of Banking at BZW and served as a member of the central Barclays Group Credit Committee.

>08 MR JOHN ST. JOHN
Non-Executive Director
Mr St. John was previously Strategic Financial Adviser to the Board of Afren, having been appointed in November 2006. He was formerly Global Head of Equity Capital Markets at Dresdner Kleinwort, Commerzbank and Lehman Brothers and European Head of Equity Capital Markets at Citigroup, formerly Salomon Brothers. He has acted as an adviser on over $100 billion of equity and equity-linked issuance in all major markets worldwide. He currently serves as Chairman of Equity Capital Markets at Nomura International plc.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Senior Management

>01 MR GALIB VIRANI

Head of Acquisitions and Investor Relations

Mr Virani has over 10 years' experience of Finance and Mergers & Acquisitions. Prior to joining Afren in 2006, he was a Vice President in the Corporate Finance and Advisory group of Dresdner Kleinwort Wasserstein. He worked on a variety of Mergers & Acquisitions and Equity Capital Market transactions, with a primary focus on the oil and gas sector. While at Afren, Mr Virani has played a key role in the Company's financing, in diversifying the shareholder base, broadening the analyst research coverage and in contributing to the overall growth of the Company's portfolio of assets.

Mr Virani is a Fellow of the Securities Institute, and has a Master of Finance & Investment (with Distinction) and a Master of Philosophy in Emerging Market Finance.

>02 MR ALAN HUNT

Okoro Setu Asset Manager

Mr Hunt has over 30 years of international project management experience with Shell International Exploration and Production. He held various senior level positions within Shell International and was previously Chief Engineer in Nigeria for a number of years and Managing Director of Shell Peru E&P.

>03 MR JEREMY WHITLOCK

Group Financial Controller

Mr Whitlock is a qualified accountant with 20 years' experience in the oil industry. He spent 13 years with Enterprise Oil in a variety of roles across the finance department, including several years as Financial Planning Manager and International & Corporate Accounting Manager. Prior to joining Afren he was Planning Manager at Nexen (UK) Ltd. He is a member of the Institute of Chartered Management Accountants and holds a degree in Mathematics from Durham University.

>04 MR FAIZ IMAM

Manager, Special Projects

Mr Imam has over 10 years' experience in the oil industry. He has worked in a variety of roles including production engineering, facilities engineering and government relations. He started his career with Texaco in Nigeria as an offshore production engineer and moved to developing projects which handled associated gas production, and then on to deepwater project development. While at Afren, Mr Imam has significantly contributed to the Company's business development initiatives in Nigeria.

Mr Imam was part of the team that worked on the billion-barrel Agbami field. He holds a M Eng in Chemical and Biochemical Engineering from University College London.

>05 DR NICK JOHNSON

Head of Exploration and New Ventures

Dr Johnson is a geologist with over 25 years' experience in oil and gas exploration and production. He has played an important role in the development and management of Afren's portfolio, which has grown rapidly since March 2005. He began his oil industry career in 1981 as an Exploration Geologist with BP, where he worked on a variety of global supervisory and technical roles. He joined OMV in 1991, working in both London and Vienna and ultimately became Head of Global Exploration and Reservoir, responsible for the technical quality and development of OMV's global portfolio.

Dr Johnson graduated with a degree in Geology in 1976 from Bristol University and a PhD from University College London in 1980.

>06 MR DOUG BARRIE

Group Legal Counsel

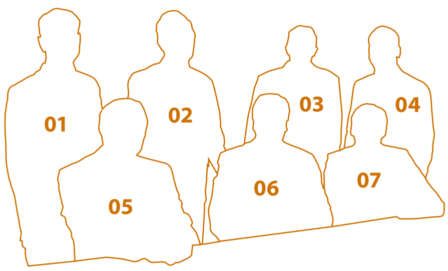
Mr Barrie is a senior oil and gas industry lawyer with over 20 years' experience in the sector. Mr Barrie has advised Majors and independents, including Occidental Petroleum, Kuwait Petroleum Corporation, Total and Enterprise Oil in both general and in-house lead counsel roles. For five years prior to joining Afren, he was the senior oil and gas specialist consultant with the energy team at Cameron McKenna LLP. As well as acting as General Counsel for transactions in West Africa, Asia, the Gulf of Mexico and Europe, Mr Barrie has advised on procurement for field development projects, including managing the procurement for a major field development in the Middle East.

He holds a LLB from Aberdeen University and is a member of the Law Society of Scotland.

>07 MS SHIRIN JOHRI

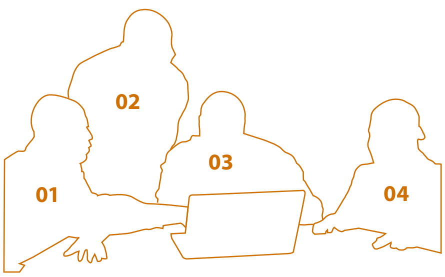
Company Secretary

Prior to joining Afren plc, Ms Johri worked with Cadwalader, Wickersham & Taft LLP's Africa practice. Ms Johri has extensive experience advising on acquisitions and disposals, joint ventures, infrastructure projects and private equity investment. Ms Johri holds a LLM from the Cornell Law School, New York, a LLB(Hons) from Delhi University India and a Bachelors degree from Delhi University and has also been called to the New York Bar.



Senior Management – Afren Nigeria

>01 MR TAIWO OLUSHINA
Drilling Manager
Mr Olushina has 20 years' experience in the oil industry. His experience spans across project / design management, drilling and completion engineering / operations. Prior to joining Afren, he spent the last 14 years with Exxon Mobil in different technical and management capacities in Nigeria and USA. His last assignment was Head of Drilling Engineering, Mobil Producing Nigeria (ExxonMobil affiliate). Mr Olushina is a Nigerian national.



>02 MR OKON AKPAN
Engineering Manager
Okon Akpan has over 16 years' experience in the oil and gas industry. He has worked in a variety of roles including process engineering, project engineering and management, pipeline engineering and systems engineering. Prior to joining Afren, he worked in various capacities in Shell Nigeria and was Project and Team Leader for the Odidi Gas Supply Project. Mr Akan is a Nigerian national.

>03 MR BIOLA AJAYI
Geology and Geophysics Manager
Mr Ajayi has over 20 years' experience as a Geologist/Geophysicist. He spent the majority of his career with Shell and Schlumberger in Nigeria, in various capacities including Regional and Operations Geologist, Head of Geological Operations, and Senior Consulting Geoscientist. Mr.Ajayi is a Nigerian national.

>04 MS SADE OGUNDEJI
Financial Controller Afren Nigeria
Ms Ogundeji has over 11 years' experience in auditing, banking and accounting. She was previously the Financial Controller at Trust Bank of Africa Limited and XL Management Services Limited in Nigeria. Ms Ogundeji is a Nigerian national.

International Advisory Board

>MR BERT COOPER

Special Adviser to the Board

Mr Cooper has been active in the African natural resources sector for over 25 years. During the 1980s he devised and led an initiative to restructure what, at the time, was Liberia's biggest industrial project – an iron ore mining company with capital investment of over US$600 million. Mr Cooper also formed Liberia's mining parastatal, whose management, marketing and financing requirements were contracted to Mr Cooper's companies. Mr Cooper – a West African national – was a principal member of the team that founded Afren.

>MR BRIAN WARD

Mr Ward was formerly the Regional Chief Executive for Shell E&P Africa. He was responsible for Shell's Upstream African operations and relationships with host governments.

Prior to managing Shell's operations in Africa, Mr Ward's career included a number of senior positions within the Shell organisation, including Managing Director of Petroleum Development Oman, Managing Director of Shell E&P (NAM) in Holland, and Deputy Managing Director and Production Director for Shell Expro UK.

>MR ENIO SGANZERLA

Mr Sganzerla was until recently Senior Vice President (E&P) at ENI, having joined the group in 1971. Since 1997, he has been responsible for the North Sea, America, Australasia and Russia. Previously, he was Managing Director of ENI's sizeable North Sea operations.

Over the course of his wide-ranging career at ENI, he was instrumental in establishing and building that company's presence in Congo, and played an active role in increasing ENI's position in Nigeria, Gabon and Egypt as Regional VP for Africa. Mr Sganzerla was also active in leading the group's M&A activities, including the acquisition of Lasmo plc, British Borneo and others.

Directors' Report

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and audit report of Afren plc for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group are oil and gas exploration and development in Africa. The subsidiary undertakings principally affecting the Group's financial statements are listed in note 13 to the financial statements.

BUSINESS REVIEW

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2007 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group ("business review"). The information that fulfils the requirements can be found within the Chairman & Chief Executive's Statement, the Review of Operations and Financial Review on pages 8 to 27, which are incorporated into this report by reference. These sections also include details of expected future developments in the business of the Group and details of Key Performance Indicators that management use.

RESULTS AND DIVIDENDS

The Group's loss for the year was $39.0 million (2006: $15.8 million). The Directors have not recommended the payment of a dividend (2006: nil).

EVENTS SINCE THE BALANCE SHEET DATE

On 22 January 2008, Afren announced that it has signed a cooperation agreement with E.ON Ruhrgas and African LNG Holdings Limited to investigate the availability and accessibility of gas in Nigeria, with a focus on the Anambra Basin and South Eastern regions.

On 3 March 2008, Afren announced that it had signed Production Sharing Contracts (PSC) for OPLs 907 and OPL 917 and a signature bonus of $1.6 million for each licence had been paid by the licence participants. The licences are located in the Anambra Basin in Nigeria.

On 6 March 2008, Afren announced that it had entered into a conditional agreement with Devon Energy Corporation to acquire its interests in Côte d'Ivoire, comprising a 47.96 per cent working interest of Block C1-11, a direct 65 per cent interest and operatorship with rights over an additional 15 per cent interest in Block C1-01 and a 100 per cent interest in the onshore Lion Gas Plant, effective 30 June 2007. The agreed consideration for the acquisition is $205.0 million. The acquisition is subject to regulatory and governmental approvals.

On 1 April 2008, Afren announced that it had entered into a Farm-in arrangement with Oriental Energy Resources Limited for the development of Ebok field, located offshore South East Nigeria.

On 3 April 2008, Afren announced the placing with institutional investors of 95 million new ordinary shares of the company at 125 pence per share and raised £118.75 million before commissions and expenses, through the placing which closed the same day.

On 9 April 2008, Afren announced that it had subscribed for 9,379,100 ordinary shares of Gasol plc for a consideration of £0.8 million following placing by Gasol of 50,000,000 ordinary shares.

On 14 April 2008, Afren held an EGM to consider an increase in authorised share capital and changes to the Company's authority to issue shares and take on debt. All the resolutions were passed and the authorised share capital was duly raised to 800 million shares.

THE DIRECTORS AND THEIR INTERESTS

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

	Committees			Ordinary shares of £0.01 each		
Name	Audit and risk	Nomination	Remuneration	At 6 May 2008	At 31 December 2007*	At 31 December 2006**
Rilwanu Lukman Chairman		✔†	✔	6,000,000	6,000,000	7,437,500
Brian O'Cathain (i) Chief Executive (until resignation)		✔		n/a	5,714	5,714
Osman Shahenshah (i) Chief Executive				875,001	875,001	875,001
Egbert Imomoh Executive Director #				664,385	664,385	664,385
Evert Jan Mulder (ii) Chief Operating Officer				23,500	23,500	23,500
Peter Bingham Non-executive Director	✔†		✔†	–	–	–
Guido Pas Senior Non-executive Director	✔	✔		2,000,000	2,000,000	2,600,000
John St. John (iii) Non-executive Director	✔		✔	50,922	50,922	50,922

* Or on resignation, if earlier
** Or on appointment, if later
# Also Chairman of the Group's primary Nigerian subsidiary
(i) Brian O'Cathain resigned effective 27 February 2007. On his resignation, Osman Shahenshah, formerly Chief Financial Officer, was appointed Chief Executive
(ii) Appointed 27 February 2007
(iii) Appointed 18 June 2007
† Chairman of Committee

Constantine Ogunbiyi was appointed as Director on 3 January 2008. Mr Ogunbiyi was formerly an Associate Director of Afren. He has had beneficial interest in 25,000 ordinary shares of Afren from his appointment.

Details of the Directors' share options are provided in the Directors' Remuneration Report on pages 41 to 42.

SUPPLIER PAYMENT POLICY

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that the supplier is aware of the terms of the payment and to abide by the terms of the payment. Trade creditors of the Group at 31 December 2007 were equivalent to 35 days' purchases (2006: 36 days), based on the actual year end balance.

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of $38,700, the majority of which related to African focused charities and institutions (2006: $34,800).

No political donations were made in either 2007 or 2006.

SUBSTANTIAL INTERESTS

As of 30 April 2008, interests notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

	Shares	%
Lansdowne Partners	47,208,333	12.83
Morgan Stanley Securities Limited	14,709,925	4.10
JP Morgan Chase & Co	13,833,108	5.07
Deutsche Bank AG	13,430,079	3.65
Standard Bank plc	9,015,807	4.29
FMR Corp	6,926,010	3.62
Dr. Rilwanu Lukman	6,000,000	2.24

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

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 38 to 42.

SERVICE CONTRACTS

No Director has a service contract, consultancy agreement or other such arrangement with a notice period in excess of one year.

AUDITORS

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The auditors for the year ended 31 December 2007 were Deloitte & Touche LLP. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Directors' Report
continued

ANNUAL GENERAL MEETING

At the Annual General Meeting of the Company, resolutions will be proposed to receive these accounts and the Directors' and auditors reports, to re-elect the Directors who are retiring at the Annual General Meeting, in accordance with the Company's Articles of Association and to approve a proposed investment by the founders of Afren in the Company. Resolutions for the reappointment of Deloitte & Touche LLP to authorise the directors to make political donations and to incur political expenditure, to grant the Directors authority to allot ordinary shares and to buy back the Company's ordinary shares will also be proposed.

The Company also proposes to adopt new articles of association. These incorporate amendments to the current articles of association to reflect the provisions of the Companies Act 2006 ("the 2006 Act") which came, or will come, into effect in 2007 and 2008. As the 2006 Act will not be fully in force until October 2009, and so it is not yet possible to fully reflect the 2006 Act changes, it is anticipated that shareholders will be asked to approve further changes to our articles of association at the 2009 AGM.

The principal changes in the new articles of association proposed to be adopted at the 2008 AGM relate to electronic communication with shareholders and shareholder meetings and resolutions, Directors' indemnities, transfers of shares and Directors' conflicts of interest.

The provisions of the Companies Act 1985 which allowed companies to communicate with their shareholders electronically have been repealed and replaced by provisions in the 2006 Act which operate differently and use different definitions. The new articles will permit the company to use electronic communications for all notices, documents and information to be sent to shareholders, in accordance with individual shareholders preference. In addition, the new articles will reflect the ability for companies to use website communication with shareholders as the default position. The Company can ask individual shareholders to consent to receiving communications from the Company via the Company's website. If a shareholder does not respond to the request for consent within 28 days, the Company may treat that as deemed consent to receiving documents in this way. A shareholder who receives a document via the website can ask for a hard copy at any time and shareholders can also revoke their consent to receive documents via the website at any time. This new regime will enable the Company to take advantage of the efficiencies, cost-savings and environmental benefits of electronic communications.

The provisions of the 2006 Act regarding shareholder meetings and resolutions came into force in October 2007, replacing the corresponding provisions of the Companies Act 1985. The new articles incorporate amendments in relation to meetings and resolutions to ensure consistency with the 2006 Act.

A further amendment to the articles is proposed, in line with the 2006 Act, to extend the scope of potential indemnities which may be granted, so that they may be granted to directors of pension trustee companies.

From 1 October 2008, under the 2006 Act a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The 2006 Act allows directors of public companies to authorise conflicts or potential conflicts where the articles of association contain a provision allowing this authorisation. It is proposed that the Company's new articles of association should include such a provision.

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

A copy of the current articles of association and the proposed new articles of association that reflect these amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the registered office of the Company (Kinnaird House, 1 Pall Mall East, London SW1Y 5AU) and the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS up until the close of the meeting.

GOING CONCERN

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

OSMAN SHAHENSHAH
Chief Executive
6 May 2008

Corporate Governance

The Directors are committed, where practicable for a company of this size and nature, to applying the requirements of the Combined Code on Corporate Governance.

This statement explains how the Directors applied the principles of the Code during the period ended 31 December 2007.

INTERNAL CONTROLS

The Board has responsibility for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures which include inter alia financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The Board has approved the annual budget. Performance against budget is monitored and reported to the Board. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for an internal audit function but does not consider it necessary at the current time.

BOARD STRUCTURE

The Board is responsible to shareholders for the proper management of the Group. During the year, the Board comprised the non-executive Chairman, three executive Directors (the Chief Executive, the Chief Operating Officer, the Managing Director, Nigeria) and three further Non-executive Directors. Of the Non-executive Directors, two served for the full year and one, John St. John, was appointed in June 2007. Subsequent to the year end, one additional Executive Director was appointed in January 2008. Brief biographies are on page 28 and demonstrate a range of relevant experience at a senior level.

The Board meets at least quarterly and as issues arise which require Board attention. The Board has a formal schedule of matters specifically referred to it for decision. In addition to those formal matters required by the Companies Act(s) to be set before a board of directors, the Board will also consider strategy and policy, acquisition and divestment proposals, approval of major capital investments, risk management policy, significant financing matters and statutory shareholder reporting. During 2007, all Board meetings were attended by all the Board members in office at the time of the Board meetings. To enable the Board to discharge its duties, all Directors receive appropriate and timely information and the Chairman ensures that the Directors take independent professional advice as required. Appropriate training is available where necessary.

A statement of the Directors' responsibilities in respect of the accounts is set out on page 43.

The Company has established Audit and Risk, Nomination and Remuneration Committees. Terms of Reference for the Committees are available on request from the Company.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee comprises of Peter Bingham (Chairman), Guido Pas and, since his appointment, John St John. It meets at least three times a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. It liaises with the auditors and reviews the reports from the auditors relating to the accounts and internal control matters. If required, meetings are attended by appropriate members of senior management. The Audit Committee is also responsible for reviewing the requirement for an internal audit function.

NOMINATION COMMITTEE

The Nomination Committee comprises of Dr Rilwanu Lukman (Chairman) and Guido Pas. The Committee meets as required and is responsible for reviewing and recommending to the Board the appointment of Directors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of Peter Bingham (Chairman), Dr Rilwanu Lukman and, since his appointment, John St. John. The Committee is responsible for making recommendations to the Board on the Company's overall framework for remuneration and its cost. In addition, it determines the individual remuneration for the Executive Directors giving due regard to the overall framework for the Company's remuneration, external advisers where appropriate, the interests of shareholders, the performance of the Group and all relevant legal requirements. The Remuneration Committee also makes recommendations to the Board concerning employee incentives, including share based schemes and pension contributions. Directors of the Group are not permitted to participate in discussions or decisions of the Committee regarding their own remuneration. Full details of the Directors' remuneration is presented in the Directors' Remuneration Report on pages 38 to 41.

RELATIONSHIPS WITH SHAREHOLDERS

The Board remains fully committed to maintaining regular communication with its shareholders. There is regular dialogue with major institutional shareholders and meetings are offered regularly following significant announcements. Press releases have been issued throughout the year and the Company maintains a website (www.afren.com) on which all press releases are posted and which also contains major corporate presentations and the reports and accounts. Additionally, this Annual Report, which is sent to all registered shareholders, contains extensive information about the Group's activities. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed. Shareholders are also encouraged to attend the Annual General Meeting to discuss the progress of the Group.

Directors’ Remuneration Report

INFORMATION NOT SUBJECT TO AUDIT

REMUNERATION COMMITTEE

The members of the Remuneration Committee are Peter Bingham (Chairman), Dr Rilwanu Lukman and John St. John. All are Non-executive Directors.

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

Executive remuneration packages are designed to attract, motivate and retain Directors of the calibre required to grow the business and enhance value to shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package are undertaken by the Committee.

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

There are five main elements of the remuneration package for Executive Directors:

- Basic annual salary
- Benefits in kind
- Pension contribution
- Annual bonus payments
- Share option incentives or other equity instruments

The Company’s policy is that a substantial proportion of the remuneration of the Executive Directors and senior management should be performance related.

BASIC SALARY

An Executive Director’s annual salary is reviewed by the Remuneration Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee relies on objective research which gives up-to-date information on a comparable group of companies. Basic salaries are reviewed in December, with increases taking effect from 1 January.

BENEFITS IN KIND

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

PENSION CONTRIBUTION

UK based Executive Directors are members of the Company pension scheme. The scheme is a defined contribution scheme and the Company contributes 10% of salary subject to the participant contributing at least 5% of their salary.

ANNUAL BONUS PAYMENTS

A formal annual cash bonus scheme has been in place since 2006. During 2007 bonuses were awarded to all the Executive Directors. Details of the Executive Directors’ bonuses are on page 40.

SHARE OPTIONS

The 2005 Share Option Scheme was established to incentivise the Directors and staff, aid recruitment to the Company and enable Directors and staff to share in the benefit from the increased market capitalisation of the Company. The Remuneration Committee has responsibility for supervising the scheme and the grant of options under its terms.

Options were granted under this scheme to the Executive Directors in office in March 2007. These were issued at varying prices between 27p and £1.27 above the market price, with 10% vesting immediately, 30% vesting after one year, 30% after two years and 30% after three years from date of grant.

Options were granted to John St. John on his appointment as Non-executive Director. These were at 70p and vest 33%, 33%, 34% immediately and after one and two years respectively but only if a price of £1.00 has been achieved for three months. In addition, options were granted to Peter Bingham and Guy Pas on the same date, also at 70p. These had no price restriction and vest 50% immediately and 50% after one year.

The Company’s policy is to grant options or an alternative share-based incentive on appointment and at regular intervals thereafter.

The Company has recently introduced a new long-term incentive scheme whereby grants of shares will be awarded to Directors and management subject to outperforming a comparator group of similarly focused oil and gas exploration and production companies in terms of shareholder return. No awards have been made to Directors under this scheme as of the date of this report.

DIRECTORS' CONTRACTS

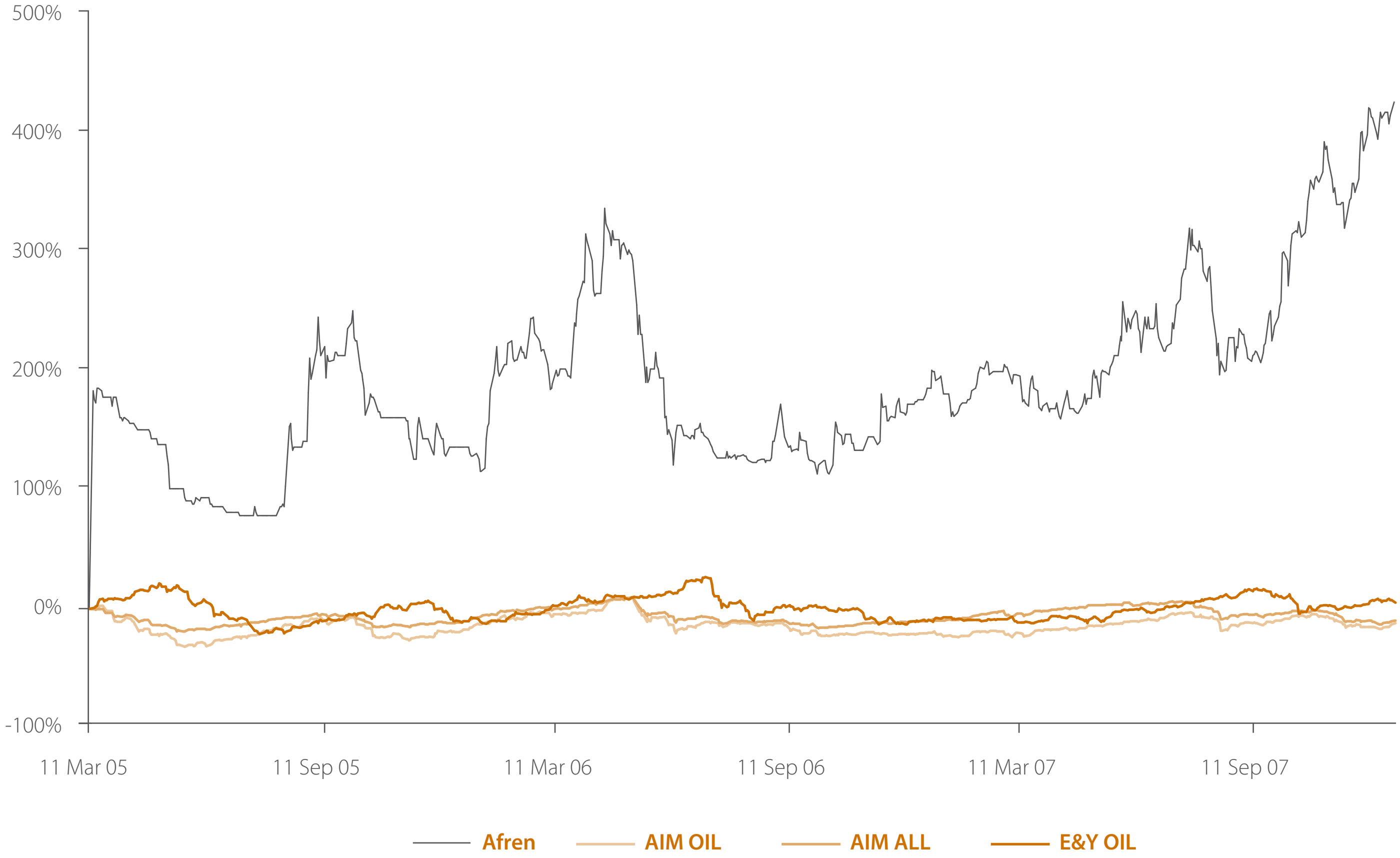
It is the Company's policy that Executive Directors should have contracts of an indefinite term providing for a maximum of one year's notice. The details of the directors' contracts are summarised below:

Name of director	Date of contract	Notice period
Osman Shahenshah	27 February 2007	12 months
Egbert Imomoh	27 February 2007	12 months
Evert Jan Sibinga Mulder	26 February 2007	12 months
Constantine Ogunbiyi	3 January 2008	12 months

NON-EXECUTIVE DIRECTORS

All Non-executive Directors have specific terms of engagement and their remuneration is determined by the Board based on independent surveys of fees paid to Non-executive directors of similar companies. The Chairman, in recognition of his role as both Chairman and ambassador for the Company, is paid a basic fee of £85,000 p.a. The basic fee paid to each other Non-executive is £35,000 p.a. pro rata with additional fees payable to the chairmen of the Remuneration, the Audit and Risk and the Nominations Committees and to the senior Non-executive Director (Guido Pas) of £5,000 p.a., though Dr Lukman has waived his right to any further fee for 2007 for chairing any sub-committee. All Non-executive directors participate in the share option scheme, but are not eligible to join the Company's pension scheme.

TOTAL SHAREHOLDER RETURNS



Source: Datastream

The graph shows the relative performance of Afren plc against the AIM Oil & Gas Share Index, the AIM All Share Index and the Ernst & Young Oil & Gas Index since Afren's IPO. As an AIM listed oil and gas company, Afren would look to compare its performance with other AIM companies and other similar sized oil and gas companies. The selected indices give the most appropriate benchmark for these categories.

Directors' Remuneration Report continued

AUDITED INFORMATION
DIRECTORS' EMOLUMENTS

Name of Director	Fees/basic salary $'000	Benefits in kind $'000	Pension contributions $'000	Termination payments $'000	Annual bonuses $'000	**Total 2007 $'000**	Total 2006 $'000
Executive							
Mr Egbert Imomoh	369	31	–	–	299	**699**	436
Mr Brian O'Cathain	122	–	5	105	–	**232**	577
Dr Osman Shahenshah	409	29	41	–	758	**1,237**	502
Mr Evert Jan Sibinga Mulder	341	10	17	–	299	**667**	–
	1,241	70	63	105	1,356	**2,835**	1,515
Non-executive							
Mr Peter Bingham	70	–	–	–	–	**70**	55
Mr Robert Cathery	–	–	–	–	–	**–**	86
Mr Charles Jamieson	–	–	–	–	–	**–**	145
Dr Rilwanu Lukman	170	–	–	–	–	**170**	64
Mr Guido Pas	70	–	–	–	–	**70**	55
Mr John St. John	58	–	–	–	–	**58**	–
	367	–	–	–	–	**367**	405
Aggregate emoluments	1,608	70	63	105	1,356	**3,202**	1,920

Three of the Executive Directors were members of the Company's defined contribution scheme during the year (2006: two).
Of John St. John's fees, £10,000 was paid as consultancy fees in the period.

DIRECTORS' SHARE OPTIONS

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options granted during the year are as follows:

Name of Director	As at 1 January 2007	Granted	Exercised	Lapsed	Date granted	As at 31 December 2007	Share price at grant date	Exercise price	Exercisable from	Exercisable to
B O'Cathain	1,000,000	–	(1,000,000)	–	28.06.05	–	36p	20p	28.06.05	30.11.07
	1,000,000	–	(1,000,000)	–	28.06.05	–	36p	20p	01.03.06	30.11.07
	1,000,000	–	(1,000,000)	–	28.06.05	–	36p	20p	01.03.07	30.11.07
	1,000,000	–	(1,000,000)	–	28.06.05	–	36p	50p	28.06.05	30.11.07
	1,000,000	–	(1,000,000)	–	28.06.05	–	36p	50p	01.03.06	30.11.07
	417,718	–	–	(417,718)	28.06.05	–	36p	100p	28.06.05	30.11.07
	417,717	–	–	(417,717)	28.06.05	–	36p	100p	01.03.06	30.11.07
	417,717	–	–	(417,717)	28.06.05	–	36p	100p	01.03.07	30.11.07
	200,000	–	(200,000)	–	30.05.06	–	63p	63p	28.02.07	30.11.07
	200,000	–	(200,000)	–	30.05.06	–	63p	63p	28.02.07	30.11.07
	200,000	–	(200,000)	–	30.05.06	–	63p	63p	28.02.07	30.11.07
O Shahenshah	383,334	–	–	–	28.06.05	383,334	36p	20p	28.06.05	27.06.15
	383,333	–	–	–	28.06.05	383,333	36p	20p	01.03.06	27.06.15
	383,333	–	–	–	28.06.05	383,333	36p	20p	01.03.07	27.06.15
	425,001	–	–	–	28.06.05	425,001	36p	50p	28.06.05	27.06.15
	424,999	–	–	–	28.06.05	424,999	36p	50p	01.03.06	27.06.15
	183,334	–	–	–	28.06.05	183,334	36p	100p	28.06.05	27.06.15
	183,333	–	–	–	28.06.05	183,333	36p	100p	01.03.06	27.06.15
	183,333	–	–	–	28.06.05	183,333	36p	100p	01.03.07	27.06.15
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.07	29.05.16
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.08	29.05.16
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.09	29.05.16
	–	41,667	–	–	28.03.07	41,667	53.5p	80p	28.03.07	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	80p	28.03.08	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	80p	28.03.09	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	80p	28.03.10	27.03.17
	–	41,667	–	–	28.03.07	41,667	53.5p	120p	28.03.07	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	120p	28.03.08	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	120p	28.03.09	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	120p	28.03.10	27.03.17
	–	41,666	–	–	28.03.07	41,666	53.5p	180p	28.03.07	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	180p	28.03.08	27.03.17
	–	125,000	–	–	28.03.07	125,000	53.5p	180p	28.03.09	27.03.17
	–	125,000			28.03.07	125,000	53.5p	180p	28.03.10	27.03.17
E Imomoh	133,334	–	–	–	28.06.05	133,334	36p	20p	28.06.05	27.06.15
	133,333	–	–	–	28.06.05	133,333	36p	20p	01.03.06	27.06.15
	133,333	–	–	–	28.06.05	133,333	36p	20p	01.03.07	27.06.15
	250,000	–	–	–	28.06.05	250,000	36p	50p	28.06.05	27.06.15
	250,000	–	–	–	28.06.05	250,000	36p	50p	01.03.06	27.06.15
	166,667	–	–	–	28.06.05	166,667	36p	100p	28.06.05	27.06.15
	166,667	–	–	–	28.06.05	166,667	36p	100p	01.03.06	27.06.15
	166,666	–	–	–	28.06.05	166,666	36p	100p	01.03.07	27.06.15
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.07	29.05.16
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.08	29.05.16
	200,000	–	–	–	30.05.06	200,000	63p	63p	30.05.09	29.05.16
	–	25,000	–	–	28.03.07	25,000	53.5p	80p	28.03.07	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	80p	28.03.08	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	80p	28.03.09	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	80p	28.03.10	27.03.17
	–	25,000	–	–	28.03.07	25,000	53.5p	120p	28.03.07	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	120p	28.03.08	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	120p	28.03.09	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	120p	28.03.10	27.03.17
	–	25,000	–	–	28.03.07	25,000	53.5p	180p	28.03.07	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	180p	28.03.08	27.03.17
	–	75,000	–	–	28.03.07	75,000	53.5p	180p	28.03.09	27.03.17
	–	75,000			28.03.07	75,000	53.5p	180p	28.03.10	27.03.17

Directors' Remuneration Report continued

Name of Director	As at 1 January 2007	Granted	Exercised	Lapsed	Date granted	As at 31 December 2007	Share price at grant date	Exercise price	Exercisable from	Exercisable to
E J Sibinga Mulder	–	100,000	–	–	28.03.07	100,000	53.5p	80p	28.03.07	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	80p	28.03.08	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	80p	28.03.09	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	80p	28.03.10	27.03.17
	–	100,000	–	–	28.03.07	100,000	53.5p	120p	28.03.07	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	120p	28.03.08	27.03.17
	–	300,000	–	-	28.03.07	300,000	53.5p	120p	28.03.09	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	120p	28.03.10	27.03.17
	–	100,000	–	–	28.03.07	100,000	53.5p	180p	28.03.07	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	180p	28.03.08	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	180p	28.03.09	27.03.17
	–	300,000	–	–	28.03.07	300,000	53.5p	180p	28.03.10	27.03.17
P Bingham	62,500	–	–	–	28.06.05	62,500	36p	50p	28.06.05	27.06.15
	62,500	–	–	–	28.06.05	62,500	36p	50p	01.03.06	27.06.15
	43,334	–	–	–	28.06.05	43,334	36p	100p	28.06.05	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.06	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.07	27.06.15
	–	72,500	–	–	21.06.07	72,500	69p	70p	21.06.07	20.06.17
	–	72,500	–	–	21.06.07	72,500	69p	70p	21.06.08	20.06.17
R Lukman	62,500	–	–	–	28.06.05	62,500	36p	50p	28.06.05	27.06.15
	62,500	–	–	–	28.06.05	62,500	36p	50p	01.03.06	27.06.15
	43,334	–	–	–	28.06.05	43,334	36p	100p	28.06.05	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.06	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.07	27.06.15
	500,000	–	–	–	18.12.06	500,000	50p	50p	18.12.06	17.12.16
G Pas	62,500	–	–	–	28.06.05	62,500	36p	50p	28.06.05	27.06.15
	62,500	–	–	–	28.06.05	62,500	36p	50p	01.03.06	27.06.15
	43,334	–	–	–	28.06.05	43,334	36p	100p	28.06.05	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.06	27.06.15
	43,333	–	–	–	28.06.05	43,333	36p	100p	01.03.07	27.06.15
	–	72,500	–	–	21.06.07	72,500	69p	70p	21.06.07	20.06.17
	–	72,500	–	–	21.06.07	72,500	69p	70p	21.06.08	20.06.17
J St. John	–	132,000	–	–	21.06.07	132,000	69p	70p	21.06.07	20.06.17
	–	132,000	–	–	21.06.07	132,000	69p	70p	21.06.08	20.06.17
	–	136,000	–	–	21.06.07	136,000	69p	70p	21.06.09	20.06.17
Total	13,268,152	5,690,000	(5,600,000)	(1,253,152)		12,105,000				

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

The options issued on 28 June 2005, 18 December 2006, 28 March 2007 and those issued to Peter Bingham and Guido Pas on 21 June 2007 have no performance criteria attached to them. Those issued to John St. John on 21 June 2007 only vest if a closing share price for the Company of over £1.00 has been achieved for a three month period. The other options issued during 2006 will only vest if the share price has increased by 40% over the market price at date of grant for a period of 10 days.

All the options exercised during 2007 were at a price of 76p.

The closing market price of the ordinary shares at 31 December 2007 was £1.05 and the range during the year was £0.52 to £1.05.

APPROVAL

This report was approved by the Board of Directors on 6 May 2008 and signed on its behalf by:

MR PETER BINGHAM
Chairman, Remuneration Committee
6 May 2008

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRS ("IFRS") as adopted by the European Union and have also elected to prepare the parent Company financial statements in accordance with IFRS as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors' Report

to the members of Afren plc

We have audited the Group and parent Company financial statements (the "financial statements'') of Afren plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, the Group and parent Company Statements of Changes in Equity and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

> the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;

> the parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007;

> the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

> the information given in the Directors' Report is consistent with the financial statements.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London
United Kingdom
6 May 2008

Group Income Statement

For the year ended 31 December 2007

	Notes	2007 $000's	2006 $000's
Revenue		**–**	–
Administrative expenses		**(18,100)**	(12,563)
Other operating expenses – derivative financial instruments	19	**(5,983)**	–
Other operating expenses – exploration costs written off	5	**(12,037)**	–
Operating loss	6	**(36,120)**	(12,563)
Investment revenue	8	**2,515**	2,277
Finance costs	9	**(5,171)**	(5,155)
Other gains and losses – foreign currency losses		**(263)**	(400)
Loss before tax		**(39,039)**	(15,841)
Income tax expense	23	**–**	–
Loss after tax		**(39,039)**	(15,841)
Loss per share			
Basic and diluted	10	**16.5¢**	8.3¢

All operations were continuing throughout both years.

Balance Sheets

As at 31 December 2007

	Notes	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Assets					
Non-current assets					
Intangible assets	11	**49,656**	87,846	**3,868**	3,657
Property, plant and equipment					
– Oil and gas assets	12	**140,926**	–	–	–
– Other	12	**1,545**	1,305	**878**	828
Investments in subsidiaries	13	**–**	–	**32,849**	33,645
Available for sale investments	13	**1,475**	1,224	**1,475**	1,224
		193,602	90,375	**39,070**	39,354
Current assets					
Inventories	14	**3,090**	3,090	**–**	–
Trade and other receivables	16	**12,626**	5,325	**139,885**	73,166
Cash and cash equivalents	17	**91,783**	35,665	**39,937**	35,521
		107,499	44,080	**179,822**	108,687
Total assets		**301,101**	134,455	**218,892**	148,041
Liabilities					
Current liabilities					
Trade and other payables	18	**(40,019)**	(15,951)	**(10,924)**	(13,805)
Net current assets		**67,480**	28,129	**168,898**	94,882
Non-current liabilities	19	**(151,266)**	(64,540)	**(69,206)**	(64,540)
Total liabilities		**(191,285)**	(80,491)	**(80,130)**	(78,345)
Net assets		**109,816**	53,964	**138,762**	69,696
Equity					
Share capital	22	**5,365**	3,752	**5,365**	3,752
Share premium	22	**146,245**	58,266	**146,245**	58,266
Other reserves	26	**16,872**	16,042	**19,340**	18,743
Accumulated losses	27	**(58,666)**	(24,096)	**(32,188)**	(11,065)
Total equity		**109,816**	53,964	**138,762**	69,696

The financial statements were approved by the Board of Directors and authorised for issue on 6 May 2008.

They were signed on its behalf by:

Osman Shahenshah
Chief Executive

Cash Flow Statements

For the year ended 31 December 2007

	Notes	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Operating loss for the year		**(36,120)**	(12,563)	**(15,918)**	(8,613)
Depreciation of property, plant and equipment	12	**973**	338	**675**	236
Other operating expenses – derivative financial instruments		**5,983**	–	**–**	–
Other operating expenses – exploration costs write off	5	**12,037**	–	**377**	–
Other expenses – investment write off		**–**	–	**796**	–
Share based payments charge	25	**1,995**	1,764	**1,995**	1,764
Operating cash flows before movements in working capital		**(15,132)**	(10,461)	**(12,075)**	(6,613)
Increase in trade and other operating receivables		**(4,287)**	(381)	**(3,645)**	(623)
Increase/(decrease) in trade and other operating payables		**10,183**	75	**(3,144)**	(326)
Currency translation adjustments		**(171)**	(26)	**(166)**	(26)
Net cash used in operating activities		**(9,407)**	(10,793)	**(19,030)**	(7,588)
Purchases of property, plant and equipment:					
– other		**(1,216)**	(740)	**(729)**	(377)
– oil and gas assets		**(63,060)**	–	**–**	–
Exploration and evaluation expenditure		**(24,538)**	(58,433)	**(211)**	(1,675)
Advances to Group undertakings		**–**	–	**(52,315)**	(60,956)
Increase in inventories (spare parts)		**–**	(2,889)	**–**	–
Purchase of investments		**–**	(916)	**–**	(916)
Investment revenue		**2,372**	2,277	**1,944**	2,054
Net cash used in investing activities		**(86,442)**	(60,701)	**(51,311)**	(61,870)
Issue of ordinary share capital		**84,625**	551	**84,625**	551
Costs of share issues		**(3,219)**	–	**(3,219)**	–
Proceeds from borrowings		**84,000**	–	**–**	–
Borrowing costs		**(7,338)**	–	**–**	–
Issue of convertible bonds		**–**	76,121	**–**	76,121
Costs of convertible bonds		**–**	(1,807)	**–**	(1,807)
Interest paid		**(6,855)**	–	**(7,317)**	–
Net cash provided by financing activities		**151,213**	74,865	**74,089**	74,865
Net increase in cash and cash equivalents		**55,364**	3,371	**3,748**	5,407
Cash and cash equivalents at beginning of year		**35,665**	29,539	**35,521**	27,560
Effect of foreign exchange rate changes		**754**	2,755	**668**	2,554
Cash and cash equivalents at end of year	17	**91,783**	35,665	**39,937**	35,521

Statements of Changes in Equity

For the year ended 31 December 2007

	Share capital $000's	Share premium account $000's	Other reserves $000's	Accumulated losses $000's	Total equity $000's
Group					
At 1 January 2006	3,703	57,725	(2,212)	(9,669)	49,547
Issue of share capital	49	541	–	–	590
Share-based payments for services	–	–	1,764	–	1,764
Other share-based payments	–	–	699	–	699
Issue of convertible bond	–	–	15,677	–	15,677
Reserves transfer relating to convertible bonds	–	–	(1,414)	1,414	–
Revaluation of available for sale investments	–	–	245	–	245
Exchange differences arising on translation of overseas operations	–	–	1,283	–	1,283
Net loss for the year	–	–	–	(15,841)	(15,841)
Balance at 31 December 2006	**3,752**	**58,266**	**16,042**	**(24,096)**	**53,964**
Issue of share capital	1,613	91,198	–	–	92,811
Deductible costs of share issues	–	(3,219)	–	–	(3,219)
Share-based payments for services	–	–	1,936	–	1,936
Other share-based payments	–	–	3,454	–	3,454
Reserves transfer relating to convertible bonds	–	–	(2,974)	2,974	–
Reserves transfer on exercise of options	–	–	(1,495)	1,495	–
Revaluation of available for sale investments	–	–	227	–	227
Exchange differences arising on translation of overseas operations	–	–	(318)	–	(318)
Net loss for the year	–	–	–	(39,039)	(39,039)
Balance at 31 December 2007	**5,365**	**146,245**	**16,872**	**(58,666)**	**109,816**

	Share capital $000's	Share premium account $000's	Other reserves $000's	Accumulated losses $000's	Total equity $000's
Company					
At 1 January 2006	3,703	57,725	1,772	(6,541)	56,659
Issue of share capital	49	541	–	–	590
Share-based payments for services	–	–	1,764	–	1,764
Other share-based payments	–	–	699	–	699
Issue of convertible bond	–	–	15,677	–	15,677
Reserves transfer relating to convertible bonds	–	–	(1,414)	1,414	–
Revaluation of available for sale investments	–	–	245	–	245
Net loss for the year	–	–	–	(5,938)	(5,938)
Balance at 31 December 2006	**3,752**	**58,266**	**18,743**	**(11,065)**	**69,696**
Issue of share capital	1,613	91,198	–	–	92,811
Deductible costs of share issues		(3,219)	–	–	(3,219)
Share-based payments for services	–	–	1,936	–	1,936
Other share based payments	–	–	3,454	–	3,454
Reserves transfer relating to convertible bonds	–	–	(2,974)	2,974	–
Reserves transfer on exercise of options	–	–	(1,495)	1,495	–
Revaluation of available for sale investments	–	–	227	–	227
Exchange differences	–	–	(551)	–	(551)
Net loss for the year	–	–	–	(25,592)	(25,592)
Balance at 31 December 2007	**5,365**	**146,245**	**19,340**	**(32,188)**	**138,762**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1 GENERAL INFORMATION

Afren plc is a company incorporated in England under the Companies Act 1985. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in note 4 and in the Chairman and Chief Executive's Statement and Review of Operations on pages 8 to 23. These financial statements are presented in US dollars following the change of the Group's presentational currency during the year as explained in note 2. Foreign operations are included in accordance with the policies set out in note 2.

ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted IFRS 7 – Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 – Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 have been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 19). Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 – Scope of IFRS 2; IFRIC 9 – Reassessment of Embedded Derivatives; and IFRIC 10 – Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

In addition, the Group has elected to adopt the following in advance of its effective date:

IAS23 – Borrowing Costs (revised 2007) (effective for accounting periods beginning on or after 1 January 2009).

The revisions made to IAS 23 have no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense borrowing costs as incurred, has no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2	Share-based payments (revised 2008)
IFRS 3	Business combination (revised 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of financial statements (revised 2008)
IAS 27	Consolidated and separate financial statements (revised 2008)
IAS 32	Financial instruments: Presentation (revised 2008)
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programme
IFRIC14	IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

2 ACCOUNTING POLICIES

FUNCTIONAL AND PRESENTATION CURRENCIES

The Company's major subsidiaries changed their functional currencies from local currency to US dollars from 1 January 2007. Previously, the majority of the expenditure in Afren plc's major subsidiaries was in local currency. However, with the advent of the Okoro Setu appraisal wells and the subsequent field development, the vast majority of expenditure for the Group is now in US dollars. Additionally, the funding facility for the field development is a US dollar facility, such that funding and expenditure for the Group will both be primarily in US dollars. When sales occur, currently expected to be in the second quarter of 2008, these too will be in US dollars.

Consequently, these companies have changed their functional currencies to US dollars. The majority of the Company's expenditure is sterling and funding through the convertible bond and equity raises are also sterling denominated. The Company expects that future funding requirements will be sterling denominated and accordingly has retained sterling as its functional currency.

Additionally the Group and the Company have elected to change the presentational currency to US dollars. Prior-period comparatives for the Group and the Company have been restated accordingly.

2 ACCOUNTING POLICIES continued

BASIS OF ACCOUNTING

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that have been measured at fair value.

BASIS OF CONSOLIDATION

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

As a consolidated Group income statement is published, a separate income statement for the parent company has not been published in accordance with section 230(4) of the Companies Act 1985.

PROPERTY, PLANT AND EQUIPMENT – OTHER

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

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

Leasehold improvements	over life of lease
Fixtures and equipment	over three years
Computer hardware and software	over three years

EXPLORATION, EVALUATION AND OIL AND GAS ASSETS

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

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

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

COMMERCIAL RESERVES

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

2 ACCOUNTING POLICIES continued

DEPLETION AND AMORTISATION – OIL AND GAS ASSETS

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

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

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

DECOMMISSIONING

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

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

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

IMPAIRMENT

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

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

INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries held by the Company as fixed assets are stated at cost less any provision for permanent diminution of value.

FOREIGN CURRENCIES

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

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising are included in the profit and loss for the period.

For the purposes of presenting consolidated financial statements, the assets and liabilities of each Group company are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

2 ACCOUNTING POLICIES continued

OPERATING LEASES
Rentals under operating leases are charged to the income statement on a straight-line basis over the period of the relevant lease.

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

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

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

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

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

SHARE-BASED PAYMENTS
The Group has applied the requirements of IFRS 2 "Share-based Payment".

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

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

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

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

INVENTORIES
Inventories (spare parts) are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

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

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

2 ACCOUNTING POLICIES continued

FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Group has, for the first time, entered into swaps and call options to economically protect against exposures to variability in the price of Okoro crude oil production for 2008, 2009 and 2010. Derivative financial instruments are stated at fair value. The gains and losses arising out of changes in fair value of these derivative financial instruments are accounted for in the income statement in the period in which they are incurred.

AVAILABLE FOR SALE INVESTMENTS

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

TRADE RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

TRADE PAYABLES

Trade payables are stated at their fair value.

FINANCIAL LIABILITIES AND EQUITY

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

CONVERTIBLE BONDS

Convertible bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

continued

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

OIL AND GAS ASSETS
In particular, management is required to assess the oil and gas development assets for impairment. Note 12 discloses the carrying value of such assets. As part of this assessment, management has carried out an impairment test ("ceiling test") on the tangible oil and gas assets (Okoro Setu and Eremor projects). This compared the carrying value of the asset in the balance sheet with the expected discounted cash flows from the project. For the discounted cash flows to be calculated, management has estimated both the costs for development and the underlying oil reserves of the assets. The reserve estimate is based on third party evidence from Netherland Sewell and Associates Inc, a reservoir engineering firm.

INTANGIBLE ASSETS
Management is required to assess impairment in respect of intangible exploration assets. Note 11 discloses the carrying value of such assets. The triggering events include those defined in IFRS6. In making the assessment management is required to make judgements on the status of each project and the future plans towards finding commercial reserves.

SHARE-BASED PAYMENTS
Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements. Details of these can be found in note 25.

FINANCIAL RISK MANAGEMENT
In respect of financial risk management, at the balance sheet date, the Group's principal financial asset is cash and cash equivalents. The credit risk on such funds is limited because the majority are deposited with banks with good credit ratings assigned by international credit rating agencies.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due. The Group uses projected cash flows to monitor funding requirements for the Group's activities.

The Group's exposure to the risk of changes in market interest rates is mitigated by use of a mix of fixed and variable rate debts on convertible bond and bank borrowings respectively. The interest on borrowings from BNP Paribas and FCMB is based on LIBOR plus a margin and therefore the interest charged is affected by movement in LIBOR.

CREDIT RISK MANAGEMENT
Credit Risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group.

The Group reviews the credit risk if the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group.

The Group's business is diversified in terms of both region and the number of counter-parties and the Group does not have significant exposure to any single counter-party or group of counter-parties with similar characteristics.

4 SEGMENTAL REPORTING

GEOGRAPHICAL SEGMENTS

The Group currently operates in only one geographical market: West Africa. This is the basis on which the Group records its primary segment information. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the Group.

2007	West Africa $000's	Unallocated $000's	Consolidated $000's
Operating loss before derivative financial instruments	(15,015)	(15,122)	(30,137)
Derivative financial instruments losses	(5,983)	–	(5,983)
Segment result	(20,998)	(15,122)	(36,120)
Investment revenue			2,515
Finance costs			(5,171)
Other gains and losses – foreign currency losses			(263)
Loss before and after tax			**(39,039)**
Segment assets	256,247	44,854	301,101
Segment liabilities	(111,296)	(79,989)	(191,285)
Capital additions – oil and gas assets	92,450	–	92,450
Capital additions – exploration and evaluation	21,946	–	21,946
Capital additions – other	488	728	1,216
Depreciation	(298)	(675)	(973)
2006			
Segment result	(1,834)	(10,729)	(12,563)
Investment revenue			2,277
Finance costs			(5,155)
Other gains and losses – foreign currency losses			(400)
Loss before and after tax			(15,841)
Segment assets	91,710	42,745	134,455
Segment liabilities	(7,499)	(72,992)	(80,491)
Capital additions	72,345	404	72,749
Depreciation	(84)	(254)	(338)

The following amounts recorded by the Company relate to the West Africa Segment:

	2007 $000's	2006 $000's
Assets	**5,324**	3,450
Liabilities	**–**	–
Capital additions	**211**	1,583
Depreciation	**–**	–

BUSINESS SEGMENTS

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

continued

5 OTHER OPERATING EXPENSES

	2007 $000's	2006 $000's
Exploration costs written off	**11,660**	–
Pre-licence costs written off	**377**	–
	12,037	–

Exploration costs written off include $7.1 million relating to the Ofa well test operations in Nigeria, $2.4 million relating to the Themis Marin licence in Gabon and the $2.1 million costs of the Doungou well on the La Noumbi licence in Congo (Brazzaville).

6 LOSS FOR THE YEAR

The loss for the year is stated after charging:

	2007 $000's	2006 $000's
Staff costs (note 7)	**12,886**	6,202
Depreciation of property, plant and equipment	**973**	338
Property lease rentals	**1,289**	636
An analysis of auditors' remuneration is as follows:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**174**	104
Fees payable to the Company's auditors and their associates for other services to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	**100**	61
Total audit fees	**274**	165
– Tax services	**76**	141
– Corporate finance services	**156**	75
– Recruitment and remuneration services	**48**	–
– Other services	**50**	39
Total non-audit fees	**330**	255

2006 audit fees includes $13,000 payable to Revisorblom.com AS in respect of the audit of a Norwegian subsidiary. Corporate finance services primarily represent due diligence work performed in connection with corporate transaction activities of the Group. Other services represent amounts in respect of the review of the Group's interim results.

During the year a proportion of the Group's staff costs shown above is recharged to the Group's joint venture partners and a proportion is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets.

7 STAFF COSTS

The average monthly number of employees (including Executive Directors) employed was as follows:

	2007	2006
Administration	**9**	7
Professional	**29**	18
	38	25

Their aggregate remuneration comprised:

	2007 $000's	2006 $000's
Wages and salaries	**8,462**	3,818
Share-based payments	**1,759**	1,488
Social security costs	**2,348**	702
Pension costs	**317**	194
	12,886	6,202

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

8 INVESTMENT REVENUE

	2007 $000's	2006 $000's
Interest on bank deposits	**2,515**	2,277

9 FINANCE COSTS

	2007 $000's	2006 $000's
Convertible bond interest payable	**10,514**	4,981
Bank interest payable	**3,198**	–
Other finance costs	**2,530**	174
	16,242	5,155
Less: capitalised interest	**(11,071)**	–
	5,171	5,155

Capitalised interest includes all the interest charged relating to the Okoro field development financing facilty plus a proportion of the FCMB loan interest and the convertible bond interest. The effective interest rate used for the interest capitalisation is 11.1 per cent and 15.2 per cent in respect of FCMB loan and the convertible bond respectively.

10 LOSS PER ORDINARY SHARE

The calculation of basic loss per share is based on the loss for the year after taxation of $39,039,000 (2006: $15,841,000) and 236,862,944 ordinary shares (2006: 190,356,208), being the weighted average number of shares in issue for the year. As there is a loss for the year, there is no difference between the basic and diluted earnings per share.

	2007	2006
Basic and diluted	**16.5¢**	8.3¢

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11 INTANGIBLE ASSETS

Costs of exploration – pending determination

	Group $000's	Company $000's
At 1 January 2006	**18,313**	1,866
Additions	**71,958**	1,791
Foreign exchange differences	**(2,425)**	–
At 1 January 2007	**87,846**	3,657
Additions	**21,946**	142
Transfer to tangible oil assets	**(48,476)**	–
Amounts written off (note 5)	**(11,660)**	–
Foreign exchange differences	**–**	69
At 31 December 2007	**49,656**	3,868

The Group's carrying value at 31 December 2007 includes $28.0 million relating to the La Noumbi permit in Congo (Brazzaville) and $16.8 million in respect of JDZ Block One of the Nigeria – São Tomé & Príncipe Joint Development Zone ("JDZ Block One").

During the year and at the year end the Group's interest in Okoro and Eremor fields respectively, were transferred to oil and gas assets within property, plant and equipment, following receipt of final approval for the Field Development Plan from the Nigerian Government.

Additional amounts are payable in relation to JDZ Block One if proved reserves are discovered and upon approval of a field development programme. The amount payable is based on the level of proved reserves and prevailing oil and gas prices and is subject to adjustment upon any subsequent amendments to such oil and gas reserves.

12 PROPERTY, PLANT AND EQUIPMENT

	Development $000's	Total $000's
Group		
Oil and gas assets		
Cost and carrying amount		
At 1 January 2006	–	–
Additions	–	–
At 1 January 2007	–	–
Transfer from intangible assets	48,476	48,476
Additions	92,450	92,450
At 31 December 2007	**140,926**	**140,926**

12 PROPERTY, PLANT AND EQUIPMENT continued

	Leasehold improvements $000's	Fixtures and equipment $000's	Computer hardware and software $000's	Total $000's
Group				
Other property, plant and equipment				
Cost				
At 1 January 2006	429	437	74	940
Additions	275	172	293	740
Foreign exchange movements	19	12	20	51
At 1 January 2007	723	621	387	1,731
Additions	487	464	265	1,216
Foreign exchange movements	12	5	9	26
At 31 December 2007	1,222	1,090	661	2,973
Accumulated depreciation				
At 1 January 2006	53	18	8	79
Charge for the year	102	172	64	338
Foreign exchange movements	2	2	5	9
At 1 January 2007	157	192	77	426
Charge for the year	581	212	180	973
Foreign exchange movements	14	9	6	29
At 31 December 2007	752	413	263	1,428
Carrying amount				
At 31 December 2006	566	429	310	1,305
At 31 December 2007	**470**	**677**	**398**	**1,545**

	Leasehold improvements $000's	Fixtures and equipment $000's	Computer hardware and software $000's	Total $000's
Company				
Other property, plant and equipment				
Cost				
At 1 January 2006	409	276	59	744
Additions	105	92	180	377
Foreign exchange movements	8	6	12	26
At 1 January 2007	522	374	251	1,147
Additions	233	291	205	729
Foreign exchange movements	12	5	8	25
At 31 December 2007	767	670	464	1,901
Accumulated depreciation				
At 1 January 2006	51	8	6	65
Charge for the year	84	99	53	236
Foreign exchange movements	7	7	4	18
At 1 January 2007	142	114	63	319
Charge for the year	401	146	128	675
Foreign exchange movements	14	9	6	29
At 31 December 2007	557	269	197	1,023
Carrying amount				
At 31 December 2006	380	260	188	828
At 31 December 2007	**210**	**401**	**267**	**878**

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13 INVESTMENTS

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Subsidiaries				
Shares at cost in subsidiary undertakings	**–**	–	**32,849**	33,645

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

Name	%	Country of operation	Country of registration
Directly held			
Afren Block One Limited	100	UK	England & Wales
Afren Nigeria Holdings Limited	100	UK	England & Wales
Afren Gabon Limited	100	Gabon	England & Wales
Gabon Investments (Iris Marin) Pty Limited	100	Gabon	Australia
Gabon Investments (Themis Marin) Pty Limited	100	Gabon	Australia
Afren Production and Shipping Limited	100	UK	England & Wales
Afren Congo Limited	100	Congo	Bahamas
Afren Ghana Holdings Limited	100	Ghana	Jersey
Indirectly held			
Afren JDZ One Limited	100	Norway	Norway
Dangote Energy Equity Resources Limited	49(i)	Nigeria	Nigeria
Afren Energy Resources Limited	100	Nigeria	Nigeria
Afren Okoro Limited	100	UK	England & Wales
Afren Global Energy Resources Limited	50(i)	Nigeria	Nigeria
Afren Onshore Limited	100	Nigeria	Nigeria
Afren Block 90 Limited	100	Nigeria	Nigeria
Afren Oil and Gas Development Limited	100	Nigeria	Nigeria
Afren OML 46 Resources Limited	100	Nigeria	Nigeria
Afren Investments Oil & Gas (Nigeria) Limited	100	Nigeria	Nigeria
Afren Energy Services Limited	100	Nigeria	Nigeria
Afren Nigeria Holdings (Nigeria) Limited	100	Nigeria	Nigeria
Zetah Noumbi Limited	14	Congo	Bahamas

(i) Accounted for via proportional consolidation as the Group exercises joint control over its operations.

All operating companies are engaged in the exploration, development and production of oil and gas properties whilst those whose names indicate they are holding and service companies manage the operating companies.

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Available for sale investments				
At the beginning of the year	**1,224**	–	**1,224**	–
Purchase in the year	**–**	979	**–**	979
Revaluation	**227**	245	**227**	245
Exchange difference	**24**	–	**24**	–
Fair value at 31 December 2007	**1,475**	1,224	**1,475**	1,224

The investments comprise of 10,000,000 ordinary shares in Gasol plc, a company listed on AIM.

14 INVENTORIES

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Spare parts	**3,090**	3,090	**–**	–

15 INTEREST IN JOINT VENTURES

The Group has a 49 per cent share of Dangote Energy Equity Resources Limited (DEER), a jointly-controlled entity which is involved in operations in JDZ Block One.

The Group has a 50 per cent interest in Afren Global Energy Resources Limited (AGER), a jointly-controlled entity. AGER will hold the Production Sharing Contracts for OPLs 907 and 917 which were signed subsequent to the year end as disclosed in note 28. AGER's operations as at the year end were not material to the Group.

The Group's share of DEER's assets, liabilities, income and expenses at 31 December 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2007 $000's	2006 $000's
Current assets	**29**	118
Non-current assets	**16,809**	16,368
	16,838	16,486
Current liabilities	**(33)**	(42)
	16,805	16,444
Administrative expenses	**13**	39
Bank interest received	**–**	(9)
Loss before and after income tax	**13**	30

16 TRADE AND OTHER RECEIVABLES

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Other debtors	**5,266**	4,008	**4,840**	3,913
Prepayments	**6,354**	929	**2,171**	878
VAT recoverable	**1,006**	388	**940**	388
Due from subsidiary undertakings	**–**	–	**121,575**	58,187
Due from joint ventures	**–**	–	**10,359**	9,800
	12,626	5,325	**139,885**	73,166

Other debtors in respect of the Group and Company include amounts deposited with third parties in respect of pending transactions of $2.2 million (2006: $2.2 million). These relate to the signature bonuses for two onshore exploration licences paid in December 2005 and February 2006, which have subsequently been signed and transferred to intangible assets in February 2008 (see note 28).

Prepayments in respect of the Group includes a $4.0 million prepayment of operating costs relating to the Floating Production, Storage and Offtake vessel (FPSO) for the Okoro field and $2.0 million refundable deposits (in respect of Group and Company) relating to two transactions pending final approvals and completion – $1.0 million relating to the acquisition of the Keta block in Ghana and a further $1.0 million relating to Block 16 in Angola.

Neither the Group nor the Company had any past due trade receivables.

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17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 $000's	2006 $000's	**2007 $000's**	2006 $000's
Cash and cash equivalents	**91,783**	35,665	**39,937**	35,521

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and earn interest at respective short-term deposit rates. The carrying amount of these assets approximates their fair value.

As at 31 December 2006, cash and cash equivalents included $5.0 million that was held as collateral in respect of a letter of credit and was not available for use. This was released in January 2007.

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 $000's	2006 $000's	**2007 $000's**	2006 $000's
Trade creditors	**10,980**	5,138	**1,832**	4,797
Other creditors	**3,695**	1,342	**–**	43
Accruals	**23,469**	8,626	**8,753**	8,447
PAYE and social security	**286**	139	**261**	132
VAT payable	**181**	706	**–**	120
Derivative financial instruments	**1,408**	–	**–**	–
Due to subsidiary undertakings	**–**	–	**78**	266
	40,019	15,951	**10,924**	13,805

Included in accruals at 31 December 2007 for the Group and Company is $3,706,000 (2006: $3,637,000) of interest payable in respect of the convertible bond (see note 20). In addition, Group accruals include interest payable of $1,495,000 (2006: nil) relating to the unsecured borrowing described in note 19.

19 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2007		2006	
	Current $000's	**Non-current $000's**	Current $000's	Non-current $000's
Convertible bond (note 20)	**–**	**69,206**	–	64,540
Bank borrowings	**–**	**77,485**	–	–
Derivative financial instruments	**1,408**	**4,575**	–	–
	1,408	**151,266**	–	64,540

Bank borrowings at the year end included $32.4 million relating to the $230 million Okoro Development facility from BNP Paribas. Interest on the loan is based on LIBOR plus a margin of 4.25 per cent as at 31 December 2007. Upon full utilisation, the facility is repayable in semi-annual instalments of $25.0 million ending in 2012. The loan is secured by the assets of the Okoro field. At 31 December 2007 the undrawn amount relating to this facility was $162.3 million based on the borrowing base schedule. The repayment profile is impacted by borrowing base calculations linked to the certified reserves of the Okoro field.

19 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Borrowings also include a balance of $45.1 million relating to an unsecured loan facility from First City Monument Bank plc ("FCMB"). Interest on the loan is based on LIBOR plus a margin of 4.45 per cent. The loan is repayable on six equal semi-annual instalments commencing 2010 and ending in 2012.

The Group entered into derivative financial instruments (swaps and call options) to protect economically against exposures to variability in the price of Okoro crude oil production for 2008, 2009 and 2010. The Group will receive a minimum amount if the market falls, but will receive a set discount from the market price if the oil price is above that minimum. The arrangement protects the Group against the risk of a significant fall in the price of crude oil by establishing a minimum price for the Okoro crude. The loss of $6.0 million arising during the year as a result of the changes in fair value of these derivative financial instruments is accounted for in the income statement, as the criteria for hedge accounting was not met.

The maturity profile of the Group's borrowings is set out below.

	2007 $000's	2006 $000's
Due within one year	**11,030**	7,317
Due within two to five years	**157,410**	73,755
Due after five years	**–**	–
	168,440	81,072

The maturity profile of the Company's borrowings is set-out below.

	2007 $000's	2006 $000's
Due within one year	**7,360**	7,317
Due within two to five years	**71,061**	73,755
Due after five years	**–**	–
	78,421	81,072

FAIR VALUES

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments:

	Carrying amount 2007 $000's	Carrying amount 2006 $000's	Fair value 2007 $000's	Fair value 2006 $000's
Financial assets				
Cash and cash equivalents	**91,783**	35,665	**91,783**	35,665
Other debtors	**5,266**	4,008	**5,266**	4,008
Available for sale investments	**1,475**	1,224	**1,475**	1,224
	98,524	40,897	**98,524**	40,897
Financial liabilities				
Derivative financial instruments	**5,983**	–	**5,983**	–
Trade creditors	**10,980**	5,138	**10,980**	5,138
Other creditors	**3,695**	1,342	**3,695**	1,342
Borrowings – BNP Paribas	**32,384**	–	**37,604**	–
Borrowings – FCMB	**45,101**	–	**50,415**	–
Convertible bond	**69,206**	64,540	**136,299**	80,985
	167,349	71,020	**244,976**	87,465

19 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments:

	Carrying amount		Fair value	
	2007 $000's	2006 $000's	**2007 $000's**	2006 $000's
Financial assets				
Cash and cash equivalents	**39,937**	35,521	**39,937**	35,521
Other debtors	**4,840**	3,912	**4,840**	3,912
Available for sale investments	**1,475**	1,224	**1,475**	1,224
	46,252	40,657	**46,252**	40,657
Financial liabilities				
Trade creditors	**1,832**	4,797	**1,832**	4,797
Other creditors	**–**	43	**–**	43
Convertible bonds	**69,206**	64,540	**136,299**	80,985
	71,038	69,380	**138,131**	85,825

Trade payables and other creditors are non-interest bearing and are normally settled on 30-day terms. Interest on borrowings is normally settled on semi-annual basis and is included in accruals.

The fair value of bank borrowings have been determined by discounting future cash outflows relating to the borrowings. The convertible bond option value has been determined by reference to the Binomial option valuation model. The inputs into the Binomial model were as follows:

	2007	2006
Strike price	**58p**	59.92p
Spot price	**105p**	57p
Days to expected conversion	**457**	822
Interest rate	**4%**	4%

SENSITIVITY ANALYSIS

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings. The Group has mitigated the interest cost by using a mix of of fixed and variable rate debts on convertible bond and bank borrowings respectively.

The following table demonstrates the sensitivity to changes in LIBOR, with all other variables held constant, of the Group's loss before tax.

2007	Increase	Increase in Group loss $000	Decrease	Decrease in Group loss $000
Interest payable – FCMB	1%	(155)	1%	144

The impact on the Group's equity would be the same as the impact in Group loss for FCMB interest payable whilst in respect to BNP Paribas interest payable the impact on the Group's equity and the Group loss would be nil since the interest is capitalised as explained in note 9.

19 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS continued

OIL PRICE RISK

The Group's exposure to the risk of changes in oil price relates primarily to the Group's derivative financial instruments. The terms of the derivative financial instruments are such that the Group will receive a minimum amount if the market falls, but will receive a set discount from the market price if the oil price is above that minimum. The effect of on Group loss and equity changes in the oil price on the fair value of the derivative financial instruments is shown below:

	(Increase)/ decrease $000
Increase in oil price by 10 per cent	(582)
Decrease in oil price by 10 per cent	902

FOREIGN EXCHANGE RISK

The impact of a 10 per cent change in the sterling to US dollar or Nigerian naira to US dollar exchange rate would not be material.

CAPITAL MANAGEMENT

The Group manages its capital to ensure that it remains well funded to support its business strategy and maximise shareholder value. The Group's funding needs are met through a combination of debt and equity. The Group monitors its net debt position on an ongoing basis. The Group includes within net debt, interest bearing loans and borrowings less cash and cash equivalents. Capital includes share capital, share premium, other reserves and accumulated losses.

20 CONVERTIBLE BONDS

Convertible bonds relate to the private placement in prior years of £41.25 million of Convertible Senior Unsecured Bonds due 2011. The bonds bear a coupon of nine per cent per annum (payable semi-annually) and are convertible into ordinary shares of the Company. The conversion price of 58.2 pence per ordinary share was set at a 25 per cent premium to the price determined in the pricing method at the time of issue as adjusted for the equity issue in June 2007 per the terms of the bond. The Bonds also contain other terms, including anti-dilution provisions effective in the event of certain future issuances, a bondholder put option payable in cash or shares (at a discount to the share price during the period prior to payment) at the Company's option, a Company call option and its ability to make coupon payments in cash or shares (at a discount to the share price during the period prior to the payment) at the Company's option.

	Group and Company	
	2007 $000's	2006 $000's
Liability component at 1 January	**68,177**	–
Nominal value at date of issue, net of costs	**–**	78,578
Equity component (see note 26)	**–**	(15,677)
Interest charged	**10,514**	4,981
Amortisation of bond issue costs	**405**	174
Exchange difference	**1,133**	121
Interest paid	**(7,317)**	–
	72,912	68,177

20 CONVERTIBLE BONDS continued

Reported in:

	Group and Company 2007 $000's	2006 $000's
Interest payable in current liabilities	**3,706**	3,637
Non-current liabilities	**69,206**	64,540
Total liability component at 31 December 2007	**72,912**	68,177

The interest charged for the year is calculated by applying an effective interest rate of 15.2 per cent to the liability component.

21 CONTINGENT LIABILITIES

As at 31 December 2007 the Group had an outstanding $17.6 million (2006: $5.0 million) letter of credit issued by a bank relating to a drilling contract on the Okoro development.

22 SHARE CAPITAL AND SHARE PREMIUM

	2007 $000's	2006 $000's
(i) Authorised		
400 million ordinary shares of 1p each (equivalent to approx $1.96 cents) (2006: 400 million)	**7,836**	7,836

	Equity share capital allotted and fully paid Number	$000's	Share premium $000's
(ii) Allotted equity share capital and share premium			
As at 1 January 2007	191,539,496	3,752	58,266
Issued during the year for cash(i)	74,443,976	1,474	79,932
Non-cash shares issued(ii)	7,023,091	139	8,047
As at 31 December 2007	**273,006,563**	**5,365**	**146,245**

(i) Share premium figure is shown net of issue costs of $3.2 million.
(ii) Non-cash shares issued were in respect of contractual arrangements concerning the Okoro field development.

23 TAXATION

There was no tax payable for the Group in 2007 or 2006. The loss per the income statement can be reconciled to the overall tax charge as follows:

	2007 $000's	2006 $000's
Pre-tax loss	**(39,039)**	(15,841)
Tax at the UK corporate tax rate of 30 per cent	**11,712**	4,752
Tax effect of items which are not deductible for tax	**(7,203)**	(775)
Adjustment to tax losses in respect of prior years	**72**	(191)
Loss not recognised	**(4,581)**	(3,786)
Tax charge for the year	**–**	–

At the balance sheet date the Group and Company had a deferred tax asset (relating to tax losses) of $9,848,000 (2006: $5,339,000) and $8,304,000 (2006: $2,016,000) respectively that has not been recognised as there is insufficient evidence of future taxable profits.

There are no undistributed earnings of subsidiaries and accordingly no requirement to record deferred tax in respect of such balances.

24 OPERATING LEASE AND CAPITAL COMMITMENTS

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Minimum lease payments under operating leases recognised in income for the year	**1,289**	578	**1,209**	586

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2007 $000's	Group 2006 $000's	Company 2007 $000's	Company 2006 $000's
Within one year	**26,520**	684	**1,178**	684
In the second to fifth years	**125,339**	1,124	**4,418**	1,124
	151,859	1,808	**5,596**	1,808

Operating lease payments includes rentals of $25.2 million payable within one year and $120.8 million payable between two and five years for the FPSO that will be used on the Okoro field production. Other operating lease commitments represent rentals payable by the Company and Group for certain of its office properties. Property leases are negotiated for an average term of three years and rentals are fixed for an average term of three years.

	2007 $000's	2006 $000's
Capital commitments – Group		
Oil and gas assets – development	**183,278**	56,618
Oil and gas assets – exploration and evaluation	**3,951**	5,100
	187,229	61,718

25 SHARE-BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

The Company operates a share option scheme for all employees. The Group's policy is to award options to employees on appointment or completion of their probationary period and periodically thereafter. Options are issued at market price on the grant date and have vesting periods of up to three years. The options expire after 10 years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

Details of the share options outstanding during the year are as follows:

	2007 Number of share options	2007 Weighted average exercise price £	2006 Number of share options	2006 Weighted average exercise price £
Outstanding at beginning of year	**22,478,152**	**0.52**	17,493,152	0.51
Granted during the year	**12,595,000**	**0.92**	6,490,000	0.58
Exercised in year	**(5,600,000)**	**0.35**	–	–
Lapsed during the year	**(1,953,152)**	**0.83**	(1,505,000)	0.61
Outstanding at end of year	**27,520,000**	**0.72**	22,478,152	0.52
Exercisable at end of year	**10,315,000**	**0.56**	11,364,439	0.49

The weighted average remaining contractual life of the options outstanding at 31 December 2007 was 8.6 years (2006: 8.8 years). In 2007 options were granted to 20 new employees on joining or completion of their probationary period. Additionally, awards were made to the Executive Directors in March 2007 and to Non-executive Directors and all other eligible staff in June 2007. The aggregate of the fair value of the options granted during 2007 was $1.9 million (2006: $1.8 million).

25 SHARE-BASED PAYMENTS continued

The options granted during the year have been valued by reference to the Barrier option valuation model, consistent with the prior year. The inputs into the Barrier model were as follows:

	2007	2006
Weighted average share price (pence)	**63.0**	57.8
Weighted average exercise price (pence)	**92.2**	58.0
Weighted average target price before eligibility to exercise (barrier) (pence)	**111.1**	89.8
Expected volatility	**50%**	50%
Expected life (years)	**3**	3
Risk-free rate	**5.0%**	5.0%
Expected dividends	**–**	–

The volatility of Afren shares was again reviewed following a further 12 months of share price data. The volatility was measured utilising several formulae, including an Exponentially Weighted Moving Average model and a GARCH (Generalised Autoregressive Conditional Heteroscedasticity) model, and over several time periods. These gave a range of estimates for the share price volatility, but no significant change from the previous year. Therefore the volatility assumption was kept as for last year, but will remain under review going forwards.

The Company and Group recognised total expenses related to equity settled share-based payment transactions in the form of options in 2007 of $1,934,000 of which $1,759,000 related to employees, including Executive Directors of the Group (2006: $1,634,000 and $1,472,000 respectively).

OTHER EQUITY-SETTLED SHARE CONSIDERATION (WARRANTS)

From time to time, the Company will give consideration for services or assets in the form of warrants. During the year, the Company issued 12,407,279 warrants. The majority of these (12,000,000) were in relation to the loan from FCMB which were issued at 85p per warrant, vested immediately and are exercisable at any time from the grant date for a period of five years.

Details of the warrants outstanding during the year are as follows:

	Number of share options	2007 Weighted average exercise price £	Number of share options	2006 Weighted average exercise price £
Outstanding at beginning of year	**3,552,702**	**0.59**	2,500,000	0.12
Granted during the year	**12,407,279**	**0.85**	3,552,702	0.59
Exercised during the year	**–**	**–**	(2,500,000)	0.12
Outstanding at end of year	**15,959,981**	**0.79**	3,552,702	0.59
Exercisable at end of year	**15,809,981**	**0.79**	3,227,702	0.60

The weighted average remaining contractual life of the warrants outstanding at 31 December 2007 was 4.3 years (2006: 4.1 years). In 2007 warrants were granted in January, April, September and December. The aggregate of the fair value of the warrants granted in 2007 was $3.5 million (2006: $0.4 million).

The warrants granted during 2007 have been valued by reference to the Black Scholes option valuation model. The inputs into the Black Scholes model were as follows:

	2007	2006
Weighted average share price (pence)	**60.3**	48.3
Weighted average exercise price (pence)	**84.7**	59.5
Expected volatility	**50%**	50%
Weighted average expected life (years)	**2.5**	2.1
Risk free rate	**5.0%**	5.0%
Expected dividends	**–**	–

25 SHARE-BASED PAYMENTS continued

The Company and Group recognised total costs of $3,454,400 (2006: $663,000), of which $59,000 (2006: $9,160) was expensed, related to equity settled share-based transactions in the form of warrants in 2007. Of the remainder $3,395,000 was accounted for as a cost of the FCMB loan and accordingly recorded as reduction in the carrying value of the related debt at inception.

26 OTHER RESERVES

	Translation reserve $000's	Convertible bonds $000's	Investment revaluation reserve $000's	Share-based payment reserve $000's	Total $000's
Group					
At 1 January 2006	(3,984)	–	–	1,772	(2,212)
Share-based payments for services	–	–	–	1,764	1,764
Other share-based payments	–	–	–	699	699
Issue of convertible bonds	–	15,677	–	–	15,677
Transfer to retained earnings	–	(1,414)	–	–	(1,414)
Revaluation of available for sale investments	–	–	245	–	245
Exchange differences	1,283	–	–	–	1,283
At 31 December 2006	**(2,701)**	**14,263**	**245**	**4,235**	**16,042**
Share-based payments for services	–	–	–	1,936	1,936
Other share-based payments	–	–	–	3,454	3,454
Transfer to retained earnings	–	(2,974)	–	(1,495)	(4,469)
Revaluation of available for sale investments	–	–	227	–	227
Exchange differences	(318)	–	–	–	(318)
At 31 December 2007	**(3,019)**	**11,289**	**472**	**8,130**	**16,872**

	Translation reserve $000's	Convertible bonds $000's	Investment revaluation reserve $000's	Share-based payment reserve $000's	Total $000's
Company					
At 1 January 2006	–	–	–	1,772	1,772
Share-based payments for services	–	–	–	1,764	1,764
Other share-based payments	–	–	–	699	699
Issue of convertible bonds	–	15,677	–	–	15,677
Transfer to retained earnings	–	(1,414)	–	–	(1,414)
Revaluation of available for sale Investments	–	–	245	–	245
At 31 December 2006	**–**	**14,263**	**245**	**4,235**	**18,743**
Share-based payments for services	–	–	–	1,936	1,936
Other share-based payments	–	–	–	3,454	3,454
Transfer to retained earnings	–	(2,974)	–	(1,495)	(4,469)
Revaluation of available for sale investments	–	–	227	–	227
Exchange differences	(551)	–	–	–	(551)
At 31 December 2007	**(551)**	**11,289**	**472**	**8,130**	**19,340**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

continued

27 PROFIT AND LOSS ACCOUNT

	Group		Company	
	2007 $000's	2006 $000's	**2007 $000's**	2006 $000's
At 1 January	**(24,096)**	(9,669)	**(11,065)**	(6,541)
Loss for the year	**(39,039)**	(15,841)	**(25,592)**	(5,938)
Transfer from other reserves	**4,469**	1,414	**4,469**	1,414
At 31 December	**(58,666)**	(24,096)	**(32,188)**	(11,065)

28 POST BALANCE SHEET EVENTS

On 22 January 2008, Afren announced that it had signed a cooperation agreement with E.ON Ruhrgas and African LNG Holdings Limited to investigate the availability and accessibility of gas in Nigeria, with a focus on the Anambra Basin and South Eastern regions. The parties have the intention to jointly develop, collect and monetise the gas for domestic and export purposes in line with the Nigerian Government's Gas Master Plan.

On 3 March 2008, Afren announced that it had signed Production Sharing Contracts (PSC) for OPL 907 and OPL 917 and a signature bonus of $1.6 million for each licence had been paid by the licence participants. The licences are located in the Anambra Basin in Nigeria.

On 6 March 2008, Afren announced that it had entered into a conditional agreement with Devon Energy Corporation to acquire its interests in Côte d'Ivoire, comprising a 47.96 per cent working interest and operatorship of the producing Block C1-11, a direct 65 per cent interest and operatorship with rights over an additional 15 per cent interest in the undeveloped Block C1-01 and a 100 per cent interest in the onshore Lion Gas Plant, effective 30 June 2007. The agreed consideration for the acquisition is $205.0 million funded through a financing package arranged by BNP Paribas. The acquisition is subject to regulatory and governmental approvals. The transaction will take the form of an acquisition of 100 per cent ordinary shares of Devon Côte d'Ivoire Ltd, Devon CI One Corporation and Lion GPL, SA. Since the transaction has not yet been completed, it is not practicable to include disclosures of the fair values of the assets and liabilities acquired.

On 1 April 2008, Afren announced that it had entered into a Farm-in arrangement with Oriental Energy Resources Limited for the development of Ebok field, located offshore South East Nigeria.

On 3 April 2008, Afren announced the placing with institutional investors of 95 million new ordinary shares of the company at 125 pence per share and raised £118.75 million before commissions and expenses, through the placing which closed the same day.

On 9 April 2008, Afren announced that it had subscribed for 9,379,100 ordinary shares of Gasol plc for a consideration of £0.8 million following placing by Gasol of 50,000,000 ordinary shares.

On 14 April 2008, Afren held an EGM to consider an increase in authorised share capital and changes to the Company's authority to issue shares and take on debt. All the resolutions were passed and the authorised share capital was duly raised to 800 million shares.

29 RELATED PARTY TRANSACTIONS

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Amounts owed by and to such subsidiaries are disclosed in notes 16 and 18 respectively. Transactions between the Company and it subsidiaries were as follows:

2007	**Subsidiaries $000's**	**Joint Ventures $000's**
Net loan advances	**63,388**	**559**

2006	Subsidiaries $000's	Joint Ventures $000's
Equity contributions	306	–
Net loan advances	55,501	554
	55,807	554

REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual Directors, and their share options is provided in the audited part of the Directors' Remuneration Report, whilst information on transactions with Directors and Directors' interests is provided in the Directors' report.

	2007 $000's	2006 $000's
Short-term employee benefits	**3,034**	1,764
Other long-term benefits	**63**	59
Termination benefits	**105**	97
Share-based payment	**764**	744
	3,966	2,664

Glossary of terms

AGM	Annual General Meeting
appraisal well	a well drilled to follow up a discovery and evaluate its commercial potential
bbls	barrels of oil
bcf	billion cubic feet of gas
bn	billion
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
capital employed	equity plus interest-bearing debt
CR	Corporate Responsibility
deg API	a measure of how heavy or light a petroleum liquid is compared with water
dwt	dead weight tonnage
EHSS	Environment Health, Safety and Security
farm-in	to acquire an interest in a licence from another party
farm-out	to assign an interest in a licence to another party
FPSO	Floating Production, Storage and Offtake vessel
ft	feet
GOR	Gas Oil Ratio
H1	first half
H2	second half
hydrocarbons	compounds containing only the elements hydrogen and carbon, they may exist as solids, liquids or gases
JDZ	Joint Development Zone
joint venture or JV	a group of companies who share the cost and rewards of exploring for and producing oil or gas from a Permit or Licence
km^2	square kilometres
licence or permit	area of specified size, which is licensed to a company by the government for production of oil and gas
LSE	London Stock Exchange
Major	Major international oil company
m	metres
mmbbl, mmbbls	million barrels
mmboe	millions of barrels of oil equivalent
mmcf/d	million cubic feet of gas per day
MOU	Memorandum of Understanding
OML	Oil Mining Licence
operator	a company which organises the exploration and production programmes in a permit or licence on behalf of all the interest holders in the permit or licence
OPL	Oil Prospecting Licence
Q1	first quarter
Q2	second quarter
Q3	third quarter
Q4	fourth quarter
spud	to commence drilling a well
STOIIP	Stock Tank Oil Initially In Place
tcf	trillion cubic feet of gas
WI	working interest
1P	proven
2P	proven and probable
3D	three dimensional
3P	proven, probable and possible

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