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## NEWS RELEASE

### AFRICA OIL PROVIDES OPERATIONAL UPDATE AND SECOND QUARTER RESULTS

**August 8, 2014 (AOI-TSX, AOI-OMX) ... Africa Oil Corp.** (“Africa Oil” or the “Company”) is pleased to provide second quarter 2014 financial results and an update on its operations in Kenya and Ethiopia.

Entering the year, the Company and its partners had seven drilling rigs operating in the region. Four Tullow-Africa Oil joint venture rigs are operating in the discovered basin in Northern Kenya in Blocks 10BB and 13T, one of which is a testing and completions unit. In addition, the Company and its partner have a rig operating in Block 9 in Kenya. In Ethiopia, the Company and its partners in the South Omo Block and Block 7/8 had rigs operating in each block. Drilling operations in Block 7/8 have been completed, and the rig has been released. Additionally, drilling operations in the South Omo Block have been completed and the rig is being de-mobilized whilst future drilling opportunities are being assessed. The Company expects to have five drilling rigs operating in Kenya through the remainder of 2014.

- In January, the Company announced further drilling success with its sixth and seventh consecutive discoveries in the discovered basin in Northern Kenya at Amosing-1 and Ewoi-1. Amosing-1 is located 7 kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicated 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. A down-dip appraisal well with a planned sidetrack is currently being drilled at Amosing-2/2A with an extended well test planned to start towards the end of the year. Ewoi-1 is located 4 kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the discovered basin in Northern Kenya also in Block 10BB. Logs indicated potential net pay of 20 to 80 meters. Results of Ewoi-1 testing operations are expected to be announced in the coming weeks.
- In February, the Company announced the results of five well tests conducted on five Lokhone pay intervals at Etuko-1 located on the Basin Flank Play in Block 10BB. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 barrels of oil equivalent per day (“bopd”).
- In March, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the previously announced Etuko discovery. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.
- In March, the Company announced the results of a well test on the Ekales-1 discovery drilled in 2013 and located on the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Testing operations on the Ekales-1 well confirmed this significant oil discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.
- In March, the Company announced the results of the Emong-1 well located in Block 13T (Kenya), 4 kilometers northwest of the Ngamia-1 field discovery. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. This well, which

was aimed at establishing an additional play, has no impact on the potential of the Ngamia oil accumulation or any other prospectivity in the discovered basin in Northern Kenya.

- In March, the Company completed a farmout transaction with Marathon Oil Corporation ("Marathon") whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company \$3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of \$15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company \$3.0 million in consideration of past exploration expenditures and \$10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.
- In March, the Company completed a farmout transaction with New Age whereby New Age (Africa Global Energy) Limited ("New Age") acquired an additional 40% interest in the Company's Adigala Block leaving AOC with 10% working interest. In accordance with the farmout agreement, New Age is obligated to fund the Company's 10% working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of \$10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures.
- In May, the Company announced the results of the Twiga-2 appraisal well where the initial wellbore was drilled near the basin bounding fault and encountered some 18 meters of net oil pay within alluvial fan facies, with limited reservoir quality. A decision was made to sidetrack the well away from the fault to explore north of Twiga-1 and some 62 meters of vertical net oil pay was discovered in the Auwerwer formation at Twiga-2A, similar in quality to the initial Twiga-1 discovery. Testing at Twiga-2A is expected to commence in August.
- In May, the Company announced the results of the Sala-1 exploration well at Block 9 in Kenya, which tested a large prospect on the northeastern flank of the Cretaceous Anza rift, which is up-dip of two wells that had significant hydrocarbon shows. An upper gas bearing interval tested dry gas at a maximum rate of 6 mmcf/d from a 25 meter net pay interval. The interval had net sand of over 125 meters and encountered as gas-water contact so there is potential to drill up-dip on the structure where the entire interval will be above the gas-water contact. A lower interval tested low rates of dry gas from a 50 meter net pay interval which can also be accessed at the up-dip location. Significant oil shows were also encountered while drilling. The Sala-2 appraisal well located on the crest of the discovery spud in early August. The Company believes there is a very strong market for gas in Kenya and have already engaged in discussions with the Government of Kenya around a fast track gas to power development and discussions are also ongoing around securing PSC gas terms.
- In May, the Company drilled a new prospect in the discovered basin in Northern Kenya, the Ekunyuk-1 well, located on the Basin Flank Play on trend with the Etuko and Ewoi discoveries. The well encountered 5 meters of net oil pay and found 150 meters of good quality Lokhone sands, although there was a lack of trap at this level within the well. The quality of Lokhone sands indicates that there is further exploration potential in this area of the basin.
- In May, the Company completed drilling of the Shimela-1 exploration well at the South Omo Block in Ethiopia to test a new basin in the Tertiary trend, the Chew Bahir Basin, located on the eastern side of the block, but the well encountered water bearing reservoirs and volcanics with trace gas shows.
- In June, the Company announced the results of the Ngamia-2 appraisal well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the field. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appeared to have identified a new fault trap, north of the main Ngamia accumulation. Four to six additional appraisal wells are planned in the Ngamia field area, including the Ngamia-3 well which is currently drilling.
- In June, the Company drilled the Agete-2 exploratory appraisal well drilled some 2.2 kilometers southeast of Agete-1. The well intersected water bearing reservoirs at this down-dip location and further appraisal drilling is planned. Additionally in June, the Agete-1 well was tested at 500 bopd.
- In July, the Company completed drilling of the Gardim-1 exploration well on the eastern flank of the Chew Bahir Basin. The Gardim-1 well intersected lacustrine and volcanic formations, similar to those found in the Shimela-1 well, again minor intervals encountered gas shows. Drilling

operations are being demobilized while these results are integrated into the regional basin model. Seismic interpretation continues on independent prospectivity elsewhere in the South Omo Block and the next phase of the Ethiopia exploration campaign will target these prospects.

- Additionally in Ethiopia, the Company and its partners completed the drilling of the El Kuran-3 appraisal well on Block 8 in the first half of the year. El Kuran-3 was an appraisal of a discovery made by Tenneco in the 1970's, and encountered a significant but tight gas-condensate zone in Jurassic Hammanlei carbonates. The well was suspended pending further evaluation. Options regarding the future of the blocks are being evaluated.
- The Company and its partners continue to actively acquire and process seismic data in Blocks 12A, 10BA, 10BB and 13T in Kenya. In Block 12A, a 674 kilometer 2D seismic program was completed in the first quarter and the crew has demobilized. In Block 10BB, a 750 kilometer North Kerio Basin 2D seismic program was completed in the first quarter and the crew is mobilizing to acquire a 600 kilometer 2D program split between Blocks 10BA, 10BB and 13T over the North Lokichar Basin. In Blocks 10BB and 13T, acquisition of a 550 square kilometer 3D seismic program over the discoveries and prospects along the Basin Bounding Fault Play in the discovered basin in Northern Kenya is ongoing and is scheduled to complete in the fourth quarter. In Ethiopia, the Company, as operator, and its partner are making preparations to acquire a minimum 400 kilometer 2D seismic program over the Rift Basin Area commencing in the fourth quarter. Also in Ethiopia, the Company and its partners continue to acquire a 1,000 kilometer 2D seismic program on the Adigala Block.
- Africa Oil ended the quarter with cash of \$434.3 million and working capital of \$360.1 million.
- The Company is currently working with its independent resource evaluator and expects to release an update to the contingent and prospective resources for the discovered basin in Northern Kenya in Blocks 10BB and 13T during the third quarter.
- The company has now graduated to the main board of the TSX and to the NASDAQ OMX Stockholm main board.
- Mark Dingley has been appointed to the role of Vice President, Operations of the Company, responsible for all of the Company's operated activities. Mr. Dingley has been with the Company since May, 2013 acting as the President of Africa Oil Ethiopia B.V. and Chief Operating Officer of Horn Petroleum Corporation. Mr. Dingley joined the Company after 12 years with Talisman Energy Inc. where he served as Vice President, Middle East Operations as well as General Manager, Peru; Manager, Corporate Security & Surface Risk; and Manager, Government Affairs & Deputy General Manager, Sudan. David Grellman, formerly Vice President, Operations will retire following the drilling of the Sala-2 appraisal well in Block 9.
- The Company has a significant exploration and appraisal program set out for 2014 which will see over 20 wells completed. The program is focused on drilling out the remaining prospect inventory in the discovered basin in Northern Kenya, appraising existing and future discoveries with the aid of the new 3D seismic survey, drilling three new basin opening wells in the second half of the year and progressing the development studies towards project sanction in the discovered basin in Northern Kenya. This significant program in 2014 is fully funded.

Keith Hill, President and CEO of Africa Oil, commented, "We are looking forward to the results of three new basin opening wells to be drilled in the second half of 2014 which have the potential to unlock significant value in terms of new prospects and resources. The ongoing drilling in the discovered basin in Northern Kenya has been quite helpful in understanding the distribution of the best reservoir facies and will no doubt be enhanced by the ongoing 3D seismic survey. We remain very bullish in not only the existing discoveries but in the remaining prospects in the discovered basin in Northern Kenya. Our goal is to open up at least one new basin and to move a significant number of barrels from prospective to contingent resources by the end of 2014 as we move the field development program forward."

## Second Quarter 2014 Financial and Operating Highlights

### Consolidated Statement of Net Loss and Comprehensive Loss

(Thousands of United States Dollars)

(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Operating expenses				
Salaries and benefits	\$ 464	\$ 477	\$ 922	\$ 1,040
Stock-based compensation	2,955	7,088	12,507	7,785
Travel	288	446	597	727
Office and general	232	257	416	460
Donation	750	-	1,500	100
Depreciation	17	12	34	25
Professional fees	157	91	352	194
Stock exchange and filing fees	882	162	1,071	362
Impairment of intangible exploration assets	30,833	-	30,833	-
	36,578	8,533	48,232	10,693
Finance income	(433)	(464)	(824)	(3,563)
Finance expense	5	1,354	86	2,405
Net loss and comprehensive loss	36,150	9,423	47,494	9,535
Net (income) loss and comprehensive (income) loss attributable to non-controlling interest				
	294	160	500	(1,602)
Net loss and comprehensive loss attributable to common shareholders	35,856	9,263	46,994	11,137
Net loss attributable to common shareholders per share				
Basic	\$ 0.12	\$ 0.04	\$ 0.15	\$ 0.04
Diluted	\$ 0.12	\$ 0.04	\$ 0.15	\$ 0.04
Weighted average number of shares outstanding for the purpose of calculating earnings per share				
Basic	310,528,286	252,735,463	310,249,223	252,452,274
Diluted	310,528,286	252,735,463	310,249,223	252,452,274

Operating expenses increased \$28.0 million for the three months ended June 30, 2014 compared to the same period in the prior year. Upon further evaluating the drilling results of the EI Kuran-3 well, the Company has written off \$30.8 million of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia. The \$4.1 million decrease in stock-based compensation is result of 120,000 stock options of AOC issued to directors, officers and employees in the second quarter of 2014 versus 5,673,500 stock options of AOC issued to directors, officers and employees in the second quarter of 2013, of which one-third vested immediately. The Company made \$0.8 million of donations to the Lundin Foundation in the second quarter of 2014 versus nil in the same period in 2013, resulting in a \$0.8 million increase in operating expenses. Stock exchange and filing fees increased \$0.7 as a result of costs associated with the graduation to the TSX in Canada and the NASDAQ OMX Stockholm main board.

Operating expenses increased \$37.5 million for the six months ended June 30, 2014 compared to the same period in the prior year. Upon further evaluating the drilling results of the EI Kuran-3 well, the Company has written off \$30.8 million of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia. The \$4.7 million increase in stock-based compensation is mainly the result of an increase in the

fair value of each stock option granted in the first half of 2014 compared to those granted in the first half of 2013. The increase in the fair market value is primarily attributable to the exercise price being higher for the options granted in the first half of 2014 compared to those granted in the first half of 2013. The Company made \$1.5 million and \$0.1 million of donations to the Lundin Foundation in the first half of 2014 and 2013, respectively, resulting in a \$1.4 million increase in operating expenses. Stock exchange and filing fees increased \$0.7 as a result of costs associated with the graduation to the TSX in Canada and the NASDAQ OMX Stockholm main board.

Financial income and expense is made up of the following items:

(Thousands of United States Dollars)  
(Unaudited)

	<b>Three months ended June 30, 2014</b>	<b>Three months ended June 30, 2013</b>	<b>Six months ended June 30, 2014</b>	<b>Six months ended June 30, 2013</b>
Fair value adjustment - w warrants	5	155	1	2,882
Interest and other income	387	309	823	681
Bank charges	(5)	(5)	(11)	(13)
Foreign exchange loss	41	(1,349)	(75)	(2,392)
Finance income	433	464	824	3,563
Finance expense	(5)	(1,354)	(86)	(2,405)

At June 30, 2014, nil warrants were outstanding in the Company. In June 2014, all of the remaining 9,546,248 Horn Petroleum Corporation (“Horn”) warrants expired unexercised. The Company recorded a \$0.001 million gain on the revaluation of warrants for the six months ended June 30, 2014 as the Horn warrants expired unexercised.

Interest income increased in the second quarter of 2014 due to an increase in cash as a result of the brokered private placement in October of 2013.

Foreign exchange gains and losses are primarily related to changes in the value of the Canadian dollar in comparison to the US dollar. Historically, the Company has recorded foreign exchange gains when the Canadian dollar has strengthened versus the US dollar, and has recorded losses when the Canadian dollar has weakened versus the US dollar.

**Consolidated Balance Sheets**  
(Thousands United States Dollars)  
(Unaudited)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 350,052	\$ 493,209
Accounts receivable	1,896	3,195
Prepaid expenses	1,366	1,379
	<b>353,314</b>	<b>497,783</b>
Long-term assets		
Restricted cash	1,700	1,250
Property and equipment	78	103
Intangible exploration assets	651,081	488,688
	<b>652,859</b>	<b>490,041</b>
<b>Total assets</b>	<b>\$ 1,006,173</b>	<b>\$ 987,824</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 108,048	\$ 57,976
Current portion of warrants	-	1
	<b>108,048</b>	<b>57,977</b>
<b>Total liabilities</b>	<b>108,048</b>	<b>57,977</b>
Equity attributable to common shareholders		
Share capital	1,012,255	1,007,414
Contributed surplus	35,327	24,396
Deficit	(197,730)	(150,736)
	<b>849,852</b>	<b>881,074</b>
Non-controlling interest	48,273	48,773
<b>Total equity</b>	<b>898,125</b>	<b>929,847</b>
<b>Total liabilities and equity</b>	<b>\$ 1,006,173</b>	<b>\$ 987,824</b>

The increase in total assets from December 2013 to June 2014 is primarily attributable to intangible exploration expenditures incurred during the quarter in Kenya, Ethiopia and Puntland (Somalia).

**Consolidated Statement of Cash Flows**  
(Thousands United States Dollars)  
(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows provided by (used in):				
Operations:				
Net loss and comprehensive loss for the period	\$ (36,150)	\$ (9,423)	\$ (47,494)	\$ (9,535)
Items not affecting cash:				
Stock-based compensation	2,955	7,088	12,507	7,785
Depreciation	17	12	34	25
Impairment of intangible exploration assets	30,833	-	30,833	-
Fair value adjustment - w warrants	(5)	(155)	(1)	(2,882)
Unrealized foreign exchange loss	(42)	1,116	75	2,235
Changes in non-cash operating working capital	51	(46)	(680)	(796)
	(2,341)	(1,408)	(4,726)	(3,168)
Investing:				
Property and equipment expenditures	(1)	(27)	(9)	(41)
Intangible exploration expenditures	(114,007)	(55,304)	(206,433)	(94,570)
Farmout proceeds	-	-	13,207	-
Changes in non-cash investing working capital	30,511	(7)	52,064	6,827
	(83,497)	(55,338)	(141,171)	(87,784)
Financing:				
Common shares issued	1,515	1,005	3,265	1,005
Deposit of cash for bank guarantee	-	(1,250)	(450)	(1,250)
Release of bank guarantee	-	450	-	744
	1,515	205	2,815	499
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency	42	(1,116)	(75)	(2,235)
Decrease in cash and cash equivalents	(84,281)	(57,657)	(143,157)	(92,688)
Cash and cash equivalents, beginning of period	434,333	237,144	493,209	\$ 272,175
Cash and cash equivalents, end of period	350,052	\$ 179,487	350,052	\$ 179,487
Supplementary information:				
Interest paid	Nil	Nil	Nil	Nil
Income taxes paid	Nil	Nil	Nil	Nil

The decrease in cash for the six months ended June 30, 2014 is mainly the result of intangible exploration expenditures and cash-based operating expenses, offset partially by proceeds received on the Rift Basin Area farmout.

**Consolidated Statement of Equity**  
(Thousands United States Dollars)  
(Unaudited)

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Share capital:</b>		
Balance, beginning of period	\$ 1,007,414	\$ 558,555
Exercise of options	4,841	1,468
<b>Balance, end of period</b>	<b>1,012,255</b>	<b>560,023</b>
<b>Contributed surplus:</b>		
Balance, beginning of period	\$ 24,396	\$ 12,123
Stock based compensation	12,507	7,785
Exercise of options	(1,576)	(463)
<b>Balance, end of period</b>	<b>35,327</b>	<b>19,445</b>
<b>Deficit:</b>		
Balance, beginning of period	\$ (150,736)	\$ (98,076)
Net loss and comprehensive loss attributable to common shareholders	(46,994)	(11,137)
<b>Balance, end of period</b>	<b>(197,730)</b>	<b>(109,213)</b>
<b>Total equity attributable to common shareholders</b>	<b>\$ 849,852</b>	<b>470,255</b>
<b>Non-controlling interest:</b>		
Balance, beginning of period	\$ 48,773	\$ 47,551
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	(500)	1,602
<b>Balance, end of period</b>	<b>48,273</b>	<b>49,153</b>
<b>Total equity</b>	<b>\$ 898,125</b>	<b>\$ 519,408</b>

The Company's consolidated financial statements, notes to the financial statements, management's discussion and analysis for the three and six months ended June 30, 2014 and the 2013 Annual Information Form have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and are available on the Company's website ([www.africaoilcorp.com](http://www.africaoilcorp.com)).

**Outlook**

The Company expects to have five drilling rigs operating through the remainder of 2014, one of which is currently being utilized as testing and completion rig. Completion of the brokered private placement in October 2013 increased the Company's liquidity and capital resource position which is expected to fully fund the Company's portion of 2014 exploration, appraisal and development activities.

The near term focus of exploration is to continue drilling out the remaining prospect inventory in the discovered basin in Northern Kenya, appraising existing and future discoveries with the aid of the new 3D seismic survey, drilling three new basin opening wells in the second half of the year and progressing the development studies towards project sanction in the discovered basin in Northern Kenya.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015/early 2016. The governments of Kenya, Uganda and Rwanda have signed a MoU and formed a Steering Committee to progress a regional crude oil export pipeline from Uganda through Kenya. The Kenya upstream partners have also signed a cooperation agreement with the Uganda upstream partners in support of the same objective.

*Africa Oil Corp. is a Canadian oil and gas company with assets in Kenya and Ethiopia as well as Puntland (Somalia) through its 45% equity interest in Horn Petroleum Corporation. Africa Oil's East African holdings are in within a world-class exploration play*



fairway with a total gross land package in this prolific region in excess of 215,000 square kilometers. The East African Rift Basin system is one of the last of the great rift basins to be explored. Seven new significant discoveries have been announced in the discovered basin in Northern Kenya in which the Company holds a 50% interest along with operator Tullow Oil plc. Good quality existing seismic show robust leads and prospects throughout Africa Oil's project areas. The Company is listed on the TSX and on NASDAQ OMX Stockholm main board under the symbol "AOI".

#### **FORWARD LOOKING INFORMATION**

*Certain statements made and information contained herein constitute "forward-looking information" (within the meaning of applicable Canadian securities legislation). Such statements and information (together, "forward looking statements") relate to future events or the Company's future performance, business prospects or opportunities. Forward-looking statements include, but are not limited to, statements with respect to estimates of reserves and or resources, future production levels, future capital expenditures and their allocation to exploration and development activities, future drilling and other exploration and development activities, ultimate recovery of reserves or resources and dates by which certain areas will be explored, developed or reach expected operating capacity, that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.*

*All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, changes in oil prices, results of exploration and development activities, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government or other regulatory approvals, actual performance of facilities, availability of financing on reasonable terms, availability of third party service providers, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements.*

ON BEHALF OF THE BOARD

"Keith C. Hill"  
President and CEO

For further information, please contact: Sophia Shane, Corporate Development (604) 689-7842.



**AFRICA OIL CORP.**

**Report to Shareholders**

**June 30, 2014**

**AFRICA OIL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Amounts expressed in United States dollars unless otherwise indicated)**  
**For the three and six months ended June 30, 2014 and 2013**

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2014 and 2013 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2013 and 2012 and related notes thereto.

The financial information in this MD&A is derived from the Company's unaudited consolidated financial statements which have been prepared in United States ("U.S.") dollars, in accordance with International Financial Reporting Standard as issued by the International Accounting Standards Board.

The effective date of this MD&A is August 8, 2014.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **PROFILE AND STRATEGY**

AOC is a Canadian-based company whose common shares are traded on the TSX and the First North list of the NASDAQ OMX Stockholm main board Stock Exchange in Sweden under the symbol "AOI". The Company is an international oil and gas exploration and development company, based in Canada, with oil and gas interests in Kenya, Ethiopia, and Puntland (Somalia).

AOC's long range plan is to increase shareholder value through the acquisition and exploration of oil and gas assets, located in under-explored geographic areas, in the early phase of the upstream oil and gas life-cycle. The Company is focused on high-impact exploration opportunities and has secured a portfolio of primarily East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. AOC's mission is to de-risk this portfolio of oil and gas prospects and leads, while generating additional prospects and leads, through continuous oil and gas exploration activities.

The Company has acquired and commenced exploration activities on multiple exploration blocks in East Africa (refer to table below). The Company has encountered oil in multiple wells drilled in the Tertiary Rift trend. The East African Rift Basin system is one of the last great rift basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds exploration acreage of over 215,000 square kilometers (gross) in this exciting new world-class exploration play fairway. The Company aims to have completed significant seismic and drilling programs on the majority of the Company's blocks over the next two years. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

## WORKING INTERESTS

The following table summarizes the Company's net working interests in the various production sharing contracts/agreements, based on working interest ownership:

Country	Block/ Area	Operator	December 31, 2013 Net Working Interest % <sup>(1)</sup>	June 30, 2014 Net Working Interest % <sup>(1)</sup>
Kenya	Block 9	AOC	50%	50%
Kenya	Block 10BB	Tullow	50%	50%
Kenya	Block 12A	Tullow	20%	20%
Kenya	Block 13T	Tullow	50%	50%
Kenya	Block 10BA	Tullow	50%	50%
Ethiopia	Blocks 7/8	New Age	30%	30%
Ethiopia <sup>(4)</sup>	Adigala	New Age	50%	10%
Ethiopia	South Omo	Tullow	30%	30%
Ethiopia <sup>(3)</sup>	Rift Basin Area	AOC	100%	50%
Puntland, Somalia	Dharoor Valley	Horn	27% <sup>(2)</sup>	27% <sup>(2)</sup>
Puntland, Somalia	Nugaal Valley	Horn	27% <sup>(2)</sup>	27% <sup>(2)</sup>

Footnotes:

<sup>1</sup> Net Working Interests are subject to back-in rights or carried working interests, if any, of the respective governments or national oil companies of the host governments.

<sup>2</sup> Represents AOC's Net Working Interest subsequent to the formation of Horn Petroleum Corp. ("Horn"). AOC owns approximately 44.6% of Horn. This figure represents the Company's Net Working Interest in the production sharing agreements, net of the 55.4% minority interest in Horn.

<sup>3</sup> Under Recent Developments, see the update on the Rift Basin Area in Ethiopia. During the first quarter of 2014, the Company completed a farmout of 50% participating interest to Marathon Oil Corporation ("Marathon").

<sup>4</sup> Under Recent Developments, see update on the Adigala Block in Ethiopia. During the first quarter of 2014, the Company completed a farmout of 40% participating interest to New Age (Africa Global Energy) Limited ("New Age").

## OPERATIONS UPDATE

On the back of the successful exploration activities in Kenya during 2013, the Company and its partners ramped up its exploration program in Kenya and Ethiopia. Entering the year, the Company and its partners had seven drilling rigs operating in the region. Four Tullow-Africa Oil joint venture rigs are operating in the discovered basin in Northern Kenya in Blocks 10BB and 13T, one of which is a testing and completions unit. In addition, the Company and its partner have a rig operating in Block 9 in Kenya. In Ethiopia, the Company and its partners in the South Omo Block and Block 7/8 had rigs operating in each block. Drilling operations in Block 7/8 have been completed, and the rig has been released. Additionally, drilling operations in the South Omo Block have been completed and the rig is being demobilized whilst future drilling opportunities are being assessed. The Company expects to have five drilling rigs operating in Kenya through the remainder of 2014.

In January, the Company announced further drilling success with its sixth and seventh consecutive discoveries in the discovered basin in Northern Kenya at Amosing-1 and Ewoi-1. Amosing-1 is located 7 kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicated 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. A down-dip appraisal well with a planned sidetrack is currently being drilled at Amosing-2/2A and with an extended well test planned to start towards the end of the year. Ewoi-1 is located 4 kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the discovered basin in Northern Kenya also in Block 10BB. Logs indicated potential net pay of 20 to 80 meters. Results of Ewoi-1 testing operations are expected to be announced in the coming weeks.

In February, the Company announced the results of five well tests conducted on five Lokhone pay intervals at Etuko-1 located on the Basin Flank Play in Block 10BB. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 barrels of oil equivalent per day ("bopd"). In March, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the previously announced Etuko discovery. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.

In March, the Company announced the results of the Emong-1 well located in Block 13T (Kenya), 4 kilometers northwest of the Ngamia-1 field discovery. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. This well, which was aimed at establishing an additional play, has no impact on the potential of the Ngamia oil accumulation or any other prospectivity in the discovered basin in Northern Kenya.

Also in March, the Company announced the results of a well test on the Ekales-1 discovery drilled in 2013 and located on the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Testing operations on the Ekales-1 well confirmed this significant oil discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.

In May, the Company drilled a new prospect in the discovered basin in Northern Kenya, the Ekunyuk-1 well, located on the Basin Flank Play on trend with the Etuko and Ewoi discoveries. The well encountered 5 meters of net oil pay and found 150 meters of good quality Lokhone sands, although there was a lack of trap at this level within the well. The quality of Lokhone sands indicates that there is further exploration potential in this area of the basin.

Also in May, the Company announced the results of the Twiga-2 appraisal well where the initial wellbore was drilled near the basin bounding fault and encountered some 18 meters of net oil pay within alluvial fan facies, with limited reservoir quality. A decision was made to sidetrack the well away from the fault to explore north of Twiga-1 and some 62 meters of vertical net oil pay was discovered in the Auwerwer formation at Twiga-2A, similar in quality to the initial Twiga-1 discovery. Testing at Twiga-2A is expected to commence in August.

In June, the Company announced the results of the Ngamia-2 appraisal well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the field. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appeared to have identified a new fault trap, north of the main Ngamia accumulation. Four to six additional appraisal wells are planned in the Ngamia field area, including the Ngamia-3 well which is currently drilling.

Also in June, the Company drilled the Agete-2 exploratory appraisal well drilled some 2.2 kilometers southeast of Agete-1. The well intersected water bearing reservoirs at this down-dip location and further appraisal drilling is planned. Additionally in June, the Agete-1 well was tested at 500 bopd.

Four rigs are currently operating in the discovered basin in Northern Kenya. The Etom-1 exploration well and the Ngamia-3 and Amosing-2/2A appraisal wells are all currently drilling. Additionally, testing operations are nearing completion at Ewoi-1.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the

Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015/early 2016. The governments of Kenya, Uganda and Rwanda have signed a Memorandum of Understanding (MoU) and formed a Steering Committee to progress a regional crude oil export pipeline from Uganda through Kenya. The Kenya upstream partners have also signed a cooperation agreement with the Uganda upstream partners in support of the same objective.

In addition to further exploration and appraisal drilling in the discovered basin in Northern Kenya, the Company and its partners plan to test three new basins in the second half of 2014. Kodos-1 (Block 10BB) will test the Central Kerio Basin, Epir-1 (Block 10BB) will test the North Kerio Basin and Engomo-1 (Block 10BA) will test the North Turkana Basin. Five further basins are planned to be tested by the end of 2015.

At Block 9 in Kenya, the Company announced in May the results of the Sala-1 exploration which tested a large prospect on the northeastern flank of the Cretaceous Anza rift, which is up-dip of two wells that had significant hydrocarbon shows. An upper gas bearing interval tested dry gas at a maximum rate of 6 mmcf/d from a 25 meter net pay interval. The interval had net sand of over 125 meters and encountered as gas-water contact so there is potential to drill up-dip on the structure where the entire interval will be above the gas-water contact. A lower interval tested low rates of dry gas from a 50 meter net pay interval which can also be accessed at the up-dip location. Significant oil shows were also encountered while drilling. The Sala-2 appraisal well located on the crest of the discovery spud in the third quarter. The Company believes there is a very strong market for gas in Kenya and have already engaged in discussions with the Government of Kenya around a fast track gas to power development and discussions are also ongoing around securing PSC gas terms.

At the South Omo Block in Ethiopia, the Company completed drilling of the Shimela-1 exploration well in May to test a new basin in the Tertiary trend, the Chew Bahir Basin, located on the eastern side of the block, but the well encountered water bearing reservoirs and volcanics with trace gas shows. In July, the Company completed drilling of the Gardim-1 exploration well on the eastern flank of the Chew Bahir Basin. The Gardim-1 well intersected lacustrine and volcanic formations, similar to those found in the Shimela-1 well, again minor intervals encountered gas shows. Drilling operations are being demobilized while these results are integrated into the regional basin model. Seismic interpretation continues on independent prospectivity elsewhere in the South Omo Block and the next phase of the Ethiopia exploration campaign will target these prospects.

Additionally in Ethiopia, the Company and its partners completed the drilling of the El Kuran-3 appraisal well on Block 8 in the first half of the year. El Kuran-3 was an appraisal of a discovery made by Tenneco in the 1970's, and encountered a significant but tight gas-condensate zone in Jurassic Hammanlei carbonates. The well was suspended pending further evaluation. Options regarding the future of the blocks are being evaluated.

The Company and its partners continue to actively acquire and process seismic data in Blocks 12A, 10BA, 10BB and 13T in Kenya. In Block 12A, a 674 kilometer 2D seismic program was completed in the first quarter and the crew has demobilized. In Block 10BB, a 750 kilometer North Kerio Basin 2D seismic program was completed in the first quarter and the crew is mobilizing to acquire a 600 kilometer 2D program split between Blocks 10BA, 10BB and 13T over the North Lokichar Basin. In Blocks 10BB and 13T, acquisition of a 550 square kilometer 3D seismic program over the discoveries and prospects along the Basin Bounding Fault Play in the discovered basin in Northern Kenya is ongoing and is scheduled to complete in the fourth quarter. The Company and its partner intend to extend the current 3D seismic program. In Ethiopia, the Company, as operator, and its partner are making preparations to acquire a minimum 400 kilometer 2D seismic program over the Rift Basin Area commencing in the fourth quarter. Also in Ethiopia, the Company and its partners continue to acquire a 1,000 kilometer 2D seismic program on the Adigala Block.

In September 2013, the Company announced details of an independent assessment of the Company's contingent and prospective resources on its Kenyan and Ethiopian exploration properties. The Company is currently working with its independent resource evaluator and expects to release an update to the contingent and prospective resources for the discovered basin in Northern Kenya in Blocks 10BB and 13T during the third quarter.

The Company has a significant exploration and appraisal program set out for 2014 which will see over 20 wells completed. The program is focused on drilling out the remaining prospect inventory in the discovered basin in Northern Kenya, appraising existing and future discoveries with the aid of the new 3D seismic survey, drilling three new basin opening wells in the second half of the year and progressing the development studies towards project sanction in the discovered basin in Northern Kenya. This significant exploration program in 2014 is fully funded.

## **KENYA**

The Company and its partners in the Kenyan blocks are actively exploring for oil as described below.

### Block 10BB

On the back of the very successful exploration results in the discovered basin in Northern Kenya, the Company and its partner have accelerated the pace of exploration along the Basin Bounding Fault Play in Block 10BB and Block 13T. The Company and its partner currently have four drilling rigs operating in the discovered basin in Northern Kenya, one of which is a testing and completion rig.

In January, the Company announced further drilling success with its sixth and seventh consecutive discoveries in the discovered basin in Northern Kenya at Amosing-1 and Ewoi-1. Amosing-1 is located 7 kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicated 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. A down-dip appraisal well and planned sidetrack is currently being drilled at Amosing-2/2A with an extended well test planned towards the end of the year. Ewoi-1 is located 4 kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the discovered basin in Northern Kenya also in Block 10BB. Logs indicated potential net pay of 20 to 80 meters to be confirmed by well testing which is nearing completion.

In February, the Company announced the results of five well tests conducted on five Lokhone pay intervals at Etuko-1 located on the Basin Flank Play in Block 10BB. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 bopd. In March, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the previously announced Etuko discovery. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.

In May, the Company drilled a new prospect in the discovered basin in Northern Kenya, the Ekunyuk-1 well, located on the Basin Flank Play on trend with the Etuko and Ewoi discoveries. The well encountered 5 meters of net oil pay and found 150 meters of good quality Lokhone sands, although there was a lack of trap at this level within the well. The quality of Lokhone sands indicates that there is further exploration potential in this area of the basin.

In June, the Company announced the results of the Ngamia-2 appraisal well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the field. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appeared to have identified a new fault trap, north of the main Ngamia accumulation. Four additional to six additional appraisal wells are planned in the Ngamia field area, including the Ngamia-3 well which is currently drilling.

Down-dip appraisal wells are currently drilling at Ngamia-3 and Amosing-2/2A. Results from these wells are expected in August.

The 2D seismic crew operating in Block 10BB completed 750 kilometers of 2D seismic during the first quarter. Fast-track processing of this newly acquired survey is being integrated into subsurface mapping to finalize exploration drilling locations for the 2014 campaign, the first of which will be the basin opening test of the Kodos prospect in the Central Kerio Basin which is expected to spud the third quarter. This 2D seismic program identified a significant number of follow-on prospects should Kodos be successful. The seismic crew is now mobilizing to the North Lokichar Basin for an infill program that will further define prospects for the 2015 drilling campaign. Using a second crew, the Company and its partner have completed approximately 50% of a 550 square kilometer 3D seismic survey that covers the Amosing, Ngamia, Ekales, Twiga South and Agete discoveries along the Basin Bounding Fault Play in Block 10BB and Block 13T combined.

The Company and its partner exceeded the minimum work and financial obligations of the first additional exploration period which expired in July 2014. The second additional exploration period includes a commitment to drill three wells and acquire 250 square kilometers of 3D seismic

#### Block 13T

In March, the Company announced the results of the Emong-1 well in Block 13T (Kenya) located 4 kilometers northwest of the Ngamia-1 field discovery. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. This well, which was trying to establish an additional play, has no impact on the potential of the Ngamia oil accumulation or any other prospectivity in the discovered basin in Northern Kenya.

Also in March, the Company announced the results of a well test on the Ekales-1 discovery drilled in 2013 and located on the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Testing operations on the Ekales-1 well confirmed this significant oil discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.

In May, the Company announced the results of the Twiga-2 appraisal well where the initial wellbore was drilled near the basin bounding fault and encountered some 18 meters of net oil pay within alluvial fan facies, with limited reservoir quality. A decision was made to sidetrack the well away from the fault to explore north of Twiga-1 and some 62 meters of vertical net oil pay was discovered in the Auwerwer formation at Twiga-2A, similar in quality to the initial Twiga-1 discovery. Testing Twiga-2A is expected to commence in August.

In June, the Company drilled the Agete-2 exploratory appraisal well drilled some 2.2 kilometers southeast of Agete-1. The well intersected water bearing reservoirs at this down-dip location and further appraisal drilling is planned. Additionally in June, the Agete-1 well was tested at 500 bopd.

The Etom-1 exploration well, the next Basin Bounding Fault Prospect north of the Agete oil discovery, is currently drilling and results are expected in August.

The Company and its partner have completed approximately 50% of the 550 square kilometer 3D seismic survey that covers the discoveries and prospects along the Basin Bounding Fault Play in Block 10BB and Block 13T combined. Using a second crew, the plan is to acquire an additional 200 kilometers of 2D seismic over the block during 2014 to define prospects in the North Lokichar Basin.



The current exploration phase under the Block 13T PSC, which expires in September 2014, includes a commitment to drill one exploratory well, which was satisfied with the drilling of Twiga South-1, and a commitment to acquire 200 square kilometers of 3D seismic. The planned work program in Block 13T will exceed the PSC commitment. The intention of the Block 13T partners is to enter the final two year exploration period under the PSC.

#### Block 10BA

During the first quarter, the Company and its partner on Block 10BA demobilized a seismic crew that completed a 1,450 kilometer 2D seismic program in 2012/2013. The plan in 2014 is to acquire a further 200 kilometers of 2D seismic in the North Lokichar Basin that extends onto Block 10BA. Preparations are underway to drill two exploration wells in the North Turkana Basin commencing with the Engomo prospect, which is expected to spud in the fourth quarter of this year. The 2D seismic acquired to date exceeds the work obligations of the initial exploration period under the Block 10BA PSC which expired in April 2014. The Company and its partner have elected to enter the next two year exploration period under the PSC.

#### Block 12A

The Company and its partners on Block 12A have recently completed a 676 kilometer 2D seismic acquisition program that began in 2013. The 2D seismic program is mainly focused in the Kerio Valley in the southwestern portion of the block. The 2D seismic acquired to date exceeds the work obligations of the initial exploration period under the Block 12A PSC which expires in September 2014. The Company and its partners have requested the Ministry of Energy in Kenya's permission to enter the first additional exploration period under the PSC.

#### Block 9

At Block 9 in Kenya, the Company announced in May the results of the Sala-1 exploration which tested a large prospect on the northeastern flank of the Cretaceous Anza rift, which is up-dip of two wells that had significant hydrocarbon shows. An upper gas bearing interval tested dry gas at a maximum rate of 6 mmcf/d from a 25 meter net pay interval. The interval had net sand of over 125 meters and encountered as gas-water contact so there is potential to drill up-dip on the structure where the entire interval will be above the gas-water contact. A lower interval tested low rates of dry gas from a 50 meter net pay interval which can also be accessed at the up-dip location. Significant oil shows were also encountered while drilling. The Sala-2 appraisal well located on the crest of the discovery spud in the third quarter. The Company believes there is a very strong market for gas in Kenya and have already engaged in discussions with the Government of Kenya around a fast track gas to power development and discussions are also ongoing around securing PSC gas terms. The Company and its partner are currently in the final exploration period under the PSC which expires in December 2015. All PSC work commitments have been completed.

### **ETHIOPIA**

#### South Omo Block

In May, the Company completed drilling of the Shimela-1 exploration well to test a new basin in the Tertiary trend, the Chew Bahir Basin, located on the eastern side of the South Omo Block, but the well encountered water bearing reservoirs and volcanics with trace gas shows.

In July, the Company completed drilling of the Gardim-1 exploration well on the eastern flank of the Chew Bahir Basin. The well intersected lacustrine and volcanic formations, similar to those found in the Shimela-1 well, again minor intervals encountered gas shows. Drilling operations are being demobilized while these results are integrated into the regional basin model. Seismic interpretation continues on independent prospectivity elsewhere in the South Omo Block and the next phase of the Ethiopia exploration campaign will target these prospects.

The current exploration period under the PSC expires in January 2015 and the work completed on the block to date has exceeded the minimum work obligation.

#### Rift Basin Area

The Rift Basin Area is located north of the South Omo Block and is on trend with highly prospective blocks in the Tertiary rift valley including the South Omo Block in Ethiopia, and Kenyan Blocks 10BA, 10BB, 13T, and 12A. The Company completed the acquisition of a 36,500 line kilometer Full Tensor Gradiometry ("FTG") survey in October 2013. The Company has completed an exhaustive environmental and social impact assessment over the block in preparation for a 400 to 1,200 kilometer 2D seismic program, which will commence in the fourth quarter. The initial exploration period, which expires in February 2016, will be met by the planned work program.

#### Ogaden Blocks 7/8

The Company and its partners completed the drilling of the El Kuran-3 appraisal well on Block 8 in the first half of the year. El Kuran-3 was an appraisal of a discovery made by Tenneco in the 1970's, and encountered a significant but tight gas-condensate zone in Jurassic Hammanlei carbonates. The well was suspended pending further evaluation. Options regarding the future of the blocks are being evaluated

#### Adigala Block

As part of work obligations for the second exploration period which expired July 2013, the Company and its partners incorporated newly acquired FTG data with seismic data to improve the subsurface interpretation of the block. The Company and its partners also integrated results of recent surface geological studies and reprocessed data acquired in 2009 with the goal of improving the data quality. The parties to the block agreed to enter the final exploration period under the PSC, which expires in July 2015 and carries a 500 kilometer 2D seismic work commitment. The Company and its partners have committed to a 1,000 kilometer 2D seismic program which is underway. The Company has farmed down its interest in the Adigala Block to 10%.

### **PUNTLAND (SOMALIA)**

#### Dharoor Valley and Nugaal Valley Blocks

The Company continues to evaluate the encouraging results of the two wells drilled in 2012 on the Dharoor Valley block which proved all the critical elements exist for oil accumulations, namely a working petroleum system, good quality reservoirs and thick seal rocks. Based on these encouraging results, the Company committed to enter the next exploration period in each block, which carries a commitment to drill one exploration well in each block within an additional three year term ending October 17, 2015. Our work moving forward can be categorized into three main areas; technical, operational and political.

Efforts are now focused on making preparations for a seismic acquisition campaign in the Dharoor Valley area which will include a regional seismic reconnaissance grid in the previously unexplored eastern portion of the basin as well as prospect specific seismic to delineate a drilling candidate in the western portion of the basin where an active petroleum system was confirmed by the most recent drilling at the Shabeel-1 and Shabeel North-1 locations. The Company has identified a suitable location to drill an exploration well in the Nugaal Valley block. However, given certain operational and political issues identified below, a decision to move ahead on this will not be taken until adequate resolution is achieved.

The Company continues to assess the operating environment in each block from logistical, community and security perspectives. These assessments will provide critical information required to plan operations in the Company's exploration areas.

There have been some significant political changes in both Somalia and the Regional State of Puntland over the last couple of years that are shaping the climate in which the Company operates. At the Federal level, the new Somali Government took power in August 2012 as the first permanent central government

in the country since 1991. While internationally recognized and supported, it is still fragile and faces many challenges both politically and security wise. In January 2014, a new President of Puntland was voted in and the transfer of power took place peacefully. Management is working closely with him and his emerging new government to take forward a range of key issues that impact our operations.

Key amongst these are the legitimacy of oil concession contracts issued by former and present central Somali governments and the Regional States (Puntland and Somaliland), many of which cover overlapping territory; and the border dispute between Somalia (including Puntland) and Somaliland (which overlaps a proportion of our Nugaal block).

Additionally, Horn is reviewing new venture opportunities in the region.

## **RECENT DEVELOPMENTS**

### **Commenced Trading on the TSX and NASDAQ OMX Stockholm main board**

On Tuesday, May 6, 2014, the Company's common shares commenced trading on the TSX. The common shares were concurrently delisted from the TSX Venture Exchange. On Tuesday, July 1, 2014, the Company's common shares commenced trading on the NASDAQ OMX Stockholm main board. The common shares were concurrently delisted from the NASDAQ OMX First North.

### **Completed Production Sharing Agreements and Farmout Transactions**

#### Rift Basin Area - Marathon

In March 2014, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company \$3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of \$15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company \$3.0 million in consideration of past exploration expenditures. Subsequent to the quarter end, Marathon paid the Company \$10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.

#### Adigala Block – New Age

In March 2014, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 40% interest in the Company's Adigala Block leaving AOC with 10% working interest. In accordance with the farmout agreement, New Age is obligated to fund the Company's 10% working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of \$10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures.

## Court Proceedings

The Company is a party to two separate court proceedings in Kenya initiated by Interstate Petroleum Ltd. ("IPL"), and certain related parties of IPL, as Applicants. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involve a dispute concerning the administrative process that led to the issuance of exploration permits in respect of, amongst others, Blocks 10BA, 10BB, 12A and 13T. The primary Respondents to these proceedings include the Minister and the Ministry of Energy, Republic of Kenya. The Company and certain of its affiliates are named as Interested Parties.

The Company has initiated its own court proceedings against IPL and certain related parties, including various applications for costs and Winding-Up Cause No. 1 of 2012 (now Winding-Up Cause No. 1 of 2014). The Winding-Up proceeding is an application to cause IPL to be wound-up or "dissolved", which would terminate any further action in respect of the judicial review proceedings.

Since 2012, IPL has also commenced numerous court applications and appeals in respect of these proceedings, including two applications to appeal recent High Court decisions to the Kenyan Supreme Court. These applications and appeals have either been struck by court order, or are the subject of further appeals and applications for stays of proceedings filed on behalf of the Company.

The proceedings are working their way through the Kenyan judicial system. The Company will continue to pursue its remedies through the courts. In the interim, it will vigorously defend any application made by the Applicants in any of these proceedings.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Jun 2014	31-Mar 2014	31-Dec 2013	30-Sep 2013	30-Jun 2013	31-Mar 2013	31-Dec 2012	30-Sep 2012
Operating expenses (\$)	36,578	11,654	31,099	4,577	8,533	2,160	8,224	4,035
Interest income (\$)	387	436	184	161	309	372	25	65
Foreign exchange gain (loss) (\$)	41	(116)	(7,660)	867	(1,349)	(1,043)	(1,116)	550
Fair market value gain (loss) - warrants (\$)	5	(4)	28	205	155	2,727	(2,684)	17,279
Net income (loss) attributable to common shareholders (\$)	(35,856)	(11,138)	(38,272)	(3,251)	(9,263)	(1,874)	(9,551)	1,368
Net income (loss) attributable to non- controlling interest (\$)	(294)	(206)	(282)	(98)	(160)	1,762	(2,463)	12,483
Weighted average shares - Basic	310,528	309,967	291,366	252,960	252,735	252,166	229,901	220,952
Weighted average shares - Diluted	310,528	309,967	291,366	252,960	252,735	252,166	229,901	226,664
Basic earnings (loss) per share (\$)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)	(0.01)	(0.04)	0.01
Diluted earnings (loss) per share (\$)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)	(0.01)	(0.04)	0.01
Oil and gas expenditures (\$)	114,007	92,426	71,985	62,898	55,304	39,266	43,535	30,144

AOC currently owns approximately 44.6% of Horn. The non-controlling interest in Horn is accounted for in the consolidated results of the Company.

As the Company is in the exploration stage, no oil and gas revenue has been generated to date.

### Operating expenses

The \$4.2 million increase in operating expenses from the third quarter to the fourth quarter of 2012 can be mainly attributed to a \$2.3 million donation made by AOC to the Lundin Foundation in the fourth quarter of 2012, increased compensation related costs associated with annual bonus incentives and travel costs associated with increased operational activity and headcount. The Lundin Foundation is a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries. Operating expenses decreased \$6.1 million from

the fourth quarter of 2012 to the first quarter of 2013 due mainly to the donation to the Lundin Foundation, annual bonus incentives, and 2,820,000 option grants in Horn of which one-third vested immediately, all of which occurred in the fourth quarter of 2012. The \$6.3 million increase from the first quarter to the second quarter of 2013 can be primarily attributed to increased stock-based compensation costs in the second quarter of 2013. The Company issued 5,673,500 options of AOC to directors, officers and employees in the second quarter of 2013 of which one-third vested immediately. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel. The \$4.0 million decrease in operating expenses from the second quarter to the third quarter of 2013 can be mainly attributed to a decreased in stock-based compensation costs as a result of the stock option grant in the second quarter of 2013. The \$26.5 million increase in operating expenses from the third quarter to the fourth quarter of 2013 can be mainly attributed to a \$22.9 million impairment of previously capitalized Block 10A exploration expenditures following the decision to relinquish the Block, increased compensation related costs associated with annual bonus incentives, and a \$1.0 million donation to the Lundin Foundation. The \$19.4 million decrease in operating expenses from the fourth quarter of 2013 to the first quarter of 2014 can be mainly attributed to annual bonus incentives and the impairment charge on Block 10A incurred in the fourth quarter of 2013, offset partially by a \$7.4 million increase in stock-based compensation. The Company issued 5,958,500 stock options of AOC to directors, officers and employees in the first quarter of 2014 of which one-third vested immediately. The \$24.9 million increase in operating expenses from the first to the second quarter of 2014 can be mainly attributed to a \$30.8 million impairment of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia and a \$0.7 million increase in stock exchange and filing fees as a result of costs associated with the graduation to the TSX in Canada and the NASDAQ OMX in Stockholm, offset partially by a \$6.6 million decrease in stock-based compensation. Upon evaluating the results of El Kuran-3 further, the Company has written off previously capitalized intangible exploration assets related to Blocks 7&8. The decrease in stock-based compensation can attributed to the options granted in the first quarter of 2014, of which one-third vested immediately.

While the Company is committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contributions made are a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

#### Interest income

Interest income increased in the first quarter of 2013 due to a significant increase in cash late in the fourth quarter of 2012 as a result of cash received from the non-brokered private placement in December of 2012. Interest income decreased from the first quarter to the third quarter of 2013 due to a reduction in cash held as the Company continued its active exploration activities. Interest income increased in the fourth quarter of 2013 and again in the first quarter of 2014 due to an increase in cash as a result of the brokered private placement in October of 2013. Interest income decreased from the first quarter to the second quarter of 2014 due to a reduction in cash held as the Company continued its active exploration activities.

#### Foreign exchange gains and losses

During October of 2013, the Company entered into an economic hedge in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate between the date the private placement was announced and the date the private placement closed, in which the Company issued shares for Swedish Krona. As a result, the Company incurred foreign exchange losses on the foreign currency instrument of \$7.4 million in the fourth quarter of 2013. The remaining foreign exchange gains and losses are primarily related to changes in the value of the Canadian dollar in comparison to the US dollar.

### *Fair market value adjustments – warrants*

The fair market value adjustments to warrants are performed on a quarterly basis. The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the company's functional currency (US dollar for AOC and Horn), and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise.

At June 30, 2014, nil warrants were outstanding in AOC and Horn. In June 2014, all of the remaining 9,546,248 Horn warrants expired unexercised. The Company recorded a \$0.001 million gain on the revaluation of warrants for the six months ended June 30, 2014 as the Horn warrants expired unexercised.

## **RESULTS OF OPERATIONS**

(thousands)	<b>Three months ended June 30, 2014</b>	<b>Three months ended June 30, 2013</b>	<b>Six months ended June 30, 2014</b>	<b>Six months ended June 30, 2013</b>
Salaries and benefits	\$ 464	\$ 477	\$ 922	\$ 1,040
Stock-based compensation	2,955	7,088	12,507	7,785
Travel	288	446	597	727
Office and general	232	257	416	460
Donation	750	-	1,500	100
Depreciation	17	12	34	25
Professional fees	157	91	352	194
Stock exchange and filing fees	882	162	1,071	362
Impairment of intangible exploration assets	30,833	-	30,833	-
<b>Operating expenses</b>	<b>\$ 36,578</b>	<b>\$ 8,533</b>	<b>\$ 48,232</b>	<b>\$ 10,693</b>

Operating expenses increased \$28.0 million for the three months ended June 30, 2014 compared to the same period in the prior year. Upon further evaluating the drilling results of the El Kuran-3 well, the Company has written off \$30.8 million of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia. The \$4.1 million decrease in stock-based compensation is result of 120,000 stock options of AOC issued to directors, officers and employees in the second quarter of 2014 versus 5,673,500 stock options of AOC issued to directors, officers and employees in the second quarter of 2013, of which one-third vested immediately. The Company made \$0.8 million of donations to the Lundin Foundation in the second quarter of 2014 versus nil in the same period in 2013, resulting in a \$0.8 million increase in operating expenses. Stock exchange and filing fees increased \$0.7 as a result of costs associated with the graduation to the TSX in Canada and the NASDAQ OMX Stockholm main board.

Operating expenses increased \$37.5 million for the six months ended June 30, 2014 compared to the same period in the prior year. Upon further evaluating the drilling results of the El Kuran-3 well, the Company has written off \$30.8 million of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia. The \$4.7 million increase in stock-based compensation is mainly the result of an increase in the fair value of each stock option granted in the first half of 2014 compared to those granted in the first half of 2013. The increase in the fair market value is primarily attributable to the exercise price being higher for the options granted in the first half of 2014 compared to those granted in the first half of 2013. The Company made \$1.5 million and \$0.1 million of donations to the Lundin Foundation in the first half of 2014 and 2013, respectively, resulting in a \$1.4 million increase in operating expenses. Stock exchange and filing fees increased \$0.7 as a result of costs associated with the graduation to the TSX in Canada and the NASDAQ OMX Stockholm main board.

## INTANGIBLE EXPLORATION ASSETS

	June 30, 2014	December 31, 2013
(thousands)		
Intangible exploration assets	\$651,081	\$488,688

During the six months ended June 30, 2014, intangible exploration assets increased by \$162.4 million; \$206.4 million intangible exploration expenditures were partially offset by a reduction of \$13.2 million resulting from a farmout of the Rift Basin Area in Ethiopia and an impairment charge of \$30.8 million following the decision to write off the previously capitalized intangible exploration assets of Blocks 7/8 in Ethiopia.

The following tables breaks down the material components of intangible exploration expenditures:

For the six months ended (thousands)	June 30, 2014				June 30, 2013			
	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	\$ 134,547	\$ 31,125	\$ 79	<b>\$ 165,751</b>	\$ 52,079	\$ 17,212	\$ 538	<b>\$ 69,829</b>
Exploration surveys and studies	20,721	1,090	21	<b>21,832</b>	9,217	5,236	24	<b>14,477</b>
PSA and G&A related	14,280	3,792	778	<b>18,850</b>	6,331	2,791	1,142	<b>10,264</b>
<b>Total</b>	<b>\$ 169,548</b>	<b>\$ 36,007</b>	<b>\$ 878</b>	<b>\$ 206,433</b>	<b>\$ 67,627</b>	<b>\$ 25,239</b>	<b>\$ 1,704</b>	<b>\$ 94,570</b>

AOC incurred \$169.5 million of intangible exploration expenditures in Kenya for the six months ended June 30, 2014. The majority of drilling expenditures related to the Company's portion of drilling costs on the Etuko-1 well testing and Etuko-2 well (Block 10BB), the Amosing-1 well (Block 10BB), the Ewoi-1 well and test (Block 10BB), the Agete-1 well and test (Block 13T), the Twiga-2 well (Block 13T), the Ekales-1 well test (Block 13T), the Emong-1 well (Block 13T), the Ekunyuk-1 well (Block 10BB), the Agete-2 well (Block 13T), the Amosing-2 well (Block 10BB), the Ngamia-2 (Block 10BB), and the Ngamia-3 (Block 10BB). The majority of exploration surveys and studies related to 3D seismic acquisition costs on Blocks 10BB and 13T, and 2D seismic acquisition costs on Blocks 10BB and 12A.

AOC incurred \$36.0 million of intangible exploration expenditures in Ethiopia for the six months ended June 30, 2014. The majority of drilling expenditures related to the Company's portion of drilling costs at El Kuran-3 in Blocks 7/8 and Shimela-1 and Gardim-1 in the South Omo block. The majority of exploration surveys and studies related to 2D seismic acquisition preparation costs in the Rift Basin Area.

AOC incurred \$0.9 million of intangible exploration expenditures in Puntland for the six months ended June 30, 2014. The majority of expenditures related to PSA related expenditures, capitalized general and administrative costs ("G&A"), and costs related to an operational assessment undertaken in the first half of the year.

PSA and G&A related costs include personnel and office running costs, local community development expenditures, land surface fees, annual rental fees and other PSA fees.

The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds their recoverable amount. Assessing what constitutes the recoverable amount is subjective, especially in the exploration phase of exploring for oil and gas in frontier areas where the oil and gas industry is not well developed and precedent transaction analysis is not readily available. Despite the fact that the Company's subsidiary, Horn, has a market capitalization below the carrying value of its net assets, the Company believes that the following factors support the judgment that the value of Horn's intangible exploration assets are not impaired: Horn has fulfilled its financial and work obligations required during the first exploration period of its production sharing contracts and has elected to enter into the second

exploration period based on the technical encouragement resulting from its first two exploration wells drilled during 2012; Horn is actively planning future exploration activities; Horn continues to engage parties potentially interested in farming into its exploration blocks; and Horn is in a positive working capital position enabling it to continue exploration.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, the Company had cash of \$350.1 million and working capital of \$245.3 million as compared to cash of \$493.2 million and working capital of \$439.8 million at December 31, 2013. Of the \$350.1 million in cash at June 30, 2014, \$2.6 million is cash held by Horn. The Company's liquidity and capital resource position has decreased since the end of 2013 due to intangible exploration expenditures and cash-based operating expenses.

In December 2012, the Company closed the first and second tranches of its private placement, issuing 30,000,000 common shares at CAD\$7.75 per common share for net proceeds of \$226.4 million. In October 2013, the Company closed an additional private placement, issuing 56,505,217 shares at a price of SEK 51.75 per share for net proceeds of \$440 million net of issuance costs and related foreign exchange. Net proceeds of the private placements were expected to be used towards the Company's ongoing work program in East Africa as well as for general working capital purposes.

	<b>Variations in planned use of proceeds</b>
East African work program	No
General working capital	No

The Company's current working capital position is not anticipated to provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods under the various PSAs and PSCs and the accelerated exploration and appraisal program following recent discoveries in the Tertiary Rift trend. To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC.

## STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. The estimated fair value is recognized over the applicable vesting period. All options granted vest over a two-year period, of which one-third vest immediately, and expire three years after the grant date. Stock-based compensation for the six months ended June 30, 2014 was \$12.5 million as compared to \$7.8 million during the same period in 2013. The increase in stock-based compensation is mainly the result of an increase in the fair value of each stock option granted in the first half of 2014 compared to those granted in the first half of 2013. The increase in the fair market value is primarily attributable to the exercise price being higher for the options granted in the first half of 2014 compared to those granted in the first half of 2013. One-third of stock options granted vested immediately. Of the \$12.5 million stock-based compensation expense recognized in the six months ended June 30, 2014, \$0.2 million relates to stock-based compensation expense of Horn. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.



## **RELATED PARTY TRANSACTIONS**

### *Transactions with Horn Petroleum Corp. ("Horn")*

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At June 30, 2014, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.4 million during the six month ended June 30, 2014 (six month ended June 30, 2013 – \$0.4 million). At June 30, 2014, the outstanding balance receivable from Horn was \$ nil (at December 31, 2013 – \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, the Company invoiced Horn \$0.04 million during the six months ended June 30, 2014 (six months ended June 30, 2013 - \$0.02 million) for services provided by geologists and geophysicists employed by the Company. At June 30, 2014, the outstanding balance receivable from Horn was \$0.003 million (at December 31, 2013 – \$ 0.01 million).

During the six months ended June 30, 2014, the Company invoiced Horn \$0.05 million for reimbursable expenses paid by the Company on behalf of Horn (six months ended June 30, 2013 - \$0.04 million). At June 30, 2014, the outstanding balance receivable from Horn was \$0.01 million (at December 31, 2013 – \$0.1 million).

## **COMMITMENTS AND CONTINGENCIES**

Please note that the following commitments and contingencies are representative of AOC's net obligations at the effective date of the MD&A.

### **Ethiopia:**

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expired in April 2014, the Company and its partners were obligated to complete certain geological and geophysical ("G&G") operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum gross expenditure of \$11.0 million. In addition, the Company and its partners were required to drill one exploration well with a minimum gross expenditure of \$6.0 million.

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the amended minimum work and financial obligations of the second exploration period which expired in July 2013. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the third exploration period with amended minimum work commitments. Under the third exploration period which expires in July 2015, AOC and its partners are obligated to complete acquisition of 500 kilometers of 2D seismic. In addition, the Company and its partners are required to drill one exploration well in the event that a viable prospect can be identified. The Company's current working interest in the Adigala Block is 10%.

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in January 2013. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the first additional exploration period which expires in January 2015. During the first additional exploration period, the Company and its

partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of \$2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of \$8.0 million. The Company's current working interest in the South Omo Block is 30%.

In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of \$1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of \$1,250,000. The Company's current working interest in the Rift Basin Area is 50%.

### **Kenya:**

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expired in January 2014, AOC and its partners were obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of \$7.8 million. Additionally, AOC and its partners were obligated to drill one exploration well with a minimum expenditure of \$8.5 million. The Company and its partners have fulfilled the minimum work and financial obligations under the PSA for the initial exploration period, and in December of 2013 notified the Ministry of Energy in Kenya that they were electing not to enter the next exploration period.

Under the terms of the Block 10BB PSC, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period which expired in July 2014. The Company and its partner notified the Ministry of Energy for the Republic of Kenya of their intention to enter into the second additional exploration period in Block 10BB which expires in July 2016. During the second additional exploration period, the Company and its partner are obligated to acquire and interpret 250 square kilometers of 3D seismic at a gross minimum expenditure of \$7.0 million. Additionally, the Company and its partner are obligated to drill three exploration wells of a minimum depth of 3,000 meters at a gross minimum expenditure of \$6.0 million per well. The Company's current working interest in Block 10BB is 50%.

Under the terms of the Block 9 PSC, with the drilling of the Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of \$3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. The Company's current working interest in Block 9 is 50%.

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2014, the initial minimum gross exploration expenditure is \$3.6 million. The Company and its partners are obligated to complete G&G operations including the acquisition of 500 kilometers of 2D seismic or 100 square kilometers of 3D seismic (or a combination thereof). The Company and its partners have requested the Ministry of Energy in Kenya's permission to enter the first additional exploration period under the PSC. The Company's current working interest in Blocks 12A is 20%.

Under the terms of the Block 13T PSC, AOC and its partner are currently in the first additional exploration period. During the first additional exploration period which expires in September 2014, the Company and

its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of \$15.0 million. The Company's current working interest in Block 13T is 50%.

Under the terms of the Block 10BA PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in April 2014. The Company and its partner have notified the Ministry of Energy for the Republic of Kenya of their intention to enter into the first additional exploration period. Under the first additional exploration period which expires in April 2016, the Company and its partner are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partner are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum expenditure obligation for the first additional exploration period is \$17.0 million. The Company's current working interest in Block 10BA is 50%.

### **Puntland (Somalia):**

With the completion of drilling Shabeel-1 and Shabeel North-1 in 2012, the Company and its partners have fulfilled the minimum work obligations of the initial exploration period under both of the Dharoor Valley and Nugaal Valley PSAs and have entered the second exploration period in each PSA which expire in October 2015. The minimum work obligations during the second exploration period include an exploration well in each block with minimum exploration expenditures of \$5.0 million in each block.

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund \$22.8 million of joint venture costs on each of the blocks (\$45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to fund its 20% participating interest share of ongoing exploration costs related to each block. Upon commencement of commercial production, \$3.5 million will be payable to Range. The Company's current working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks is 60%.

### **OUTSTANDING SHARE DATA**

The following table outlines the maximum potential impact of share dilution upon full execution of outstanding convertible instruments as at the effective date of the MD&A:

Common shares outstanding	312,333,279
Outstanding share purchase options	16,143,766
Full dilution impact on common share outstanding	328,477,045

Subsequent to the end of the quarter, the Company issued 1,191,590 common shares resulting from the exercise of as many stock options, and the Company cancelled 197,332 stock options, all of which have been factored into the table above.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2013.

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates related to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from these estimated amounts as future confirming events occur. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, recovery of exploration costs capitalized in accordance with IFRS, stock-based compensation, income taxes and fair market value of warrants.

### **Intangible Exploration Assets**

The Company capitalizes costs related to the acquisition of a license interest, directly attributable general and administrative costs, expenditures incurred in the process of determining oil and gas exploration targets, and exploration drilling costs. All exploration expenditures that related to properties with common geological structures and with shared infrastructure are accumulated together within intangible exploration assets. Costs are held un-depleted until such time as the exploration phases on the license area are complete or commercially viable reserves have been discovered and extraction of those reserves is determined to be technically feasible. The determination that a discovery is commercially viable and extraction is technically feasible requires judgment.

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of operations. If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU") within intangible exploration assets. The allocation of the company's assets into CGUs requires judgment.

Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as intangible exploration assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

The key assumptions the company uses for estimating future cash flows are reserves, future commodity prices, expected production volumes, future operating and development costs, among others. The estimated useful life of the CGU, the timing of future cash flows and discount rates are also important assumptions made by management.

### **Stock Based Compensation**

The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as stock-based compensation expense. The recognized costs are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

### **Warrants**

An obligation to issue shares for a price that is not fixed in the company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The warrants which were fully exercised in the quarter entitled the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. The Company used the fair value method, utilizing the Black-Scholes option pricing model, for valuing the warrants. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

### **Income Tax**

The Company follows the balance sheet method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Annual Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more than likely that future income tax assets will not be realized. As a result, future earnings are subject to significant Management judgment.

## **NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES**

The following new standards and amendments to standards and interpretations have been implemented effective January 1, 2014.

### *IAS 32: Financial Instruments: Presentation*

In 2011, the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

### *IAS 36: Impairment of Assets*

In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

### *IFRIC 21, 'Levies'*

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## **RISK FACTORS**

The Company is subject to various risks and uncertainties, including, but not limited to, those listed below. Refer to the Company's Annual Information Form for further risk factor disclosures.

### ***International Operations***

AOC participates in oil and gas projects located in emerging markets, including Puntland (Somalia), Ethiopia, and Kenya. Oil and gas exploration, development and production activities in these emerging markets are subject to significant political and economic uncertainties that may adversely affect AOC's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, civil unrest, expropriation, civil unrest, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls. These uncertainties, all of which are beyond AOC's control, could have a material adverse effect on AOC's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by AOC, AOC could be subject to the jurisdiction of courts other than those of Canada. AOC's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which AOC acquires an interest. AOC may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that AOC will be able to obtain all necessary licenses and permits when required.

### ***International Boundary Disputes***

Due to ongoing political disputes, the geographic boundaries separating Somalia from its neighbors and dividing the various semiautonomous regions of Somalia (including Puntland) are not universally agreed within Somalia or by the international community.

Somaliland has disputed its border with the Republic of Somalia (including the Regional State of Puntland) since May 1991 when Somaliland unilaterally declared its independence. Its claim is based on the fact that it is the successor state to the British Somaliland protectorate that united with the Republic of Somalia in July 1960. However neither the Republic of Somalia, nor the wider international community, have recognized their claim to independence nor the associated depiction of their borders.

Despite this position, the Somaliland government has written on a number of occasions (including September 2007 and February 2012) to formally inform the Company of its claim of sovereignty. Elements of this territorial claim overlap oil concessions granted to the Company by the Puntland government in the Nugaal Valley basin.

An added complication developed in 2012 when the Sool, Sanaag and Cayn (SSC) region of Somalia established the Khatumo State administration. SSC leaders declared this an autonomous state that exists in the aforementioned disputed zone between Somalia/Puntland and Somaliland. The SSC rejects all Somaliland claims to the area and see themselves as the legitimate representatives of the local communities within a Federal State of Somalia.

### ***Political Instability***

Through Horn, the Company is highly exposed to significant political risk in Somalia and the Puntland Regional State. Whilst the political and security situation in Somalia has seen some major advancement over the last two years, the country as a whole is still characterized by strong internal political tension that can easily escalate into violence.

The election of an internationally recognized Federal Government of Somalia in August 2012 (the first permanent central government in the country since the start of the civil war in 1991) was a noticeable achievement. This has led to a range of additional political improvements including recognition by the UN and other key international governments. However the structures and systems of government are still fragile and emerging.

In January 2014, the Regional State of Puntland underwent its own Presidential election that led to the relatively peaceful transition of power to a new President. This democratic step was again hailed by the international community as a sign of the progress taking place in the country.

### ***Different Legal System and Litigation***

AOC's oil production and exploration activities are located in countries with legal systems that in various degrees differ from that of Canada. Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedure and enforcement. Almost all material production and exploration rights and related contracts of AOC are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that AOC's ability to exercise or enforce its rights and obligations may differ between different countries and also from what would have been the case if such rights and obligations were subject to Canadian law and jurisdiction.

AOC's operations are, to a large extent, subject to various complex laws and regulations as well as detailed provisions in concessions, licenses and agreements that often involve several parties. If AOC were to become involved in legal disputes in order to defend or enforce any of its rights or obligations under such concessions, licenses, agreements or otherwise, such disputes or related litigation may be costly, time consuming and the outcome may be highly uncertain. Even if AOC would ultimately prevail, such disputes and litigation may still have a substantially negative effect on AOC and its operations.

### ***Financial Statements Prepared on a Going Concern Basis***

AOC's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. AOC's operations to date have been primarily financed by equity financing. AOC's future operations are dependent upon the identification and successful completion of additional equity or debt financing or the achievement of profitable operations. There can be no assurances that AOC will be successful in completing additional financing or achieving profitability. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should AOC be unable to continue as a going concern.

### ***Shared Ownership and Dependency on Partners***

AOC's operations are, to a significant degree, conducted together with one or more partners through contractual arrangements. In such instances, AOC may be dependent on, or affected by, the due performance of its partners. If a partner fails to perform, AOC may, among other things, risk losing rights or revenues or incur additional obligations or costs in order to itself perform in place of its partners. AOC and its partners may also, from time to time, have different opinions on how to conduct certain operations or on what their respective rights and obligations are under a certain agreement. If a dispute were to arise with one or more partners relating to a project, such dispute may have significant negative effects on AOC's operations relating to such project.

### ***Uncertainty of Title***

Although the Company conducts title reviews prior to acquiring an interest in a concession, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the Company's interest in the concession. Any uncertainty with respect to one or more of the Company's concession interests could have a material adverse effect on the Company's business, prospects and results of operations. In light of the boundary disputes and the dynamic political environment at both the federal and regional levels within Somalia, the constitutional and legal basis surrounding mineral and oil and gas rights is often disputed between the various levels of government and semi-autonomous states. The Federal Government of Somalia, elected in 2012, and the various regional governments have yet to mutually agree on a legislative framework surrounding the granting of exploration rights and administering exploration activities.

### ***Competing Claims From ConocoPhillips***

By a letter dated November 16, 2007, AOC was advised by ConocoPhillips, which entity had previously engaged in oil and gas exploration in Somalia, that it was claiming a continued interest in certain parts of the concessions that comprise the blocks in which Canmex II holds its interest. ConocoPhillips stated that it had acquired its interest from the Somali Democratic Republic (a name given to Somalia in 1969 by the communist regime of President Barre), that its interests have not been terminated by the Somali Democratic Republic, and that they have not been relinquished by ConocoPhillips. The letter stated ConocoPhillips disagreement with any suggestion that its interests had lapsed. No further correspondence has been received by either the Company or AOC since 2007.

The Company does not recognize the interest of ConocoPhillips and disputes ConocoPhillips's position in respect of this matter. However, if ConocoPhillips chooses to pursue its claims, the outcome of a dispute or lawsuit cannot be predicted with any certainty.

### ***Risks Relating to Concessions, Licenses and Contracts***

AOC's operations are based on a relatively limited number of concession agreements, licenses and contracts. The rights and obligations under such concessions, licenses and contracts may be subject to interpretation and could also be affected by, among other things, matters outside the control of AOC. In case of a dispute, it cannot be certain that the view of AOC would prevail or that AOC otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on AOC. Also, if AOC or any of its partners were deemed not to have complied with their duties or obligations under a concession, license or contract, AOC's rights under such concessions, licenses or contracts may be relinquished in whole or in part.

### ***Competition***

The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. AOC competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. AOC's competitors include oil companies which have greater financial resources, staff and facilities than those of AOC and its partners. AOC's ability to discover reserves in the future will depend on its ability to successfully explore its present properties, to select and acquire suitable producing properties or prospects on



which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas. AOC's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Oil and natural gas producers are also facing increased competition from alternative forms of energy, fuel and related products that could have a material adverse effect on AOC's business, prospects and results of operations.

***Risks Inherent in Oil and Gas Exploration and Development***

Oil and gas operations involve many risks which, even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of AOC depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that AOC will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, AOC may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by AOC will result in discoveries of oil or natural gas in commercial quantities or that commercial quantities of oil and natural gas will be discovered or acquired by AOC. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

AOC's business is subject to all of the risks and hazards inherent in businesses involved in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas, many of which cannot be overcome even with a combination of experience and knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment or personal injury.

**Well-flow Test Results**

Drill stem tests are commonly based on flow periods of 1 to 5 days and build up periods of 1 to 3 days. Pressure transient analysis has not been carried out on all well tests and the results should therefore be considered as preliminary. Well test results are not necessarily indicative of long-term performance or of ultimate recovery.

**Capital Requirements**

To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including from the issuance of new shares, issuance of debt or execution of working interest farm-out agreements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of AOC may be diluted. If unable to secure financing on acceptable terms, AOC may have to cancel or postpone certain of its planned exploration and development activities which may ultimately lead to the Company's inability to fulfill the minimum work obligations under the terms of its various PSAs and PSCs. Availability of capital will also directly impact the Company's ability to take advantage of acquisition opportunities.

**Foreign currency exchange rate risk**

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars.

**Interest rate risk**

The Company does not have any current exposure to fluctuations in interest rates.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity describes a company's ability to access cash. Companies operating in the upstream oil and gas industry, during the exploration phase, require sufficient cash in order to fulfill their work commitments in accordance with contractual obligations and to be able to potentially acquire strategic oil and gas assets.

The Company will potentially issue debt or equity and enter into farmout agreements with joint venture partners to ensure the Company has sufficient available funds to meet current and foreseeable financial requirements. The Company actively monitors its liquidity to ensure that its cash flows and working capital are adequate to support these financial obligations and the Company's capital programs. The Company will also adjust the pace of its exploration activities to manage its liquidity position.

**Credit risk**

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable.

**OUTLOOK**

The Company expects to have five drilling rigs operating through the remainder of 2014, one of which is currently being utilized as testing and completion rig. Completion of the brokered private placement in October 2013 increased the Company's liquidity and capital resource position which is

expected to fully fund the Company's portion of 2014 exploration, appraisal and development activities.

The near term focus of exploration is to continue drilling out the remaining prospect inventory in the discovered basin in Northern Kenya, appraising existing and future discoveries with the aid of the new 3D seismic survey, drilling three new basin opening wells in the second half of the year and progressing the development studies towards project sanction in the discovered basin in Northern Kenya.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015/early 2016. The governments of Kenya, Uganda and Rwanda have signed a MoU and formed a Steering Committee to progress a regional crude oil export pipeline from Uganda through Kenya. The Kenya upstream partners have also signed a cooperation agreement with the Uganda upstream partners in support of the same objective.

### ***Forward Looking Statements***

Certain statements in this document are "forward-looking statements". Forward-looking statements are statements that are not historical fact and are generally identified by words such as "believes", "anticipates", "expects", "estimates", "pending", "intends", "plans", "will", "would have" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;
- future asset acquisitions or dispositions;

- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

Statements relating to “reserves” or “resources” are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others:

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- volatility in energy trading markets;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict,
- conflict between states.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management’s future course of action would depend on our assessment of all information at that time. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements.

Undue reliance should not be placed on the statements contained herein, which are made as of the date hereof and, except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

# AFRICA OIL CORP.

Consolidated Balance Sheets  
(Expressed in thousands of United States dollars)  
(Unaudited)

		June 30, 2014	December 31, 2013
	<b>Note</b>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 350,052	\$ 493,209
Accounts receivable		1,896	3,195
Prepaid expenses		1,366	1,379
		353,314	497,783
Long-term assets			
Restricted cash	4	1,700	1,250
Property and equipment	5	78	103
Intangible exploration assets	6	651,081	488,688
		652,859	490,041
<b>Total assets</b>		<b>\$ 1,006,173</b>	<b>\$ 987,824</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 108,048	\$ 57,976
Current portion of warrants	8	-	1
		108,048	57,977
<b>Total liabilities</b>		<b>108,048</b>	<b>57,977</b>
Equity attributable to common shareholders			
Share capital	7(b)	1,012,255	1,007,414
Contributed surplus		35,327	24,396
Deficit		(197,730)	(150,736)
		849,852	881,074
Non-controlling interest		48,273	48,773
<b>Total equity</b>		<b>898,125</b>	<b>929,847</b>
<b>Total liabilities and equity</b>		<b>\$ 1,006,173</b>	<b>\$ 987,824</b>

The notes are an integral part of the consolidated interim financial statements.

Approved on behalf of the Board:

"CAMERON BAILEY"

CAMERON BAILEY, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

# AFRICA OIL CORP.

Consolidated Statements of Net Loss and Comprehensive Loss  
(Expressed in thousands of United States dollars)  
(Unaudited)

		Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
	<b>Note</b>				
Operating expenses					
Salaries and benefits		\$ 464	\$ 477	\$ 922	\$ 1,040
Stock-based compensation	9	2,955	7,088	12,507	7,785
Travel		288	446	597	727
Office and general		232	257	416	460
Donation	18	750	-	1,500	100
Depreciation	5	17	12	34	25
Professional fees		157	91	352	194
Stock exchange and filing fees		882	162	1,071	362
Impairment of intangible exploration assets	6	30,833	-	30,833	-
		36,578	8,533	48,232	10,693
Finance income	12	(433)	(464)	(824)	(3,563)
Finance expense	12	5	1,354	86	2,405
Net loss and comprehensive loss		36,150	9,423	47,494	9,535
Net (income) loss and comprehensive (income) loss attributable to non-controlling interest		294	160	500	(1,602)
Net loss and comprehensive loss attributable to common shareholders		35,856	9,263	46,994	11,137
Net loss attributable to common shareholders per share	15				
Basic		\$ 0.12	\$ 0.04	\$ 0.15	\$ 0.04
Diluted		\$ 0.12	\$ 0.04	\$ 0.15	\$ 0.04
Weighted average number of shares outstanding for the purpose of calculating earnings per share	15				
Basic		310,528,286	252,735,463	310,249,223	252,452,274
Diluted		310,528,286	252,735,463	310,249,223	252,452,274

The notes are an integral part of the consolidated interim financial statements.

# AFRICA OIL CORP.

Consolidated Statement of Equity  
 (Expressed in thousands of United States dollars)  
 (Unaudited)

		June 30, 2014	June 30, 2013
	<b>Note 7(b)</b>		
<b>Share capital:</b>			
Balance, beginning of period		\$ 1,007,414	\$ 558,555
Exercise of options		4,841	1,468
Balance, end of period		1,012,255	560,023
<b>Contributed surplus:</b>			
Balance, beginning of period		\$ 24,396	\$ 12,123
Stock based compensation	9	12,507	7,785
Exercise of options	9	(1,576)	(463)
Balance, end of period		35,327	19,445
<b>Deficit:</b>			
Balance, beginning of period		\$ (150,736)	\$ (98,076)
Net loss and comprehensive loss attributable to common shareholders		(46,994)	(11,137)
Balance, end of period		(197,730)	(109,213)
Total equity attributable to common shareholders		\$ 849,852	470,255
<b>Non-controlling interest:</b>			
Balance, beginning of period		\$ 48,773	\$ 47,551
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest		(500)	1,602
Balance, end of period		48,273	49,153
Total equity		\$ 898,125	\$ 519,408

The notes are an integral part of the consolidated interim financial statements.

# AFRICA OIL CORP.

Consolidated Statements of Cash Flows  
(Expressed in thousands of United States dollars)  
(Unaudited)

		Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows provided by (used in):	<b>Note</b>				
Operations:					
Net loss and comprehensive loss for the period		\$ (36,150)	\$ (9,423)	\$ (47,494)	\$ (9,535)
Items not affecting cash:					
Stock-based compensation	9	2,955	7,088	12,507	7,785
Depreciation	5	17	12	34	25
Impairment of intangible exploration assets	6	30,833	-	30,833	-
Fair value adjustment - w warrants	12	(5)	(155)	(1)	(2,882)
Unrealized foreign exchange loss		(42)	1,116	75	2,235
Changes in non-cash operating working capital	17	51	(46)	(680)	(796)
		(2,341)	(1,408)	(4,726)	(3,168)
Investing:					
Property and equipment expenditures	5	(1)	(27)	(9)	(41)
Intangible exploration expenditures	6	(114,007)	(55,304)	(206,433)	(94,570)
Farmout proceeds	6	-	-	13,207	-
Changes in non-cash investing working capital	17	30,511	(7)	52,064	6,827
		(83,497)	(55,338)	(141,171)	(87,784)
Financing:					
Common shares issued	7(b)	1,515	1,005	3,265	1,005
Deposit of cash for bank guarantee	4	-	(1,250)	(450)	(1,250)
Release of bank guarantee	4	-	450	-	744
		1,515	205	2,815	499
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		42	(1,116)	(75)	(2,235)
Decrease in cash and cash equivalents		(84,281)	(57,657)	(143,157)	(92,688)
Cash and cash equivalents, beginning of period		434,333	237,144	493,209	\$ 272,175
Cash and cash equivalents, end of period		350,052	\$ 179,487	350,052	\$ 179,487
Supplementary information:					
Interest paid		Nil	Nil	Nil	Nil
Income taxes paid		Nil	Nil	Nil	Nil

The notes are an integral part of the consolidated interim financial statements.



# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

## 1) Incorporation and nature of business:

Africa Oil Corp. (collectively with its subsidiaries, "AOC" or the "Company") was incorporated on March 29, 1993 under the laws of British Columbia and is an international oil and gas exploration company based in Canada with oil and gas interests in Kenya, Ethiopia, and Puntland (Somalia). The Company's registered address is Suite 2600, 1066 West Hastings Street Vancouver, BC, V6E 3X1.

AOC is an exploration stage enterprise that participates in oil and gas projects located in emerging markets, in sub-Saharan Africa. To date, AOC has not found proved reserves and is considered to be in the exploration stage. Oil and gas exploration, development and production activities, in these emerging markets, are subject to significant uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, civil unrest, expropriation, nationalization or other title disputes, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls, in addition to the risks associated with exploration activities. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on AOC's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, AOC could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which AOC has or may acquire an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that AOC will be able to obtain all necessary licenses and permits when required.

## 2) Basis of preparation:

### a) Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles for interim periods, specifically International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at August 8, 2014, the date the Board of Directors approved the statements.

### b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the Company's consolidated financial statements for the year ended December 31, 2013. Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

c) Functional and presentation currency:

These consolidated financial statements are presented in United States (US) dollars. The functional currencies of all the Company's individual entities are US dollars which represents the currency of the primary economic environment in which the entities operate.

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2013.

### 3) New standards and amendments

The following new standards and amendments to standards and interpretations have been implemented effective January 1, 2014.

*IAS 32: Financial Instruments: Presentation*

In 2011, the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

*IAS 36: Impairment of Assets*

In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

*IFRIC 21, 'Levies'*

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

## 4) Restricted cash:

At June 30, 2014, the Company has a restricted cash balance of \$1.7 million, (December 31, 2013 - \$1.3 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of		June 30, 2014		December 31, 2013
Rift Basin	Republic of Ethiopia	\$	1,250	\$	1,250
9	Republic of Kenya		450		-
		\$	1,700	\$	1,250

## 5) Property and equipment:

		June 30, 2014		December 31, 2013
Cost, beginning of period	\$	382	\$	306
Additions		9		76
Cost, end of period		391		382
Accumulated depreciation, beginning of period		(279)		(224)
Depreciation		(34)		(55)
Accumulated depreciation, end of period		(313)		(279)
Net carrying amount, beginning of period	\$	103	\$	82
Net carrying amount, end of period	\$	78	\$	103

As at June 30, 2014, the Company has recorded \$0.1 million of property and equipment (December 31, 2013 - \$0.1 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years).

## 6) Intangible exploration assets:

		June 30, 2014		December 31, 2013
Net carrying amount, beginning of period	\$	488,688	\$	282,109
Intangible exploration expenditures		206,433		229,453
Impairment of Intangible exploration assets		(30,833)		(22,874)
Farmout proceeds		(13,207)		-
Net carrying amount, end of period	\$	651,081	\$	488,688

As at June 30, 2014, \$651.1 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2013 - \$488.7 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At June 30, 2014, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

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(Unaudited)

During the six months ended June 30, 2014, the Company capitalized \$10.4 million of general and administrative expenses related to intangible exploration assets (six months ended June 30, 2013 – \$7.3 million).

In March 2014, the Company completed a farmout transaction with Marathon Oil Corporation (“Marathon”) whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company \$3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of \$15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company \$3.0 million in consideration of past exploration expenditures and \$10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.

During the first half of the year, the Company and its partners completed the drilling of El Kuran-3 in Block 7&8. Upon evaluating the results of El Kuran-3 further, the Company has written off \$30.8 million of capitalized intangible exploration assets related to Blocks 7&8 during the second quarter of 2014. The remaining carrying value of the Blocks 7&8 intangible exploration assets is \$ nil.

During December 2013, the Company and its partners notified the Ministry of Energy in Kenya of their decision not to enter into the next additional exploration period in Block 10A. Accordingly, the Company wrote off \$22.9 million of capitalized intangible exploration assets related to Block 10A during the fourth quarter of 2013. The remaining carrying value of the Block 10A intangible exploration assets is \$ nil.

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

## 7) Share capital:

a) The Company is authorized to issue an unlimited number of common shares with no par value.

b) Issued:

	Note	June 30, 2014		December 31, 2013	
		Shares	Amount	Shares	Amount
Balance, beginning of period		309,470,323	\$ 1,007,414	252,165,938	\$ 558,555
Private placements, net of issue costs	(i)	-	-	56,505,217	447,355
Exercise of options	9	1,671,366	4,841	799,168	1,504
Balance, end of period		311,141,689	\$ 1,012,255	309,470,323	\$ 1,007,414

- i) During October 2013, the Company completed a brokered private placement issuing an aggregate of 56,505,217 shares at a price of SEK 51.75 per share (CAD \$8.25 equivalent based on the foreign exchange rate on the date the private placement was announced) for gross proceeds of SEK 2,924,144,980 or \$461.4 million. A cash commission was paid in the amount of \$13.8 million. The common shares issued in the private placement were subject to a statutory hold period which expired on March 1, 2014.

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## 8) Warrants:

In June 2014, all of the remaining 9,546,248 Horn warrants expired unexercised. At June 30, 2014, the Company recorded \$ nil (December 31, 2013 - \$0.001 million) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn Petroleum Corporation ("Horn"). During the three and six months ended June 30, 2014, the Company recognized a \$0.005 million and \$0.001 million gain on the revaluation of Horn's warrant liability, respectively (three and six months ended June 30, 2013 – \$0.2 million gain and a \$2.9 million gain, respectively).

## 9) Share purchase options:

At the 2013 Annual General Meeting, held on June 3, 2014, the Company approved the stock option plan ("the Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

The Company's share purchase options outstanding are as follows:

	June 30, 2014		December 31, 2013	
	Number of shares	Weighted average exercise price (CAD\$)	Number of shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	13,395,222	4.35	8,277,056	1.54
Granted	6,078,500	8.42	6,081,000	6.07
Expired or cancelled	(269,668)	8.06	(163,666)	8.62
Exercised	(1,671,366)	1.85	(799,168)	1.31
Balance, end of period	17,532,688	5.94	13,395,222	4.35

The weighted average closing share price on the day options were exercised during the six months ended June 30, 2014 was CAD\$8.11 (twelve months ended December 31, 2013 - CAD\$6.06).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the six months ended June 30, 2014 and the year ended December 31, 2013 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2014	2013
Number of options granted during the period	6,078,500	6,081,000
Fair value of options granted (CAD\$ per option)	3.33	2.82
Risk-free interest rate (%)	1.01	1.01
Expected life (years)	2.25	2.25
Expected volatility (%)	67	72
Expected dividend yield	-	-

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The following table summarizes information regarding the Company's stock options outstanding at June 30, 2014:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
1.49	3,398,167	0.40
1.85	349,689	- *
1.88	33,334	- *
1.94	100,000	- *
2.09	11,666	0.67
2.10	575,000	- *
5.94	5,666,000	1.80
7.30	120,000	2.98
7.86	200,000	2.09
8.10	16,666	1.42
8.32	315,000	1.02
8.44	5,930,500	2.63
8.90	66,666	1.18
9.90	750,000	1.20
5.94	17,532,688	1.67

\* At June 30, 2014, the option's contractual life was extended due trading restrictions. As such, upon the lifting of trading restriction, the option's contractual terms will be extended for 10 business days before expiring.

All options granted vest over a two-year period, of which one-third vest immediately, and expire three years after the grant date. During the six months ended June 30, 2014 the Company recognized \$12.3 million and \$0.2 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (six months ended June 30, 2013 - \$7.5 million and \$0.3 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

## 10) Segment information:

The Company determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer ("CEO"), Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), who are the Company's chief operating decision makers. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. An operating segment's operating results, for which discrete financial information is available, are reviewed regularly by the CEO, COO and CFO to make decisions about resources to be allocated to the segment and assess its performance. The Company has a single class of business which is international oil and gas exploration. The geographical areas are defined by the Company as operating segments in accordance with IFRS. The Company currently operates in a number of geographical areas based on location of operations, being Kenya, Ethiopia and Puntland (Somalia).

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(Expressed in thousands of United States dollars unless otherwise indicated)

(Unaudited)

<b>At June 30, 2014</b>	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
Total assets	\$ 478,082	\$ 83,976	\$ 90,520	\$ 353,595	<b>\$ 1,006,173</b>
Intangible exploration assets	478,411	82,424	90,246	-	<b>651,081</b>
Property and equipment	-	-	-	78	<b>78</b>

<b>At December 31, 2013</b>	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
Total assets	\$ 311,612	\$ 101,255	\$ 90,454	\$ 484,503	<b>\$ 987,824</b>
Intangible exploration assets	308,863	90,457	89,368	-	<b>488,688</b>
Property and equipment	-	-	-	103	<b>103</b>

<b>Three months ended June 30, 2014</b>	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
<b>Capital expenditures</b>					
Intangible exploration assets, net	\$ 92,262	\$ 21,485	\$ 260	\$ -	<b>\$ 114,007</b>
Property and equipment	-	-	-	1	<b>1</b>
	92,262	21,485	260	1	<b>114,008</b>
<b>Statement of operations</b>					
Expenses	\$ 1	\$ 30,841	\$ 7	5,729	<b>\$ 36,578</b>
Finance income	-	-	-	(433)	<b>\$ (433)</b>
Finance expense	-	-	-	5	<b>\$ 5</b>
Segmented loss	\$ 1	\$ 30,841	\$ 7	\$ 5,301	<b>\$ 36,150</b>

<b>Three months ended June 30, 2013</b>	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
<b>Capital expenditures</b>					
Intangible exploration assets	\$ 41,429	\$ 13,484	\$ 391	\$ -	<b>\$ 55,304</b>
Property and equipment	-	-	-	27	<b>27</b>
	\$ 41,429	\$ 13,484	\$ 391	\$ 27	<b>\$ 55,331</b>
<b>Statement of operations</b>					
Expenses	\$ 14	\$ 9	\$ 7	\$ 8,503	<b>\$ 8,533</b>
Finance income	-	-	-	(464)	<b>(464)</b>
Finance expense	-	-	-	1,354	<b>1,354</b>
Segmented loss	\$ 14	\$ 9	\$ 7	\$ 9,393	<b>\$ 9,423</b>

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<b>Six months ended June 30, 2014</b>	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
<b>Capital expenditures</b>					
Intangible exploration assets	\$ 169,548	\$ 36,007	\$ 878	\$ -	\$ 206,433
Property and equipment	-	-	-	9	9
	\$ 169,548	\$ 36,007	\$ 878	\$ 9	\$ 206,442
<b>Statement of operations</b>					
Expenses	\$ 22	\$ 30,847	\$ 12	\$ 17,351	\$ 48,232
Finance income	-	-	-	(824)	(824)
Finance expense	-	-	-	86	86
Segmented loss	\$ 22	\$ 30,847	\$ 12	\$16,613	\$ 47,494
<b>Six months ended June 30, 2013</b>					
	Kenya	Ethiopia	Puntland	Corporate	<b>Total</b>
<b>Capital expenditures</b>					
Intangible exploration assets	67,627	25,239	1,704	-	94,570
Property and equipment	-	-	-	41	41
	\$ 67,627	\$ 25,239	\$ 1,704	\$ 41	\$ 94,611
<b>Statement of operations</b>					
Expenses	\$ 27	\$ 15	\$ 11	\$ 10,640	\$ 10,693
Finance income	-	-	-	(3,563)	(3,563)
Finance expense	-	-	-	2,405	2,405
Segmented loss	\$ 27	\$ 15	\$ 11	\$9,482	\$ 9,535

## 11) Commitments and contingencies:

### a) Contractual obligations

#### Ethiopia:

In March 2014, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon is obligated to pay the Company \$3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of \$15.0 million. The Company will maintain operatorship in Rift Basin Area, but Marathon has the right to assume operatorship if a commercial discovery is made.

In March 2014, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 40% interest in the Company's Adigala Block leaving the Company with 10% working interest. In accordance with the farmout agreement, New Age is obligated to fund the Company's 10% working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of \$10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures.



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Kenya:

In March 2014, the Company and its partner notified the Ministry of Energy for the Republic of Kenya of their intention to enter into the first additional exploration period in Block10BA which expires in April 2016. During the first additional exploration period, the Company and its partner are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partner are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is \$17.0 million.

In May 2014, the Company and its partner notified the Ministry of Energy for the Republic of Kenya of their intention to enter into the second additional exploration period in Block10BB which expires in July 2016. During the second additional exploration period, the Company and its partner are obligated to acquire and interpret 250 square kilometers of 3D seismic at a gross minimum expenditure of \$7.0 million. Additionally, the Company and its partner are obligated to drill three exploration wells of a minimum depth of 3,000 meters at a gross minimum expenditure of \$6.0 million per well.

## 12) Finance income and expense:

Finance income and expense for the three and six months ended June 30, 2014 and 2013 is comprised of the following:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Fair value adjustment - w warrants	5	155	1	2,882
Interest and other income	387	309	823	681
Bank charges	(5)	(5)	(11)	(13)
Foreign exchange loss	41	(1,349)	(75)	(2,392)
Finance income	433	464	824	3,563
Finance expense	(5)	(1,354)	(86)	(2,405)

## 13) Related party transactions:

### a) Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At June 30, 2014, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.4 million during the

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six month ended June 30, 2014 (six month ended June 30, 2013 – \$0.4 million). At June 30, 2014, the outstanding balance receivable from Horn was \$ nil (at December 31, 2013 – \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, the Company invoiced Horn \$0.04 million during the six months ended June 30, 2014 (six months ended June 30, 2013 - \$0.02 million) for services provided by geologists and geophysicists employed by the Company. At June 30, 2014, the outstanding balance receivable from Horn was \$0.003 million (at December 31, 2013 – \$ 0.01 million).

During the six months ended June 30, 2014, the Company invoiced Horn \$0.05 million for reimbursable expenses paid by the Company on behalf of Horn (six months ended June 30, 2013 - \$0.04 million). At June 30, 2014, the outstanding balance receivable from Horn was \$0.01 million (at December 31, 2013 – \$0.1 million).

## 14) Subsidiaries:

The Company has the following wholly owned subsidiaries; 0845379 B.C. Ltd. (British Columbia), Africa Oil Holdings Cooperatief U.A. (Netherlands), Africa Oil Turkana B.V. (Netherlands), Africa Oil Kenya B.V. (Netherlands), Africa Oil Ethiopia B.V (Netherlands), Africa Oil Turkana Ltd. (Kenya), 0903658 B.C. Ltd. (British Columbia), Centric Energy Holdings (Barbados) Inc. (Barbados), Centric Energy Kenya (Barbados) Inc. (Barbados), Centric Energy (Kenya) Ltd. (Kenya), Mali Oil Development SARL (Mali, West Africa). The Company owns 44.6% of the issued and outstanding shares of Horn Petroleum Corporation (Canada), which wholly owns the following subsidiaries: Canmex Holdings (Bermuda) I Ltd. (Bermuda), Canmex Holdings (Bermuda) II Ltd. (Bermuda), and Horn Petroleum Holdings (Bermuda) I Ltd. (Bermuda). All of the Company's subsidiaries are engaged in oil and gas exploration activities.

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## 15) Earnings per share:

For the three months ended	June 30, 2014			June 30, 2013		
	Weighted Average			Weighted Average		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ 35,856	310,528,286	\$ 0.12	\$ 9,263	252,735,463	\$ 0.04
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 35,856	310,528,286	\$ 0.12	\$ 9,263	252,735,463	\$ 0.04

For the six months ended	June 30, 2014			June 30, 2013		
	Weighted Average			Weighted Average		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ 46,994	310,249,223	\$ 0.15	\$ 11,137	252,452,274	\$ 0.04
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 46,994	310,249,223	\$ 0.15	\$ 11,137	252,452,274	\$ 0.04

For the three and six months ended June 30, 2014, the Company used an average market price of CAD\$7.93 and CAD\$8.34 per share, respectively (three and six months ended June 30, 2013 - CAD\$6.84 and CAD\$7.08, respectively) to calculate the dilutive effect of stock options. For the three and six months ended June 30, 2014, 17,532,688 options were anti-dilutive (three and six months ended June 30, 2013 – 13,006,222) and were not included in the calculation of dilutive loss per share.

## 16) Financial Instruments:

Assets and liabilities at June 30, 2014 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's cash and cash equivalents, receivables and warrants are assessed on the fair value hierarchy described above. The Company's cash and cash equivalents and warrants are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period.

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## 17) Supplementary information:

The following table reconciles the changes in non-cash working capital as disclosed in the consolidated statement of cash flows:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Changes in non-cash working capital				
Accounts receivable	\$ 10,030	\$ 631	\$ 1,299	\$ 895
Prepaid expenses	(34)	(91)	13	(47)
Accounts payable and accrued liabilities	20,566	(593)	50,072	5,183
	30,562	(53)	51,384	6,031
Relating to:				
Operating activities	\$ 51	\$ (46)	\$ (680)	\$ (796)
Investing activities	\$ 30,511	\$ (7)	\$ 52,064	\$ 6,827
Changes in non-cash working capital	\$ 30,562	\$ (53)	\$ 51,384	\$ 6,031

## 18) Donation:

During the six months ended June 30, 2014, as part of the Company's Community Social Responsibility commitment, the Company made a \$1.5 million donation to the Lundin Foundation (six months ended June 30, 2013 - \$0.1 million), a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.