AFRICA OIL CORP.

Management's Discussion and Analysis

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, 2012 and 2011

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, 2012 and 2011 and related notes thereto.

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

The effective date of this MD&A is March 26, 2013.

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, and Puntland (Somalia).

AOC's long range plan is to increase shareholder value through the acquisition and exploration of oil and gas assets, located in under-explored geographic areas, in the early phase of the upstream oil and gas life-cycle. The Company is focused on high-impact exploration opportunities and has secured a portfolio of primarily East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. AOC's mission is to de-risk this portfolio of oil and gas prospects and leads, while generating additional prospects and leads, through continuous oil and gas exploration activities. The Company is pursuing a farmout strategy aiming to leverage the current 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 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 Company has encountered oil in its first two wells drilled in the Tertiary Rift trend. The East African Rift Basin system is one of the last great rift basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds exploration acreage of over 250,000 km2 (gross) in this exciting new world-class exploration play fairway. The Company aims to have completed significant seismic and drilling programs on the majority of the Company's blocks over the next two years. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

WORKING INTERESTS

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

Country	Block/Area	Operator	December 31, 2011 Net Working Interest % (1)	December 31, 2012 Net Working Interest % (1)	Current Net Working Interest % (1)
Kenya	Block 10A	Tullow	30%	30%	30%
Kenya	Block 9	AOC	100%	50%	50%
Kenya	Block 10BB	Tullow	50%	50%	50%
Kenya	Block 12A	Tullow	50%	20%	20%
Kenya	Block 13T	Tullow	50%	50%	50%
Kenya	Block 10BA	Tullow	50%	50%	50%
Ethiopia	Blocks 7/8	New Age	55%	30%	30%
Ethiopia	Adigala	New Age	50%	50%	50%
Ethiopia	South Omo	Tullow	30%	30%	30%
Ethiopia (3)	Rift Basin Area	AOC	0%	0%	100%
Mali (4)	Block 7	Heritage	25%	25%	0%
Mali (4)	Block 11	Heritage	25%	25%	0%
Puntland, Somalia	Dharoor Valley	Horn	31% (2)	27% (2)	27% (2)
Puntland, Somalia	Nugaal Valley	Horn	31% (2)	27% (2)	27% (2)

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

[3] Under Recent Developments, see the update on the Rift Basin Area in Ethiopia. Subsequent to year end, the Company completed a PSA with the Ministry of Mines in Ethiopia with respect to the Rift Basin Area.

[4] Under Operations Update, see update on Mali. Subsequent to year end, the Company terminated its interest in Blocks 7 and 11 in Mali.

OPERATIONS UPDATE

During the first quarter of 2012, the company discovered over 100 meters of net oil pay in Ngamia-1 in Block 10BB (Kenya), the first Tullow-Africa Oil joint venture exploration well drilled. In response to the successful Ngamia-1 well, the Company together with its partners ramped up its exploration program in Kenya and Ethiopia, and at year-end had two rigs operating in Kenya and one rig operating in Ethiopia. A fourth Tullow-Africa Oil joint venture rig is in the process of being sourced and is intended to commence testing and drilling operations in the second half of 2013.

Following completion of the Ngamia-1 well, the Company and its partner Tullow moved the rig to drill the Twiga South-1 exploration well in Block 13T (Kenya) which is on trend with Ngamia-1. Twiga South-1 successfully encountered 30 meters of net oil pay. The Company and its partners performed a drill stem test ("DST") which resulted in a cumulative flow rate of 2,812 barrels of oil per day ("bopd") from three zones, despite being constrained by surface equipment. With optimized testing equipment, the cumulative flow rate is anticipated to have increased to a cumulative rate of approximately 5,200 bopd. High quality 37 degree API waxy sweet crude flowed from all three zones in the Auwerwer formation with good quality reservoir sands encountered. The well was suspended as a potential future production well. The rig has now been moved to Ngamia-1 where testing operations on five to six zones have commenced.

The Ministry of Energy in Kenya has been provided with the Twiga South-1 testing results, which accompanied a formal Notice of Discovery under the terms of the Block 13T PSC. Following this Notice of Discovery, the Ministry of Energy has agreed to the Tullow proposal, as operator of Blocks 10BB and 13T, to carry out a combined exploration and evaluation program over a defined Area of Interest ("AOI") including all of the mapped prospects and leads along the basin bounding fault on the western edge of the Lokichar Basin. The basis of the AOI approach is to adopt a basin-wide approach to concurrently explore and evaluate the area as opposed to undertaking well-by-well appraisals for each discovery well. This basin-wide approach, with regards to the AOI, is mutually agreed to be the most efficient and quickest approach to moving the exploration and evaluation work program forward towards reaching a commercial threshold of reserves required to justify any large scale oil development.

The first additional rig was mobilized to Block 10A (Kenya) to drill Paipai-1 which spud in the fourth quarter of 2012 and was completed in the first quarter of 2013. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval; however attempts to recover samples were unsuccessful. The Company and its partners were not able to test the well due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered. As a result, the well was temporarily suspended pending further data evaluation. The rig is currently mobilizing to the South Lokichar Basin in Block 10BB to drill the Etuko prospect in the undrilled flank play which is expected to spud in the second quarter of 2013.

The second additional rig was mobilized to Ethiopia to drill Sabisa-1, which is the first exploration well on the South Omo Block. Sabisa-1 spud in early 2013 and is currently drilling.

The Company, as operator, and its partners in Block 9 (Kenya) have commenced planning to mobilize an additional rig to drill the Bahasi-1 exploration well which is expected to spud in the second half of 2013. The Company and its operating partner, New Age, also plan on mobilizing a rig to drill an appraisal well on the El Kuran oil discovery in Block 8 (Ethiopia) with spud planned for the second quarter of 2013.

In the first quarter of 2013, the Company executed a PSA for the Rift Basin Area (formerly referred to as the Rift Valley Block) in Ethiopia. Located north of the South Omo Block, the Rift Basin Area covers 42,519 square kilometers and includes the extension of the Tertiary-age East Africa Rift Trend. The Company plans to complete a Full Tensor Gradiometry survey and exhaustive environmental and social impact assessment over the block in 2013.

The Company and its partners will also continue to actively acquire, process and interpret 2D seismic over Blocks 10BA, 10BB, 12A, 13T and South Omo. In addition, 3D seismic acquisition is being planned over the Ngamia and Twiga structures in 2013.

In Puntland (Somalia), the Company, through its 44.6% ownership interest in Horn, completed a two well exploration drilling program. Both well sites have been restored to original condition and demobilization of drilling equipment from Puntland has been completed. While the Company was disappointed that the first two exploration wells in Puntland did not flow oil, the Company remains highly encouraged that all of the critical elements exist for oil accumulations, and based on this encouragement, the Company and its partners have entered into the next exploration period in both the Dharoor Valley and Nugaal Valley PSC's which carry a commitment to drill one exploration well in each block.

KENYA

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

Block 10BB

The Company and its operating partner on Block 10BB, Tullow, spudded the partnership's first well, Ngamia-1, in January 2012. The well encountered in excess of 100 meters of net oil pay in multiple reservoir zones over a gross interval of 650 meters of the Auwerwer Sandstone interval (855 meters to 1,500 meters). The reservoirs are composed of good quality Tertiary age sandstones. Moveable oil with an API of around 30 degrees has been recovered to surface from four representative intervals. This oil has similar properties to the light waxy crude, which has been discovered in Uganda by Tullow. After testing and evaluation of the Auwerwer pay zones, the well was drilled through the Lokhone Sandstone interval and encountered an additional 43 meters of potential oil pay based on logs and the recovery of light oil on an MDT sample over a gross interval of 150 meters. The well was drilled to a total depth of 2,340 meters after penetrating the Lokhone objective sequence. Immediate testing was not possible due to the low reservoir pressures requiring artificial lift equipment, which was not immediately available in country. As a consequence, the rig moved to drill Twiga South-1 in Block 13T. The Twiga South-1 drilling and testing operations were completed in February 2013 and the rig has now moved back to Ngamia-1 and commenced testing operations in March 2013.

Due to the positive results of the Ngamia-1 well, the Company and its partner accelerated the pace of exploration activities along the Ngamia-1 trend in Block 10BB and adjacent Block 13T. The Company and its partner elected to accelerate additional 2D seismic in Block 10BB and acquired 1,282 kilometers in 2012 and plans to acquire 1,080 kilometers in 2013 to further delineate additional prospects and leads. In 2013, the Company also plans to acquire 550 square kilometers of 3D seismic over the Ngamia and Twiga structures in Blocks 10BB and 13T combined. A follow-up well on the Ngamia structure is also being planned for 2013 in addition to two exploration wells within the block.

The drilling of the Ngamia-1 well satisfied the remaining work obligations of the initial exploration period under the Block 10BB PSC. The partnership elected to proceed into the next phase of exploration and have received formal government approval. A relinquishment of 30% of the original contract area coincided with entry into the next exploration period which expires in July 2014. The next phase of exploration includes a commitment to drill one exploratory well and acquire 300 square kilometers of 3D seismic.

Block 13T

Following the Ngamia-1 discovery, the Company and its operating partner on Block 13T, Tullow, focused additional efforts to better delineate the prospects along the Ngamia-1 trend northward into Block 13T. Based upon 1,013 kilometers of 2D seismic data that was acquired to date, at least six additional prospects similar to the Ngamia-1 discovery have been mapped in Block 13T, including Twiga South-1, which spud in August 2012. The Twiga South-1 well is located 22 kilometers north of Ngamia-1 and was drilled to a total depth of 3,250 meters. The well encountered 30 meters of net oil pay in three Auwerwer sandstone intervals analogous to Ngamia-1. Good quality movable oil was recovered to surface with MDT testing from all three zones. Further potential exists updip, which will be tested by a well in 2013. In addition, the well also encountered a thick sequence of fractured rock section exhibiting oil and wet gas shows over a gross interval of 796 meters. Movable oil with an API greater than 30 degrees was also successfully sampled from this section.

The Company and its partner performed a DST on five intervals at Twiga South-1. The DST on three Auwerwer sandstone intervals resulted in a cumulative flow rate of 2,812 bopd, constrained by surface equipment. With optimized testing equipment, these flow rates are anticipated to have increased to a cumulative rate of approximately 5,200 bopd. High quality 37 degree API waxy sweet crude flowed from all three zones in the Auwerwer formation with good quality reservoir sands encountered. The reservoir quality of the Auwerwer sands was significantly better than predicted based on core analysis data with several values over 1 darcy permeability. Due to the low reservoir pressure, a Progressive Cavity Pump (PCP) was utilized to flow oil in two of the Auwerwer zones tested. Two deeper tests were also completed on the tight reservoir rock at the bottom of the well, and despite reconfirming the presence of movable oil, both zones produced at sub-commercial flow rates. The well has been suspended as a potential future production well.

In 2013, the Company plans to acquire 90 kilometers of infill 2D seismic program in Block 13T and 550 square kilometers of 3D seismic over the Twiga South and Ngamia structures, in Blocks 13T and 10BB combined. An up dip well on the Twiga South structure is also being planned for 2013 along with two additional exploration wells within the block.

The Company fully satisfied its work obligations for the initial exploration period under the Block 13T PSC. The partnership elected to proceed into the next phase of exploration and have received formal government approval. A relinquishment of 25% of the original contract area coincided with entry into the next exploration period, which expires in September 2014. The work commitment for the next phase of exploration includes a commitment to drill one exploratory well, which was satisfied with the drilling of the Twiga South-1 well, and a commitment to acquire 200 square kilometers of 3D seismic.

Block 10A

The Company and its operating partners on Block 10A agreed on Paipai-1 as the location of the first exploratory well in Block 10A. The Paipai-1 well tested a large four-way closed structure with Cretaceous-age sandstone targets at multiple depths. Paipai-1 spudded in September 2012 and was drilled to a total depth of 4,255 meters. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval. Attempts to sample the reservoir fluid were unsuccessful and the hydrocarbons encountered while drilling were not recovered to surface. The Company and its partners were unable to test the well at the time due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered at this depth. As a result, the well has been temporarily suspended pending further data evaluation. Paipai-1 fully satisfied the remaining work obligations for the initial exploration period, which was extended to January 2014 to allow for evaluation of the well results. The rig is currently being mobilized to Block 10BB (Kenya) to drill follow-up prospects in the Lokichar Sub-Basin commencing with Etuko-1.

Block 10BA

The Company and its operating partner on Block 10BA, Tullow, have completed approximately 45% of the planned 1,350 kilometer 2D seismic program in Block 10BA. The onshore portion of the survey has largely been completed and the offshore and near shore portions of the 2D program commenced in January 2013. The 2D seismic acquired to date exceeds the work obligations of the initial exploration period under the Block 10BA PSC which expires in April 2014.

Block 12A

The Company and its partners on Block 12A (Tullow operated) have determined that the 500 kilometer 2D seismic acquisition obligation will be focused in the Kerio Valley in the southwestern portion of the block. The Block 12A seismic program commenced shooting in early 2013. The 500 kilometer 2D seismic program will satisfy the work obligations for the initial exploration period under the Block 12A PSC which expires in September 2013.

Block 9

During 2011, a 750 kilometer 2D seismic program was completed. The new data was acquired over the Kaisut sub-basin in the northwestern portion of Block 9. Based upon the new data set, several large prospects have been mapped and resources have been estimated. The Company is currently planning to drill the Bahasi-1 exploratory well in the second half of 2013 which will satisfy the remaining exploration commitment for the second exploration period which expires in December 2013. The potential to spud a second well late in 2013 is being evaluated.

ETHIOPIA

South Omo Block

The Company and its joint operating partners on the South Omo Block (Tullow operated) have completed a 1,002 kilometer 2D seismic program in the western portion of the South Omo Block. A number of interesting prospects and leads have been identified and some infill seismic data has already been acquired, maturing leads into drillable prospects. The Company and its partners have selected Sabisa-1 as the first drilling location in the South Omo Block. Should this well be successful, there are a number of follow-on prospects that are drill ready. Sabisa-1 spud in January 2013 and is currently drilling. Additionally, the Company and its partners are substantially completed 1,250 kilometers of 2D seismic in the eastern portion of the South Omo Block (Chew B'hir Sub-Basin). The seismic acquired to date and drilling of Sabisa-1 will satisfy the remaining work obligations for the initial exploration period which expired in January 2013. The Company and its partners elected to go into the first additional exploration period which expires in January 2015 and carries a work commitment of 200 kilometers of 2D seismic and one exploration well. A relinquishment of 25% of the original block area coincided with entry into the first additional exploration period. In addition to Sabisa-1, the Company is planning one or two additional exploration wells on the block in 2013.

Ogaden Blocks 7/8

The Company and its partners continue their focus on the El Kuran oil accumulation in Block 8, discovered in the early 1970's. After completing reservoir characterization studies, the Company focused efforts on testing and completion strategies for producing commercial quantities of oil and gas. In the second quarter of 2012, the Company received formal approval for a one year extension of the initial exploration period to July 2013. Planning for an appraisal well on the El Kuran oil accumulation to spud in the second quarter of 2013 is ongoing.

Adigala Block

As part of work obligations for the second exploration period which expires July 2013, the Company and its partner incorporated newly acquired Full Tensor Gradiometry data with seismic data to improve the subsurface interpretation of the block. The Company also integrated results of recent surface geological studies and reprocessed data acquired in 2009 with the goal of improving the data quality. All work obligations on this block have been completed.

Rift Basin Area

In first quarter of 2013, the Company executed a PSA for the Rift Basin Area in Ethiopia. Located north of the South Omo Block, the Rift Basin Area covers 42,519 square kilometers. This block is on trend with highly prospective blocks in the Tertiary rift valley including the South Omo Block in Ethiopia, and Kenyan Blocks 10BA, 10BB, 13T, and 12A. The Company plans to complete a Full Tensor Gradiometry survey and exhaustive environmental and social impact assessment over the block in 2013. The initial exploration period, which expires in February 2016, includes a commitment to acquire a Full Tensor Gradiometry survey and 400 kilometers of 2D seismic.

PUNTLAND (SOMALIA)

Dharoor Valley and Nugaal Valley Blocks

In the first half of the year, the Company drilled the Shabeel-1 exploration well to a total depth of 3,470 meters before ending in metamorphic basement. The well encountered significant oil and gas shows in the Upper Cretaceous Jesomma sandstones and Jurassic and Triassic sandstones deeper in the wellbore, but failed to encounter Lower Cretaceous sandstone reservoirs that were considered the primary objective. Petrophysical analysis indicated that potential hydrocarbon pay zones in the Jurassic and

Triassic sandstones were thin and did not warrant further testing and the well was suspended pending further consideration of the Jesomma sandstone section.

Following results of the Shabeel-1 well, which provided evidence for a working petroleum system, the Sakson drilling rig was relocated 3.5 kilometers north of the Shabeel-1 well to test an adjacent structural trap, Shabeel North-1. The Shabeel North-1 exploration well was spud in June 2012 and encountered oil and gas shows in the Upper Cretaceous Jesomma sandstone section from 1,905 meters to 2,095 meters, similar to those encountered in the Shabeel-1 exploration well. An open-hole drill stem test was performed but failed to flow hydrocarbons. Although the test was unsuccessful, the Company and its partners were encouraged by the positive evidence of oil shows and the presence of good quality reservoirs and decided to deepen the well in order to evaluate the potential of the Lower Cretaceous, Jurassic and Triassic sections. The Shabeel North-1 well reached a total depth of 3,945 meters and encountered metamorphic basement at a depth of 3,919 meters. The well penetrated 149 meters of inter-bedded sands and shales of the Triassic Adigrat Formation with no oil or gas shows and only minor porosity exhibited on electric logs. Accordingly, the well was plugged and abandoned.

As the Upper Cretaceous Jesomma sands in Shabeel North-1, which exhibited porosity and hydrocarbon shows but produced only fresh water on a drill stem test, were similar to the Jesomma sands encountered in the previously drilled Shabeel-1 well in respect of log response and oil and gas shows, the Company and its partners determined that additional testing of these zones in the previously drilled Shabeel-1 well was not warranted. Accordingly, the well has been plugged and abandoned.

While the Company was disappointed that the first two exploration wells in Puntland (Somalia) did not flow oil, the Company remains highly encouraged that all of the critical elements exist for oil accumulations, namely a working petroleum system, good quality reservoirs and thick seal rocks. Based on the encouragement provided by the Shabeel wells, the Company and its partners entered the next exploration period in both the Dharoor Valley and Nugaal Valley PSC's which carry a commitment to drill one well in each block within an additional three year term ending October 2015.

Horn has demobilized the drilling rig and associated equipment and has completed restoration of both drilling locations. Efforts are now focused on making preparations for a seismic acquisition campaign in the Dharoor Valley area which will include a regional seismic reconnaissance grid in the previously unexplored eastern portion of the basin as well as prospect specific seismic to delineate a drilling candidate in the western portion of the basin where an active petroleum system was confirmed by the recent drilling at the Shabeel-1 and Shabeel North-1 locations. This seismic program is expected to commence late in 2013. The Company continues to pursue efforts to drill an exploration well in the Nugaal PSC and is working with the Puntland government authorities to move this project forward.

Horn has been in discussions with potential joint venture partners and is also reviewing new venture opportunities in the region.

MALI

<u>Blocks 7 and 11</u>

The deteriorating security and political situation in Mali halted operations on the Company's blocks. As a consequence, the Company impaired $3.1 million of capitalized intangible exploration assets during the first quarter of 2012. Subsequent to the end of the year, the Company and its operating partner, Heritage, terminated their interest in Block 7 and 11 and have been released from all future PSC obligations in relation to these blocks by the Ministry of Mines in the Republic of Mali.

RECENT DEVELOPMENTS

Africa Oil Private Placement

During December 2012, the Company completed a non-brokered private placement issuing an aggregate of 30 million common shares at a price of CAD$7.75 per common share for gross proceeds of CAD$232.5 million. The Company paid a finder's fee of CAD$8.3 million in cash on the private placement. The Company issued 27,881,991 of the common shares on December 7, 2012 ("first tranche") and issued 2,118,009 common shares on December 13, 2012 ("second tranche"). The common shares issued under the first and second tranche of the private placement are subject to a statutory hold period which expires on April 8, 2013 and April 14, 2013, respectively.

Completed Production Sharing Agreements

In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. The Company's current working interest in the Rift Basin Area is 100%.

Completed and Proposed Farmout Transactions

Tullow Oil plc

In July 2012, the Company completed a farmout transaction with Tullow. In accordance with the farmout agreement, Tullow paid the Company $0.8 million in consideration of past exploration expenditures to acquire an additional 15% interest in Block 12A in Kenya. Tullow will also fund 15% of the Company's working interest share of expenditures related to the acquisition of 520 kilometers of 2D seismic until an expenditure cap of $10.3 million on a gross basis, following which AOC will be responsible for its working interest share of seismic acquisition costs. Tullow previously acquired a 50% interest in, and operatorship of, Block 12A in a transaction that was completed in February 2011.

Marathon Oil Corporation

In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in Block 9 and a 15% interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the Company $32.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of $25.0 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made.

In addition, the Company and Marathon have agreed to jointly pursue exploration activities on an additional exploration area in Ethiopia. In consideration for the assignment of these interests, Marathon will pay the Company an entry payment of $3.0 million which includes prior expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of $18.5 million.

New Age (Africa Global Energy) Limited

In October 2012, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 25% interest in the Company's Blocks 7 & 8 in Ethiopia, together with operatorship of Blocks 7 & 8 and the Adigala Area. In accordance with the farmout agreement, New Age paid the Company $1.5 million in consideration of past exploration expenditures.

Horn Private Placement

In June 2012, the Company's subsidiary Horn completed a non-brokered private placement issuing an aggregate of 18.75 million units at a price of CAD$0.80 per unit for gross proceeds of CAD$15 million. Each unit is comprised of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable over a period of two years at a price of CAD$1.20 per share. In the event that Horn's common shares trade above CAD$1.50 for a period of 20 consecutive days, a forced exercise provision will come into effect. A finder's fee was paid, consisting of the issuance of an aggregate of 342,500 units and the payment of $0.1 million in cash. All securities issued under the private placement were subject to a statutory hold period which expired on October 9, 2012. AOC acquired 4,315,000 of the units issued for gross proceeds of CAD$3.5 million. At December 31, 2012, AOC owned 44.6% of Horn.

Exercise of Warrants

In March 2012, the remaining 6,521,601 of AOC common share purchase warrants outstanding were converted into common shares of AOC for gross proceeds of CAD$9.8 million.

Court Proceedings

The Company is a party to two separate court proceedings in Kenya, both of which are currently working their way through the Kenyan judicial system. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involve a dispute concerning the administrative process that lead to the issuance of exploration permits in respect of, amongst others, Blocks 10BA, 10BB, 12A and 13T. The primary Respondents include the Minister and the Ministry of Energy, Republic of Kenya. The Company and certain of its affiliates are named as Interested Parties; the Applicants include Interstate Petroleum Ltd. ("IPL"). The Company has also initiated a third court proceeding, Winding-Up Cause No. 1 of 2012. This proceeding involves an application to cause IPL to be wound-up or "dissolved", which would terminate any further action in respect of Judicial Review Number 30 of 2010, which the Company considers to be the principal court proceeding.

A hearing in respect of Judicial Review Number 30 of 2010 was held in November 2010. The High Court in Kitale, Kenya found that the application was without merit and it was dismissed with costs. The Applicants filed a Notice of Appeal in respect of that Ruling, however, by a decision of the Court of Appeal made on March 8, 2013, the Applicants' Notice of Appeal was struck out. The Applicants have subsequently appealed that Court of Appeal decision.

On March 5, 2013 the High Court confirmed that the Applicants were entitled to proceed with the application brought under Judicial Review No. 1 of 2012, despite the application by the Company and others to have that application struck out. The Company has determined to appeal the decision of the High Court and will be filing documentation seeking leave to appeal. Concurrently, the Company is continuing to pursue its application to have IPL wound-up for failure to pay the costs that had been awarded against it.

The Company will continue to pursue its remedies through the courts. In the interim, the Company will vigorously defend any application made by the Applicants in any of these proceedings.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	**31-Dec 2012**	**30-Sep 2012**	**30-Jun 2012**	**31-Mar 2012**	**31-Dec 2011**	**30-Sep 2011**	**30-Jun 2011**	**31-Mar 2011**
Operating expenses ($)	8,224	4,035	4,731	4,690	3,758	2,835	8,488	2,890
Interest income ($)	25	65	74	162	226	276	220	244
Foreign exchange gain (loss) ($)	(1,116)	550	(123)	1,258	2,067	(6,792)	670	1,582
Fair market value gain (loss) - warrants ($)	(2,684)	17,279	9,906	(23,669)	4,010	2,292	1,764	779
Fair market value gain (loss) - convertible debenture ($)	-	-	-	-	-	-	309	1,722
Fair market gain (loss) on marketable securities ($)	-	-	-	(124)	776	(396)	(145)	-
Gain on acquisition of Lion ($)	-	-	-	-	-	-	4,143	-
Dilution loss on sale of subsidiary ($)	-	-	-	-	-	4,579	-	-
Net income (loss) attributable to common shareholders ($)	(9,551)	1,368	(968)	(13,642)	695	(11,140)	(1,538)	1,338
Net income (loss) attributable to non-controlling interest ($)	(2,463)	12,483	6,085	(13,429)	2,606	(915)	-	-
Weighted average shares - Basic	229,901	220,952	218,664	213,065	211,413	211,320	195,974	154,451
Weighted average shares - Diluted	229,901	226,664	225,319	213,065	212,656	212,019	198,859	162,549
Basic earnings (loss) per share ($)	(0.04)	0.01	-	(0.06)	-	(0.05)	(0.01)	0.01
Diluted earnings (loss) per share ($)	(0.04)	0.01	-	(0.06)	-	(0.05)	(0.02)	(0.01)
Oil and gas expenditures ($)	43,535	30,144	38,248	21,896	20,883	9,392	6,037	4,974

During 2011, Horn was formed as a new Puntland focused exploration company. The Horn Transaction has been accounted for as an acquisition of Horn's net assets by Canmex (reverse acquisition) as AOC, the sole owner of Canmex prior to the Horn Transaction, controls Horn subsequent to the Horn Transaction. Subsequent to the Horn Transaction and Horn private placement, AOC through its wholly owned subsidiary acquired 51.4% of the newly formed entity. As a result of additional private placements, option exercises and warrant exercises, the Company currently owns approximately 44.6% of Horn. While the results of Canmex have historically been consolidated in the Company's financial statements, effective September 20, 2011, the non-controlling interest in Horn has been accounted for in the consolidated results of the Company.

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

The Company's results were affected by three items occurring during the second and third quarters of 2011 for the first time:

1. The gains and losses on revaluation of marketable securities are the result of changes in the value of 10 million shares held in Encanto Potash Corp which were acquired on the acquisition of Lion. These shares were disposed of during the first quarter of 2012;
2. The gain relating to the acquisition of Lion in the second quarter of 2011 was a result of the Company acquiring net working capital and intangible exploration assets in excess of the consideration issued. The consideration paid was valued at $21.7 million, net of AOC shares acquired, versus working capital acquired of $20.1 million, excluding the value of AOC shares held by Lion, and the fair market value of intangible assets acquired estimated at $5.7 million; and
3. A dilution loss was recorded on the sale of a subsidiary as a result of the Horn Transaction. In accordance with IFRS, when a reverse acquisition occurs, any excess of the fair value of the consideration paid over the value of the net assets acquired is recognized in the consolidated

statement of net loss and comprehensive loss as an expense. The Company has recorded a loss on reverse acquisition of $4.6 million as a result of the Horn Transaction.

Operating expenses
The $5.6 million increase in operating expenses from the first quarter to the second quarter of 2011 is due to a $7.0 million impairment of intangible exploration assets due to AOC relinquishing Blocks 2/6 in Ethiopia offset partially by a reduction in stock-based compensation costs. The $5.7 million decrease from the second quarter to the third quarter of 2011 can be attributed to the Block 2/6 impairment in the second quarter of 2011, offset partially by increased stock-based compensation costs associated with stock option grants in Horn, as well as professional fees and listing fees associated with the Horn Transaction. The $0.9 million increase from the third quarter to the fourth quarter of 2011 can be attributed to increased stock-based compensation costs associated with AOC stock option grants in the quarter and a $0.4 million donation made by Horn to the Lundin Foundation, a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries. The $0.9 million increase from the fourth quarter of 2011 to the first quarter of 2012 can be attributed to a $3.1 million impairment of intangible exploration assets in Mali offset partially by decreased stock-based compensation, a donation made by Horn to the Lundin Foundation in the fourth quarter of 2011, and a reduction in professional fees from the fourth quarter of 2011 associated with a reduction in transaction related professional fees. Operating expenses were consistent from the first quarter to the second quarter of 2012. The impairment in Mali which occurred in the first quarter of 2012 was offset by professional fees in the second quarter of 2012 associated with shares issued in respect of previously completed farmout transactions. Operating expenses decreased by $0.7 million from the second quarter to the third quarter of 2012. A significant reduction in professional fees which resulted from shares issued in the second quarter of 2012 with respect to previously completed farmouts was partially offset by increased stock-based compensation costs associated with stock options granted in the third quarter of 2012. The $4.2 million increase in operating expenses from the third quarter to the fourth quarter of 2012 can be attributed to a $2.3 million donation made by AOC to the Lundin Foundation in the fourth quarter of 2012, as well as increased compensation related costs and travel costs associated with increased operational activity, increased headcount and the exploration success in 2012.

Interest income
Interest income increased in the first quarter of 2011 due to a significant increase in cash late in the fourth quarter of 2010 as a result of cash received on the exercise of warrants. The reduction in interest income each quarter since fourth quarter of 2011 can be attributed to a lower yield for cash held on deposit.

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

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

During the second quarter of 2011, the convertible debenture was fully repaid. Accordingly, fair market value gains or losses relating to the convertible debenture have not been incurred since the second quarter of 2011.

At December 31, 2012, nil warrants were outstanding in AOC and 53.4 million warrants were outstanding in Horn. AOC holds 13.3 million of the warrants outstanding in Horn. The Company incurred a $3.8 million gain on the revaluation of warrants during 2012 due to a decrease in the share price of Horn during the year. The Company will incur fair market value adjustments on the Horn warrants until they are exercised or they expire (43,868,527 expire September 20, 2013, 9,375,000 expire June 8, 2014, 156,248 expire June 11, 2014, and 15,000 expire June 18, 2014).

RESULTS OF OPERATIONS

For the years ended December 31, (thousands)	**2012**	**2011**
Salaries and benefits	$ 3,665	$ 1,696
Stock-based compensation	4,943	4,348
Travel	1,469	1,133
Management fees	294	245
Office and general	718	1,508
Donation	2,313	-
Depreciation	48	48
Professional fees	4,187	1,476
Stock exchange and filing fees	916	547
Impairment of intangible exploration assets	3,127	6,969
Operating expenses	$ 21,680	$ 17,970

Operating expenses increased $3.7 million for the year ended December 31, 2012 compared to the prior year. In the current year, the Company recorded a $3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali, while in the previous year, the Company recorded a $7.0 million impairment of intangible exploration assets relating to Blocks 2/6 in Ethiopia. In 2012, the Company made a $2.3 million donation to the Lundin Foundation, a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries. The increase in professional fees in 2012 was the result of 420,000 common shares issued in the year as a settlement of claimed professional fees relating to previously completed farmout transactions. Compensation related costs and travel costs increased due to increased compensation related costs and travel costs associated with increased operational activity, increased headcount, and the exploration success in 2012.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	2012	2011	2010
Statement of Operations Data			
Interest income	$ 326	$ 966	$ 87
Net income and comprehensive income attributable to non-controlling interest	2,676	1,691	-
Net loss and comprehensive loss attributable to common shareholders	(22,793)	(10,644)	(19,494)
Data per Common Share			
Basic loss per share ($/share)	(0.10)	(0.06)	(0.23)
Diluted loss per share ($/share)	(0.10)	(0.08)	(0.23)
Balance Sheet Data			
Net working capital	237,671	90,200	70,637
Total assets	559,457	304,111	178,735
Long term liabilities	$ 828	$ 2,882	$ 59,274

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

The increase in interest income from 2010 to 2011 is the result an increase in cash raised through Horn's non-brokered private placement, the warrant exercises in the fourth quarter of 2010, and cash and marketable securities acquired on the Lion acquisition. The decrease in interest income from 2011 to 2012 can be attributed to a lower yield for cash held on deposit.

The net income attributable to non-controlling interest represents the Company's non-ownership percentage of Horn's net income for 2011 and 2012. The reduction of the net loss attributable to common shareholders from 2010 to 2011 can be mainly attributed to gains on the fair market value of convertible debt and warrants, a gain on the acquisition of Lion, and increased interest income which were partially offset by a dilution loss on the Horn Transaction, an asset impairment on Blocks 2/6 in Ethiopia, increased stock-based compensation costs, a donation to the Lundin Foundation, and increased salary and travel costs associated with increased operational activity. The increase in the net loss attributable to common shareholders from 2011 to 2012 can be attributed to a $3.7 million increase in operating expenses, gains in 2011 relating to the revaluation of convertible debt, the revaluation of warrants, and the Lion acquisition, offset partially by a dilution loss in 2011 in relation to the Horn Transaction.

The improvement in working capital from 2010 to 2011 is due to the acquisition of Lion, the Horn Transaction and proceeds received from farmouts, offset partially by intangible explorations expenditures during 2011. The improvement in working capital from 2011 to 2012 is due to the CAD$232.5 million non-brokered private placement and farmout transactions which closed in 2012, offset partially by intangible asset expenditures and cash-based operating expenses.

The increase in total assets from 2010 to 2011 is due to the improved working capital position, the acquisition of Centric, the acquisition of Lion, and significant intangible asset expenditures in Kenya, Ethiopia and Puntland (Somalia). The increase in total assets from 2011 to 2012 is due to the improved working capital position and significant intangible asset expenditures in Kenya, Ethiopia and Puntland (Somalia).

The significant decrease in long-term liabilities from 2010 to 2011 is the result of convertible debt being converted into shares of AOC during the year. The decrease in long-term liabilities from 2011 to 2012 is due to warrants issued as part of the non-brokered private placement in September 2011 becoming current in 2012.

INTANGIBLE EXPLORATION ASSETS

For the years ended December 31, (thousands)	2012	2011
Intangible exploration assets	$282,109	$185,672

During the year ended December 31, 2012, intangible exploration assets increased by $96.4 million.

AOC incurred $84.2 million of intangible exploration expenditures in Kenya for the year ended December 31, 2012. The majority of expenditures related to the Company's portion of drilling costs on the Ngamia-1 well (Block 10BB), the Twiga South-1 well (Block 13T), and the Paipai-1 well (Block 10A), as well as 2D seismic costs on Blocks 10BB, 13T, and 10BA. Of the $84.2 million expenditures in Kenya, $7.5 million related the Company's portion of PSA related costs and general and administrative costs. AOC incurred $34.3 million of intangible exploration expenditures in Puntland for the year ended December 31, 2012. The majority of expenditures related to exploratory wells at the Shabeel-1 and Shabeel North-1 locations. Of the $34.3 million expenditures in Puntland, $3.3 million related the Company's portion of PSA related costs and general and administrative costs. AOC incurred $15.4 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2012. The majority of expenditures related to the Company's portion of a 2D seismic acquisition program and drilling site preparation costs for the Sabisa-1 well in South Omo. Of the $15.4 million expenditures in Ethiopia, $2.2 million related the Company's portion of PSA related costs and general and administrative costs.

During the first quarter of 2012, management identified indicators of impairment for intangible exploration assets in Mali. As a result of the assessment of these impairment indicators, the Company has written-off $3.1M of capitalized intangible exploration assets. The remaining carrying value of the Mali intangible exploration assets is nil.

During the third quarter of 2012, the Company completed a farmout agreement with Tullow. In accordance with the farmout agreement, Tullow paid the Company $0.8 million in consideration of past exploration expenditures to acquire an additional 15% interest in Block 12A in Kenya. During the fourth quarter of 2012, the Company completed a farmout agreement with Marathon. In accordance with the farmout agreement, Marathon paid the Company $32.0 million in consideration of past exploration expenditures to acquire a 50% interest in Block 9 and a 15% interest in Block 12A, both in Kenya. Also during the fourth quarter of 2012, the Company completed a farmout agreement with New Age. In accordance with the farmout agreement, New Age paid the Company $1.5 million in consideration of past exploration expenditures to acquire an additional 25% interest in Blocks 7/8 in Ethiopia.

The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds their recoverable amount. Assessing what constitutes the recoverable amount is subjective, especially in the exploration phase of exploring for oil and gas in frontier areas where the oil and gas industry is not well developed and precedent transaction analysis is not readily available. Despite the fact that the Company's subsidiary, Horn, has a market capitalization below the carrying value of its net assets, the Company believes that the following factors support the judgment that the value of Horn's intangible exploration assets are not impaired: Horn has fulfilled its financial and work obligations required during the first exploration period of its production sharing contracts and has elected to enter into the second exploration period based on the technical encouragement resulting from its first two exploration wells drilled during 2012; Horn is actively planning future exploration activities; Horn continues to engage parties potentially interested in farming into its exploration blocks; and Horn is in a positive working capital position enabling it to continue exploration.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company had cash of $272.2 million and working capital of $237.7 million as compared to cash of $109.6 million and working capital of $90.2 million at December 31, 2011. Of the $272.2 million in cash at December 31, 2012, $9.5 million is cash held by Horn. The Company's liquidity and capital resource position has improved significantly throughout 2012. Working capital increased significantly compared to the end of 2011 due to the CAD$232.5 million non-brokered private placement and proceeds received from farmout transactions which closed in 2012, offset partially by intangible asset expenditures and cash-based operating expenses.

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

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the year ended December 31, 2012 was $4.9 million as compared to $4.3 million in 2011. Of the $4.9 million stock-based compensation expense recognized in 2012, $0.8 million relates to stock-based compensation expense of Horn. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

RELATED PARTY TRANSACTIONS

Transactions with Lorito Holdings (Guernsey) Limited ("Lorito")

During May 2009, the Company's loans payable due to Lorito in the amount of CAD$6.0 million plus interest of $0.2 million was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. 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. In the event that AOC closed at or above CAD$2.00 for a period of 20 consecutive trading days, the Company may have elected to accelerate the expiry date to 30 days from the date of written notice to the warrant holder. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin. During the first quarter of 2012, Lorito exercised each of its 6,521,601 warrants into a common share of the Company.

Transactions with Namdo Management Services Ltd ("Namdo")

During the year ended December 31, 2012, the Company incurred management fees of $0.3 million, (2011- $0.2 million) for administrative support services fees to Namdo. Namdo is a private corporation owned by Lukas H. Lundin. At December 31, 2012, the Company had no outstanding amounts due to Namdo in respect of management fees (December 31, 2011 – Nil).

Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn. Upon completion of the Share Purchase Agreement, AOC owned 51.4% of the outstanding shares of

Horn. On June 8, 2012, Horn completed a non-brokered private placement issuing 18.75 million units for gross proceeds of CAD$15.0 million. AOC participated in the non-brokered private placement acquiring 4.3 million units. As a result of AOC's participation in the Horn non-brokered private placement and common shares issued on the exercise of warrants and stock options, AOC owned 44.6% of the outstanding shares of Horn at December 31, 2012. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

The Company advanced Horn and its subsidiaries $8.6 million to fund exploration activities during 2011. On September 20, 2011, in accordance with the conditions precedent in the Share Purchase Agreement, AOC converted advances to Horn of $41.2 million into share capital. During the fourth quarter of 2011, Horn repaid the Company the remaining $7.5 million of advances made to Horn. The Company has had no outstanding balances receivable from Horn related to advances to fund exploration activities since the fourth quarter of 2011.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn $0.9 million during 2012 (2011 – $0.3 million). At December 31, 2012, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (December 31, 2011 – $0.3). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.3 million during 2012 (2011 – $0.2 million) for services provided by geologists and geophysicists employed by AOC. At December 31, 2012, $ nil was outstanding and recorded in due from related party (December 31, 2011 – $ nil).

During 2012, AOC invoiced Horn $0.3 million for reimbursable expenses paid by AOC on behalf of Horn (2011 – $0.5 million). At December 31, 2012, $ nil was outstanding and recorded in due from related party (December 31, 2011 – $0.1 million).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of $1.5 million to Horn, via AOC. At December 31, 2011, the funds were on deposit with AOC. Accordingly, the balance had been recorded as due to related party. During the first quarter of 2012, AOC transferred the funds to Horn.

Remuneration of Directors and Senior Management

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Vice President of Exploration, Vice President of Business Development, Vice President of External Affairs, as well as the President and Chief Financial Officer of Horn. Directors include both the Company's five Directors and Horn's four Directors.

Directors' fees include Board and Committee Chair retainers and meeting fees. Managements' short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31, (thousands)		2012		2011
Directors' fees	$	230	$	112
Directors' share-based compensation		457		736
Managements' short-term wages, bonuses and benefits		4,006		2,330
Managements' Share-based compensation		3,382		2,671
	$	8,075	$	5,849

For the year ended December 31, 2012, $1.8 million of management remuneration was capitalized to intangible exploration assets (2011 - $1.1 million).

COMMITMENTS AND CONTINGENCIES

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

Ethiopia:

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expires in July 2013, 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 gross expenditure of $11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. The Company's current working interest in Blocks 7/8 is 30%.

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the minimum work and financial obligations of the initial four year exploration period which expired in July 2011. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the next exploration period with amended minimum work commitments. Under the PSA which expires in July 2013, AOC and its partners are obligated to complete certain geological and geophysical ("G&G") operations (including acquisition of 7,500 kilometers of full tensor gravity) with a minimum gross expenditure of $1.75 million. The Company's current working interest in the Adigala Block is 50%.

Under the terms of the South Omo PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expired in January 2013, AOC and its partners were obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners were required to drill one exploration well with a minimum gross expenditure of $8.0 million. Due to the fact that the Company and its partners are in the midst of fulfilling the remaining commitment (drilling Sabisa-1 exploration well) with respect to the initial exploration period, the Ministry of Mines in Ethiopia has approved the Company's and its partners' entry into the next exploration period. During the next exploration period which ends in January 2015, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, AOC and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. The Company's current working interest in the South Omo Block is 30%. This commitment is supported by an outstanding letter of credit of $294,000 in favor of Tullow Oil plc ("Tullow") which is collateralized by a bank deposit of $294,000.

The Rift Basin Area PSA was executed in February 2013. Under the terms of the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and

400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. The Company's current working interest in the Rift Basin Area is 100%.

Kenya:

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in January 2014, AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of $7.8 million. Additionally, AOC and its partners are obligated to drill one exploration well with a minimum expenditure of $8.5 million. The Company's current working interest in Block 10A is 30%.

Under the terms of the Block 10BB PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in July 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in July 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of $7.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. The Company's current working interest in Block 10BB is 50%.

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 next exploration phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partners are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $2.5 million. The Company's current working interest in Block 9 is 50%.

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2013, the initial minimum gross exploration expenditure is $3.6 million. The Company and its partner are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof). The Company's current working interest in Blocks 12A is 20%.

Under the terms of the Block 13T PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in September 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in September 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. The Company's current working interest in Block 13T is 50%.

Under the terms of the Block 10BA PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in April 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of $3.0 million. The Company's current working interest in Block 10BA is 50%. The commitments on Block 10BA are supported by an outstanding letter of credit of $450,000 in favor of the Kenyan Government which is collateralized by bank deposit of $450,000.

Puntland (Somalia):

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

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to its 20% participating interest share of ongoing exploration costs related to each block. The sole funding obligation with respect to the Nugaal Valley block was reached in the June 2012. Upon commencement of commercial production, $3.5 million will be payable to Range. The Company's current working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks is 60%.

OUTSTANDING SHARE DATA

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

Common shares outstanding	252,165,938
Outstanding share purchase options	8,277,056
Full dilution impact on common share outstanding	260,442,994

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company' significant accounting policies can be found in note 3 of the Company's Financial Statements.

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

stock-based compensation, income taxes and fair market value of warrants and convertible debentures.

Intangible Explorations Assets

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

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

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

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

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

Stock Based Compensation

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

Warrants

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

Scholes option pricing model, for valuing the warrants. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

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

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

On January 1, 2011, the Company adopted International Financial Reporting Standards (“IFRS”) for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS has not had an impact on the Company’s operations, strategic decisions and Cash Flow.

Future Accounting Pronouncements

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB’s project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.
- IFRS 11, "Joint Arrangements", which is the result of the IASB’s project to replace IAS 31, “Interests in Joint Ventures”. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures

required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- IAS 19, "Employee Benefits", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.
- IFRS 7, "Financial Instruments: Disclosures", which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "Financial Instruments: Presentation" to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014.

As of January 1, 2015, IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

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.

International Boundary Disputes

As a result of ongoing political disputes, the legal international boundaries between Somalia (which includes Puntland, a semi-autonomous region within Somalia) and its neighboring countries are in dispute. For instance, in September 2007, AOC was advised that the Ministry of Water and Mineral Resources of the Republic of Somaliland was claiming ownership of the Nugaal and AhlMedo Valley basins, including some or all of the areas that comprise the Puntland PSA, granted by the Government of Puntland. That claim was repeated in correspondence received by the Company in February 2012. The Republic of Somaliland and Somalia have disputed their respective borders since May 1991 when the Republic of Somaliland was established. As recently as August 2011, there have been armed confrontations at the Somalia / Somaliland border. AOC disputes the claims of the Republic of Somaliland; however, the outcome of this dispute cannot be predicted with any certainty.

Political Instability
Through Horn, the Company is highly exposed to significant political risk in Puntland (Somalia). The political climate in Puntland (Somalia) is characterized by strong internal political tension, turmoil and factional fighting. The political tensions sometimes escalate into violence or the threat of violence.

Through Horn, the Company continues to work and cooperate with government leaders in Somalia, however, there can be no certainty as to if, or when, the current political instability will be resolved.

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

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

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

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, 2012.

For the year ended December 31, 2012, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $1.5 million (2011 - $3.9 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2012, the Company had $114.5 million Canadian dollars (2011 - $79.8 million Canadian dollars) in cash and cash equivalents. Subsequent to December 31, 2012, the Company acquired US dollars reducing its Canadian dollars held by CAD $39.5 million.

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

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

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

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

OUTLOOK

The Ngamia-1 and Twiga South-1 light oil discoveries in the Lokichar sub-basin, combined with positive results from reservoir analysis and flow rate tests at Twiga South-1, has led to a significant increase in the pace of exploration focused on tertiary rift basins. The Company and its joint venture partners in the tertiary rift play in east Africa plan to have four rigs operating by the end of 2013. The focus of these rigs in 2013 will be to continue drilling and testing wells in the Lokichar sub-basin in Kenya with improved efficiencies in an effort to reach commercial thresholds, and to drill potential basin-opener wells in the Turkana and the Chew B'hir basins in the tertiary rift play within Ethiopia. The Company and its partners will continue to acquire seismic data throughout the tertiary rift in Kenya and Ethiopia in an effort to add to its existing portfolio of drill-ready prospects.

The Company and its operating partner in Block 9 in Kenya are currently planning to drill the Bahasi-1 exploratory well. This well will be drilled on a large anticlinal structure targeting tertiary and cretaceous sandstones where six billion barrels of oil was discovered along trend in Sudan in a similar geologic setting. A follow-up well is also being considered towards the end of 2013 in Block 9. The Company and its operating partners in Blocks 7/8 in Ethiopia are currently planning to drill a well to appraise reservoir characteristics of Jurassic carbonates on the El Kuran oil accumulation. The main focus of this well is to establish commercial rates with acidizing, fraccing and horizontal sidetracks being considered.

The Company, through its 44.6% ownership interest in Horn, and its partners entered the next exploration period in both the Dharoor Valley and Nugaal Valley PSAs which carry a commitment to drill one well in each block within an additional three year term. The current operational plan is to contract a seismic crew to acquire additional data in the Dharoor Valley block and to hold discussions with the Puntland Government regarding drill ready prospects in the Nugaal Valley block. The focus of the Dharoor Valley block seismic program will be to delineate new structural prospects for the upcoming drilling campaign.

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

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

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;
- future asset acquisitions or dispositions;
- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

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

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

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- volatility in energy trading markets;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;

- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict,
- conflict between states.

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

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

Consolidated Financial Statements
(Expressed in thousands of United States dollars)

AFRICA OIL CORP.

For the years ended December 31, 2012 and 2011

Prepared by Management

March 26, 2013

Independent Auditor's Report

To the Shareholders of
Africa Oil Corp.

We have audited the accompanying consolidated financial statements of Africa Oil Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of net loss and comprehensive loss, equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F:+1 403 781 1825, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta, Canada

AFRICA OIL CORP.

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

	Note		December 31, 2012		December 31, 2011
ASSETS					
Current assets					
Cash and cash equivalents		$	272,175	$	109,558
Marketable securities	6(b)		-		2,606
Accounts receivable			2,848		2,717
Prepaid expenses			1,124		600
			276,147		115,481
Long-term assets					
Restricted cash	5		1,119		2,919
Property and equipment	7		82		39
Intangible exploration assets	8		282,109		185,672
			283,310		188,630
Total assets		$	559,457	$	304,111
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	36,188	$	23,768
Current portion of warrants	11		2,288		1,513
			38,476		25,281
Long-term liabilities					
Warrants	11		828		2,882
			828		2,882
Total liabilities			39,304		28,163
Equity attributable to common shareholders					
Share capital	10(b)		558,555		306,510
Contributed surplus			12,123		8,425
Deficit			(98,076)		(75,283)
			472,602		239,652
Non-controlling interest			47,551		36,296
Total equity			520,153		275,948
Total liabilities and equity		$	559,457	$	304,111

The notes are an integral part of the 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 Net Loss and Comprehensive Loss
(Expressed in thousands of United States dollars)

For the years ended	**Note**	**December 31, 2012**	**December 31, 2011**
Operating expenses			
Salaries and benefits		$ 3,665	$ 1,696
Stock-based compensation	12	4,943	4,348
Travel		1,469	1,133
Management fees	19	294	245
Office and general		718	1,508
Donation	24	2,313	-
Depreciation	7	48	48
Professional fees	10b(ii)	4,187	1,476
Stock exchange and filing fees		916	547
Impairment of intangible exploration assets	8	3,127	6,969
		21,680	17,970
Gain on acquisition of Lion Energy	6(b)	-	(4,143)
Dilution loss on sale of subsidiary	6(c)	-	4,579
Finance income	18	(1,727)	(12,079)
Finance expense	18	164	2,626
Net loss and comprehensive loss		20,117	8,953
Net income and comprehensive income attributable to non-controlling interest		(2,676)	(1,691)
Net loss and comprehensive loss attributable to common shareholders		22,793	10,644
Net loss attributable to common shareholders per share	21		
Basic		$ 0.10	$ 0.06
Diluted		$ 0.10	$ 0.08
Weighted average number of shares outstanding for the purpose of calculating earnings per share	21		
Basic		220,664,278	193,417,492
Diluted		220,664,278	194,030,846

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

AFRICA OIL CORP.

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

	Note	December 31, 2012	December 31, 2011
Share capital:	**10(b)**		
Balance, beginning of year		$ 306,510	$ 163,231
Acquisition of Centric Energy		-	60,165
Acquisition of Lion Energy, net of AOC shares acquired		-	21,561
Issued on conversion of convertible debenture		-	52,215
Amended farmout agreement with Lion Energy		-	5,275
Private placement, net		226,446	-
Exercise of warrants		14,340	3,024
Shares issued in lieu of professional fees		3,763	167
Exercise of options		7,496	872
Balance, end of year		558,555	306,510
Contributed surplus:			
Balance, beginning of year		$ 8,425	$ 4,392
Expiration of warrants	11	-	4
Exercise of Horn warrants	11(c)	1,148	-
Acquisition of Lion Energy	6(b)	-	110
Stock based compensation	12	4,943	4,348
Issuance of shares in lieu of professional fees	10(b)	-	(167)
Exercise of options	12	(2,393)	(262)
Balance, end of year		12,123	8,425
Deficit:			
Balance, beginning of year		$ (75,283)	$ (56,570)
Dilution loss through equity	6(c)	-	(8,069)
Net loss and comprehensive loss attributable to common shareholders		(22,793)	(10,644)
Balance, end of year		(98,076)	(75,283)
Total equity attributable to common shareholders		$ 472,602	239,652
Non-controlling interest:			
Balance, beginning of year		$ 36,296	$ -
Non-controlling interest on disposal of Canmex	6(c)	-	34,605
Non-controlling interest on issuance of Horn shares		8,579	-
Net income and comprehensive income attributable to non-controlling interest	6(c)	2,676	1,691
Balance, end of year		47,551	36,296
Total equity		$ 520,153	$ 275,948

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

AFRICA OIL CORP.

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

	Note		December 31, 2012		December 31, 2011
Cash flow s provided by (used in):	**Note**				
Operations:					
Net loss and comprehensive loss for the year		$	(20,117)	$	(8,953)
Items not affecting cash:					
Stock-based compensation	12		4,943		4,348
Share-based expense	10(ii)		3,763		-
Depreciation	7		48		48
Loss (gain) on marketable securities	18		124		(236)
Gain on acquisition of Lion Energy	6(b)		-		(4,143)
Impairment of intangible exploration assets	8		3,127		6,969
Dilution loss on sale of subsidiary	6(c)		-		4,579
Fair value adjustment - w arrants	18		(832)		(8,845)
Fair value adjustment - convertible debt	18		-		(2,032)
Unrealized foreign exchange loss			1,055		1,901
Changes in non-cash operating w orking capital			(657)		(622)
			(8,546)		(6,986)
Investing:					
Property and equipment expenditures	7		(91)		(39)
Intangible exploration expenditures	8		(133,823)		(41,285)
Farmout proceeds	8,17		34,259		14,901
Cash received on business acquisitions, net of cash issued	6(a),6(b)		-		18,637
Proceeds on disposal of Canmex, net of investment in Horn	6(c)		-		29,923
Proceeds from sale of marketable securities			2,442		-
Changes in non-cash investing w orking capital			12,373		16,611
			(84,840)		38,748
Financing:					
Common shares and w arrants issued, net of issuance costs	10(b)		255,169		3,020
Repayment of liability portion of convertible debt	9		-		(411)
Deposit of cash for bank guarantee	5		(375)		(2,175)
Release of bank guarantee	5		2,175		2,888
Changes in non-cash financing w orking capital			-		169
			256,969		3,491
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency			(966)		(1,821)
Increase in cash and cash equivalents			162,617		33,432
Cash and cash equivalents, beginning of year			109,558	$	76,126
Cash and cash equivalents, end of year			272,175	$	109,558
Supplementary information:					
Interest paid			Nil		411,220
Taxes paid			Nil		Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 26, 2013, the date the Board of Directors approved the statements.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

i) Exploration and evaluation costs:

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount (see note 8).

ii) Share-based payments:

Charges for share-based payments are based on the fair value at the date of the award. Stock Options are valued using Black-Scholes, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 12).

iii) Derivative financial instruments:

The Company's warrants and convertible debenture are treated as derivative financial liabilities. The estimated fair value, based on the Black-Scholes model, of each is adjusted on a quarterly basis with gains or losses recognized in the statement of net loss and comprehensive loss. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term (see note 11).

3) Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Basis of consolidation:

i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of property, plant and equipment and intangible exploration assets recognized in a business combination, is based on market values. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of net loss and comprehensive loss.

ii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into US 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. Exchange gains or losses arising from translation are included in the statement of net loss and comprehensive loss.

c) Property and equipment and Intangible exploration assets:

i) Pre-exploration expenditures:

Costs incurred prior to obtaining the legal rights to explore an area are recognized in the statement of net loss and comprehensive loss as incurred.

ii) Exploration expenditures:

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

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a cash-generating unit within "oil and gas interests" subsequent to determining that the assets are not impaired (see "Impairment" below). Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of net loss and comprehensive loss.

Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible explorations assets.

iii) Development and production costs:

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within "oil and gas interests" on a cash-generating unit basis.

Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in the statement of net loss and comprehensive loss.

Net proceeds from any disposal of “oil and gas interests” are recorded as a gain or loss on disposal recognized in the statement of net loss and comprehensive loss to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

d) Depletion and depreciation:

The net carrying value of “oil and gas interests” are depleted on a cash-generating unit basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Such reserves are considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For property and equipment, depreciation is recognized in the statement of net loss and comprehensive loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives for other property and equipment, consisting of primarily office and computer equipment, for the current and comparative years are from one to three years.

e) Impairment:

i) Financial assets carried at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of net loss and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of net loss and comprehensive loss.

ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than intangible exploration assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as oil and gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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

The goodwill, if any, acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. Intangible exploration assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and gas interests in property and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of net loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

f) Stock-based compensation:

The Company has a stock option plan as described in note 12. 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. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the statement of net loss and comprehensive loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in the statement of net loss and comprehensive loss, using the effective interest method.

Gains and losses related to revaluation of marketable securities, warrants and convertible debentures and related to foreign currency are reported under each of finance income and finance expenses on a net basis.

h) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Earnings per share:

Basic earnings per share is calculated by dividing the statement of net loss and comprehensive loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the statement of net loss and comprehensive loss and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, warrants outstanding and convertible debentures. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

j) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. The Company has acquired marketable securities in the Lion Energy Corp. acquisition that management intends to sell in the short term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of net loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the statement of net loss and comprehensive loss within financing income or expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current. The Company does not have any financial instruments in this category.

ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any financial instruments in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of net loss and comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of net loss and comprehensive loss when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the statement of net loss and comprehensive loss.

iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash and accounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payables and are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

v) Derivative financial instruments:

The Company has issued warrants and a convertible debenture that are treated as derivative liabilities. All derivatives have been classified as held-for-trading, are included on the balance sheet within warrants and convertible debenture liabilities, and are classified as current or non-current based on the contractual terms specific to the instrument.

(1) Warrants

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 11).

(2) Convertible debenture

The convertible debenture entitled the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 9).

k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

4) Future accounting changes:

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. IFRS 10 will have minimal impact on the Company's financial statements on adoption as the current consolidation method adheres to this standard.
- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated. IFRS 11 will have minimal impact on the Company's financial statements on adoption as all the joint arrangements the Company has were determined to be joint operations and; therefore, use the proportionate consolidation method, which is already currently in use.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. IFRS 12 will require minimal disclosure changes Company's financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. IFRS 13 will require minimal disclosure changes Company's financial statements.
- IAS 19, "Employee Benefits", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans. These amendments will require minimal disclosure changes in the Company's financial statements.

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

- IFRS 7, "Financial Instruments: Disclosures", which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "Financial Instruments: Presentation" to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014. These amendments will require minimal disclosure changes in the Company's financial statements.

As of January 1, 2015, IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

5) Restricted cash:

At December 31, 2012, the Company has a restricted cash balance of $1.1 million, (December 31, 2011 - $2.9 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	December 31, 2012	December 31, 2011
10A	Tullow Oil plc	$ -	$ 731
10BB	Tullow Oil plc	-	900
12A	Tullow Oil plc	-	270
13T	Tullow Oil plc	-	274
South Omo	Tullow Oil plc	294	294
9	Republic of Kenya	375	-
10BA	Republic of Kenya	450	450
		$ 1,119	$ 2,919

6) Acquisitions and divestitures:

a) Centric Energy Corp.

On February 23, 2011, the Company acquired all of the issued and outstanding commons shares of Centric Energy Corp. ("Centric") for total consideration of $60.2 million. Centric was an oil and gas exploration company with operations in Kenya and the Republic of Mali. The consideration consisted of $10 of cash and 30,155,524 common shares of the Company valued at CAD$1.98 per share, being the trading price of the shares on the date the acquisition closed. The financial results of Centric's operations have been included in the Company's consolidated financial statements since the effective date.

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

The preliminary purchase price was allocated based on fair values as follows:

Net Assets Acquired		
Cash	$	749
Accounts receivable		136
Restricted cash		450
Property and equipment		9
Intangible exploration assets		58,831
Total net assets acquired	$	60,175

Consideration		
Shares issued		60,165
Cash issued		10
Total consideration	$	60,175

Had Centric been consolidated from January 1, 2011, net loss of AOC per the consolidated statement of net income (loss) and comprehensive loss would have been $1.2 million higher for the year ended December 31, 2011.

b) Lion Energy Corp.

On June 20, 2011, the Company acquired all the issued and outstanding common shares of Lion Energy Corp. (“Lion”) for total consideration of $21.7 million. Lion was an oil and gas exploration company with operations in Kenya and Puntland (Somalia). The consideration consisted of 17,462,447 common shares of the Company. At the date of the acquisition, Lion owned 2,500,000 shares of the Company which were issued to Lion as part of an amended farmout agreement, resulting in 14,962,447 net shares of the Company being issued valued at CAD$1.41 per share, being the trading price of the shares on the date the acquisition closed. The Company also issued 287,250 stock options of the Company fair valued at CAD$0.38 based on the Black Scholes option pricing model and assumed 2,289,000 outstanding Lion warrants. The warrants were amended to acquire AOC shares at CAD$2.50. No value was attributed to the amended Lion warrants which all expired out of the money shortly after the acquisition. The preliminary purchase price was allocated based on fair values as follows:

Net Assets Acquired		
Cash	$	17,898
Accounts receivable		3,426
Marketable securities		2,453
Intangible exploration assets		5,681
Accounts payable and accrued liabilities		(3,644)
Total net assets acquired	$	25,814

Consideration		
Shares issued, net of AOC shares acquired		21,561
Share options issued		110
Total consideration	$	21,671
Gain on acquisition	$	4,143

The marketable securities acquired were 10 million shares in Encanto Potash Corp. (“Encanto”) which trades on the TSX Venture Exchange. These securities are stated at fair value with gains or losses on revaluation recorded on the statement of net loss and comprehensive loss. All of the Encanto shares acquired were sold subsequent to December 31, 2011.

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

Had Lion been consolidated from January 1, 2011, net loss per the consolidated statement of net loss and comprehensive loss would have been $1.2 million higher for the year ended December 31, 2011.

c) Horn Petroleum Corporation (“Horn”)

i) Initial Transaction

On September 20, 2011, the Company transferred ownership of its wholly owned subsidiary, Canmex Holdings (Bermuda) I Ltd. (“Canmex”), the entity which indirectly owns a 60% interest in Production Sharing Agreements with the Puntland State of Somalia, in return for 27,777,778 shares in Horn (formerly Denovo Capital Corp.) (the “Transaction”).

Prior to close of the Transaction, Horn completed a consolidation of its issued and outstanding common shares on the basis of 0.65 new common shares for each existing common share. Horn also completed a non-brokered private placement of an aggregate of 45,535,195 subscription receipts at a price of CAD$0.90 per subscription receipt for gross proceeds of $41.3 million. AOC acquired 11,111,111 of the subscription receipts. The subscription receipts were converted into common shares and warrants of Horn on September 20, 2011. In connection with the private placement, Horn paid a finder’s fee, consisting of the issuance of an aggregate of 812,417 common shares and the payment of $0.9 million in cash. All securities issued pursuant to the offering were subject to a statutory hold period which expired December 3, 2011.

Subsequent to the Transaction, AOC held 51.4% of the outstanding shares of Horn, as well, a management services arrangement has been agreed between Horn and AOC in which the management of AOC are responsible for the operating decisions of Horn. As such, the former shareholder of Canmex, AOC, is deemed to control Horn.

In accordance with IFRS, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent. The following table outlines the consideration received versus the non-controlling interest adjustment:

Net consideration received		
Net cash	$	29,923
Accounts payable and accrued liabilities		(179)
Warrant liability		(7,787)
Total net assets acquired	$	21,957
Non-controlling interest adjusted		34,605
	$	(12,648)

The total difference by which the non-controlling interests are adjusted and the fair value of the consideration received was $12.6 million of which $4.6 million was recognized as a dilution loss in the statement of net loss and comprehensive loss on the consolidation of Horn and $8.1 million was recognized as a dilution loss through equity during 2011.

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

ii) 2012 Private Placement

In June 2012, Horn completed a non-brokered private placement of an aggregate of 18,750,000 units at a price of CAD$0.80 per unit for gross proceeds of $14.4 million. Each unit consisted of one common share and one-half of a share purchase warrant of Horn. A finder's fee was paid, consisting of the issuance of an aggregate of 342,500 units and the payment of $0.1 million in cash. All securities issued under the private placement were subject to a statutory hold period which expired on October 9, 2012. AOC acquired 4,315,000 of the units issued for gross proceeds of $3.4 million. At December 31, 2012, AOC owned 44.6% of Horn.

7) Property and equipment:

		December 31, 2012		December 31, 2011
Cost, beginning of year	$	215	$	167
Additions		91		39
Business acquisitions (note 6(a))		-		9
Cost, end of year		306		215
Accumulated depreciation, beginning of year		(176)		(128)
Depreciation		(48)		(48)
Accumulated depreciation, end of year		(224)		(176)
Net carrying amount, beginning of year	$	39	$	39
Net carrying amount, end of year	$	82	$	39

As at December 31, 2012, the Company has recorded $0.1 million of property and equipment (December 31, 2011 - $0.04 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years). The Company has reviewed property and equipment and determined that there is no indication of impairment.

8) Intangible exploration assets:

	Note		December 31, 2012		December 31, 2011
Net carrying amount, beginning of year		$	185,672	$	96,469
Additions			133,823		41,285
Impairment of Intangible exploration assets			(3,127)		(6,969)
Farmout proceeds	17		(34,259)		(9,625)
Business acquisitions	6		-		64,512
Net carrying amount, end of year		$	282,109	$	185,672

As at December 31, 2012, $282.1 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2011 - $185.7 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At December 31, 2012, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

During the year ended December 31, 2012, the Company capitalized $6.3 million of general and administrative expenses related to intangible exploration assets (December 31, 2011 – $3.1 million). During the year ended December 31, 2012, the Company capitalized $ nil interest expense in relation to its convertible debt to intangible exploration assets (December 31, 2011 – $0.2 million).

During the fourth quarter of 2012, the Company relinquished Blocks 7/12 in Mali. Accordingly, the Company has written-off $3.1 million of capitalized intangible exploration assets. The remaining carrying value of the Mali intangible exploration assets is $ nil.

During the second quarter of 2011, the Company relinquished Blocks 2/6 in Ethiopia. Accordingly, the Company has written-off $7.0 million of capitalized intangible exploration assets of which $1.2 million represents the Company's portion of settlement costs with the Government of Ethiopia related to unfulfilled work obligations on the block.

The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds their recoverable amount. Assessing what constitutes the recoverable amount is subjective, especially in the exploration phase of exploring for oil and gas in frontier areas where the oil and gas industry is not well developed and precedent transaction analysis is not readily available. Despite the fact that the Company's subsidiary, Horn, has a market capitalization below the carrying value of its net assets, the Company believes that the following factors support the judgment that the value of Horn's intangible exploration assets are not impaired: Horn has fulfilled its financial and work obligations required during the first exploration period of its production sharing contracts and has elected to enter into the second exploration period based on the technical encouragement resulting from its first two exploration wells drilled during 2012; Horn is actively planning future exploration activities; Horn continues to engage parties potentially interested in farming into its exploration blocks; and Horn is in a positive working capital position enabling it to continue exploration.

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

9) Convertible debenture:

As part of the Company's acquisition in April of 2009 of Lundin Petroleum AB's ("LPAB") oil and gas operations in Kenya and Ethiopia, a subsidiary of LPAB provided the Company with a $23.8 million US dollar denominated convertible debenture to finance the acquisition. The convertible loan from LPAB carried an interest rate of USD six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, was 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 convertible debenture was to mature December 31, 2011.

In March 2011, the Company and LPAB amended the terms of the loan agreement to allow for full or partial conversion of the loan prior to the maturity date if agreed to, in writing, by both parties. On March 3, 2011, AOC and LPAB agreed to convert $13.0 million of the convertible loan into 14 million shares of the Company.

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

In April 2011, AOC and LPAB agreed to convert the remaining $10.8 million of the convertible loan plus $0.2 million of accrued interest into 11,850,100 shares of the Company.

The Company accounted for the convertible debenture as a liability as the instrument entitled the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes in financing income and expenses.

10) Share capital:

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

b) Issued:

		December 31, 2012			December 31, 2011		
	Note	Shares		Amount	Shares		Amount
Balance, beginning of year		211,413,059	$	306,510	135,806,100	$	163,231
Acquisition of Centric Energy	6(a)	-		-	30,155,524		60,165
Acquisition of Lion, net of AOC shares acquired	6(b)	-		-	14,962,447		21,561
Issued on conversion of convertible debenture	9	-		-	25,850,100		52,215
Amended farmout agreement with Lion Energy	6(b)	-		-	2,500,000		5,275
Private placements, net of issue costs	(iii)	30,000,000		226,446	-		-
Exercise of warrants, net of issue costs	11	6,521,601		14,340	1,530,000		3,024
Shares issued in lieu of professional fees	(ii)	420,000		3,763	103,306		167
Exercise of options	(12)	3,811,278		7,496	505,582		872
Balance, end of year		252,165,938	$	558,555	211,413,059	$	306,510

i) In June of 2011, the Company acquired 2.5 million of its own shares through the purchase of Lion Energy (see note 6(b)). The total amount paid to acquire the shares was deducted from share capital. The shares were held as treasury shares until they were surrendered for cancellation, and returned to treasury on December 15, 2011. No consideration was paid to AOC in connection with the cancellation and return to treasury. No gain or loss is recognized in the consolidated statement of net loss and comprehensive loss on the purchase, sale, issue or cancellation of the Company's own equity shares.

ii) During the third quarter of 2012, the Company issued 420,000 common shares as a settlement of claimed professional fees relating to previously completed farmout transactions. The Company has recorded the issuance of these shares as professional fees in the statement of net loss and comprehensive loss.

iii) During December 2012, the Company completed a non-brokered private placement issuing an aggregate of 30,000,000 shares at a price of CAD$7.75 per share for gross proceeds of $235.1 million. A finder's fee was paid in the amount of $8.6 million in cash. The Company issued 27,881,991 of the common shares on December 7, 2012 ("first tranche") and issued 2,118,009 common shares on December 13, 2012 ("second tranche"). The common shares issued under the first and second tranche of the private placement are subject to a statutory hold period which expires on April 8, 2013 and April 14, 2013, respectively.

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

11) Warrants:

	Note	Number of AOC Warrants		Amount ($)
Balance, December 31, 2010:		**8,061,101**	**$**	**6,071**
Current portion of warrants		1,500,000		1,513
Long-term portion of warrants		6,561,101	$	4,558
Expiration of warrants	(a),6(b)	(2,298,500)		(4)
Exercise of warrants	(a)	(1,530,000)		(614)
Issuance of warrants	6(b),6(c)	2,289,000		-
Fair market value adjustment		-		(3,940)
Balance, December 31, 2011:		**6,521,601**	**$**	**1,513**
Exercise of warrants	(b)	(6,521,601)		(4,464)
Fair market value adjustment		-		2,951
Balance, December 31, 2012:		-	$	-

a) 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. 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 2010, 37,220,365 were exercised and 161,153 expired unexercised. The expiry for the remaining 39,500 warrants was extended to March 23, 2011. In the first quarter of 2011, 30,000 of the remaining warrants were exercised and 9,500 expired unexercised. As a result of warrants exercised in the first quarter of 2011, the Company issued 30,000 common shares, realizing net proceeds of $46. The fair value of warrants transferred to share capital was $15.

   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. The expiry date with respect to these warrants was amended to May 22, 2011. On April 20, 2011 all outstanding warrants held by Platform were exercised. As a result of the warrants being exercised the Company issued 1,500,000 common shares, realizing net proceeds of $2.4 million. The fair value of warrants transferred to share capital was $0.6 million.

b) On March 12, 2012, the Company's remaining outstanding warrants were exercised. As a result of the warrants being exercised, the Company issued 6,521,601 common shares, realizing net proceeds of $9.9 million. The fair value of warrants transferred to share capital was $4.5 million

c) At December 31, 2012, the Company recorded $0.8 million (December 31, 2011 - $2.9 million) in long-term warrant liability and $2.3 million (December 31, 2011 - $ nil) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn. During 2012, the Company recognized a $3.8 million gain on the revaluation of Horn's warrant liability (2011 – $4.9 million). The Company recognized an increase in contributed surplus of $1.1 million in relation to Horn warrants exercised in the second quarter of 2012.

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12) Share purchase options:

At the 2011 Annual General Meeting, held on May 31, 2012, the Company approved the stock option plan ("the Plan") which was last amended at the 2010 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.

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

	December 31, 2012		December 31, 2011	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	10,830,668	1.54	3,946,667	1.67
Granted	1,385,000	9.12	8,112,250	1.70
Expired or cancelled	(127,334)	2.29	(722,667)	4.30
Exercised	(3,811,278)	1.37	(505,582)	1.16
Balance, end of year	8,277,056	2.87	10,830,668	1.54

The weighted average closing share price on the day options were exercised during the year ended December 31, 2012 was CAD$7.54 (December 31, 2011 - CAD$1.77).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the years ended December 31, 2012 and December 31, 2011 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2012	2011
Number of options granted during the year	1,385,000	8,112,250
Fair value of options granted ($ per option)	3.67	0.66
Risk-free interest rate (%)	1.10	1.33
Expected life (years)	2.25	2.17
Expected volatility (%)	70	68
Expected dividend yield	-	-

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

The following table summarizes information regarding the Company's stock options outstanding at December 31, 2012:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
1.13	730,000	0.54
1.27	16,667	1.66
1.49	3,890,333	1.90
1.56	50,000	1.93
1.70	16,666	1.51
1.85	399,889	1.20
1.88	33,334	1.30
1.94	100,000	1.25
2.09	23,500	2.17
2.10	1,676,667	1.07
8.10	25,000	2.91
8.32	315,000	2.51
8.90	250,000	2.67
9.90	750,000	2.69
2.87	8,277,056	1.69

During the year ended December 31, 2012, the Company recognized $4.1 million and $0.8 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (2011 - $3.7 million and $0.6 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

13) Financial risk management:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. None of the Company's accounts receivable at December 31, 2012 was past due.

b) 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.

c) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments.

i) 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 to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

For the year ended December 31, 2012, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $1.5 million (2011 - $3.9 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2012, the Company had $114.5 million Canadian dollars (2011 - $79.8 million Canadian dollars) in cash and cash equivalents. Subsequent to December 31, 2012, the Company acquired US dollars reducing its Canadian dollars held by CAD $39.5 million.

ii) Interest rate risk:

As at December 31, 2012, the Company's has no outstanding convertible debenture. The convertible debenture was repaid in full during the year. The Company further has not entered into any derivative instruments or borrowing arrangements in which exposure to fluctuations in interest rates exists.

iii) Commodity price risk:

The Company is not currently directly exposed to fluctuations in commodity prices as AOC is currently in the exploration phase and has no production.

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

14) Capital management:

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 which currently consists exclusively of equity instruments, the Company may issue additional 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.

15) Segment information:

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

At December 31, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	**Total**
Total assets	$ 164,112	$ 34,553	$ 88,343	$ -	$ 272,449	**$ 559,457**
Intangible exploration assets	163,423	31,384	87,302	-	-	**282,109**
Property and equipment	-	-	-	-	82	**82**

At December 31, 2011	Kenya	Ethiopia	Puntland	Mali	Corporate	**Total**
Total assets	$ 117,065	$ 18,794	$ 54,452	$ 3,132	$ 110,668	**$ 304,111**
Intangible exploration assets	112,022	17,491	53,041	3,118	-	**185,672**
Property and equipment	-	-	-	9	30	**39**

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

Year ended December 31, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	$ 84,169	$ 15,393	$ 34,261	$ -	$ -	**$ 133,823**
Property and equipment	-	-	-	-	91	**91**
	$ 84,169	$ 15,393	$ 34,261	$ -	$ 91	**$ 133,914**
Statement of operations						
Expenses	$ 62	$ 23	$ 19	$ 3,146	$ 18,430	**$ 21,680**
Finance income	-	-	-	-	(1,727)	**(1,727)**
Finance expense	-	-	-	-	164	**164**
Segmented loss	$ 62	$ 23	$ 19	$ 3,146	$16,867	**$ 20,117**

Year ended December 31, 2011	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	$ 20,163	$ 6,840	$ 14,282	$ -	$ -	**$ 41,285**
Property and equipment	-	-	-	-	39	**39**
	$ 20,163	$ 6,840	$ 14,282	$ -	$ 39	**$ 41,324**
Statement of operations						
Expenses	$ 272	$ 6,971	$ 44	$ 45	$ 10,638	**$ 17,970**
Gain on aquisition of Lion Energy	-	-	-	-	(4,143)	**(4,143)**
Dilution loss on sale of subsidiary	-	-	-	-	4,579	**4,579**
Finance income	-	-	-	-	(12,079)	**(12,079)**
Finance expense	-	-	-	-	2,626	**2,626**
Segmented loss	$ 272	$ 6,971	$ 44	$ 45	$1,621	**$ 8,953**

16) Commitments and contingencies:

a) Contractual obligations

i) Puntland (Somalia):

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

Under the Joint Venture Agreement with Range Resources Ltd. (“Range”), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to pay its 20% participating interest share of ongoing exploration costs related to each block. The sole funding obligation with respect to the Nugaal Valley block was reached in June 2012. Upon commencement of commercial production, $3.5 million will be payable to Range. At December 31, 2012, the Company’s working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks was 60%.

ii) Ethiopia:

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expires in July 2013, 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 gross expenditure of $11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2012, the Company's working interest in Blocks 7/8 was 30%.

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the minimum work and financial obligations of the initial four year exploration period which expired in July 2011. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the next exploration period with amended minimum work commitments. Under the PSA which expires in July 2013, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 7,500 kilometers of full tensor gravity) with a minimum gross expenditure of $1.75 million. At December 31, 2012, the Company's working interest in the Adigala Block was 50%.

Under the terms of the South Omo PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expired in January 2013, AOC and its partners were obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners were required to drill one exploration well with a minimum gross expenditure of $8.0 million. Due to the fact that the Company and its partners are in the midst of fulfilling the remaining commitment (drilling Sabisa-1 exploration well) with respect to the initial exploration period, the Ministry of Mines in Ethiopia has approved the Company's and its partners' entry into the next exploration period. During the next exploration period which ends in January 2015, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, AOC and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. At December 31, 2012, the Company's working interest in the South Omo Block was 30%. This commitment is supported by an outstanding letter of credit of $294 in favor of Tullow Oil plc ("Tullow") which is collateralized by a bank deposit of $294 (see note 5).

In February 2013, the Company entered into a PSA on the Rift Basin Area (formerly referred to as the Rift Valley Block) in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million.

iii) Kenya:

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in January 2014, AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of $7.8 million. Additionally, AOC and its partners are obligated to drill one exploration well with a minimum expenditure of $8.5 million. At December 31, 2012, the Company's working interest in Block 10A was 30%.

Under the terms of the Block 10BB PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in July 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in July 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of $7.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2012, the Company's working interest in Block 10BB was 50%.

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 next exploration phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partners are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $2.5 million. At December 31, 2012, the Company's working interest in Block 9 was 50%.

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2013, the initial minimum gross exploration expenditure is $3.6 million. The Company and its partner are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof). At December 31, 2012, the Company's working interest in Blocks 12A was 20%.

Under the terms of the Block 13T PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in September 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in September 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At December 31, 2012, the Company's working interest in Block 13T was 50%.

Under the terms of the Block 10BA PSC, during the initial exploration period which was extended by the Ministry of Energy of the Republic of Kenya and expires in April 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of $3.0 million. At December 31, 2012, the Company's working interest in Block

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10BA was 50%. The commitments on Block 10BA are supported by an outstanding letter of credit of $450 in favor of the Kenyan Government which is collateralized by bank deposit of $450 (see note 5).

b) Office Lease Costs:

The Company has committed to future minimum payments at December 31, 2011 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2013	481
2014	431
2015	431
2016	431
2017	428
Total minimum payments	2,202

c) Title disputes:

In many of the countries in which the Company operates, land title systems are not developed to the extent found in many industrial countries and there may be no concept of registered title. Although the Company believes that it has title to its oil and gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges. There can be no assurance that claims or challenges by third parties against the Company's properties will not be asserted at a future date.

17) Farmout agreements:

During 2012, the Company has entered into the following farmout agreements reducing the Company's working interest and net commitments under the respective PSCs.

a) Tullow Oil plc ("Tullow"):

In July 2012, the Company completed a farmout transaction with Tullow. In accordance with the farmout agreement, Tullow paid the Company $0.8 million in consideration of past exploration expenditures to acquire an additional 15% interest in Block 12A in Kenya. Tullow will also fund 15% of the Company's working interest share of expenditures related to the acquisition of 520 kilometers of 2D seismic until an expenditure cap of $10.3 million on a gross basis, following which AOC will be responsible for its working interest share of seismic acquisition costs. Tullow previously acquired a 50% interest in, and operatorship of, Block 12A in a transaction that was completed in February 2011.

b) Marathon Oil Corporation ("Marathon"):

In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in Block 9 and a 15% interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the Company $32.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of $25.0 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made.

c) New Age (Africa Global Energy) Limited (“New Age”):

In October 2012, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 25% interest in the Company's Blocks 7 & 8 in Ethiopia, together with operatorship of Blocks 7 & 8 and the Adigala Area. In accordance with the farmout agreement, New Age paid the Company $1.5 million in consideration of past exploration expenditures.

During 2011, the Company has entered into the following farmout agreements reducing the Company’s working interest and net commitments under the respective PSCs.

d) Tullow Oil plc:

In December 2010 and January 2011, the Company completed a farmout transaction with Tullow Oil plc ("Tullow") in Ethiopia and Kenya, respectively. Under the 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 paid AOC $9.5 million, representing 50% of AOC's audited past costs in the blocks. In accordance with the farmout agreement, Tullow funded its 50% working interest and AOC's working interest share of joint venture expenditures in these blocks from July 1, 2010, the effective date, until the cap of $23.75 million (based on AOC’s carried interest) was reached. Subsequent to the expenditure cap being reached, AOC funded its working interest share.

In February 2011, the Company completed a farmout transaction with Tullow with respect to Blocks 12A and 13T in Kenya. In accordance with the farmout agreement, Tullow paid the Company $1.7 million in consideration for past exploration expenditures in these block to acquire a 50% interest in each of Blocks 12A and 13T. The effective date of this agreement is July 1, 2010.

e) Lion Energy Corp.:

In January 2011, the Company completed an amendment to its existing farmout agreement with Lion. The amendment resulted in Lion reducing its interest in Block 10BB to 10% (originally 20%) and eliminating its interest in Block 10A (originally 25%). As consideration for the amendment, AOC paid Lion $2.5 million in cash and issued to Lion 2.5 million common shares of AOC. The Company also agreed to eliminate the existing expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia) from effective date forward. The effective date of this agreement was July 1, 2010.

f) Red Emperor Resources NL:

In the first quarter of 2011, AOC completed a farmout transaction with Red Emperor Resources NL ("Red Emperor") pursuant to which Red Emperor acquired a participating interest in the Dharoor Valley 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 agreed to pay a disproportionate share of costs in both the Dharoor Valley and Nugaal Valley Blocks related to the one well drilling commitment included in the first exploration period of both the Dharoor Valley and Nugaal Valley Production Sharing Agreements. The effective date of this agreement was June 15, 2010.

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

18) Finance income and expense:

Finance income and expense for the years ended December 31, 2012 and 2011 is comprised of the following:

For the years ended	December 31, 2012	December 31, 2011
Gain (loss) on marketable securities	(124)	236
Fair value adjustment - warrants	832	8,845
Fair value adjustment - convertible debt	-	2,032
Interest and other income	326	966
Bank charges	(40)	(154)
Foreign exchange gain (loss)	569	(2,472)
Finance income	1,727	12,079
Finance expense	(164)	(2,626)

19) Related party transactions:

a) Transactions with Lorito Holdings (Guernsey) Limited ("Lorito")

During May 2009, the Company's loans payable due to Lorito in the amount of CAD$6.0 million plus interest of $195 was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit was 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 closes at or above CAD$2.00 for a period of 20 consecutive trading days, the Company may elect to accelerate the expiry date to 30 days from the date of written notice to the warrant holder. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin. During the first quarter of 2012, Lorito exercised each of its 6,521,601 warrants into a common share of the Company.

b) Transactions with Namdo Management Services Ltd ("Namdo")

During the year ended December 31, 2012, the Company incurred management fees of $0.3 million (2011 - $0.2 million) for administrative support services fees to Namdo. Namdo is a private corporation owned by Lukas H. Lundin. At December 31, 2012, the Company had no outstanding amounts due to Namdo in respect of management fees (2011 – Nil).

c) Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn (see note 6(c)(ii)). At December 31, 2012, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

The Company advanced Horn and its subsidiaries $8.6 million to fund exploration activities during 2011. On September 20, 2011, in accordance with the conditions precedent in the Share Purchase Agreement, AOC converted advances to Horn of $41.2 million into share capital. During the fourth quarter of 2011, Horn repaid the Company the remaining $7.5 million of advances made to Horn. The Company has had no outstanding balances receivable from Horn related to advances to fund exploration activities since the fourth quarter of 2011.

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

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn $0.9 million during 2012 (2011 – $0.3 million). At December 31, 2012, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (2011 – $0.3 million). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.3 million during 2012 (2011 - $0.2 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2012, $ nil was outstanding and recorded in due from related party (2011 – $ nil).

During 2012, AOC invoiced Horn $0.3 million for reimbursable expenses paid by AOC on behalf of Horn (2011 - $0.5 million). As at December 31, 2012, $ nil was outstanding and recorded in due from related party (2011 – $0.1 million).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of $1.5 million to Horn, via AOC. At December 31, 2011, the funds were on deposit with AOC. Accordingly, the balance has been recorded as due to related party. AOC transferred the funds to Horn during the first quarter of 2012.

d) Remuneration of Directors and Senior Management

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Vice President of Exploration, Vice President of Business Development, Vice President of External Affairs, as well as the President and Chief Financial Officer of Horn. Directors include both the Company's and Horn's Directors.

Directors' fees include Board and Committee Chair retainers and meeting fees. Managements' short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31,		**2012**		**2011**
Directors' fees	$	230	$	112
Directors' share-based compensation		457		736
Managements' short-term wages, bonuses and benefits		4,006		2,330
Managements' share-based compensation		3,382		2,671
	$	8,075	$	5,849

For the year ended December 31, 2012, $1.8 million of management remuneration was capitalized to intangible exploration assets (2011 - $1.1 million).

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

20) Subsidiaries:

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

21) Earnings per share:

For the years ended December 31,	**2012**			**2011**		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ 22,793	220,664,278	$ 0.10	$ 10,644	193,417,492	$ 0.06
Effect of dilutive securities						
Warrants	-	-		3,940	613,355	
Dilutive loss per share	$ 22,793	220,664,278	$ 0.10	$ 14,584	194,030,847	$ 0.08

22) Subsequent event:

i) Rift Basin Area Production Sharing Agreement – see note 16(a)(ii)

23) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery related to losses not recognized and share issue costs. The Company has estimated non-capital losses carry forward of $31.1 million which expire from 2013 through 2032.

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

The following table reconciles the expected tax recovery calculated at the Canadian statutory rate with the actual tax recovery:

For the years ended December 31,	2012	2011
Net loss and comprehensive loss	20,117	8,953
Combined federal and provincial statutory income tax rate	25.0%	26.5%
Expected tax recovery	5,029	2,373
Stock-based compensation	(1,236)	(1,152)
Non-taxable portion of gains on marketable securities	(20)	31
Non-taxable income (expense) items	(597)	769
Unrecognized tax losses	(3,176)	(2,021)
Tax recovery	-	-

The Company has the following un-booked deductible temporary differences:

At December 31,	2012	2011
Unbooked deductible temporary differences		
Capital assets	$ 66	$ 122
Share issuance costs	10,270	5,656
Capital losses carried forward	5,225	5,029
Non-capital losses carried forward	31,061	30,375
Charitable donations	3,308	-
	49,930	41,182

24) Donation:

The Company made a $2.3 million donation to the Lundin Foundation, a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

Consolidated Financial Statements
(Expressed in thousands of United States dollars)

AFRICA OIL CORP.

For the years ended December 31, 2012 and 2011

Prepared by Management

March 26, 2013

Independent Auditor's Report

To the Shareholders of
Africa Oil Corp.

We have audited the accompanying consolidated financial statements of Africa Oil Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of net loss and comprehensive loss, equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F:+1 403 781 1825, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta, Canada

AFRICA OIL CORP.

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

	Note		December 31, 2012		December 31, 2011
ASSETS					
Current assets					
Cash and cash equivalents		$	272,175	$	109,558
Marketable securities	6(b)		-		2,606
Accounts receivable			2,848		2,717
Prepaid expenses			1,124		600
			276,147		115,481
Long-term assets					
Restricted cash	5		1,119		2,919
Property and equipment	7		82		39
Intangible exploration assets	8		282,109		185,672
			283,310		188,630
Total assets		$	559,457	$	304,111
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	36,188	$	23,768
Current portion of w arrants	11		2,288		1,513
			38,476		25,281
Long-term liabilities					
Warrants	11		828		2,882
			828		2,882
Total liabilities			39,304		28,163
Equity attributable to common shareholders					
Share capital	10(b)		558,555		306,510
Contributed surplus			12,123		8,425
Deficit			(98,076)		(75,283)
			472,602		239,652
Non-controlling interest			47,551		36,296
Total equity			520,153		275,948
Total liabilities and equity		$	559,457	$	304,111

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

Approved on behalf of the Board:

"CAMERON BAILEY" ______________________________
CAMERON BAILEY, DIRECTOR

"KEITH HILL" ______________________________
KEITH HILL, DIRECTOR

AFRICA OIL CORP.

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

For the years ended	Note		December 31, 2012		December 31, 2011
Operating expenses					
Salaries and benefits		$	3,665	$	1,696
Stock-based compensation	12		4,943		4,348
Travel			1,469		1,133
Management fees	19		294		245
Office and general			718		1,508
Donation	24		2,313		-
Depreciation	7		48		48
Professional fees	10b(ii)		4,187		1,476
Stock exchange and filing fees			916		547
Impairment of intangible exploration assets	8		3,127		6,969
			21,680		17,970
Gain on acquisition of Lion Energy	6(b)		-		(4,143)
Dilution loss on sale of subsidiary	6(c)		-		4,579
Finance income	18		(1,727)		(12,079)
Finance expense	18		164		2,626
Net loss and comprehensive loss			20,117		8,953
Net income and comprehensive income attributable to non-controlling interest			(2,676)		(1,691)
Net loss and comprehensive loss attributable to common shareholders			22,793		10,644
Net loss attributable to common shareholders per share	21				
Basic		$	0.10	$	0.06
Diluted		$	0.10	$	0.08
Weighted average number of shares outstanding for the purpose of calculating earnings per share	21				
Basic			220,664,278		193,417,492
Diluted			220,664,278		194,030,846

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

AFRICA OIL CORP.

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

	Note		December 31, 2012		December 31, 2011
Share capital:	10(b)				
Balance, beginning of year		$	306,510	$	163,231
Acquisition of Centric Energy			-		60,165
Acquisition of Lion Energy, net of AOC shares acquired			-		21,561
Issued on conversion of convertible debenture			-		52,215
Amended farmout agreement with Lion Energy			-		5,275
Private placement, net			226,446		-
Exercise of warrants			14,340		3,024
Shares issued in lieu of professional fees			3,763		167
Exercise of options			7,496		872
Balance, end of year			558,555		306,510
Contributed surplus:					
Balance, beginning of year		$	8,425	$	4,392
Expiration of warrants	11		-		4
Exercise of Horn warrants	11(c)		1,148		-
Acquisition of Lion Energy	6(b)		-		110
Stock based compensation	12		4,943		4,348
Issuance of shares in lieu of professional fees	10(b)		-		(167)
Exercise of options	12		(2,393)		(262)
Balance, end of year			12,123		8,425
Deficit:					
Balance, beginning of year		$	(75,283)	$	(56,570)
Dilution loss through equity	6(c)		-		(8,069)
Net loss and comprehensive loss attributable to common shareholders			(22,793)		(10,644)
Balance, end of year			(98,076)		(75,283)
Total equity attributable to common shareholders		$	472,602		239,652
Non-controlling interest:					
Balance, beginning of year		$	36,296	$	-
Non-controlling interest on disposal of Canmex	6(c)		-		34,605
Non-controlling interest on issuance of Horn shares			8,579		-
Net income and comprehensive income attributable to non-controlling interest	6(c)		2,676		1,691
Balance, end of year			47,551		36,296
Total equity		$	520,153	$	275,948

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

AFRICA OIL CORP.

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

	Note	December 31, 2012	December 31, 2011
Cash flows provided by (used in):			
Operations:			
Net loss and comprehensive loss for the year		$ (20,117)	$ (8,953)
Items not affecting cash:			
Stock-based compensation	12	4,943	4,348
Share-based expense	10(ii)	3,763	-
Depreciation	7	48	48
Loss (gain) on marketable securities	18	124	(236)
Gain on acquisition of Lion Energy	6(b)	-	(4,143)
Impairment of intangible exploration assets	8	3,127	6,969
Dilution loss on sale of subsidiary	6(c)	-	4,579
Fair value adjustment - warrants	18	(832)	(8,845)
Fair value adjustment - convertible debt	18	-	(2,032)
Unrealized foreign exchange loss		1,055	1,901
Changes in non-cash operating working capital		(657)	(622)
		(8,546)	(6,986)
Investing:			
Property and equipment expenditures	7	(91)	(39)
Intangible exploration expenditures	8	(133,823)	(41,285)
Farmout proceeds	8,17	34,259	14,901
Cash received on business acquisitions, net of cash issued	6(a),6(b)	-	18,637
Proceeds on disposal of Canmex, net of investment in Horn	6(c)	-	29,923
Proceeds from sale of marketable securities		2,442	-
Changes in non-cash investing working capital		12,373	16,611
		(84,840)	38,748
Financing:			
Common shares and warrants issued, net of issuance costs	10(b)	255,169	3,020
Repayment of liability portion of convertible debt	9	-	(411)
Deposit of cash for bank guarantee	5	(375)	(2,175)
Release of bank guarantee	5	2,175	2,888
Changes in non-cash financing working capital		-	169
		256,969	3,491
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(966)	(1,821)
Increase in cash and cash equivalents		162,617	33,432
Cash and cash equivalents, beginning of year		109,558	$ 76,126
Cash and cash equivalents, end of year		272,175	$ 109,558
Supplementary information:			
Interest paid		Nil	411,220
Taxes paid		Nil	Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 26, 2013, the date the Board of Directors approved the statements.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

i) Exploration and evaluation costs:

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount (see note 8).

ii) Share-based payments:

Charges for share-based payments are based on the fair value at the date of the award. Stock Options are valued using Black-Scholes, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 12).

iii) Derivative financial instruments:

The Company's warrants and convertible debenture are treated as derivative financial liabilities. The estimated fair value, based on the Black-Scholes model, of each is adjusted on a quarterly basis with gains or losses recognized in the statement of net loss and comprehensive loss. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term (see note 11).

3) Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Basis of consolidation:

i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The fair value of property, plant and equipment and intangible exploration assets recognized in a business combination, is based on market values. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of net loss and comprehensive loss.

ii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into US 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. Exchange gains or losses arising from translation are included in the statement of net loss and comprehensive loss.

c) Property and equipment and Intangible exploration assets:

i) Pre-exploration expenditures:

Costs incurred prior to obtaining the legal rights to explore an area are recognized in the statement of net loss and comprehensive loss as incurred.

ii) Exploration expenditures:

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

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a cash-generating unit within "oil and gas interests" subsequent to determining that the assets are not impaired (see "Impairment" below). Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of net loss and comprehensive loss.

Net proceeds from any disposal of an intangible exploration asset are recorded as a reduction in intangible explorations assets.

iii) Development and production costs:

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within "oil and gas interests" on a cash-generating unit basis.

Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in the statement of net loss and comprehensive loss.

Net proceeds from any disposal of “oil and gas interests” are recorded as a gain or loss on disposal recognized in the statement of net loss and comprehensive loss to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

d) Depletion and depreciation:

The net carrying value of “oil and gas interests” are depleted on a cash-generating unit basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Such reserves are considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For property and equipment, depreciation is recognized in the statement of net loss and comprehensive loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives for other property and equipment, consisting of primarily office and computer equipment, for the current and comparative years are from one to three years.

e) Impairment:

i) Financial assets carried at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of net loss and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of net loss and comprehensive loss.

ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than intangible exploration assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as oil and gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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

The goodwill, if any, acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. Intangible exploration assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and gas interests in property and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of net loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

f) Stock-based compensation:

The Company has a stock option plan as described in note 12. 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. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the statement of net loss and comprehensive loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in the statement of net loss and comprehensive loss, using the effective interest method.

Gains and losses related to revaluation of marketable securities, warrants and convertible debentures and related to foreign currency are reported under each of finance income and finance expenses on a net basis.

h) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Earnings per share:

Basic earnings per share is calculated by dividing the statement of net loss and comprehensive loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the statement of net loss and comprehensive loss and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, warrants outstanding and convertible debentures. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

j) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. The Company has acquired marketable securities in the Lion Energy Corp. acquisition that management intends to sell in the short term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of net loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the statement of net loss and comprehensive loss within financing income or expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current. The Company does not have any financial instruments in this category.

ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any financial instruments in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of net loss and comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of net loss and comprehensive loss when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the statement of net loss and comprehensive loss.

iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash and accounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payables and are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

v) Derivative financial instruments:

The Company has issued warrants and a convertible debenture that are treated as derivative liabilities. All derivatives have been classified as held-for-trading, are included on the balance sheet within warrants and convertible debenture liabilities, and are classified as current or non-current based on the contractual terms specific to the instrument.

(1) Warrants

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 11).

(2) Convertible debenture

The convertible debenture entitled the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 9).

k) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:

The Company's activities may give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

4) Future accounting changes:

As of January 1, 2013, the following standards and amendments issued by the IASB become effective:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. IFRS 10 will have minimal impact on the Company's financial statements on adoption as the current consolidation method adheres to this standard.
- IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated. IFRS 11 will have minimal impact on the Company's financial statements on adoption as all the joint arrangements the Company has were determined to be joint operations and; therefore, use the proportionate consolidation method, which is already currently in use.
- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. IFRS 12 will require minimal disclosure changes Company's financial statements.
- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. IFRS 13 will require minimal disclosure changes Company's financial statements.
- IAS 19, "Employee Benefits", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans. These amendments will require minimal disclosure changes in the Company's financial statements.

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

- IFRS 7, "Financial Instruments: Disclosures", which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, “Financial Instruments: Presentation” to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014. These amendments will require minimal disclosure changes in the Company’s financial statements.

As of January 1, 2015, IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB’s project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.

5) Restricted cash:

At December 31, 2012, the Company has a restricted cash balance of $1.1 million, (December 31, 2011 - $2.9 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	December 31, 2012	December 31, 2011
10A	Tullow Oil plc	$ -	$ 731
10BB	Tullow Oil plc	-	900
12A	Tullow Oil plc	-	270
13T	Tullow Oil plc	-	274
South Omo	Tullow Oil plc	294	294
9	Republic of Kenya	375	-
10BA	Republic of Kenya	450	450
		$ 1,119	$ 2,919

6) Acquisitions and divestitures:

a) Centric Energy Corp.

On February 23, 2011, the Company acquired all of the issued and outstanding commons shares of Centric Energy Corp. (“Centric”) for total consideration of $60.2 million. Centric was an oil and gas exploration company with operations in Kenya and the Republic of Mali. The consideration consisted of $10 of cash and 30,155,524 common shares of the Company valued at CAD$1.98 per share, being the trading price of the shares on the date the acquisition closed. The financial results of Centric’s operations have been included in the Company’s consolidated financial statements since the effective date.

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

The preliminary purchase price was allocated based on fair values as follows:

Net Assets Acquired		
Cash	$	749
Accounts receivable		136
Restricted cash		450
Property and equipment		9
Intangible exploration assets		58,831
Total net assets acquired	$	60,175
Consideration		
Shares issued		60,165
Cash issued		10
Total consideration	$	60,175

Had Centric been consolidated from January 1, 2011, net loss of AOC per the consolidated statement of net income (loss) and comprehensive loss would have been $1.2 million higher for the year ended December 31, 2011.

b) Lion Energy Corp.

On June 20, 2011, the Company acquired all the issued and outstanding common shares of Lion Energy Corp. ("Lion") for total consideration of $21.7 million. Lion was an oil and gas exploration company with operations in Kenya and Puntland (Somalia). The consideration consisted of 17,462,447 common shares of the Company. At the date of the acquisition, Lion owned 2,500,000 shares of the Company which were issued to Lion as part of an amended farmout agreement, resulting in 14,962,447 net shares of the Company being issued valued at CAD$1.41 per share, being the trading price of the shares on the date the acquisition closed. The Company also issued 287,250 stock options of the Company fair valued at CAD$0.38 based on the Black Scholes option pricing model and assumed 2,289,000 outstanding Lion warrants. The warrants were amended to acquire AOC shares at CAD$2.50. No value was attributed to the amended Lion warrants which all expired out of the money shortly after the acquisition. The preliminary purchase price was allocated based on fair values as follows:

Net Assets Acquired		
Cash	$	17,898
Accounts receivable		3,426
Marketable securities		2,453
Intangible exploration assets		5,681
Accounts payable and accrued liabilities		(3,644)
Total net assets acquired	$	25,814
Consideration		
Shares issued, net of AOC shares acquired		21,561
Share options issued		110
Total consideration	$	21,671
Gain on acquisition	$	4,143

The marketable securities acquired were 10 million shares in Encanto Potash Corp. ("Encanto") which trades on the TSX Venture Exchange. These securities are stated at fair value with gains or losses on revaluation recorded on the statement of net loss and comprehensive loss. All of the Encanto shares acquired were sold subsequent to December 31, 2011.

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

Had Lion been consolidated from January 1, 2011, net loss per the consolidated statement of net loss and comprehensive loss would have been $1.2 million higher for the year ended December 31, 2011.

c) Horn Petroleum Corporation ("Horn")

i) Initial Transaction

On September 20, 2011, the Company transferred ownership of its wholly owned subsidiary, Canmex Holdings (Bermuda) I Ltd. ("Canmex"), the entity which indirectly owns a 60% interest in Production Sharing Agreements with the Puntland State of Somalia, in return for 27,777,778 shares in Horn (formerly Denovo Capital Corp.) (the "Transaction").

Prior to close of the Transaction, Horn completed a consolidation of its issued and outstanding common shares on the basis of 0.65 new common shares for each existing common share. Horn also completed a non-brokered private placement of an aggregate of 45,535,195 subscription receipts at a price of CAD$0.90 per subscription receipt for gross proceeds of $41.3 million. AOC acquired 11,111,111 of the subscription receipts. The subscription receipts were converted into common shares and warrants of Horn on September 20, 2011. In connection with the private placement, Horn paid a finder's fee, consisting of the issuance of an aggregate of 812,417 common shares and the payment of $0.9 million in cash. All securities issued pursuant to the offering were subject to a statutory hold period which expired December 3, 2011.

Subsequent to the Transaction, AOC held 51.4% of the outstanding shares of Horn, as well, a management services arrangement has been agreed between Horn and AOC in which the management of AOC are responsible for the operating decisions of Horn. As such, the former shareholder of Canmex, AOC, is deemed to control Horn.

In accordance with IFRS, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent. The following table outlines the consideration received versus the non-controlling interest adjustment:

Net consideration received		
Net cash	$	29,923
Accounts payable and accrued liabilities		(179)
Warrant liability		(7,787)
Total net assets acquired	$	21,957
Non-controlling interest adjusted		34,605
	$	(12,648)

The total difference by which the non-controlling interests are adjusted and the fair value of the consideration received was $12.6 million of which $4.6 million was recognized as a dilution loss in the statement of net loss and comprehensive loss on the consolidation of Horn and $8.1 million was recognized as a dilution loss through equity during 2011.

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

ii) 2012 Private Placement

In June 2012, Horn completed a non-brokered private placement of an aggregate of 18,750,000 units at a price of CAD$0.80 per unit for gross proceeds of $14.4 million. Each unit consisted of one common share and one-half of a share purchase warrant of Horn. A finder's fee was paid, consisting of the issuance of an aggregate of 342,500 units and the payment of $0.1 million in cash. All securities issued under the private placement were subject to a statutory hold period which expired on October 9, 2012. AOC acquired 4,315,000 of the units issued for gross proceeds of $3.4 million. At December 31, 2012, AOC owned 44.6% of Horn.

7) Property and equipment:

		December 31, 2012		December 31, 2011
Cost, beginning of year	$	215	$	167
Additions		91		39
Business acquisitions (note 6(a))		-		9
Cost, end of year		306		215
Accumulated depreciation, beginning of year		(176)		(128)
Depreciation		(48)		(48)
Accumulated depreciation, end of year		(224)		(176)
Net carrying amount, beginning of year	$	39	$	39
Net carrying amount, end of year	$	82	$	39

As at December 31, 2012, the Company has recorded $0.1 million of property and equipment (December 31, 2011 - $0.04 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years). The Company has reviewed property and equipment and determined that there is no indication of impairment.

8) Intangible exploration assets:

	Note		December 31, 2012		December 31, 2011
Net carrying amount, beginning of year		$	185,672	$	96,469
Additions			133,823		41,285
Impairment of Intangible exploration assets			(3,127)		(6,969)
Farmout proceeds	17		(34,259)		(9,625)
Business acquisitions	6		-		64,512
Net carrying amount, end of year		$	282,109	$	185,672

As at December 31, 2012, $282.1 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2011 - $185.7 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At December 31, 2012, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

During the year ended December 31, 2012, the Company capitalized $6.3 million of general and administrative expenses related to intangible exploration assets (December 31, 2011 – $3.1 million). During the year ended December 31, 2012, the Company capitalized $ nil interest expense in relation to its convertible debt to intangible exploration assets (December 31, 2011 – $0.2 million).

During the fourth quarter of 2012, the Company relinquished Blocks 7/12 in Mali. Accordingly, the Company has written-off $3.1 million of capitalized intangible exploration assets. The remaining carrying value of the Mali intangible exploration assets is $ nil.

During the second quarter of 2011, the Company relinquished Blocks 2/6 in Ethiopia. Accordingly, the Company has written-off $7.0 million of capitalized intangible exploration assets of which $1.2 million represents the Company's portion of settlement costs with the Government of Ethiopia related to unfulfilled work obligations on the block.

The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds their recoverable amount. Assessing what constitutes the recoverable amount is subjective, especially in the exploration phase of exploring for oil and gas in frontier areas where the oil and gas industry is not well developed and precedent transaction analysis is not readily available. Despite the fact that the Company's subsidiary, Horn, has a market capitalization below the carrying value of its net assets, the Company believes that the following factors support the judgment that the value of Horn's intangible exploration assets are not impaired: Horn has fulfilled its financial and work obligations required during the first exploration period of its production sharing contracts and has elected to enter into the second exploration period based on the technical encouragement resulting from its first two exploration wells drilled during 2012; Horn is actively planning future exploration activities; Horn continues to engage parties potentially interested in farming into its exploration blocks; and Horn is in a positive working capital position enabling it to continue exploration.

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

9) Convertible debenture:

As part of the Company's acquisition in April of 2009 of Lundin Petroleum AB's ("LPAB") oil and gas operations in Kenya and Ethiopia, a subsidiary of LPAB provided the Company with a $23.8 million US dollar denominated convertible debenture to finance the acquisition. The convertible loan from LPAB carried an interest rate of USD six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, was 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 convertible debenture was to mature December 31, 2011.

In March 2011, the Company and LPAB amended the terms of the loan agreement to allow for full or partial conversion of the loan prior to the maturity date if agreed to, in writing, by both parties. On March 3, 2011, AOC and LPAB agreed to convert $13.0 million of the convertible loan into 14 million shares of the Company.

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

In April 2011, AOC and LPAB agreed to convert the remaining $10.8 million of the convertible loan plus $0.2 million of accrued interest into 11,850,100 shares of the Company.

The Company accounted for the convertible debenture as a liability as the instrument entitled the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes in financing income and expenses.

10) Share capital:

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

b) Issued:

		December 31, 2012			December 31, 2011		
	Note	Shares		Amount	Shares		Amount
Balance, beginning of year		211,413,059	$	306,510	135,806,100	$	163,231
Acquisition of Centric Energy	6(a)	-		-	30,155,524		60,165
Acquisition of Lion, net of AOC shares acquired	6(b)	-		-	14,962,447		21,561
Issued on conversion of convertible debenture	9	-		-	25,850,100		52,215
Amended farmout agreement with Lion Energy	6(b)	-		-	2,500,000		5,275
Private placements, net of issue costs	(iii)	30,000,000		226,446	-		-
Exercise of warrants, net of issue costs	11	6,521,601		14,340	1,530,000		3,024
Shares issued in lieu of professional fees	(ii)	420,000		3,763	103,306		167
Exercise of options	(12)	3,811,278		7,496	505,582		872
Balance, end of year		252,165,938	$	558,555	211,413,059	$	306,510

i) In June of 2011, the Company acquired 2.5 million of its own shares through the purchase of Lion Energy (see note 6(b)). The total amount paid to acquire the shares was deducted from share capital. The shares were held as treasury shares until they were surrendered for cancellation, and returned to treasury on December 15, 2011. No consideration was paid to AOC in connection with the cancellation and return to treasury. No gain or loss is recognized in the consolidated statement of net loss and comprehensive loss on the purchase, sale, issue or cancellation of the Company's own equity shares.

ii) During the third quarter of 2012, the Company issued 420,000 common shares as a settlement of claimed professional fees relating to previously completed farmout transactions. The Company has recorded the issuance of these shares as professional fees in the statement of net loss and comprehensive loss.

iii) During December 2012, the Company completed a non-brokered private placement issuing an aggregate of 30,000,000 shares at a price of CAD$7.75 per share for gross proceeds of $235.1 million. A finder's fee was paid in the amount of $8.6 million in cash. The Company issued 27,881,991 of the common shares on December 7, 2012 ("first tranche") and issued 2,118,009 common shares on December 13, 2012 ("second tranche"). The common shares issued under the first and second tranche of the private placement are subject to a statutory hold period which expires on April 8, 2013 and April 14, 2013, respectively.

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

11) Warrants:

	Note	Number of AOC Warrants		Amount ($)
Balance, December 31, 2010:		**8,061,101**	**$**	**6,071**
Current portion of warrants		1,500,000		1,513
Long-term portion of warrants		6,561,101	$	4,558
Expiration of warrants	(a),6(b)	(2,298,500)		(4)
Exercise of warrants	(a)	(1,530,000)		(614)
Issuance of warrants	6(b),6(c)	2,289,000		-
Fair market value adjustment		-		(3,940)
Balance, December 31, 2011:		**6,521,601**	**$**	**1,513**
Exercise of warrants	(b)	(6,521,601)		(4,464)
Fair market value adjustment		-		2,951
Balance, December 31, 2012:		-	$	-

a) 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. 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 2010, 37,220,365 were exercised and 161,153 expired unexercised. The expiry for the remaining 39,500 warrants was extended to March 23, 2011. In the first quarter of 2011, 30,000 of the remaining warrants were exercised and 9,500 expired unexercised. As a result of warrants exercised in the first quarter of 2011, the Company issued 30,000 common shares, realizing net proceeds of $46. The fair value of warrants transferred to share capital was $15.

   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. The expiry date with respect to these warrants was amended to May 22, 2011. On April 20, 2011 all outstanding warrants held by Platform were exercised. As a result of the warrants being exercised the Company issued 1,500,000 common shares, realizing net proceeds of $2.4 million. The fair value of warrants transferred to share capital was $0.6 million.

b) On March 12, 2012, the Company's remaining outstanding warrants were exercised. As a result of the warrants being exercised, the Company issued 6,521,601 common shares, realizing net proceeds of $9.9 million. The fair value of warrants transferred to share capital was $4.5 million

c) At December 31, 2012, the Company recorded $0.8 million (December 31, 2011 - $2.9 million) in long-term warrant liability and $2.3 million (December 31, 2011 - $ nil) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn. During 2012, the Company recognized a $3.8 million gain on the revaluation of Horn's warrant liability (2011 – $4.9 million). The Company recognized an increase in contributed surplus of $1.1 million in relation to Horn warrants exercised in the second quarter of 2012.

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12) Share purchase options:

At the 2011 Annual General Meeting, held on May 31, 2012, the Company approved the stock option plan ("the Plan") which was last amended at the 2010 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.

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

	December 31, 2012		December 31, 2011	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	10,830,668	1.54	3,946,667	1.67
Granted	1,385,000	9.12	8,112,250	1.70
Expired or cancelled	(127,334)	2.29	(722,667)	4.30
Exercised	(3,811,278)	1.37	(505,582)	1.16
Balance, end of year	8,277,056	2.87	10,830,668	1.54

The weighted average closing share price on the day options were exercised during the year ended December 31, 2012 was CAD$7.54 (December 31, 2011 - CAD$1.77).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the years ended December 31, 2012 and December 31, 2011 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2012	2011
Number of options granted during the year	1,385,000	8,112,250
Fair value of options granted ($ per option)	3.67	0.66
Risk-free interest rate (%)	1.10	1.33
Expected life (years)	2.25	2.17
Expected volatility (%)	70	68
Expected dividend yield	-	-

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

The following table summarizes information regarding the Company's stock options outstanding at December 31, 2012:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
1.13	730,000	0.54
1.27	16,667	1.66
1.49	3,890,333	1.90
1.56	50,000	1.93
1.70	16,666	1.51
1.85	399,889	1.20
1.88	33,334	1.30
1.94	100,000	1.25
2.09	23,500	2.17
2.10	1,676,667	1.07
8.10	25,000	2.91
8.32	315,000	2.51
8.90	250,000	2.67
9.90	750,000	2.69
2.87	8,277,056	1.69

During the year ended December 31, 2012, the Company recognized $4.1 million and $0.8 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (2011 - $3.7 million and $0.6 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

13) Financial risk management:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. None of the Company's accounts receivable at December 31, 2012 was past due.

b) 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.

c) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments.

i) 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 to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

For the year ended December 31, 2012, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $1.5 million (2011 - $3.9 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2012, the Company had $114.5 million Canadian dollars (2011 - $79.8 million Canadian dollars) in cash and cash equivalents. Subsequent to December 31, 2012, the Company acquired US dollars reducing its Canadian dollars held by CAD $39.5 million.

ii) Interest rate risk:

As at December 31, 2012, the Company's has no outstanding convertible debenture. The convertible debenture was repaid in full during the year. The Company further has not entered into any derivative instruments or borrowing arrangements in which exposure to fluctuations in interest rates exists.

iii) Commodity price risk:

The Company is not currently directly exposed to fluctuations in commodity prices as AOC is currently in the exploration phase and has no production.

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

14) Capital management:

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 which currently consists exclusively of equity instruments, the Company may issue additional 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.

15) Segment information:

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

At December 31, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	**Total**
Total assets	$ 164,112	$ 34,553	$ 88,343	$ -	$ 272,449	**$ 559,457**
Intangible exploration assets	163,423	31,384	87,302	-	-	**282,109**
Property and equipment	-	-	-	-	82	**82**

At December 31, 2011	Kenya	Ethiopia	Puntland	Mali	Corporate	**Total**
Total assets	$ 117,065	$ 18,794	$ 54,452	$ 3,132	$ 110,668	**$ 304,111**
Intangible exploration assets	112,022	17,491	53,041	3,118	-	**185,672**
Property and equipment	-	-	-	9	30	**39**

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

Year ended December 31, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	$ 84,169	$ 15,393	$ 34,261	$ -	$ -	**$ 133,823**
Property and equipment	-	-	-	-	91	**91**
	$ 84,169	$ 15,393	$ 34,261	$ -	$ 91	**$ 133,914**
Statement of operations						
Expenses	$ 62	$ 23	$ 19	$ 3,146	$ 18,430	**$ 21,680**
Finance income	-	-	-	-	(1,727)	**(1,727)**
Finance expense	-	-	-	-	164	**164**
Segmented loss	$ 62	$ 23	$ 19	$ 3,146	$16,867	**$ 20,117**

Year ended December 31, 2011	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	$ 20,163	$ 6,840	$ 14,282	$ -	$ -	**$ 41,285**
Property and equipment	-	-	-	-	39	**39**
	$ 20,163	$ 6,840	$ 14,282	$ -	$ 39	**$ 41,324**
Statement of operations						
Expenses	$ 272	$ 6,971	$ 44	$ 45	$ 10,638	**$ 17,970**
Gain on aquisition of Lion Energy	-	-	-	-	(4,143)	**(4,143)**
Dilution loss on sale of subsidiary	-	-	-	-	4,579	**4,579**
Finance income	-	-	-	-	(12,079)	**(12,079)**
Finance expense	-	-	-	-	2,626	**2,626**
Segmented loss	$ 272	$ 6,971	$ 44	$ 45	$1,621	**$ 8,953**

16) Commitments and contingencies:

a) Contractual obligations

i) Puntland (Somalia):

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

Under the Joint Venture Agreement with Range Resources Ltd. (“Range”), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to pay its 20% participating interest share of ongoing exploration costs related to each block. The sole funding obligation with respect to the Nugaal Valley block was reached in June 2012. Upon commencement of commercial production, $3.5 million will be payable to Range. At December

31, 2012, the Company's working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks was 60%.

ii) Ethiopia:

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expires in July 2013, 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 gross expenditure of $11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2012, the Company's working interest in Blocks 7/8 was 30%.

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the minimum work and financial obligations of the initial four year exploration period which expired in July 2011. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the next exploration period with amended minimum work commitments. Under the PSA which expires in July 2013, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 7,500 kilometers of full tensor gravity) with a minimum gross expenditure of $1.75 million. At December 31, 2012, the Company's working interest in the Adigala Block was 50%.

Under the terms of the South Omo PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expired in January 2013, AOC and its partners were obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners were required to drill one exploration well with a minimum gross expenditure of $8.0 million. Due to the fact that the Company and its partners are in the midst of fulfilling the remaining commitment (drilling Sabisa-1 exploration well) with respect to the initial exploration period, the Ministry of Mines in Ethiopia has approved the Company's and its partners' entry into the next exploration period. During the next exploration period which ends in January 2015, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, AOC and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. At December 31, 2012, the Company's working interest in the South Omo Block was 30%. This commitment is supported by an outstanding letter of credit of $294 in favor of Tullow Oil plc ("Tullow") which is collateralized by a bank deposit of $294 (see note 5).

In February 2013, the Company entered into a PSA on the Rift Basin Area (formerly referred to as the Rift Valley Block) in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million.

iii) Kenya:

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in January 2014, AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of $7.8 million. Additionally, AOC and its partners are obligated to drill one exploration well with a minimum expenditure of $8.5 million. At December 31, 2012, the Company's working interest in Block 10A was 30%.

Under the terms of the Block 10BB PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in July 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in July 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of $7.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2012, the Company's working interest in Block 10BB was 50%.

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 next exploration phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partners are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $2.5 million. At December 31, 2012, the Company's working interest in Block 9 was 50%.

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2013, the initial minimum gross exploration expenditure is $3.6 million. The Company and its partner are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof). At December 31, 2012, the Company's working interest in Blocks 12A was 20%.

Under the terms of the Block 13T PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in September 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partners' entry into the next exploration period. During the next exploration period which expires in September 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At December 31, 2012, the Company's working interest in Block 13T was 50%.

Under the terms of the Block 10BA PSC, during the initial exploration period which was extended by the Ministry of Energy of the Republic of Kenya and expires in April 2014, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of $3.0 million. At December 31, 2012, the Company's working interest in Block

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

10BA was 50%. The commitments on Block 10BA are supported by an outstanding letter of credit of $450 in favor of the Kenyan Government which is collateralized by bank deposit of $450 (see note 5).

b) Office Lease Costs:

The Company has committed to future minimum payments at December 31, 2011 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2013	481
2014	431
2015	431
2016	431
2017	428
Total minimum payments	2,202

c) Title disputes:

In many of the countries in which the Company operates, land title systems are not developed to the extent found in many industrial countries and there may be no concept of registered title. Although the Company believes that it has title to its oil and gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges. There can be no assurance that claims or challenges by third parties against the Company's properties will not be asserted at a future date.

17) Farmout agreements:

During 2012, the Company has entered into the following farmout agreements reducing the Company's working interest and net commitments under the respective PSCs.

a) Tullow Oil plc ("Tullow"):

In July 2012, the Company completed a farmout transaction with Tullow. In accordance with the farmout agreement, Tullow paid the Company $0.8 million in consideration of past exploration expenditures to acquire an additional 15% interest in Block 12A in Kenya. Tullow will also fund 15% of the Company's working interest share of expenditures related to the acquisition of 520 kilometers of 2D seismic until an expenditure cap of $10.3 million on a gross basis, following which AOC will be responsible for its working interest share of seismic acquisition costs. Tullow previously acquired a 50% interest in, and operatorship of, Block 12A in a transaction that was completed in February 2011.

b) Marathon Oil Corporation ("Marathon"):

In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in Block 9 and a 15% interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the Company $32.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of $25.0 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made.

c) New Age (Africa Global Energy) Limited (“New Age”):

In October 2012, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 25% interest in the Company's Blocks 7 & 8 in Ethiopia, together with operatorship of Blocks 7 & 8 and the Adigala Area. In accordance with the farmout agreement, New Age paid the Company $1.5 million in consideration of past exploration expenditures.

During 2011, the Company has entered into the following farmout agreements reducing the Company’s working interest and net commitments under the respective PSCs.

d) Tullow Oil plc:

In December 2010 and January 2011, the Company completed a farmout transaction with Tullow Oil plc ("Tullow") in Ethiopia and Kenya, respectively. Under the 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 paid AOC $9.5 million, representing 50% of AOC's audited past costs in the blocks. In accordance with the farmout agreement, Tullow funded its 50% working interest and AOC's working interest share of joint venture expenditures in these blocks from July 1, 2010, the effective date, until the cap of $23.75 million (based on AOC’s carried interest) was reached. Subsequent to the expenditure cap being reached, AOC funded its working interest share.

In February 2011, the Company completed a farmout transaction with Tullow with respect to Blocks 12A and 13T in Kenya. In accordance with the farmout agreement, Tullow paid the Company $1.7 million in consideration for past exploration expenditures in these block to acquire a 50% interest in each of Blocks 12A and 13T. The effective date of this agreement is July 1, 2010.

e) Lion Energy Corp.:

In January 2011, the Company completed an amendment to its existing farmout agreement with Lion. The amendment resulted in Lion reducing its interest in Block 10BB to 10% (originally 20%) and eliminating its interest in Block 10A (originally 25%). As consideration for the amendment, AOC paid Lion $2.5 million in cash and issued to Lion 2.5 million common shares of AOC. The Company also agreed to eliminate the existing expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia) from effective date forward. The effective date of this agreement was July 1, 2010.

f) Red Emperor Resources NL:

In the first quarter of 2011, AOC completed a farmout transaction with Red Emperor Resources NL ("Red Emperor") pursuant to which Red Emperor acquired a participating interest in the Dharoor Valley 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 agreed to pay a disproportionate share of costs in both the Dharoor Valley and Nugaal Valley Blocks related to the one well drilling commitment included in the first exploration period of both the Dharoor Valley and Nugaal Valley Production Sharing Agreements. The effective date of this agreement was June 15, 2010.

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

18) Finance income and expense:

Finance income and expense for the years ended December 31, 2012 and 2011 is comprised of the following:

For the years ended	December 31, 2012	December 31, 2011
Gain (loss) on marketable securities	(124)	236
Fair value adjustment - w arrants	832	8,845
Fair value adjustment - convertible debt	-	2,032
Interest and other income	326	966
Bank charges	(40)	(154)
Foreign exchange gain (loss)	569	(2,472)
Finance income	1,727	12,079
Finance expense	(164)	(2,626)

19) Related party transactions:

a) Transactions with Lorito Holdings (Guernsey) Limited (“Lorito”)

During May 2009, the Company’s loans payable due to Lorito in the amount of CAD$6.0 million plus interest of $195 was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit was 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 closes at or above CAD$2.00 for a period of 20 consecutive trading days, the Company may elect to accelerate the expiry date to 30 days from the date of written notice to the warrant holder. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin. During the first quarter of 2012, Lorito exercised each of its 6,521,601 warrants into a common share of the Company.

b) Transactions with Namdo Management Services Ltd (“Namdo”)

During the year ended December 31, 2012, the Company incurred management fees of $0.3 million (2011 - $0.2 million) for administrative support services fees to Namdo. Namdo is a private corporation owned by Lukas H. Lundin. At December 31, 2012, the Company had no outstanding amounts due to Namdo in respect of management fees (2011 – Nil).

c) Transactions with Horn Petroleum Corp. (“Horn”)

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company’s ownership interest in Horn (see note 6(c)(ii)). At December 31, 2012, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

The Company advanced Horn and its subsidiaries $8.6 million to fund exploration activities during 2011. On September 20, 2011, in accordance with the conditions precedent in the Share Purchase Agreement, AOC converted advances to Horn of $41.2 million into share capital. During the fourth quarter of 2011, Horn repaid the Company the remaining $7.5 million of advances made to Horn. The Company has had no outstanding balances receivable from Horn related to advances to fund exploration activities since the fourth quarter of 2011.

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Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn $0.9 million during 2012 (2011 – $0.3 million). At December 31, 2012, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (2011 – $0.3 million). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.3 million during 2012 (2011 - $0.2 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2012, $ nil was outstanding and recorded in due from related party (2011 – $ nil).

During 2012, AOC invoiced Horn $0.3 million for reimbursable expenses paid by AOC on behalf of Horn (2011 - $0.5 million). As at December 31, 2012, $ nil was outstanding and recorded in due from related party (2011 – $0.1 million).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of $1.5 million to Horn, via AOC. At December 31, 2011, the funds were on deposit with AOC. Accordingly, the balance has been recorded as due to related party. AOC transferred the funds to Horn during the first quarter of 2012.

d) Remuneration of Directors and Senior Management

Remuneration of Directors and Senior Management includes all amounts earned and awarded to the Company's Board of Directors and Senior Management. Senior Management includes the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Vice President of Exploration, Vice President of Business Development, Vice President of External Affairs, as well as the President and Chief Financial Officer of Horn. Directors include both the Company's and Horn's Directors.

Directors' fees include Board and Committee Chair retainers and meeting fees. Managements' short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31,		**2012**		**2011**
Directors' fees	$	230	$	112
Directors' share-based compensation		457		736
Managements' short-term wages, bonuses and benefits		4,006		2,330
Managements' share-based compensation		3,382		2,671
	$	8,075	$	5,849

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For the year ended December 31, 2012, $1.8 million of management remuneration was capitalized to intangible exploration assets (2011 - $1.1 million).

20) Subsidiaries:

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

21) Earnings per share:

For the years ended December 31,		**2012**				**2011**			
		Earnings	Number of shares		Per share amounts		Earnings	Number of shares		Per share amounts
Basic earnings per share										
Net loss attributable to common shareholders	$	22,793	220,664,278	$	0.10	$	10,644	193,417,492	$	0.06
Effect of dilutive securities										
Warrants		-	-				3,940	613,355		
Dilutive loss per share	$	22,793	220,664,278	$	0.10	$	14,584	194,030,847	$	0.08

22) Subsequent event:

i) Rift Basin Area Production Sharing Agreement – see note 16(a)(ii)

23) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery related to losses not recognized and share issue costs. The Company has estimated non-capital losses carry forward of $31.1 million which expire from 2013 through 2032.

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

The following table reconciles the expected tax recovery calculated at the Canadian statutory rate with the actual tax recovery:

For the years ended December 31,	**2012**	**2011**
Net loss and comprehensive loss	20,117	8,953
Combined federal and provincial statutory income tax rate	25.0%	26.5%
Expected tax recovery	5,029	2,373
Stock-based compensation	(1,236)	(1,152)
Non-taxable portion of gains on marketable securities	(20)	31
Non-taxable income (expense) items	(597)	769
Unrecognized tax losses	(3,176)	(2,021)
Tax recovery	-	-

The Company has the following un-booked deductible temporary differences:

At December 31,	**2012**	**2011**
Unbooked deductible temporary differences		
Capital assets	$ 66	$ 122
Share issuance costs	10,270	5,656
Capital losses carried forward	5,225	5,029
Non-capital losses carried forward	31,061	30,375
Charitable donations	3,308	-
	49,930	41,182

24) Donation:

The Company made a $2.3 million donation to the Lundin Foundation, a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.