Consolidated Financial Statements
(Expressed in United States dollars)

AFRICA OIL CORP.

For the years ended December 31, 2010 and 2009

Prepared by Management

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the years ended December 31, 2010 and 2009

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 audited consolidated financial statements for the years ended December 31, 2010 and 2009 and related notes thereto.

The financial information in this MD&A is derived from the Company's audited consolidated financial statements which are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are outlined within Note 2 to the consolidated financial statements of the Company.

The effective date of this MD&A is March 29, 2011.

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

PROFILE AND STRATEGY

AOC is a Canadian-based company whose common shares are traded on the TSX Venture Exchange and the First North list of the NASDAQ OMX 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, Puntland (Somalia), and Mali.

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 and maturing them into marketable opportunities for larger oil and gas industry players. 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 is pursuing a farmout strategy aiming to leverage the current large working interest holdings in each of its operated blocks. AOC aims to continue to identify additional highly prospective exploration targets in geologically favorable settings. The Company will continue to consider acquisition and merger opportunities with a focus on North Africa and the Middle East. In general, AOC will continue its portfolio approach to exploring a large number of oil and gas opportunities with the goal of increasing shareholder value.

The Company has acquired and commenced exploration activities on multiple exploration Blocks in East Africa (refer to table below). The East African Rift Basin system is one of the last great rift basins to be explored. New discoveries have been announced on all sides of the Company's virtually unexplored land position including the major Tullow Oil plc 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 over 300,000 km^2 (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.

RECENT DEVELOPMENTS

AOC has achieved significant operational accomplishments since the end of 2009 adding interests in five blocks in the highly prospective East African Tertiary Rift System and two blocks in the Central African Rift Trend to its existing world class exploration portfolio. With the acquisition of interests in Blocks 10BA, 12A, 13T and South Omo, as well as a joint study agreement on the Rift Valley Block, AOC now has a material interest in substantially all of Kenya and Ethiopia's Tertiary Rift System.

The Company has also significantly improved its financial position during 2010 as a result of equity financings and farmouts executed, exiting 2010 with over $76 million of cash available. AOC currently has more than sufficient funds to meet its portion of the $163 million expenditure obligations ($43 million net) as per the active work programs approved by the Company's Board of Directors for 2011.

South Omo Block (Ethiopia) Acquisition

During August 2010, the Company completed a farmin transaction, acquiring an 80% participating interest and operatorship of the South Omo Block in Ethiopia.

South Omo represents a new opportunity for AOC to secure a highly prospective block in the Omo Rift Valley of south-western Ethiopia. The block spans 29,465 square kilometers (gross) and is within the Tertiary age East African Rift, just north of Lake Turkana, Kenya and within the same petroleum system as the Company's Kenya Block 10BB and Tullow's Uganda discoveries.

Pursuant to the farmout agreement, to earn its 80% participating interest, AOC is obligated to pay 80% of past costs incurred by Agriterra (formerly White Nile Ltd.), to a maximum of $2,517,000, and fund 100% of the costs associated with a work program comprised of 500 kilometers of 2D seismic, a field geology program, and a surface geochemistry program. AOC will compensate Agriterra's 80% share of past costs by funding Agriterra's share of future cash calls in an amount equal to the past cost obligation.

Blocks 12A and 13T (Kenya) Acquisition

During September 2010, the Company completed the assignment of a 100% interest in Blocks 12A and 13T in Kenya. The Blocks were assigned to the Company by Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc. Concurrent with the Kenyan Government consenting to the assignment, AOC agreed to increase the optional back-in rights of the Kenyan Government to a 22.5% paying interest on all development areas on both Blocks.

The new contract areas are adjacent to the Company's Block 10BB. Existing gravity data on Blocks 12A and 13T suggests that the proven East African Tertiary Rift basin and known strong leads in Block 10BB may extend onto these new blocks. In consideration for Platform's interest in Blocks 12A and 13T, AOC issued to Platform 2.5 million AOC common shares, valued at $3.2 million, and 1.5 million AOC share purchase warrants, valued at $0.8 million, exercisable into one common share at a price of CAD$1.50 per share for a period of two years. The terms of the warrants included an accelerated expiry provision which was exercised by the Company in November 2010. The accelerated expiry for the warrants is May 22, 2011.

The Production Sharing Contracts ("PSC") covering Blocks 12A and 13T are dated September, 2008 (effective date: December, 2008) and have an initial exploration period of 3 years. The initial minimum exploration expenditures are $3.65 million (Block 13T) and $3.6 million (Block 12A). The initial exploration work program includes 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof) on each block.

Kenya and Ethiopia: Tullow Farmout

The Company completed a farmout transaction with Tullow Oil plc ("Tullow") on the South Omo Block in Ethiopia on December 9, 2010 and the remainder of the blocks subsequent to December 31, 2010. Tullow has acquired a 50% interest in, and operatorship of, five of AOC's east African exploration blocks, comprised of four exploration blocks in Kenya and one exploration block in Ethiopia. AOC has also amended its existing farmout agreement with Lion Energy Corp. ("Lion").

Under the terms of the Tullow farmout agreement, Tullow acquired a 50% interest in, and operatorship of, Blocks 10BB and 10A in Kenya and of the South Omo Block in Ethiopia. In consideration for the assignment of these interests, Tullow has paid to AOC $9.6 million, representing 50% of AOC's past costs in the blocks. The past costs are subject to a post-closing audit. Tullow will fund AOC's working interest share of future joint venture expenditures in these blocks until the cap of $23.75 million is reached. Once the expenditure cap has been met, AOC will be responsible for its working interest share of future costs.

Additionally, Tullow has also exercised an option to acquire 50% of AOC's interest in, and operatorship of, two additional exploration blocks in Kenya, 12A and 13T, recently acquired by AOC. Tullow has paid to AOC $1.7 million as compensation for past costs. Tullow and AOC will be responsible for their working interest share of future joint venture expenditures in these blocks going forward.

The Company amended their farmout agreement with Lion in order to provide Tullow with the necessary working interests. The amendment reduced Lion's interest in Block 10BB to 10% (originally 20%) and eliminated its interest in Block 10A (originally 25%). As consideration, the Company paid Lion $2.5 million in cash and issued to Lion 2.5 million common shares of AOC. The Company has also agreed to the elimination of future expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia). The amendment was completed in January 2011.

Acquisition of Centric Energy

Effective February 23, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Centric Energy Corp. ("Centric"), a publicly traded oil and gas company listed on the TSX Venture Exchange. Pursuant to the acquisition agreement, AOC acquired, by way of a plan of arrangement, all of the issued and outstanding shares of Centric in consideration for 0.3077 AOC shares and CAD$0.0001 for each common share of Centric. The value of consideration issued was estimated at $60.2 million.

Centric's primary asset is Block 10BA in Kenya which is strategically located within the highly prospective East African Tertiary Rift System between AOC's Block 10BB and its South Omo Block. This trend hosts the recent discoveries in the Albert Graben in Uganda where up to 2.5 billion barrels of oil have been discovered by Tullow. In addition, Centric also has a carried 25% interest in Block 7 and Block 11, both located in the Republic of Mali and operated by Heritage Oil Corporation.

Block 10BA is highly under-explored, with only sparse seismic data acquired in 1991. It covers 16,205 square kilometers (gross) and is directly north of the Loperot oil discovery drilled by Shell Exploration (Kenya) in 1992, within AOC's Block 10BB. The planned acquisition of new seismic data onshore and offshore is expected to considerably improve the understanding of the hydrocarbon potential of this Block.

Centric and Tullow are joint venture partners on the block. Tullow will earn a 50% participating interest and operatorship in Block 10BA by funding 80% of the first $30 million of expenditures under the Block 10BA Production Sharing Agreement.

An independent assessment of the prospective resources of Block 10BA has been prepared in accordance with National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities. This report calculates gross prospective resources for 25 Centric leads and prospects in the Block. The total of the prospective resources ranges from a low case (P90) of 955 million barrels of oil up to a high case (P10) of 4,379 million barrels of oil, with a best estimate (P50) of 2,188 million barrels of oil.

The Company holds a 25% interest in two exploration licenses in Mali where its costs are carried by Heritage Oil Corporation under the terms of a farmout agreement through the primary seismic program and the first exploration well. The area of the licenses totals approximately 73,000 square kilometers and is part of the Cretaceous-age Central Africa Rift Trend which contains significant oil accumulations in Chad, Sudan and Niger. The basin has been sparsely explored with only 600 kilometers of older vintage seismic data, the most recent shot in 1974, and one exploration well, drilled in 1976. A nearby water well had significant shows of oil and gas demonstrating an active petroleum system. The acquisition of at least 1,000 kilometers of new seismic data is planned for 2011.

Puntland (Somalia): Extension of the First Exploration Period and Red Emperor Farmout

Subsequent to December 31, 2010, AOC entered into amending agreements with the Government of Puntland, represented by the Puntland Petroleum and Mineral Agency, in respect of the production sharing agreements ("PSAs") for the Dharoor Valley Exploration Area and the Nugaal Valley Exploration Area. Under the PSAs, as amended, the First Exploration Agreement has been extended for a further 12 months, from January 17, 2011 to January 17, 2012.

Under the amended PSAs, AOC is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of AOC, in the Dharoor Valley Exploration Area, by September 27, 2011.

In conjunction with this amendment, the Company completed its farmout agreement with Red Emperor Resources NL ("Red Emperor"). Under the terms of the farmout agreement and an election made by Red Emperor to increase their interests, Red Emperor will earn a 20% interest in both the Dharoor and Nugaal Valley Blocks and is committed to paying a disproportionate share of costs related to the one well drilling commitment included in the first exploration period of both the Dharoor and Nugaal Valley Production Sharing Agreements.

Kenya Block 9 – AOC Enters the First Additional Exploration Period

The Company, together with its joint venture partner Lion, has entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya. As a result of the withdrawal of its two other joint venture partners, AOC will now hold a 66.7% working interest in the PSC and has been approved by the government as Operator of Block 9. Lion will hold the remaining 33.3%. As a condition of entering the First Additional Exploration Phase, 25% of the original contract area will be relinquished. The First Additional Exploration Phase commenced on December 31, 2010 and will expire on December 31, 2013 with a one well work commitment (minimum depth 1,500 meters).

In addition to the gas prospectivity on the block (see discussion below in Operations Update section), the northwestern portion of the Block contains the Kaisut Basin which is an extension of the Anza Basin oil play currently being pursued by AOC and its joint venture partners in Block 10A. Several leads have been identified in this area on existing 2D seismic data and a 600 kilometer seismic survey is being planned for later this year aimed at upgrading these leads into drillable prospects.

Court Proceedings – Interstate Petroleum Ltd. ("IPL")

Kenyan court proceedings were brought by Interstate Petroleum Ltd. ("IPL") against the Permanent Secretary, Ministry for Energy. IPL was seeking a judicial review of the administrative process that led to the issuance of exploration permits in respect of, amongst others, Blocks 10BB, 10BA, 12A and 13T, which resulted in the Company being a named party to the proceedings. On December 16, 2010, these court proceedings were ruled to be without merit and were dismissed by the High Court in Kitale, Kenya. On December 27, 2010, a Notice of Appeal was filed by IPL with the court. On February 4, 2011 AOC and its Kenyan counsel filed an application to strike the Notice of Appeal and expects that a hearing in respect of that matter will be held in September 2011.

PROPOSED TRANSACTIONS

Acquisition of Lion Energy Corp.

On March 8, 2011, the Company entered into a letter of intent ("LOI") to acquire all of the issued and outstanding common shares of Lion Energy Corp. ("Lion"), a publicly traded oil and gas company listed on the TSX Venture Exchange. Under the letter of intent, the parties will negotiate and enter into a definitive agreement pursuant to which AOC will acquire Lion, by way of a plan of arrangement. As per the terms of the letter of intent, AOC is proposing to exchange each share of Lion for 0.2 shares of AOC. Lion currently has 86,118,177 common shares issued and outstanding, 2,580,000 share options with a weighted average exercise price of $0.16/share, and 11,445,000 warrants. It is proposed that each warrant will be exchanged into an equivalent number of warrants of Africa Oil, adjusted for 0.2:1 ratio noted above.

Lion is a joint venture partner of AOC in Kenya and Puntland (Somalia), and currently holds the following working interests; 33.3% in Block 9 (Kenya), 10% in Block 10BB (Kenya), and 15% in each of Dharoor Valley and Nugaal Valley (Puntland). In addition to the above properties, Lion estimated that it had cash, cash receivables and tradable securities with an approximate aggregate value of $30 million at the date of signing the LOI.

Assuming satisfactory completion of due diligence, it is anticipated that the definitive arrangement agreement will be entered into before the end of March 2011. The definitive agreement will provide for conditions precedent that are standard for a transaction of this nature, including receipt of all regulatory, partner and third party approvals, TSX Venture Exchange approval and approval by Lion's shareholders. Lockup agreements have been signed with Lion's directors and certain of its principal shareholders who hold, in aggregate, 29.23% of the issued and outstanding Lion shares.

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	December 31, 2010 Net Working Interest % (1)	Current Net Working Interest % (3)	Net Working Interest % (net of proposed transactions) (4)
Puntland, Somalia	Dharoor Valley	65%	45%	60%
Puntland, Somalia	Nugaal Valley (2)	65%	45%	60%
Kenya	Block 10A	55%	30%	30%
Kenya	Block 9	20.0%	66.7%	100.0%
Kenya	Block 10BB	80%	40%	50%
Kenya	Block 12A	100%	50%	50%
Kenya	Block 13T	100%	50%	50%
Kenya	Block 10BA	0%	50%	50%
Ethiopia	Blocks 2/6	55%	55%	55%
Ethiopia	Blocks 7/8	55%	55%	55%
Ethiopia	Adigala	50%	50%	50%
Ethiopia	South Omo	30%	30%	30%
Mali	Block 7	0%	25%	25%
Mali	Block 11	0%	25%	25%

Footnotes:
[1] 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.
[2] Nugaal Valley net working interest is subject to AOC fulfilling its sole funding obligation during the exploration period (see Commitments and Contingencies section below).
[3] Current Net Working Interests takes into effect farmount and amending farmout agreements which closed between December 31, 2010 and the effective date of this MD&A (Tullow farmout, Lion amending agreement and Red Emperor farmout).
[4] Net Working Interests upon close of proposed acquisition of Lion Energy Corp. ("Lion") (see "Proposed Transactions").

STRATEGIC DEVELOPMENTS

Puntland (Somalia) PSAs

During the first quarter of 2007, AOC entered into PSAs and Joint Venture Agreements acquiring an 80% interest in licenses covering an area of 81,000 square kilometers (gross) in the two highly prospective Dharoor Valley and Nugaal Valley Blocks in the state of Puntland in northern Somalia. These blocks are considered world-class exploration plays with a petroleum system identical to and formerly contiguous with those within the Republic of Yemen.

The Company has amended the terms of the Puntland PSCs on two occasions (December 2009 and January 2011) in order to extend the initial exploration period. These amendments have extended the initial exploration expiry date to January 17, 2012.

In consideration for the first one year extension of the exploration period, AOC agreed to voluntarily relinquish twenty-five percent of the original agreement area on or before January 17, 2010 and agreed to pay a $1 million bonus within 30 days of a commercial discovery in each of the production blocks. AOC also agreed to certain enhanced abandonment and environmental safety measures and made a $1.05 million payment to the Puntland government for development of infrastructure. In addition, the terms of the exploration programs have been amended so that AOC may, at its option, drill one exploratory well in each of the Nugaal and Dharoor Valley Exploration Areas, or two exploratory wells in the Dharoor Valley.

In consideration for the second one year extension, AOC agreed to voluntarily relinquish an additional twenty-five percent of the original agreement area on or before February 28, 2011 and agreed to pay $0.5 million to the Puntland government for development of infrastructure. AOC also agreed to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011, and a second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of AOC, in the Dharoor Valley Exploration Area, by September 27, 2011.

Acquisition from Lundin Petroleum AB

During the second quarter of 2009, the Company acquired a large portfolio of East African oil exploration projects from Lundin Petroleum AB ("LPAB"). The projects are located within a vastly underexplored region of the East African rift basin petroleum system. The projects acquired included an 85% working interest in Blocks 2, 6, 7 and 8 and a 50% working interest in the Adigala Block in Ethiopia plus a 100% interest in Block 10A and a 30% interest in Block 9 in Kenya. AOC assumed operatorship of these projects, excluding Block 9 in Kenya. Pursuant to the Share Purchase Agreement ("SPA"), AOC paid as consideration to LPAB approximately $24.0 million which was funded through a convertible loan from LPAB maturing December 31, 2011, at an interest rate of six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, will be convertible, on the maturity date, at the option of either AOC or LPAB, into shares of AOC on the basis of CAD$0.90 per common share.

On March 3, 2011, the Company amended the terms of its outstanding $23.8 million convertible loan with LPAB to permit early conversion of the loan, or a portion of the loan, to shares of the Company. The Company and LPAB mutually agreed to convert $13.0 million of the convertible loan into 14 million shares of the Company.

2009 Equity Financing and Shareholder Loan Conversion

Concurrent with the SPA, AOC completed a non-brokered, private placement consisting of an aggregate of 37.4 million Units of the Company at a price of CAD$0.95 per Unit for net proceeds of approximately CAD$33.8 million (USD$27.3 million). Each Unit was comprised of one common share and one share purchase warrant. Each warrant was exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. The terms of the warrants included an accelerated expiry provision which was exercised by the Company in November 2010. The revised expiry for the warrants was December 23, 2010.

On May 12, 2009, the Company's outstanding CAD$6.0 million loans (plus accrued interest) from a shareholder of the Company were converted to approximately 6.5 million Units of the Company on the basis of CAD$0.95 per Unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years.

The originating loans were issued during 2008 in two tranches, CAD$4.0 million and CAD$2.0 million, with an interest rate of prime plus 2%. As consideration for the loans, the lender received bonus consideration of 188,679 and 106,952 common shares respectively of the Company.

Turkana Energy Inc. Acquisition

During the third quarter of 2009, the Company completed the acquisition of Turkana Energy Inc. ("Turkana"). Turkana's principal asset was a 100% interest in Block 10BB, a highly prospective oil exploration block in northwest Kenya. The block is within the Tertiary rift trend of East Africa which has recently yielded major oil discoveries. Block 10BB is located immediately west of the Company's holdings in the East African Anza rift basin petroleum system.

The shares of Turkana were acquired in consideration for 7.5 million common shares of AOC. In addition, Turkana's previously outstanding convertible loans of CAD$1.0 million were exchanged for 787,400 common shares of AOC.

Farmouts

During 2009, the Company executed a farmout agreement with Black Marlin Energy Limited's East Africa Exploration Limited ("EAX") for their entry into the production sharing contracts in both Ethiopia and Kenya.

In Ethiopia, the Company transferred a 30 percent license interest to EAX in the Block 2/6 and 7/8 Production Sharing Agreements ("PSA") located in the Ogaden Basin of Southern Ethiopia. In Kenya, the Company transferred a 20 percent license interest to EAX in the Block 10A Production Sharing Contract ("PSC") located in the Anza Basin of northern Kenya. As consideration for past costs incurred by the Company, EAX has paid the Company $1,700,000.

During 2009, the Company executed a farmout agreement with Lion Energy Corp. (formerly named Raytec Metals Corp.) for their entry into the production sharing contracts in the State of Puntland, Somalia and the Republic of Kenya.

In Puntland, the Company agreed to transfer a 15 percent license interest to Lion in the Nugaal and Dharoor PSAs. In Kenya, the Company agreed to transfer a 10 percent interest in the Block 9 PSA, a 20 percent interest in the Block 10BB PSC and a 25 percent license interest in the Block 10A PSC.

In both areas, Lion agreed to pay a disproportionate share of costs associated with the exploration work programs to be carried out in 2009 and 2010. Partner and government approvals of this farmout were received during the fourth quarter of 2009. TSX Venture exchange approval was obtained in March, 2010.

Please note the amendments to the Lion farmout agreement, and the completion of the Tullow and Red Emperor farmout agreements described above in the Major Recent Developments section of the MD&A.

2010 Equity Financings

During July 2010, the Company completed a CAD$25 million private placement, comprising 25 million common shares, issued at CAD$1.00 per share. A 5% finder's fee was paid on a portion of the private placement.

Exercise of Warrants

In accordance with agreements entered into with warrant holders, the Company has elected to exercise its rights to accelerate the expiry date of certain of its outstanding warrants to purchase common shares of AOC.

On November 22, 2010, the Company gave notice to the holders of the remaining warrants granted in April 2009 accelerating the expiry date of those warrants to December 23, 2010. Of the 37,421,018 warrants granted in April 2009, 37,220,365 were exercised in 2010 and 161,653 expired unexercised in 2010. On the exercise of warrants, the Company issued 37,220,365 common shares, realizing net proceeds of $55.2 million. The Company extended the expiry 39,500 warrants to March 23, 2011 as it had difficulty notifying these warrant holders. Subsequent to year end 30,000 of these warrants were exercised prior to March 23, 2011 and the remaining 9,500 warrants expired unexercised.

The Company also had 1,500,000 common share purchase warrants outstanding that were issued on September 9, 2010 (the "Additional Warrants"). On November 22, 2010, the Company gave notice to the holder of the Additional Warrants accelerating the expiry date of those warrants to May 22, 2011. At December 31, 2010, none of these warrants were exercised.

Study Block Definitive Agreement

In December 2010, AOC signed a definitive agreement with the Government of Ethiopia to jointly study the Rift Valley Block. The Block is located north of the Company's South Omo Block and encompasses the remainder of the Tertiary age East Africa Rift Trend in Ethiopia. The Company has committed to carry out an airborne geophysical survey over the Block, which spans 42,519 square kilometers (gross). The Joint Study Agreement has an 18 month term, following which AOC will have the exclusive right to enter into negotiations for a production sharing agreement for all or part of the Rift Valley Block.

OPERATIONS UPDATE

The Company anticipates that 2011 will be a pivotal year in its progression with three exploration wells planned to spud during the year, over 4,000km (gross) of two dimensional seismic ("2D seismic") to be acquired and an extensive Full Tensor Gravity ("FTG") program planned to aid in assessing the overall prospectivity of the Tertiary and Cretaceous Rifts. The Company's Board of Directors has approved a $43 million (net) capital budget ($163 million gross exploration expenditures).

Tertiary Rift

In Block 10BB, Kenya, the Company has completed the recording and processing of 610km of 2D seismic. The Company has reprocessed all available vintage seismic data sharpening the imaging and the amplitude response for use in detecting direct hydrocarbon indicators. A surface geochemical survey was completed during the third quarter of 2010, modules were analyzed in order to detect oil and gas seepage from identified prospects and leads on the Block. Tullow has taken over operatorship and are currently in the process of undertaking Full Tensor Gravity ("FTG") surveys and finalizing the prospect and lead inventory. FTG is an airborne, high resolution gravity mapping tool which has been successfully utilized in the Lake Albert area of Uganda by Tullow, where gross discovered resources are over 2 billion barrels of oil. This technology will be utilized to provide basement image faulting, reduce uncertainty surrounding the structural configuration and to delineate structures to narrow the focus for subsequent 2D seismic surveys. Environmental impact assessments have been completed on Block 10BB over four potential drill sites and Government permits have been issued. Exploratory drilling is expected to commence in the third quarter of 2011.

FTG will be undertaken on the remainder of the Tertiary Rift blocks (South Omo (Ethiopia), Blocks 10BA, 12A, 13T (Kenya)), all of which will be operated by Tullow. 2D seismic operations are planned to commence during Q2 2011 and continue through the year on all of these blocks. The 2D seismic acquisition programs on these blocks are planned as follows on a gross basis; 1,000km on the South Omo Block, 1,300km on Block 10BA, and 500km on each of Blocks 12A and 13T.

The Company has initiated a block-wide airborne high resolution gravity and magnetic survey on the Rift Valley Block in Ethiopia. In addition, the Company has utilized a specialized satellite imagery technique to observe natural oil seepage on several of the rift valley lakes within the new block. A team has been mobilized in early March to ground truth and sample the oil slicks.

Cretaceous Rift
In Block 10A, Kenya, the Company expects to be completed recording approximately 850km (gross) of 2D seismic by the end of March 2011. Seismic data acquired is currently being processed. The Company has reprocessed all available vintage seismic data with the objective of improving the imaging of the data acquired in the late 1980s. New play concepts are being developed based on the reprocessed data in combination with vintage drilling data. Tullow has taken over operatorship of this block and exploratory drilling is expected to commence in the fourth quarter of 2011.

In Block 9, Kenya, the CNOOC-operated Bogal-1 exploration well was spud on October 28, 2009. The well reached a total depth of 5,085 meters. Gas shows and petrophysical analysis of wireline logs indicated multiple gas pay zones totaling approximately 91 meters in Lower Cretaceous sandstones. Preliminary testing on two potential gas pay zones has been completed, with only minimal flow of gas from each zone. Analysis of the test results indicated that neither test was in communication with the extensive fracture network proven by the abundant fluid losses during drilling and the Formation Micro Imaging (FMI) log. The well was plugged pending further analysis of the test results to determine the feasibility of an additional testing program. The Company plans to investigate gas commercialization alternatives in East Africa, in anticipation of performing extended well tests on the potentially significant gas discovery that resulted from drilling the Bogal 1-1 well in 2010.

Exploration activities in Block 9 in 2011 are focused on a planned 600km (gross) 2D seismic survey focused on the oil prone Kaisut sub-basin.

Jurassic Rift
During 2009, in the Dharoor Block of Puntland, Somalia, the acquisition of 782 kilometers of good quality 2D seismic (comprised of 15 grid lines) was completed. The Company has combined 555 kilometers of previously acquired data into the seismic database which has been mapped to determine exploration well locations. Exploration activities in Puntland are focused on drilling the first exploration well in Somalia in over 20 years. The Company plans to spud the first well in the Dharoor Block during the third quarter of 2011. Activities are currently focused on the identification and contracting of drilling and drilling support contractors willing to operate in Puntland on commercially acceptable terms. A second well in the Dharoor Block is planned to commence following completion of the first exploration well.

In the Nugaal Block in Puntland, Somalia, AOC acquired more than 4,000 kilometers of existing good quality 2D data which was recorded in the late 1980's. This has enabled the Company to work up an inventory of drilling prospects from which the first exploration well locations will be selected.

Permian-Triassic
The Company completed its seismic acquisition program in the Company's Ogaden area of Ethiopia, acquiring 500 km of 2D seismic. The new data has been integrated with existing seismic to generate a series of new prospect maps. The Company continues to focus efforts on the large El Kuran prospect in the Blocks 7/8 license. The feature was de-risked in 1972 with two wells drilled by Tenneco; both wells recovered small amounts of light oil from Jurassic fractured carbonate reservoirs near 5000 feet. The Company plans to drill one well on the El Kuran prospect in early 2012 in an attempt to establish commercial oil reserves. The Company holds 55% interest in both Blocks 2/6 and 7/8 licenses.

In Ethiopia, in the Adigala Block, the Company has completed interpretation of the 500 km of 2D seismic that was acquired during 2009. Additional geological and geophysical work is being contemplated, potentially including basin modeling, field geology and additional seismic data acquisition. Earlier completed surface geology and sampling has documented the presence of excellent quality source and reservoir along the basin margin. The Company holds a 50% working interest in this Block.

Cretaceous – Central Africa Rift Trend (Blocks 7 and 11 (Mali))
AOC completed the acquisition of Centric Energy Corp. subsequent to year end, obtaining a 25% interest in Block 7 and 11, which are operated by Heritage Oil Corporation ("Heritage"). Heritage has entered into an agreement with a 2D seismic subcontractor, and is currently in the process of acquiring reconnaissance seismic. The Company's share of seismic expenditures and the drilling of one exploration well will be carried by Heritage.

SELECTED ANNUAL INFORMATION

	Year ended December 31 2010	Year ended December 31 2009	Year ended December 31 2008
Statement of Operations Data			
Interest income	86,538	39,518	77,921
Net (loss) earnings	(3,970,826)	(1,358,400)	(3,662,005)
Data per Common Share			
Basic and diluted (loss) earnings per share ($/share)	(0.05)	(0.03)	(0.21)
Balance Sheet Data			
Net w orking capital	70,459,817	12,901,796	(9,712,788)
Total assets	177,638,670	94,708,403	35,211,634
Long term liabilities	-	1,326,630	-

The increase in net working capital from 2008 to 2009 is a direct result of the non-brokered private placement in April 2009 which raised CAD$35.5 million. The increase in net working capital from 2009 to 2010 is indicative of the significant amount of equity financing obtained by the company via the July 2010 non-brokered private placement raising CAD$25 million (gross) and the exercise of warrants which raised CAD$55.8 million (gross).

The increase in total assets from 2008 to 2009 is indicative of the major acquisitions that took place during 2009, where the Company diversified its interest in East African exploration by adding Kenyan and Ethiopian concessions to its existing Puntland (Somalia) concessions. The increase in total assets from 2009 to 2010 is attributable to the equity financings, expansion of acreage in East Africa (Blocks 12A and 13T (Kenya) and South Omo (Ethiopia)), drilling of Bogal-1 in Block 9, and the seismic acquisition programs on Block 10BB in Kenya and the Ogaden blocks in Ethiopia.

As the Company is in the exploration stage, no oil and gas revenue has been generated to date. Accordingly, the only income reported is interest income on its cash deposits and foreign exchange gains on Canadian dollar cash on hand.

SELECTED QUARTERLY INFORMATION

Three months ended	31-Dec 2010	30-Sep 2010	30-Jun 2010	31-Mar 2010	31-Dec 2009	30-Sep 2009	30-Jun 2009	31-Mar 2009
Interest Income ($'000)	54	24	4	5	13	18	7	2
Net loss (earnings) ($'000)	614	924	1,431	1,003	738	80	(15)	555
Loss before foreign exchange	2,204	1,364	1,325	1,067	1,298	1,401	1,333	652
Weighted average shares - Basic ('000)	108,243	91,366	70,520	70,205	68,404	68,404	47,752	17,975
Weighted average shares - Diluted ('000)	108,243	91,366	70,520	70,205	68,451	68,404	48,123	17,975
Basic and diluted earnings (loss) per share ($)	(0.01)	(0.01)	(0.02)	(0.01)	0.01	-	-	0.03
Oil and Gas Interest Expenditures ($'000)	2,553	12,629	1,431	2,902	4,316	8,980	27,472	395

As the Company is in the exploration stage, no oil and gas revenue has been generated to date. Accordingly, the only income reported is interest income on its cash deposits and in some periods foreign exchange gains mainly the result of holding Canadian dollar deposits.

Net loss prior to foreign exchange gains and losses was relatively consistent from the second quarter of 2009 through to the third quarter of 2010. The net loss before foreign exchange impacts increased from $1.4 million for the three months ended September 30, 2010 to $2.2 million for the three months ended December 31, 2010. The increase from the previous quarter can be attributed to increased compensation costs in the fourth quarter of 2010 as well as an increase in listing fees associated with our listing on the NASDAQ OMX Stock Exchange in Sweden. The $1.6 million foreign exchange gain in the fourth quarter of 2010 is the result of holding Canadian dollars raised through the non-brokered private placement (CAD $25 million gross proceeds) which closed during July 2010 and the warrant exercises in the fourth quarter of 2010 (CAD $55.8 million gross proceeds). During the last three quarters of 2009, the Company recorded foreign exchange gains associated with its holding of Canadian dollars which offset the general and administrative expenses of the Company. The Canadian dollar funds were raised through the non-brokered private placement which closed at the end of April, 2009. The Company does not hedge its foreign currency exchange exposure.

The Company continues to record net losses which are expected during the exploration phase.

RESULTS OF OPERATIONS

	Three months ended December 31, 2010	Three months ended December 31, 2009	Year ended December 31, 2010	Year ended December 31, 2009
Loss for the period	613,534	737,794	3,970,826	1,358,400
Exchange gain	1,590,008	559,784	1,988,551	3,325,758
Loss before foreign exchange	2,203,542	1,297,578	5,959,377	4,684,158

Before foreign exchange gains, the Company incurred a $2.2 million loss and $6.0 million loss for the three months ended and year ended December 31, 2010, respectively, compared to a loss of $1.3 million and a loss of $4.7 million, respectively, during the same period in 2009. The increase on a three month basis can be attributed mainly to increased compensation costs as well as an increase in listing fees associated with listing on the NASDAQ OMX. The increase on a yearly basis can be attributed to increased listing fees combined with increased salary related costs, office costs, and travel associated with the Company's operational expansion.

Given the fact that the Company is currently a non-revenue generating international oil and gas company with interests in exploration stage oil properties, losses are expected to continue.

OIL AND GAS INTERESTS

	December 31, 2010	December 31, 2009
Oil and Gas Interests	$95,372,778	$75,750,771

During the year ended December 31, 2010, AOC increased its investment in oil and gas interests by $19.6 million of which $4.0 million related to the assignment of 100% interest in Blocks 12A and 13T in Kenya. Consideration of 2.5 million common shares and 1.5 million warrants of AOC were issued in exchange for the assignment of Block 12A and 13T. Consideration of $2.5 million was accrued at December 31, 2010 relating to the assignment of AOC's 80% interest in the South Omo Block in Ethiopia. In December of 2010, the Tullow farmout with respect to the South Omo Block closed, and AOC received a $1.35 million payment as consideration for past costs incurred, reducing oil and gas interests. In Block 9 (Kenya), the Company incurred $3.2 million relating to the completion of drilling and testing of the Bogal 1 well. In Block 10BB (Kenya), AOC incurred $5.8 million of expenditures relating to the seismic acquisition program. In Block 10A (Kenya), AOC incurred $1.1 million of expenditures relating to the seismic acquisition program which began late in 2010. In the Ogaden area of Ethiopia, the Company incurred $3.7 million in expenditures relating to seismic acquisition programs. The remaining expenditures relate to geological and geophysical programs in the Company's other areas of operation, required PSC related expenditures, and general and administrative costs. These costs will not be subject to depletion until such time that proved oil and gas reserves are identified.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had cash of $76.1 million and working capital of $70.5 million as compared to cash of $11.1 million and working capital of $12.9 million at December 31, 2009. The Company's liquidity and capital resource position has been dramatically enhanced with the CAD$25 million (gross) proceeds from the non-brokered private placement in July 2010 and the CAD$55.8 million (gross) proceeds from warrants exercised in the fourth quarter of 2010.

The Company's liquidity has been further enhanced upon closing of the remaining Tullow and Red Emperor farmout agreements which occurred subsequent to year end.

The Company currently has more than sufficient funds to meet its portion of expenditure obligations as per the approved 2011 work programs which includes the following: completion of seismic acquisition on Block 10A (Kenya); seismic acquisition and full tensor gravity on Blocks 10BA (Kenya), 12A (Kenya), 13T (Kenya), and the South Omo Block (Ethiopia); additional seismic acquisition on Block 9 (Kenya); and three exploratory wells, one on each of Blocks 10BB and 10A in Kenya and one in Puntland (Somalia). The Company's current working capital position may not provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods under the various PSAs and PSCs and for general corporate purposes. 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 arrangements. The Company is actively marketing the opportunity for interested parties to farm in to its operated oil and gas concessions in East Africa. 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 and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the year ended December 31, 2010 was $0.9 million as compared to $1.1 million for the same period in 2009. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

RELATED PARTY TRANSACTIONS

During May 2009, the Company's loans payable due to Lorito Holdings (Guernsey) Limited ("Lorito") in the amount of CAD$6,000,000 plus accrued interest of $195,521 was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. In the event that AOC trades at or above CAD$2.00 for a period of 20 consecutive days, the Company has the option to accelerate the expiry date. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin.

During the year ended December 31, 2010, the Company incurred costs of $0.2 million (December 31, 2009 - $0.2 million) for administrative support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by Lukas H. Lundin.

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 and reflect the following changes from commitments and contingencies as reported in the notes to the consolidated financial statements as at December 31, 2010; Tullow farmout, amended Lion farmout, and the Red Emperor farmout.

Puntland (Somalia)

The Company has amended the terms of the Puntland PSCs on two occasions (December 2009 and January 2011) in order to extend the initial exploration period. These amendments have extended the initial exploration expiry date to January 17, 2012. Under the amended PSCs, AOC is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of AOC, in the Dharoor Valley Exploration Area, by September 27, 2011.

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor and Nugaal Valley Exploration Blocks, the Company is 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 exploration period, in exchange for a 80% working interest in each block. In the event that a commercial discovery is declared on a block prior to AOC spending $22.8 million, AOC shall be deemed to have earned its interest in the block and the Company and Range will be responsible for future expenditures on the block in proportion to their respective working interests. In the event that AOC does not fund the required $22.8 million during the initial exploration periods, the Company's interest in the block would be forfeited. An additional $3.5 million will be payable to Range upon commencement of commercial production.

During the fourth quarter of 2008, the Company fulfilled its sole funding obligation related to the Dharoor Valley Block. As a result, Range is paying its 20% participating interest share of ongoing exploration costs related to this Block. In the Nugaal Valley Block, the Company has spent approximately $8.4 million towards sole funding obligation as of December 31, 2010.

Ethiopia

During March 2010, the Ethiopian government agreed to a one year extension of the first exploration period for the Blocks 7/8 and Blocks 2/6 PSAs. The extension granted by the Ethiopian government extends the initial exploration period for Blocks 7/8 to July 2012 and Blocks 2/6 to November 2011.

Under the terms of the Blocks 7/8 PSA, during the initial exploration period, the Company and its partners are obligated to complete certain geological and geophysical (G&G) operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum expenditure of $11.0 million gross ($4.0 million net). In addition, AOC and its partners are required to drill one exploration well with a minimum expenditure of $6.0 million gross ($3.3 million net).

Under the terms of the Blocks 2/6 PSA, during the initial exploration period, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum expenditure of $10.8 million gross ($4.0 million net). This commitment is supported by an outstanding bank guarantee of $3.5 million in favor of the Ethiopian Government. As security for the bank guarantee, the bank has been provided with a parent company guarantee from Africa Oil Corp.

Under the terms of the Adigala Block PSA, AOC and its partners have fulfilled the minimum work and financial obligations of the initial 4 year exploration period which expires in July 2011.

Under the terms of the South Omo PSA, during the initial exploration period which expires in January 2012, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum expenditure of $6.0 million gross ($3.0 million net). Additionally, AOC and its partners are required to drill one exploration well with a minimum expenditure of $8.0 million ($2.4 million net). The Company's obligation under the minimum expenditures is subject to Tullow paying AOC's interest in expenditures up to a maximum of $23.75 million combined on Block 10A, 10BB and the South Omo Block. This commitment is supported by an outstanding letter of credit of $294,000 in favor of Tullow Oil plc, which is collateralized by a bank deposit of $294,000.

Kenya

The initial Block 10A four year exploration period expires in January 2012. Under the terms of the Block 10A PSC, the Company and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum expenditure of $7.8 million ($1.6 million net). Additionally, AOC and its partners are required to drill one exploration well with a minimum expenditure of $8.5 million ($2.6 million net). The Company's obligation under the minimum expenditures is subject to Tullow paying AOC's interest in expenditures up to a maximum of $23.75 million combined on Block 10A, 10BB and the South Omo Block. This commitment is supported by an outstanding bank guarantee of $2.4 million in favor of the Kenyan Government. As security for the bank guarantee, the bank has been provided with a parent company guarantee from Africa Oil Corp.

The initial Block 10BB exploration period expires in January 2012. In accordance with the terms of the Block 10BB PSC, the Company and its partners are obligated to complete G&G operations (including acquisition of 600 kilometers of 2D seismic) with a minimum expenditure of $6.0 million gross ($2.4 million net). In addition, the Company is required to drill one exploration well with a minimum expenditure of $6.0 million ($2.4 million net). The Company's obligation under the minimum expenditures is subject to Tullow paying AOC's interest in expenditures up to a maximum of $23.75 million combined on Block 10A, 10BB and the South Omo Block. This commitment is supported by an outstanding letter of credit for $1.8 million in favor of the Kenyan Government, which is collateralized by a bank deposit of $1.8 million.

Under the terms of the Block 9 PSA, with the drilling of the Bogal-1-1 well, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period. On December 31, 2010, the Company entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC is required to drill one additional exploratory well to a minimum depth of 1,500 meters per well with a minimum expenditure of $2.5 million ($1.7 million net).

The initial Block 12A and 13T exploration periods expire in December 2011. In accordance with the terms of the Block 12A and 13T PSCs, the initial minimum exploration expenditures are $3.65 million ($1.8 million net) and $3.6 million ($1.8 million net), respectively. The Company is obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof) on each block.

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	182,691,609
Outstanding share purchase options	6,573,335
Outstanding share purchase warrants	8,021,601
Assumed conversion of convertible debenture	11,847,157
Full dilution impact on common shares outstanding	209,133,702

*see Proposed Transactions section of the MD&A for potential changes to the number of fully diluted common shares outstanding.

Subsequent to year end, the Company issued 30,155,524 common shares of AOC as consideration for the acquisition of Centric. AOC issued 2,500,000 common shares of AOC as required by the amendment to the farmout agreement with Lion. The Company issued 14.0 million shares of AOC with respect to conversion of $13.0 million of the $23.8 million convertible debenture. AOC also granted an aggregate of 2,790,000 incentive stock options to certain officers, directors, and other eligible persons of the Company.

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 Canadian GAAP. 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' significant accounting policies can be found in note 2 of the Company's Financial Statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP 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 full cost accounting, stock-based compensation, and income taxes.

Property, Plant and Equipment ("PP&E")
The Company capitalizes costs related to crude oil and gas properties in accordance with the full cost method, whereby all costs associated with the acquisition of, exploration for and the development of crude oil and natural gas, including directly attributable general and administrative and financings costs are capitalized and accumulated within cost centers on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity, drilling and testing of productive and non-productive wells, carrying costs directly related to unproved properties, major development projects, administrative and financing costs directly related to exploration and development activities.

Depletion on crude oil and gas properties is anticipated to be provided over the life of proved and probable reserves (assuming such reserves are established) on a unit of production basis and commences when the facilities are substantially complete and after commercial production has begun. Other PP&E assets are depreciated on a straight-line basis over their useful lives.

PP&E assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated future cash flows. If an impairment is identified the assets are written down to the estimated fair market value. The calculation of these future cash flows are dependent on a number of estimates, which include reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. As a result, future cash flows are subject to significant Management judgment.

Stock Based Compensation
The Company uses fair value accounting for stock-based compensation. Under this method, all equity instruments awarded to employees and the cost of the service received as considerations are measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the vesting period of the equity instrument awarded.

Income Tax
The Company follows the liability 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

On January 1, 2010, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

a) The CICA issued Handbook Section 1582 Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2010. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of this standard did not impact the accounting treatment of business combinations as none were completed in the year.

b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on the Company's Financial Statements.

c) "Non-controlling Interests", Section 1602, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on the Company's Financial Statements.

International Financial Reporting Standards

Effective January 1, 2011, the Company will be required to report its Consolidated Financial Statements in accordance with IFRS, including 2010 comparative information. The Company is in the final stages of its changeover plan to complete the transition to IFRS, including the preparation of 2010 required comparative information. AOC expects IFRS will not have a major impact on the Company's operations, strategic decisions and cash flows. The adoption of the IFRS accounting principles is expected to have a significant impact on accounting with respect to oil and gas interests, warrants and convertible debentures.

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 ("East Africa"). Oil and gas exploration, development and production activities in these emerging markets, including East Africa, are subject to significant political and economic uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, 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 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 acquires 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.

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 AOC's interest in the concession. Any uncertainty with respect to one or more of AOC’s concession interests could have a material adverse effect on the Company’s business, prospects and results of operations.

The Company has been made aware that previous operators in Somalia have made claims concerning areas covered by the Company's concessions. The Company believes that there is no merit to any of these claims. Accordingly, the Company proposes to proceed with its exploration and development program as previously disclosed.

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 prospects.

Risks Inherent in Oil and Gas Exploration and Development
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.

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. AOC had no forward exchange contracts in place as at or during the year ended December 31, 2010.

For the year ended December 31, 2010, a 5% increase or decrease in the value of the Canadian dollar in relation the US dollar, which is the Company’s functional currency, would have resulted in an approximately $800,000 increase or decrease in foreign exchange gains, respectively.

Interest rate risk
The Company’s outstanding convertible debenture will incur interest charges at a rate of USD six-month LIBOR plus 3%. Fluctuations in the LIBOR lending rate impact the interest component of the convertible debenture. When assessing interest rate risk applicable to the Company’s convertible debenture, the Company believes 1% volatility is a reasonable measure. The effect of interest rates increasing or decreasing by 1% would have decreased or increased, respectively, the Company’s cash flows by approximately $240,000 with no impact to net income for the year ended December 31, 2010. Due to the nature of the convertible debenture and current market conditions, the Company

does not believe that entering into interest rate swaps or other risk management contracts is necessary to mitigate this risk.

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.

OUTLOOK

AOC and its partners have an aggressive exploration program planned for the next two years, which is anticipated to include seismic and drilling across all play types and geographic areas of operation. The Company enters 2011 in an extremely strong financial position with working capital in excess of $70 million. Additional financing is not required at this time to meet current operational plans.

New discoveries have been announced on all sides of the Company's virtually unexplored land position including the major Tullow Oil plc 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 the AOC's project areas.

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" 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.

PRICEWATERHOUSECOOPERS

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Independent Auditor's Report

To the Shareholders
of Africa Oil Corp.

We have audited the accompanying financial statements of Africa Oil Corp. which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of operations, comprehensive loss and deficit, shareholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 29, 2011
Calgary, Alberta

AFRICA OIL CORP.

Consolidated Balance Sheets
(Expressed in United States dollars)

		December 31, 2010		December 31, 2009
ASSETS				
Current assets				
Cash	$	76,125,834	$	11,145,486
Accounts receivable		2,323,208		5,396,253
Prepaid expenses		595,729		508,344
		79,044,771		17,050,083
Long-term assets				
Restricted cash (note 6)		3,181,500		1,800,000
Other property and equipment (note 8)		39,621		107,549
Oil and gas interest (note 8)		95,372,778		75,750,771
		98,593,899		77,658,320
Total assets	$	177,638,670	$	94,708,403
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	7,059,507	$	3,244,871
Current portion of convertible debenture (note 9)		1,525,447		903,416
		8,584,954		4,148,287
Long-term liabilities				
Convertible debenture (note 9)		-		1,326,630
		-		1,326,630
Total liabilities		8,584,954		5,474,917
Shareholders' equity				
Share capital (note 10(b))		154,820,376		62,712,759
Warrants (note 10(c))		2,598,531		11,862,296
Equity portion of convertible debenture (note 9)		21,578,986		21,578,986
Contributed surplus		4,260,957		3,313,753
Deficit		(14,021,868)		(10,051,042)
Accumulated comprehensive income		(183,266)		(183,266)
Total shareholders' equity		169,053,716		89,233,486
Total liabilities and shareholders' equity	$	177,638,670	$	94,708,403

Commitments and contingencies (note 14)
Subsequent events (note 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"CAMERON BAILEY" *"KEITH HILL"*

CAMERON BAILEY, DIRECTOR **KEITH HILL, DIRECTOR**

AFRICA OIL CORP.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in United States dollars)

For the years ended		December 31, 2010		December 31, 2009
Expenses				
Salaries and benefits	$	1,369,025	$	807,376
Stock-based compensation (note 10(d))		933,144		1,149,641
Interest and bank charges		122,697		175,534
Travel		714,179		302,845
Management fees (note 16)		228,542		204,499
Office and general		1,078,274		861,080
Depreciation (note 8)		76,813		50,165
Professional fees		1,094,765		1,119,532
Stock exchange and filing fees		428,476		53,004
		6,045,915		4,723,676
Other (income) expenses				
Interest and other income		(86,538)		(39,518)
Foreign exchange gain		(1,988,551)		(3,325,758)
Loss and comprehensive loss for the year		(3,970,826)		(1,358,400)
Deficit, beginning of year		(10,051,042)		(8,692,642)
Deficit, end of year	$	(14,021,868)	$	(10,051,042)
Basic and diluted loss per share	$	(0.05)	$	(0.03)
Weighted average number of shares outstanding for the purpose of calculating loss per share				
Basic		85,164,170		44,895,322
Diluted		85,164,170		44,895,322

See accompanying notes to consolidated financial statements.

AFRICA OIL CORP.

Consolidated Statement of Shareholders' Equity
(Expressed in United States dollars)

		December 31, 2010		December 31, 2009
Share capital:				
Balance, beginning of year	$	62,712,759	$	31,586,737
Private placement, net (note 10(b))		23,176,474		17,230,449
Exercise of warrants (note 10(b))		65,171,510		-
Conversion of shareholder loan (note 10(b))		-		3,765,196
Turkana Acqusition (note 10(b))		-		10,130,377
Assignment of Blocks 12A and 13T in Kenya (note 10(b))		3,243,470		-
Farmout agreement finder's fees (note 10(b))		422,588		-
Exercise of options (note 10(b))		93,575		-
Balance, end of year		154,820,376		62,712,759
Warrants:				
Balance, beginning of year	$	11,862,296	$	-
Expiration of warrants (note 10(c))		(43,795)		-
Exercise of warrants (note 10(c))		(10,024,349)		-
Private placement, net (note 10(c))		-		10,078,390
Converted loans payable (note 10(c))		-		1,783,513
Turkana Acqusition (note 10(c))		-		393
Assignment of Blocks 12A and 13T in Kenya (note 10(c))		804,379		-
Balance, end of year		2,598,531		11,862,296
Equity portion of convertible debenture:				
Balance, beginning of year	$	21,578,986	$	-
Convertible debenture issuance (note 9)		-		21,578,986
Balance, end of year		21,578,986		21,578,986
Contributed surplus:				
Balance, beginning of year	$	3,313,753	$	2,164,112
Expiration of warrants (note 10(c))		43,795		-
Stock based compensation (note 10(d))		933,144		1,149,641
Exercise of options (note 10(d))		(29,735)		-
Balance, end of year		4,260,957		3,313,753
Deficit:				
Balance, beginning of year	$	(10,051,042)	$	(8,692,642)
Loss for the period		(3,970,826)		(1,358,400)
Balance, end of year		(14,021,868)		(10,051,042)
Accumulated other comprehensive income:				
Balance, beginning of year	$	(183,266)	$	(183,266)
Other comprehensive income		-		-
Balance, end of year		(183,266)		(183,266)
Shareholders' equity	$	169,053,716	$	89,233,486

See accompanying notes to consolidated financial statements.

AFRICA OIL CORP.

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

For the years ended		December 31, 2010		December 31, 2009
Cash flows provided by (used in):				
Operations:				
Loss for the year	$	(3,970,826)	$	(1,358,400)
Item not affecting cash:				
Stock-based compensation (note 10(d))		933,144	$	1,149,641
Depreciation (note 8)		76,813	$	50,165
Unrealized foreign exchange gain		(1,968,176)	$	483,766
Changes in non-cash operating working capital:				
Accounts receivable and prepaid expenses		6,103	$	259,646
Accounts payable and accrued liabilities		390,822	$	(651,308)
		(4,532,120)		(66,490)
Investing:				
Investment in property and equipment		(8,885)		(157,714)
Investment in oil and gas interests (net)		(15,424,461)		(7,910,460)
Acquisition costs capitalized to oil and gas interests		-		(774,676)
Changes in non-cash investing working capital:				
Accounts receivable and prepaid expenses		2,979,557		(5,793,662)
Accounts payable and accrued liabilities		4,579,401		(2,337,166)
		(7,874,388)		(16,973,678)
Financing:				
Common shares and warrants issued, net of issuance costs (note 10(b))		78,387,475		27,308,839
Issuance of cash for bank guarantee		(1,381,500)		-
Repayment of liability portion of convertible debt		(854,296)		(163,000)
Changes in non-cash financing working capital:				
Accounts payable and accrued liabilities		(704,599)		803,452
		75,447,080		27,949,291
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		1,939,776		(16,961)
Increase (decrease) in cash and cash equivalents		64,980,348		10,892,162
Cash and cash equivalents, beginning of year	$	11,145,486	$	253,324
Cash and cash equivalents, end of year	$	76,125,834	$	11,145,486
Supplementary information:				
Interest paid	$	854,295	$	163,006
Taxes paid		Nil		Nil

See accompanying notes to consolidated financial statements.

1. Incorporation and Nature of Business:

Africa Oil Corp. (collectively with its subsidiaries, "AOC" or "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 interests in Kenya, Ethiopia, Puntland (Somalia) and Mali, focusing primarily on East Africa.

AOC is an exploration stage enterprise that participates in oil and gas projects located in emerging markets, including East 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, expropriation, 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 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. Significant Accounting Policies:

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared using careful judgment within the framework of the significant accounting policies summarized below:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

All intercompany transactions and balances have been eliminated.

(b) Basis of presentation:

The consolidated financial statements have been prepared on a going concern basis.

(c) Foreign currency translation:

The Company's functional and reporting currency is United States dollars.

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect on the date of the transaction. Revenues and expenses are translated at exchange rates at the date of transaction other than depreciation which is translated at historical rates. Exchange gains or losses arising from translation are included in operations.

(d) Oil and gas interests:

The Company follows the full cost method of accounting for its oil and gas interests. In accordance with Accounting Guideline 16 (AcG 16) issued by the CICA, all costs relating to the exploration for and development of oil and gas reserves are capitalized in country-by-country cost centers and charged against income as set out below. Capitalized costs include expenditures for geological and geophysical surveys, concession acquisition, drilling exploration and development wells, gathering and production facilities and other exploration and development expenditures.

Capitalized costs along with estimated future capital costs to develop proved reserves are depleted on a unit-of-production basis using estimated proved oil and gas reserves. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on at least an annual basis. If an unproved property is considered to be impaired, the amount of the impairment is added to costs subject to depletion.

The Company engages independent reservoir engineers in order to determine its share of reserves and resources.

Proceeds from the sale or farm-out of oil and gas interests are offset against the related capitalized costs and any excess of net proceeds over capitalized costs is recorded in the statement of operations. Gains or losses from the sale or farm-out of oil and gas interests in the producing stage are recognized only when the effect of crediting the proceeds to capitalized costs would result in a change of 20 percent or more in the depletion rate.

The net amount at which oil and gas interests are carried is subject to a cost recovery test (the ceiling test). The ceiling test is a two-stage process which is performed at least annually. The first stage is a recovery test whereby undiscounted estimated future cash flows from proved reserves at oil and gas prices in effect at the balance sheet date (forecast prices) plus the cost of unproved properties less any impairment is compared to the net book value of the oil and gas interests to determine if the assets are impaired. An impairment loss exists if the net book value of the oil and gas interests exceeds such undiscounted estimated cash flows. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the oil and gas interests exceeds the future estimated discounted cash flows from proved plus probable reserves at the forecast prices. Any impairment is recorded as additional depletion cost.

(e) Stock-based compensation:

The Company has a stock option plan as described in note 10(d). 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 and an increase to contributed surplus. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

(f) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) Income/(loss) per share:

Income/(loss) per share is calculated using the weighted average number of common shares outstanding during the year. For all periods presented, income/(loss) attributable to common shareholders are the same as reported net income/(loss). For calculating diluted income/(loss) per share, the treasury stock method is used for the purposes of determining the common share equivalents with respect to outstanding stock options and warrants to be included in the weighted average number of common shares outstanding, if dilutive. For the years ended December 31, 2010 and 2009, dilutive loss per share is the same as basic loss per share, as the effect of the outstanding share options would be anti-dilutive.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

In the accounting for oil and gas interests, amounts recorded for depletion and amounts used for impairment test calculations are based on estimates of oil and gas reserves and future cash flows, including development costs. By their nature, the estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

The Black-Scholes option valuation model was developed for use in estimating the fair value of options, which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company’s stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

(i) Financial Instruments:

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income

("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities are designated as "other financial liabilities". Transactions costs associated with financial liabilities are recognized in net income.

(j) Joint venture activities

A significant portion of the Company's exploration activities are conducted with joint venture partners. These financial statements reflect only the Company's proportionate interest in such activities.

3. Presentation:

Certain figures for prior periods have been reclassified in the financial statements to conform to the current year's presentation.

4. Changes in Accounting Policy:

On January 1, 2010, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

(a) The CICA issued Handbook Section 1582 Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2010. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of this standard did not impact the accounting treatment of future business combinations as none were completed in the year.

(b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on the Company's Financial Statements.

(c) "Non-controlling Interests", Section 1602, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on the Company's Financial Statements.

5. Future Accounting Pronouncements:

International Financial Reporting Standards

Effective January 1, 2011, the Company will be required to report its Consolidated Financial Statements in accordance with IFRS, including 2010 comparative information. The Company is in the final stages of its changeover plan to complete the transition to IFRS, including the preparation of 2010 required comparative information. AOC expects IFRS will not have a major impact on the Company's operations, strategic decisions and cash flows. The adoption of the IFRS accounting principles is expected to have a significant impact on accounting with respect to oil and gas interests, warrants and convertible debentures.

(Expressed in United States dollars unless otherwise indicated)

6. Restricted Cash

At December 31, 2010, the Company has a restricted cash balance of $3,181,500 (December 31, 2009 - $1,800,000) which represents bank deposits securing outstanding letters of credit in connection with Blocks 10BB, 12A and 13T in favor of the Kenyan Government and the South Omo block in favor of Tullow Ethiopia B.V.

7. Business Acquisitions:

Lundin Petroleum AB

Effective April 28, 2009, the Company acquired all of the common shares of Lundin East Africa BV (subsequently renamed Africa Oil Ethiopia BV) and Lundin Kenya BV (subsequently renamed Africa Oil Kenya BV), with oil and gas exploration operations in Ethiopia and Kenya, from Lundin Petroleum AB ("LPAB"). As part of the transaction, a subsidiary of LPAB provided the Company with convertible debenture to finance the $23.8 million purchase price. Total consideration paid, including estimated acquisition costs, amounts to $24.0 million. The result of these companies' operations has been included in the financial statements since the effective date. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Net Assets acquired		
Working capital	$	229,197
Oil and gas interests		23,745,320
Total net assets acquired	$	23,974,517

Consideration		
Convertible debenture (note 9)	$	23,789,251
Acquisition costs		185,266
Total purchase price	$	23,974,517

Turkana Energy Ltd.

Effective July 21, 2009, the Company acquired of all of the issued and outstanding common shares of Turkana Energy Ltd. ("Turkana") (with exploration operations in Kenya) for total consideration of $10.7 million including estimated acquisition costs. The results of the company's operations have been included in the financial statements since the effective date. As consideration, the Company issued 7,499,934 common shares, in addition to exchanging an additional 787,400 common shares to extinguish Turkana's outstanding convertible loans of CAD$1.0 million.

(Expressed in United States dollars unless otherwise indicated)

The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Net Assets acquired		
Working capital deficit	$	(226,841)
Restricted cash		1,800,000
Oil and gas interests		9,147,021
Total net assets acquired	$	10,720,180

Consideration		
Shares issued	$	10,130,377
Warrants issued		393
Acquisition costs		589,410
Total purchase price	$	10,720,180

8. Oil and Gas Interests:

	December 31, 2010				
		Cost	Accumulated depletion		Net book value
Oil and Gas Interests	$	95,372,778	-	$	95,372,778

	December 31, 2009				
		Cost	Accumulated depletion		Net book value
Oil and Gas Interests	$	75,750,771	-	$	75,750,771

As at December 31, 2010, $95,372,778 of accumulated expenditures have been capitalized in oil and gas interests (December 31, 2009 - $ 75,750,771). These expenditures represent acquisition costs, geological and geophysical expenditures, materials and supplies and other intangible capitalized costs incurred to date. These costs will not be subject to depletion until such time that proved oil and gas reserves are identified. During the year ended December 31, 2010, the Company capitalized $1,638,616 of general and administrative expenses related to exploration activities (December 31, 2009 – $626,611).

During September 2010, the Company completed the assignment of a 100% interest in Blocks 12A and 13T in Kenya. The Blocks were assigned to the Company by Platform Resources Inc. (“Platform”), a wholly owned subsidiary of Alberta Oilsands Inc. In consideration for Platform’s interest in Blocks 12A and 13T, AOC issued to Platform 2.5 million AOC common shares, valued at $3.2 million, and 1.5 million AOC share purchase warrants, valued at $0.8 million, exercisable into one common share at a price of CAD$1.50 per share. These acquisition expenditures are included in Oil and Gas Interests.

During August 2010, the Company completed a farmin transaction acquiring an 80% participating interest and operatorship of the South Omo Block in Ethiopia. Pursuant to the farmin agreement, to earn its 80% participating interest, Africa Oil is obligated to pay 80% of past costs incurred by Agriterra (formerly White Nile Ltd.), to a maximum of $2,517,000, and fund 100% of the costs associated with a work program comprised of 500 kilometers of 2D seismic, a field geology program, and a surface geochemistry program. Africa Oil will compensate Agriterra's 80% share of past costs by funding Agriterra's share of future cash calls in an amount equal to the past cost obligation. These acquisition costs are included in Oil and Gas Interests.

(Expressed in United States dollars unless otherwise indicated)

On December 9, 2010, AOC completed a farmout transaction providing Tullow Oil plc with a 50% interest and operatorship of the South Omo Block in Ethiopia. Tullow has paid $1.35 million to Africa Oil, in consideration of back costs. These proceeds relating to the farmout have resulted in a reduction of Oil and Gas Interests.

As at December 31, 2010, the Company's net book value of other property and equipment was $39,621 (December 31, 2009 - $107,549) 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). During the year ended December 31, 2010, AOC recorded $76,813 of depreciation expense related to this equipment (December 31, 2009 - $50,165)

During the year ended December 31, 2010, the Company capitalized $149,696 of accretion and interest expense, in relation to its convertible debt, to Oil and Gas Interests (December 31, 2009 – $182,781).

9. Convertible Debenture:

In accordance with CICA handbook sections 3861 and 3862, the Company has separately valued the $23.8 million convertible U.S. dollar loan from LPAB maturing December 31, 2011 with an interest rate of USD six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, will be convertible, at the option of either AOC or LPAB, into shares of the Company on the basis of CAD$0.90 per common share.

The following table outlines the change in the liability portion of the convertible debenture for the years ended December 31, 2010 and 2009:

	2010	2009
Liability portion of convertible debt, beginning of year	$ 2,230,046	$ 2,210,265
Accretion	149,697	182,781
Repayment of the liability portion of the convertible debenture	(854,296)	(163,000)
Liability portion of convertible debt, end of year	$ 1,525,447	$ 2,230,046
Less, current portion of convertible debenture	(1,525,447)	(903,416)
Long-term liability portion of convertible debt, end of year	$ -	$ 1,326,630

The Company has separately valued the conversion option on the issuance from convertible debentures, in accordance with CICA handbook section 3862. The liability component represents the present value of the contractual payments of the debenture and the equity component represents the fair value of the holder's conversion feature. The convertible debenture discount is accreted over the term of the loan. The equity portion of the convertible debentures issued was valued at $21,578,986 at the time of issuance.

(Expressed in United States dollars unless otherwise indicated)

10. Share capital:

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

(b) Issued:

	December 31, 2010		December 31, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of year	70,205,496	$ 62,712,759	17,975,543	$ 31,586,737
Private placements, net of issue costs (i)	25,416,666	23,176,474	37,421,018	17,230,449
Exercise of w arrants, net of issue costs (note 10(c))	37,220,365	65,171,510	-	-
Conversion of shareholder loans (ii)	-	-	6,521,601	3,765,196
Turkana acquisition (iii)	-	-	8,287,334	10,130,377
Assignment of Blocks 12A and 13T in Kenya (iv)	2,500,000	3,243,470		
Farmout ageement finder's fees (note 15)	405,240	422,588	-	-
Exercise of options (note 10(d))	58,333	93,575	-	-
Balance, end of year	135,806,100	$ 154,820,376	70,205,496	$ 62,712,759

(i) On April 28, 2009, the Company closed a non-brokered private placement, issuing an aggregate of 37,421,018 Units of the Company at a price of CAD$0.95 per Unit for gross proceeds of CAD$35,549,967. The Company incurred finder's fees of $1,543,571 thereby realizing net proceeds of $27,360,826. Each Unit was comprised of one common share and one full share purchase warrant. Each share purchase warrant was exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years, expiring April 29, 2012. The terms of the warrants included an accelerated expiry provision which was exercised by the Company in November 2010 (note 10(c)(ii)).

The Company allocated the fair value of the net proceeds received upon the sale of the Units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value related to the private placement was determined to be $10.1 million. The fair value was determined by separately evaluating the fair value of the common shares and share purchase warrants and allocating the values on a pro rata basis.

In July 2010, the Company completed a non-brokered private placement, issuing an aggregate of 25 million common shares of AOC at a price of CAD$1.00 per share for gross proceeds of CAD$25,000,000. The Company incurred finder's fees and share issue costs of $1,072,385, including 416,666 shares issued in lieu of finder's fees, realizing net proceeds of $23,176,474.

(ii) On May 8, 2009, the Company converted its' loans payable in the amount of CAD$6,000,000 plus accrued interest of CAD$195,521, from an existing shareholder to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years, expiring May 8, 2012. In the event that AOC closes at or above CAD$2.00 for a period of 20 consecutive trading days, an accelerated exercise provision may come into effect. If the accelerated clause is exercised by AOC, the warrants expire after 20 days from the date of written notice to the warrant holder (see Note 16).

(Expressed in United States dollars unless otherwise indicated)

The common share purchase warrants' fair value related to the loans payable conversion was determined to be $1.8 million. The fair value was determined by separately evaluating the fair value of the common shares and share purchase warrants and allocating the values on a pro rata basis.

(iii) On July 21, 2009, the Company issued 8,287,334 common shares of AOC and 9,394 whole share purchase warrants to existing Turkana warrant holders as part of the business acquisition (see note 7).

Each whole share purchase warrant entitles the holder to purchase an additional common share at CAD$4.84. The share purchase warrants' fair value related to the issuance was determined to be $393. The share purchase warrants fair values were determined by using the Black Scholes option pricing model and assuming an expected volatility of 90% and a risk free interest rate of 0.50%.

(iv) In September of 2010, the Company completed the assignment of a 100% interest in Blocks 12A and 13T in Kenya. The Blocks were assigned to the Company by Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc. In consideration for Platform's interest in Blocks 12A and 13T, AOC issued to Platform 2.5 million AOC common shares, valued at $3.2 million, and 1.5 million AOC share purchase warrants, valued at $0.8 million, exercisable into one common share at a price of CAD$1.50 per share for a period of two years. The terms of the warrants included an accelerated expiry provision which was exercised by the Company in November 2010 (note 10(c)(ii)).

(c) Warrants:

	Number of Warrants	Amount ($)
Balance, December 31, 2008:	-	$ -
Issued in Private Placement (note 10(b)(i))	37,421,018	10,078,390
Converted Loans Payable (note 10(b)(ii))	6,521,601	1,783,513
Turkana Acquisition (note 10(b)(iii))	9,394	393
Balance, December 31, 2009:	43,952,013	$ 11,862,296
Expiration of Turkana acquisition warrants (i)	(9,394)	(393)
Expiration of April 2009 Private Placement warrants (ii)	(161,153)	(43,402)
Exercise of April 2009 Private Placement warrants (ii)	(37,220,365)	(10,024,349)
Assignment of Blocks 12A and 13T in Kenya (note 10(b)(iv)), (iii)	1,500,000	804,379
Balance, December 31, 2010:	8,061,101	$ 2,598,531

(i) On July 7, 2010, warrants issued as consideration for the acquisition of Turkana expired.

(ii) On November 22, 2010, the Company elected to accelerate the expiry date for all outstanding warrants issued as part of the April 28, 2009 private placement (note 10(b)(i)). The expiry date with respect to these warrants was amended to December 23, 2010. Of the 37,421,018 warrants granted in April 2009, all of which were outstanding at the beginning of the year, 37,220,365 were exercised and 161,153 expired unexercised. The expiry for the remaining 39,500 warrants was extended to March 23, 2011. On the exercise of warrants, the Company issued 37,220,365 common shares, realizing net proceeds of $55.2 million. The fair value of warrants transferred to share capital was $10.0 million.

(Expressed in United States dollars unless otherwise indicated)

(iii) On November 22, 2010, the Company elected to accelerate the expiry date for 1,500,000 warrants issued to Platform as consideration for the assignment of blocks 12A and 13T (note 10(b)(iv)). The expiry date with respect to these warrants was amended to May 22, 2011. At December 31, 2010, none of these warrants were exercised.

The following table outlines the exercise price and expiration dates of outstanding common share purchase warrants at December 31, 2010:

Issue Date	Number of Warrants		Exercise Price (CAD$)	Expiration Date
April 29, 2009	39,500	(1)	$ 1.50	March 23, 2011
May 8, 2009	6,521,601	(2)	$ 1.50	May 8, 2012
September 9, 2010	1,500,000	(3)	$ 1.50	May 22, 2011

(1) Warrants represent the number of whole warrants outstanding based on private placement
(2) Warrants represent the number of whole warrants outstanding based on conversion of loans payable
(3) Warrants represent the number of whole warrants outstanding based on assignment of Blocks 12A and 13T in Kenya

(d) Share purchase options:

At the 2010 Annual General Meeting, held on May 27, 2010, the Company approved the stock option plan ("the Plan") which was last amended at the 2008 Annual General Meeting. 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.

Share purchase options outstanding, all of which are exercisable, are as follows:

	December 31, 2010		December 31, 2009	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Balance, beginning of year	2,527,500	1.99	1,510,000	4.80
Granted	1,617,500	1.13	2,812,500	1.15
Expired or cancelled	(140,000)	1.24	(1,795,000)	3.05
Exercised	(58,333)	1.12	-	-
Balance, end of year	3,946,667	1.67	2,527,500	1.99

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 during the years ended December 31, 2010 and 2009 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2010	2009
Number of options granted during the period	1,617,500	2,812,500
Fair value of options granted	0.52	0.42 - 0.73
Risk-free interest rate (%)	1.63	1.33 - 0.80
Expected life (years)	2.25	2.25
Expected volatility (%)	80	81 - 84
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at December 31, 2010:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life
0.89	402,500	1.69
1.00	100,000	1.73
1.05	140,000	1.62
1.13	1,660,833	2.23
1.18	1,053,334	1.23
1.62	175,000	1.33
6.25	415,000	0.46
1.67	3,946,667	1.65

11. Financial Instruments and Financial Risk:

As at December 31, 2010 and December 31, 2009, the fair values of the Company's cash, amounts receivable, prepaid expenses, and accounts payable and accrued liabilities approximate their carrying amounts due to the immediate or short term to nature of these items.

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. AOC had no forward exchange contracts in place as at or during the year ended December 31, 2010.

For the year ended December 31, 2010, a 5% increase or decrease in the value of the Canadian dollar in relation the US dollar, which is the Company's functional currency, would have resulted in an approximately $800,000 increase or decrease in foreign exchange gains, respectively.

Interest rate risk

The Company's outstanding convertible debenture will incur interest charges at a rate of USD six-month LIBOR plus 3%. Fluctuations in the LIBOR lending rate impact the interest component of the convertible debenture. When assessing interest rate risk applicable to the Company's convertible debenture, the Company believes 1% volatility is a reasonable measure. The effect of interest rates increasing or decreasing by 1% would have decreased or increased, respectively, the Company's cash flows by approximately $240,000 with no impact on net income for the year ended December 31, 2010 as all interest has been capitalized. Due to the nature of the convertible debenture and current market conditions, the Company does not believe that entering into interest rate swaps or other risk management contracts is necessary to mitigate this risk.

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 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 maximum exposure for the Company is equal to the sum of its cash, accounts receivable and restricted cash. None of the Company's accounts receivable due at December 31, 2010 was past due. 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.

12. Capital structure:

The Company's objective when managing capital structure is to maintain balance sheet strength in order to ensure the Company's strategic exploration and business development objectives are met while providing an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure and makes adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, issue debt, execute working interest farm-out arrangements and revise its capital expenditures program. In addition, the Company manages its cash and cash equivalents balances based on forecasted capital outlays and foreign exchange risks in order to ensure that the risk of negative foreign exchange effects are minimized while ensuring that interest yields on account balances are appropriate.

The Company does not have externally imposed capital requirements.

13. Segment Information:

At December 31, 2010, the Company and its subsidiaries operated in three reportable segments, for the exploration of oil and gas resources in East Africa:

	Puntland (Somalia)		Ethiopia		Kenya		Corporate		Total	
Years ended December 31, (thousands)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Segment Assets	**39,763**	38,088	**25,315**	14,679	**43,316**	29,118	**69,245**	12,823	**177,639**	94,708
Capital expenditures										
Oil and gas interests	**756**	3,330	**5,274**	12,966	**13,592**	24,867	**-**	-	**19,622**	41,163
Property and equipment	**-**	-	**-**	-	**-**	-	**9**	158	**9**	158
	756	3,330	**5,274**	12,966	**13,592**	24,867	**9**	158	**19,631**	41,321
Statement of operations										
Expenses	**67**	74	**61**	158	**189**	110	**5,729**	4,382	**6,046**	4,724
Interest and other income	**-**	-	**-**	-	**-**	-	**(87)**	(40)	**(87)**	(40)
Foreign exchange gain	**-**	-	**1**	-	**4**	-	**(1,994)**	(3,326)	**(1,989)**	(3,326)
Segmented loss	**67**	74	**62**	158	**193**	110	**3,648**	1,016	**3,970**	1,358

14. Commitments and contingencies:

Puntland (Somalia):

In December 2009, AOC announced amendments to its existing Production Sharing Contracts made in respect of the Dharoor and Nugaal Valley Exploration areas. The amendments reflected the extension of initial exploration periods from 36 to 48 months, with a revised expiry period of January 17, 2011. In addition, the terms of the exploration programs were amended such that AOC, at its option, could drill one exploratory well in each of the Dharoor and Nugaal Valley Exploration Areas, or two exploratory wells in the Dharoor Valley. In consideration of the extension of the exploration period, AOC agreed to voluntarily relinquish twenty-five percent of the original agreement area on or before January 17, 2010 and agreed to pay a US$1 million bonus within 30 days of a commercial discovery in each of the production blocks. Further, AOC agreed to certain enhanced abandonment and environmental safety measures and to make a one-time US$1.05 million payment to the Puntland government for development of infrastructure.

In January 2011, the Company announced further amendments to its existing Production Sharing Contracts made in respect of the Dharoor and Nugaal Valley Exploration areas. The amendments reflected the extension of initial exploration a further 12 months, with a revised expiry period of January 17, 2012. Under the amended PSCs, Africa Oil is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of Africa Oil, in the Dharoor Valley Exploration Area, by September 27, 2011.

Under the Joint Venture Agreement with Range Resources Ltd. (“Range”), relating to the Dharoor and Nugaal Valley Exploration Blocks, the Company is 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 exploration period, in exchange for a 80% working interest in each block. In the event that a commercial discovery is declared on a block prior to AOC spending $22.8 million, AOC shall be deemed to have earned its interest in the block and the Company and Range will be responsible for future expenditures on the block in proportion to their respective working interests. In the event that AOC does not fund the required $22.8 million during the initial exploration period, the Company's interest in the block would be forfeited. An additional $3.5 million will be payable to Range upon commencement of commercial production.

During the fourth quarter of 2008, the Company fulfilled its sole funding obligation related to the Dharoor Valley Block. As a result, Range is paying its 20% participating interest share of ongoing exploration costs related to this Block. In the Nugaal Valley Block, the Company has spent approximately $8.4 million towards sole funding obligation as of December 31, 2010.

Ethiopia:

Under the terms of the Blocks 7/8 Production Sharing Agreement ("PSA"), the initial exploration period expires in July 2012, the Company and its partners are obligated to complete certain geological and geophysical ("G&G") operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum expenditure of $11.0 million gross ($4.0 million net). In addition, the Company and its partners are required to drill one exploration well with a minimum expenditure of $6.0 million gross ($3.3 million net).

In accordance with the PSA for Blocks 2/6, the initial exploration period expires in November 2011, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum expenditure of $10.8 million gross ($4.0 million net). This commitment is supported by an outstanding bank guarantee of $3.5 million in favor of the Ethiopian Government. As security for the bank guarantee, the bank has been provided with a parent company guarantee from Africa Oil Corp.

Under the terms of the Adigala Block PSA, AOC and its partners have fulfilled the minimum work and financial obligations of the initial four year exploration period which expires in July 2011.

Under the terms of the South Omo PSA, during the initial exploration period which expires in January 2012, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum expenditure of $6.0 million gross ($3.0 million net). Additionally, AOC and its partners are required to drill one exploration well with a minimum expenditure of $8.0 million ($2.4 million net). The Company's obligation under the minimum expenditures is subject to Tullow paying AOC's interest in expenditures up to a maximum of $23.75 million on the South Omo Block. This commitment is supported by an outstanding letter of credit of $294,000 in favor of Tullow Oil plc, which is collateralized by a bank deposit of $294,000 (see note 6).

Kenya:

Under the terms of the Block 10A Production Sharing Contract ("PSC"), the initial 4 year exploration period expires in January 2012. The Company is obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum expenditure of $7.8 million ($1.6 million net). Additionally, AOC is required to drill one exploration well with a minimum expenditure of $8.5 million ($4.7 million net). This commitment is supported by an outstanding bank guarantee of $2.4 million in favor of the Kenyan Government. As security for the bank guarantee, the bank has been provided with a parent company guarantee from Africa Oil Corp.

(Expressed in United States dollars unless otherwise indicated)

Under the terms of the Block 10BB PSC, the initial exploration period expires in January 2012. The Company is obligated to complete G&G operations (including acquisition of 600 kilometers of 2D seismic) with a minimum expenditure of $6.0 million ($3.6 million net). At December 31, 2010, joint operating expenditures relating to G&G operations were in excess of the minimum expenditures required by the PSC. Additionally, AOC is required to drill one exploration well with a minimum expenditure of $6.0 million ($3.6 million net). This commitment is supported by an outstanding letter of credit of $1.8 million in favor of the Kenyan Government, which is collateralized by a bank deposit of $1.8 million (see note 6).

Under the terms of the Block 9 PSC, with the drilling of the Bogal-1-1 well, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period. Effective December 31, 2010, the Company entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC is required to drill one additional exploratory well to a minimum depth of 1,500 meters per well with a minimum expenditure of $2.5 million ($1.7 million net).

Under the terms of the Block 12A and 13T PSC, the exploration periods expire in December 2011. In accordance with the terms of the PSCs, the initial minimum exploration expenditures are $3.65 million (Block 13T) and $3.6 million (Block 12A). The Company is obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof) on each block. The commitments on Block 12A and 13T are supported by outstanding letters of credit of $540,000 and $547,500, respectively in favor of the Kenyan Government, which is collateralized by bank deposit of $540,000 and $547,500, respectively (see note 6).

Office Lease Costs:
The Company has committed to future minimum payments at December 31, 2010 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2011	168,332
2012	168,332
2013	84,166
2014	-
Total minimum payments	420,830

15. Farmout Agreements

The Company has entered in to the following farmout agreements during 2009 and 2010, reducing the Company's working interest and net commitments under the respective PSCs.

(a) **Tullow Oil plc**

During September 2010, the Company signed a definitive farmout agreement with Tullow Oil plc ("Tullow") allowing Tullow to acquire a 50% interest in, and operatorship of, Blocks 10BB and 10A in Kenya and of the South Omo Block in Ethiopia. In consideration for the assignment of these interests, Tullow agreed to pay to AOC approximately $9.6 million, representing 50% of AOC's past costs in the blocks, subject to a post-closing audit. Tullow will also fund AOC's working interest share of future joint venture expenditures in these blocks until the cap of US$23.75MM is reached. Once the expenditure cap has been met, AOC will be responsible for its working interest share of future costs.

Additionally, Tullow has also exercised an option to acquire 50% of AOC's interest in, and operatorship of, two additional exploration blocks in Kenya, 12A and 13T, recently acquired by AOC. Tullow will be responsible for paying AOC its pro-rata share of back costs, including acquisition costs, and its respective share of future joint venture expenditures.

The South Omo portion of this farmout agreement closed on December 9, 2009 while the farmouts relating to Blocks 10A, 10BB, 12A and 13T closed subsequent to December 31, 2010, on January 26, 2011.

(b) **Lion Energy Corp.**

During August 2009, the Corporation completed a definitive farmout agreement with Lion Energy Corp. ("Lion") (formerly Raytec Metals Corp.) in respect of production sharing contracts relating to the corporation's Somalia Interests and Kenyan Interests. Under the terms of the farmout agreement with Lion, AOC agreed to the following:

- transfer of a 15 percent license interest in the Nugaal and Dharoor Valley Production Sharing Agreements;
- transfer of a 10 percent license interest in the Block 9 Production Sharing Agreement;
- transfer of a 25 percent license interest in the Block 10A Production Sharing Agreement; and,
- transfer of a 20 percent license interest in the Block 10BB Production Sharing Agreement.

Under the terms of the farmout agreement, Lion was obligated to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas throughout 2009 and 2010. Lion deposited in escrow, as security for its payment obligations, $4 million. The effective date of the farmout is August 19, 2009. AOC agreed to issue 810,480 common shares of the Company as a finder's fee in consideration for services provided in the negotiation and completion of the Lion farmout agreement. Half of the share consideration was issued during the three months ended June 30, 2010. The remaining common shares to be issued under the agreement will be issued from time to time as Lion fulfills their funding obligations under the Lion farmout agreement, subject to TSX Venture Exchange approval. The remaining finder's fee obligation has been accrued at December 31, 2010.

During September 2010, the Company amended their farmout agreement with Lion in order to provide Tullow (described above) with the necessary working interests. The amendment provides that Lion will reduce its interest in Block 10BB to 10% (originally 20%) and will not retain any interest in Block 10A (originally 25%). As consideration, Africa Oil has agreed to pay Lion US$2.5 million in cash and to issue to Lion 2.5 million common shares of AOC. The Company has also agreed to the elimination of future expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia).

The amended farmout agreement with Lion closed subsequent to December 31, 2010. In conjunction, the Company paid Lion $2.5 million in cash and issued 2.5 million common shares of AOC.

(c) **Red Emperor Resources NL**

During August 2010, AOC executed a definitive farmout agreement with Red Emperor Resources NL ("Red Emperor") pursuant to which Red Emperor will acquire a participating interest in the Dharoor and Nugaal Valley Blocks located in Puntland (Somalia). Under the terms of the farmout agreement and an election made by Red Emperor to increase their interests, Red Emperor will earn a 20% interest in both the Dharoor and Nugaal Valley Blocks and is committed to paying a disproportionate share of costs related to the one well drilling commitment included in the first exploration period of both the Dharoor and Nugaal Valley Production Sharing Agreements. The farmout agreement was completed subsequent to year end.

(d) **East Africa Exploration Limited**

During May, 2009 the Company executed a farmout agreement with Black Marlin Energy Limited's East Africa Exploration Limited ("EAX") for their entry into the production sharing contracts in both the Federal Democratic Republic of Ethiopia (Ethiopia) and Kenya. Under the terms of the farmout agreement with EAX, AOC agreed to the following:

- transfer a 30 percent license interest in the Block 2/6 and 7/8 Production Sharing Agreements located in the Ogaden Basin of Southern Ethiopia;
- transfer a 20 percent license interest to EAX in the Block 10A Production Sharing Contract (PSC) located in the Anza Basin of northern Kenya.

Under the terms of the farmout agreement, EAX is obligated to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas throughout 2009 and 2010. As consideration for past costs incurred by the Company, EAX has paid the Company $1,700,000. The effective date of the EAX farmout agreement is December 9, 2009.

16. Related Party Transactions:

During May 2009, the Company's loans payable due to Lorito Holdings (Guernsey) Limited ("Lorito") in the amount of CAD$6,000,000 plus accrued interest of $195,521 was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit (see note 10(b)(ii)). Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin.

During the year ended December 31, 2010, the Company incurred costs of $57,016 and $172,648, respectively (December 31, 2009 - $48,330 and $148,840, respectively) for administrative support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by Lukas H. Lundin.

17. Income Taxes:

Substantially all of the difference between the actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery relates to losses not recognized. The Company has non-capital loss carry forwards of $7,249,977 which expires through 2011 and 2020.

(Expressed in United States dollars unless otherwise indicated)

The significant components of the Company's future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Combined federal and provincial statutory income tax rate	25.00%	25.00%
Future income tax assets:		
Capital assets	$ -	$ 203,066
Share issuance costs	525,467	308,714
Capital losses carried forward	565,390	483,213
Non-capital losses carried forward	2,273,225	260,720
Total future income tax assets	3,364,082	1,255,712
Valuation Allowance	(3,364,082)	(1,255,712)
Future income tax assets, net of allowance	-	-

18. Subsequent Events:

Subsequent to year end:

(a) The Company completed its farmout of blocks 10A, 10BB, 12A and 13T in Kenya with Tullow (note 15(a)).

(b) The Company completed an amended farmout agreement with Lion (note 15(b)).

(c) The Company completed its farmout agreement with Red Emperor and amended its existing Production Sharing Contracts made in respect of the Dharoor and Nugaal Valley Exploration areas with the Government of Puntland (note 14 and 15(c)).

(d) Subsequent to December 31, 2010, the Company entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya which will expire on December 31, 2013 (note 14).

(e) Effective February 23, 2011, the Company acquired of all of the issued and outstanding common shares of Centric Energy Corp. ("Centric") (with exploration operations in Kenya and Mali) for total consideration of $60.2 million. As consideration, the Company issued 30,155,524 common shares, in addition to cash of CAD$9,842. The purchase price for the acquisition has been allocated based on a preliminary estimate of fair values as follows:

Net Assets acquired	
Working capital	$ 718,736
Restricted cash	450,101
Oil and gas interests	59,006,273
Total net assets acquired	$ 60,175,110

Consideration	
Shares issued	$ 60,165,193
Cash issued	9,917
Total purchase price	$ 60,175,110

(f) On January 26, 2011, the Company granted an aggregate of 2,390,000 incentive stock options to certain officers, directors, and other eligible persons of the Company. The options are exercisable, subject to vesting provisions, over a period of two years at a price of $2.10 per share. On March 3, 2010, the Company granted an aggregate of 400,000 incentive stock options to certain officers, directors, and other eligible persons of the

Company. The options are exercisable, subject to vesting provisions, over a period of two years at a price of $1.85 per share.

(g) On March 3, 2011, the Company amended the terms of its outstanding $23.8 million convertible loan with LPAB (see note 9) to permit early conversion of the loan, or a portion of the loan, to shares of the Company. The Company and LPAB mutually agreed to convert $13.0 million of the convertible loan into 14 million shares of the Company.

(h) On March 8, the Company entered into a letter of intent to acquire all of the issued and outstanding common shares of Lion Energy Corp. ("Lion"), a publicly traded oil and gas company listed on the TSX Venture Exchange. Under the letter of intent the parties will negotiate and enter into a definitive agreement pursuant to which AOC will acquire Lion, by way of a plan of arrangement. As per the terms of the letter of intent, AOC is proposing to exchange each share of Lion for 0.2 shares of AOC. Lion currently has 86,118,177 common shares issued and outstanding, 2,580,000 share options with a weighted average exercise price of $0.16/share, and 11,445,000 warrants. It is proposed that each warrant will be exchanged into an equivalent number of warrants of AOC, adjusted for 0.2:1 ratio noted above.

19. Court Proceedings:

Kenyan court proceedings were brought by Interstate Petroleum Ltd. ("IPL") against the Permanent Secretary, Ministry for Energy. IPL was seeking a judicial review of the administrative process that led to the issuance of exploration permits in respect of, amongst others, Blocks 10BB, 10BA, 12A and 13T, which resulted in the Company being a named party to the proceedings. On December 16, 2010, these court proceedings were ruled to be without merit and were dismissed by the High Court in Kitale, Kenya. On December 27, 2010, a Notice of Appeal was filed by IPL with the court. On February 4, 2011 AOC and its Kenyan counsel filed an application to strike the Notice of Appeal and expects that a hearing in respect of that matter will be held in September 2011.