



AFRICA OIL CORP.

Report to Shareholders

March 31, 2013

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the three months ended March 31, 2013 and 2012

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2013 and 2012 and should also be read in conjunction with the 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 May 28, 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 East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. AOC's mission is to de-risk this portfolio of oil and gas prospects and leads, while generating additional prospects and leads, through continuous oil and gas exploration activities.

The Company has acquired and commenced exploration activities on multiple exploration blocks in East Africa (refer to table below). The Company has encountered oil in 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, 2012 Net Working Interest % ⁽¹⁾	March 31, 2013 Net Working Interest % ⁽¹⁾
Kenya	Block 10A	Tullow	30%	30%
Kenya	Block 9	AOC	50%	50%
Kenya	Block 10BB	Tullow	50%	50%
Kenya	Block 12A	Tullow	20%	20%
Kenya	Block 13T	Tullow	50%	50%
Kenya	Block 10BA	Tullow	50%	50%
Ethiopia	Blocks 7/8	New Age	30%	30%
Ethiopia	Adigala	New Age	50%	50%
Ethiopia	South Omo	Tullow	30%	30%
Ethiopia ⁽³⁾	Rift Basin Area	AOC	0%	100%
Mali ⁽⁴⁾	Block 7	Heritage	25%	0%
Mali ⁽⁴⁾	Block 11	Heritage	25%	0%
Puntland, Somalia	Dharoor Valley	Horn	27% ⁽²⁾	27% ⁽²⁾
Puntland, Somalia	Nugaal Valley	Horn	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. During the quarter, 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. During the quarter, the Company terminated its interest in Blocks 7 and 11 in Mali.

OPERATIONS UPDATE

On the back of the successful exploration activities in Kenya during 2012, the Company, together with its partners, continues to ramp up its exploration program in Kenya and Ethiopia. Entering the year, two Tullow-Africa Oil joint venture rigs were operating in Kenya and one joint venture rig was operating in Ethiopia. A fourth Tullow-Africa Oil joint venture rig has been secured and is expected to commence testing and drilling operations in Kenya on Blocks 10BB and 13T during the third quarter of 2013. The Company, as operator, and its partner in Block 9 (Kenya) have secured a fifth rig, which will commence drilling operations in the third quarter of 2013. In addition, the Company and its partners in Block 7/8 (Ethiopia) have secured a sixth rig, which will commence drilling operations in June 2013. For a period, the Company will have 6 drilling rigs operating and expects to exit the year with 5 rigs operating in the region. The Company plans to drill 10 to 12 wells and perform up to 5 well tests across its exploration blocks during 2013.

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 Company and its partners plan to continue to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 3,600 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T and South Omo with 2 onshore and one offshore 2D seismic crews operating throughout the remainder of the year. A third 2D seismic crew operating in South Omo was released in May 2013 after completing 1,174 km of 2D seismic. In addition, the Company and its partner in Blocks 10BB and 13T will mobilize a 3D seismic crew to complete a 550 square kilometer 3D seismic survey over the Ngamia and Twiga structures later in 2013.

KENYA

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

Block 10BB

Based on the very positive results at Ngamia-1 on Block 10BB in 2012, the Company and its partner, Tullow, have accelerated the pace of exploration along the Ngamia trend in Block 10BB and Block 13T. The Company currently has 2 drilling rigs operating in the Lokichar Basin and has committed to mobilize a third light drilling/testing rig to the area in the third quarter of 2013. Up to six exploration wells and up to four well tests are planned to be completed across Blocks 10BB and 13T during 2013.

The Company and its operating partner on Block 10BB are currently conducting tests on a series of six zones at the Ngamia-1 discovery. Ngamia-1 was drilled in 2012 but testing operations were postponed until appropriate artificial lift equipment was sourced to properly assess the accumulation. The first of these tests was in the Lower Lokhone formation where up to 43 meters of potential pay had previously been identified by logging and MDT sampling. The well flowed 281 barrels of 30 degree API oil per day from this zone. The remaining 5 tests are being conducted in the Auwerwer formation which are the highest quality reservoirs penetrated in the Ngamia well and which produced very well in the Twiga South-1 well. Results of these remaining Ngamia-1 tests are expected to be announced in June 2013.

The rig that drilled the Paipai-1 well in Block 10A has mobilized to the Lokichar Basin in Block 10BB to drill the Etuko prospect in the flank play where oil was discovered in 1992 by Shell at the Loperot-1 well. The Etuko-1 well spud in early May 2013 and results from the well are expected in July 2013. Should Etuko-1 be successful, there are a number of drill ready follow-up prospects on the same trend.

The Company and its partner have plans to drill up to two additional wells in Block 10BB in 2013; either one exploration well on the Ngamia trend and an appraisal well on the Ngamia structure, or in the event of success at Etuko-1, possibly two follow-up prospects on the flank play trend.

The 2D seismic crews operating in Block 10BB intend to acquire approximately 1,200 kilometers of 2D seismic during 2013. Much of this program will be focused on defining prospects in the South and North Kerio Sub-Basins, with the aim of defining drilling prospects for the 2014 program. The Company and its partner have also committed to acquire 550 square kilometers of 3D seismic over the Ngamia and Twiga structures in Block 10BB and Block 13T combined.

The current exploration phase under the Block 10BB PSC, which expires in July 2014, includes a commitment to drill one exploratory well and acquire 300 square kilometers of 3D seismic. The planned work program in Block 10BB during 2013 will exceed the PSC commitment.

Block 13T

During the first quarter of 2013, the Company and its partner, Tullow, conducted well testing operations at Twiga South-1, 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 production 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 currently completing the Ngamia-1 well test is next scheduled to drill the Ekales prospect that sits on a similar structure along the main bounding fault mid-way between the Ngamia-1 and Twiga South-1 discoveries. The Ekales-1 well is expected to spud in the third quarter of 2013.

Two exploration wells and one appraisal well are planned on Block 13T in 2013. Besides Ekales, an exploration well on the Agete structure, just to the north of the Twiga South-1 well, and an appraisal well up dip on the Twiga South structure are planned to be drilled. Further drill ready prospects exist on this trend.

In 2013, the Company plans to acquire a 550 square kilometer 3D seismic survey over the Twiga South and Ngamia structures, in Blocks 13T and 10BB combined.

The current exploration phase under the Block 13T PSC, which expires in September 2014, includes a commitment to drill one exploratory well, which was satisfied with the drilling of Twiga South-1, and a commitment to acquire 200 square kilometers of 3D seismic. The planned work program in Block 13T during 2013 will exceed the PSC commitment.

Block 10A

In the first quarter of 2013, the Company and its operating partners on Block 10A completed drilling the Paipai-1 exploration well. 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 completed drilling in the first quarter of 2013 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 was subsequently 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, are conducting a 1,350 kilometer 2D seismic program. The onshore program has largely been completed and the offshore and near shore portions of the 2D program commenced in January 2013 and are approximately 45% complete. 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 have determined that a 600 kilometer 2D seismic acquisition program will mainly be focused in the Kerio Valley in the southwestern portion of the block or the Saguta basin in the eastern portion of the block. The Block 12A 2D seismic program commenced shooting near the end of the second quarter of 2013. The planned 2D seismic program will satisfy the 500 kilometer 2D seismic work obligation for the initial exploration period under the Block 12A PSC which expires in September 2013.

Block 9

The Company and its partner on Block 9 are currently planning to drill one exploration well in 2013. Block 9 is in the Cretaceous rift basin on trend with the South Sudan oil fields and the play concept was confirmed by the recent Paipai-1 well drilled in Block 10A. Two major prospects, Bahasi-1 and Sala-1, with large volume potential have been identified. The Company, as operator, and its partners in Block 9 have secured a rig to drill the Bahasi-1 exploration well. Site construction for Bahasi-1 commenced in May and the well is expected to spud in the third quarter of 2013. The Bahasi-1 well will satisfy the remaining exploration commitment for the second exploration period under the PSC, which expires in December 2013. The potential to spud the Sala-1 well in late 2013 is being evaluated.

ETHIOPIA

South Omo Block

The South Omo Block is located in the northern portion of the Tertiary East African Rift trend where Africa Oil and their partner, Tullow, have made two significant oil discoveries in the Lokichar Basin of Kenya. The Company and its partners on the South Omo Block (Tullow operated) spudded the Sabisa-1 well in January 2013 and the well was drilled to a preliminary total depth of 1,810 meters. Hydrocarbon indications in sands beneath a thick claystone top seal have been recorded while drilling, but hole instability issues have required the drilling of a sidetrack to comprehensively log and sample these zones of interest. The sidetrack is underway and a result is expected in late May/early June. There are a number of interesting drill ready follow-on prospects that have been identified on the 2D seismic survey that was completed in 2012 on the western portion of the South Omo Block. Should Sabisa-1 show encouragement, the Tultule location has been prepared as an immediate follow-on prospect located 10 kilometers to the east of Sabisa-1.

The Company and its partners have just completed a 1,174 kilometer 2D seismic program in the Chew Bahir Sub-Basin on the eastern portion of the South Omo Block. This survey has identified a number of prospects and leads some of which are supported by amplitude anomalies indicative of possible hydrocarbon fill. The Shimela prospect has been identified as the first well in the area and is expected to spud in the fourth quarter of 2013. The current exploration period under the PSC expires in January 2015. The remaining work commitments on the block will be satisfied by the completion of Sabisa-1 and the drilling of one additional exploration well.

Ogaden Blocks 7/8

The Company and its partners continue to focus on the El Kuran oil accumulation on 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. The Company and its joint operating partners on Blocks 7/8 (New Age operated) are planning to drill and test the El Kuran-3 appraisal well. A rig has been secured, the well site has been constructed and the well is expected to spud towards the end of June 2013. Should the well show encouragement, a multi-zone acid fracture stimulation well test is planned during 2013. The initial exploration period under the PSC expires in July 2013 and requires that the El Kuran-3 well be completed before then. The Company expects to receive an extension to the initial exploration period sufficient to drill and test the El Kuran-3 well.

Adigala Block

As part of work obligations for the second exploration period which expires July 2013, the Company and its partner (NewAge operated) 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 PSC 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 commenced acquiring a Full Tensor Gradiometry survey in May 2013 and will conduct an exhaustive environmental and social impact assessment over the block later in the year in preparation for a seismic program in 2014. 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

The Company continues to evaluate the encouraging results of the two wells drilled in 2012 on the Dharoor Valley block which proved all the critical elements exist for oil accumulations, namely a working petroleum system, good quality reservoirs and thick seal rocks. Based on these encouraging results, the Company, through its ownership interest in Horn, committed to enter the next exploration period, which carries a commitment to drill one exploration well in each block within an additional three year term ending October 2015.

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. The Company continues to pursue efforts to drill an exploration well in the Nugaal Valley block and is working with the Puntland government 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

Blocks 7 and 11

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. During the first quarter of 2013, 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

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%.

Court Proceedings

The Company is a party to two separate court proceedings in Kenya. 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 initiated its own court proceedings against IPL, including Winding-Up Cause No. 1 of 2011 and Winding-Up Cause No. 1 of 2012. These proceedings involve applications 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.

All of these proceedings are working their way through the Kenyan judicial system. However, the recent elections in Kenya, and legal disputes concerning the outcome of those elections, have caused significant delays in all court proceedings. As a result, most of the proceedings to which the Company is a party have been adjourned until later in 2013 at the earliest.

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

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	31-Mar 2013	31-Dec 2012	30-Sep 2012	30-Jun 2012	31-Mar 2012	31-Dec 2011	30-Sep 2011	30-Jun 2011
Operating expenses (\$)	2,160	8,224	4,035	4,731	4,690	3,758	2,835	8,488
Interest income (\$)	372	25	65	74	162	226	276	220
Foreign exchange gain (loss) (\$)	(1,043)	(1,116)	550	(123)	1,258	2,067	(6,792)	670
Fair market value gain (loss) - warrants (\$)	2,727	(2,684)	17,279	9,906	(23,669)	4,010	2,292	1,764
Fair market value gain (loss) - convertible debenture (\$)	-	-	-	-	-	-	-	309
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 (\$)	(1,874)	(9,551)	1,368	(968)	(13,642)	695	(11,140)	(1,538)
Net income (loss) attributable to non- controlling interest (\$)	1,762	(2,463)	12,483	6,085	(13,429)	2,606	(915)	-
Weighted average shares - Basic	252,166	229,901	220,952	218,664	213,065	211,413	211,320	195,974
Weighted average shares - Diluted	252,166	229,901	226,664	225,319	213,065	212,656	212,019	198,859
Basic earnings (loss) per share (\$)	(0.01)	(0.04)	0.01	-	(0.06)	-	(0.05)	(0.01)
Diluted earnings (loss) per share (\$)	(0.01)	(0.04)	0.01	-	(0.06)	-	(0.05)	(0.02)
Oil and gas expenditures (\$)	39,266	43,535	30,144	38,248	21,896	20,883	9,392	6,037

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 a subsidiary of AOC (reverse acquisition). 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, AOC currently owns approximately 44.6% of Horn.

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 Energy Corp. ("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 \$5.7 million decrease in operating expenses from the second quarter to the third quarter of 2011 can be attributed to a \$7.0 million impairment of intangible exploration assets due to AOC relinquishing Blocks 2/6 in Ethiopia 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 mainly attributed to a \$2.3 million donation made by AOC to the Lundin Foundation in the fourth quarter of 2012, increased compensation related costs associated with annual bonus incentives and travel costs associated with increased operational activity and headcount. Operating expenses decreased \$6.1 million from the fourth quarter of 2012 to the first quarter of 2013 due mainly to the donation to the Lundin foundation, annual bonus incentives, and option grants in Horn of which 1/3 vest immediately, all of which occurred in the fourth quarter of 2012.

Interest income

Interest income increased in the first quarter of 2013 due to a significant increase in cash late in the fourth quarter of 2012 as a result of cash received from the non-brokered private placement in December of 2012.

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 March 31, 2013, 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 recorded a \$2.7 million gain on the revaluation of warrants for the three months ended March 31, 2013 due to a reduction in the volatility of the shares of Horn combined with a reduction in the remaining life of the warrants. The Company will record 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 three months ended March 31, (thousands)	2013	2012
Salaries and benefits	\$ 563	\$ 283
Stock-based compensation	697	630
Travel	281	225
Management fees	74	64
Office and general	129	143
Donation	100	-
Depreciation	13	12
Professional fees	103	91
Stock exchange and filing fees	200	127
Impairment of intangible exploration assets	-	3,115
Operating expenses	\$ 2,160	\$ 4,690

Operating expenses decreased \$2.5 million for the three months ended March 31, 2013 compared to the prior year due mainly to a \$3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali recorded in the previous year. This decrease was offset by a \$0.1 million donation to the Lundin Foundation and increased compensation related costs associated with increased headcount and operational activity. The Lundin Foundation is a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

INTANGIBLE EXPLORATION ASSETS

	March 31, 2013	December 31, 2012
(thousands)		
Intangible exploration assets	\$321,375	\$282,109

During the three months ended March 31, 2013, intangible exploration assets increased by \$39.3 million.

AOC incurred \$26.2 million of intangible exploration expenditures in Kenya for the three months ended March 31, 2013. The majority of expenditures related to the Company's portion of testing costs on the Ngamia-1 well (Block 10BB) and the Twiga South-1 well (Block 13T), drilling costs on the Paipai-1 well (Block 10A), and 2D seismic costs on Blocks 10BB and 10BA. Of the \$26.2 million expenditures in Kenya, \$3.0 million related the Company's portion of PSA related costs and general and administrative costs. AOC incurred \$11.8 million of intangible exploration expenditures in Ethiopia for the three months ended March 31, 2013. The majority of expenditures related to the Company's portion drilling costs on the Sabisa-1 well in South Omo, drilling site preparation costs for the El Kuran well in Block 8 and 2D seismic costs over the Chew Bahir basin in South Omo. Of the \$11.8 million expenditures in Ethiopia, \$1.3 million related the Company's portion of PSA related costs and general and administrative costs. AOC incurred \$1.3 million of intangible exploration expenditures in Puntland for the three months ended March 31, 2013. Of the expenditures in Puntland, \$0.9 million related to the Company's portion of PSA related costs and general and administrative costs. The remainder of expenditures related to carry over of exploratory well costs at the Shabeel North-1 well which was completed in 2012.

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 March 31, 2013, the Company had cash of \$237.1 million and working capital of \$198.8 million as compared to cash of \$272.2 million and working capital of \$237.7 million at December 31, 2012. Of the \$237.1 million in cash at March 31, 2013, \$6.9 million is cash held by Horn. The Company's liquidity and capital resource position has reduced throughout the first quarter of 2013. Both cash and working capital decreased compared to the end of 2012 due to intangible exploration and operating expenditures.

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 three months ended March 31, 2013 was \$0.7 million as compared to \$0.6 million for the same period in 2012. Of the \$0.7 million stock-based compensation expense recognized in the three months ended March 31, 2013, \$0.1 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 three months ended March 31, 2013, the Company incurred management fees of \$0.1 million, (three months ended March 31, 2012 - \$0.1 million) for administrative support services fees to Namdo. Namdo is a private corporation owned by Lukas H. Lundin. At March 31, 2013, the Company had no outstanding amounts due to Namdo in respect of management fees (December 31, 2012 - \$ nil).

Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At March 31, 2013, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.2 million during the three month ended March 31, 2013 (three month ended March 31, 2012 - \$0.2 million). At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 - \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn \$0.01 million during the three months ended March 31, 2013 (three months ended March 31, 2012 - \$0.06

million) for services provided by geologists and geophysicists employed by AOC. At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil).

During the three months ended March 31, 2013, AOC invoiced Horn \$0.02 million for reimbursable expenses paid by AOC on behalf of Horn (three months ended March 31, 2012 - \$0.1 million). At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil).

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. AOC transferred the funds to Horn during the first quarter of 2012.

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, AOC and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in January 2013. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the next exploration period. During the next exploration period which expires 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%.

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 partner's entry into the next exploration period. During the next exploration period which expires in July 2014, the Company and its partner 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 partner 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 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 period under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of \$2.5 million. The Company's current working interest in Block 9 is 50%. The commitments on Block 9 are supported by an outstanding letter of credit of \$375,000 in favor of the Kenyan Government which is collateralized by bank deposit of \$375,000.

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 partners 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 partner's entry into the next exploration period. During the next exploration period which expires in September 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of \$15.0 million. The Company's current working interest in Block 13T is 50%.

Under the terms of the Block 10BA PSC, 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 partner 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 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. 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	252,906,606
Outstanding share purchase options	13,156,222
Full dilution impact on common share outstanding	266,062,828

Subsequent to the end of the quarter, 740,668 stock options were exercised, 50,000 stock options were cancelled, and the Company granted an aggregate of 5,773,500 incentive stock options to certain officers, directors, and other eligible persons of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

New standards and amendments effective for the first time from January 1, 2013:

Certain pronouncements were issued that are mandatory for accounting periods beginning before or on January 1, 2013. The following new standards and amendments have been adopted in these interim financials but have not had a material impact on the Company except for disclosure requirements:

- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interest in Other Entities
- IFRS13: Fair Value Measurement
- IAS 27: Separate Financial Statements
- IAS 28: Investment in Associates and Joint Ventures
- IFRS 7: Financial Instruments: Disclosures
- IAS 19: Employee Benefits

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 three months ended March 31, 2013.

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, Chew Bahir, and Kerio basins in the tertiary rift play within Kenya and 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 near the end of 2013 in Block 9. The Company and its operating partners in Blocks 7/8 in Ethiopia are currently mobilizing a rig 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, fracking 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.

AFRICA OIL CORP.

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

		March 31, 2013	December 31, 2012
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		\$ 237,144	\$ 272,175
Accounts receivable		2,584	2,848
Prepaid expenses		1,080	1,124
		240,808	276,147
Long-term assets			
Restricted cash	3	825	1,119
Property and equipment	4	83	82
Intangible exploration assets	5	321,375	282,109
		322,283	283,310
Total assets		\$ 563,091	\$ 559,457
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 41,964	\$ 36,188
Current portion of warrants	7	8	2,288
		41,972	38,476
Long-term liabilities			
Warrants	7	381	828
		381	828
Total liabilities		42,353	39,304
Equity attributable to common shareholders			
Share capital	6(b)	558,555	558,555
Contributed surplus		12,820	12,123
Deficit		(99,950)	(98,076)
		471,425	472,602
Non-controlling interest		49,313	47,551
Total equity		520,738	520,153
Total liabilities and equity		\$ 563,091	\$ 559,457

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)
(Unaudited)

		Three months ended March 31, 2013	Three months ended March 31, 2012
	Note		
Operating expenses			
Salaries and benefits		\$ 563	\$ 283
Stock-based compensation	8	697	630
Travel		281	225
Management fees	12(b)	74	64
Office and general		129	143
Donation		100	-
Depreciation	4	13	12
Professional fees		103	91
Stock exchange and filing fees		200	127
Impairment of intangible exploration assets	5	-	3,115
		2,160	4,690
Finance income	11	(3,099)	(1,420)
Finance expense	11	1,051	23,801
Net loss and comprehensive loss		112	27,071
Net (income) loss and comprehensive (income) loss attributable to non-controlling interest		(1,762)	13,429
Net loss and comprehensive loss attributable to common shareholders		1,874	13,642
Net loss attributable to common shareholders per share	14		
Basic		\$ 0.01	\$ 0.06
Diluted		\$ 0.01	\$ 0.06
Weighted average number of shares outstanding for the purpose of calculating earnings per share	14		
Basic		252,165,938	213,064,923
Diluted		252,165,938	213,064,923

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)
 (Unaudited)

		March 31, 2013	March 31, 2012
	Note		
	6(b)		
Share capital:			
Balance, beginning of period		\$ 558,555	\$ 306,510
Exercise of warrants		-	14,339
Exercise of options		-	1,275
Balance, end of period		558,555	322,124
Contributed surplus:			
Balance, beginning of period		\$ 12,123	\$ 8,425
Stock based compensation	8	697	630
Exercise of options	8	-	(374)
Balance, end of period		12,820	8,681
Deficit:			
Balance, beginning of period		\$ (98,076)	\$ (75,283)
Net loss and comprehensive loss attributable to common shareholders		(1,874)	(13,642)
Balance, end of period		(99,950)	(88,925)
Total equity attributable to common shareholders		\$ 471,425	241,880
Non-controlling interest:			
Balance, beginning of period		\$ 47,551	\$ 36,296
Non-controlling interest on issuance of Horn shares		-	64
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest		1,762	(13,429)
Balance, end of period		49,313	22,931
Total equity		\$ 520,738	\$ 264,811

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)
(Unaudited)

		Three months ended March 31, 2013	Three months ended March 31, 2012
Cash flows provided by (used in):			
	Note		
Operations:			
Net loss and comprehensive loss for the period		\$ (112)	\$ (27,071)
Items not affecting cash:			
Stock-based compensation	8	697	630
Depreciation	4	13	12
Loss (gain) on marketable securities	11	-	124
Impairment of intangible exploration assets	5	-	3,115
Fair value adjustment - w warrants	11	(2,727)	23,669
Unrealized foreign exchange loss (gain)		1,119	(1,390)
Changes in non-cash operating working capital		(750)	(187)
		(1,760)	(1,098)
Investing:			
Property and equipment expenditures	4	(14)	(64)
Intangible exploration expenditures	5	(39,266)	(21,896)
Proceeds from sale of marketable securities		-	2,442
Changes in non-cash investing working capital		6,834	1,673
		(32,446)	(17,845)
Financing:			
Common shares issued	6(b)	-	10,802
Release of bank guarantee	3	294	1,275
		294	12,077
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(1,119)	1,430
Decrease in cash and cash equivalents		(35,031)	(5,436)
Cash and cash equivalents, beginning of period		\$ 272,175	\$ 109,558
Cash and cash equivalents, end of period		\$ 237,144	\$ 104,122
Supplementary information:			
Interest paid		Nil	Nil
Income taxes paid		Nil	Nil

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

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares these condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles, specifically International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at May 28, 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 Company's consolidated financial statements for the year ended December 31, 2012. Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

Significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2012.

e) New standards and amendments effective for the first time from January 1, 2013:

Certain pronouncements were issued that are mandatory for accounting periods beginning before or on January 1, 2013. The following new standards and amendments have been adopted in these interim financials but have not had a material impact on the Company except for disclosure requirements:

- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interest in Other Entities
- IFRS13: Fair Value Measurement
- IAS 27: Separate Financial Statements
- IAS 28: Investment in Associates and Joint Ventures
- IFRS 7: Financial Instruments: Disclosures
- IAS 19: Employee Benefits

3) Restricted cash:

At March 31, 2013, the Company has a restricted cash balance of \$0.8 million, (December 31, 2012 - \$1.1 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	March 31, 2013	December 31, 2012
South Omo	Tullow Oil plc	\$ -	\$ 294
9	Republic of Kenya	375	375
10BA	Republic of Kenya	450	450
		\$ 825	\$ 1,119

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

4) Property and equipment:

		March 31, 2013		December 31, 2012
Cost, beginning of period	\$	306	\$	215
Additions		14		91
Cost, end of period		320		306
Accumulated depreciation, beginning of period		(224)		(176)
Depreciation		(13)		(48)
Accumulated depreciation, end of period		(237)		(224)
Net carrying amount, beginning of period	\$	82	\$	39
Net carrying amount, end of period	\$	83	\$	82

As at March 31, 2013, the Company has recorded \$0.1 million of property and equipment (December 31, 2012 - \$0.1 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years).

5) Intangible exploration assets:

		March 31, 2013		December 31, 2012
Net carrying amount, beginning of period	\$	282,109	\$	185,672
Additions		39,266		133,823
Impairment of Intangible exploration assets		-		(3,127)
Farmout proceeds		-		(34,259)
Net carrying amount, end of period	\$	321,375	\$	282,109

As at March 31, 2013, \$321.4 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2012 - \$282.1 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 March 31, 2013, 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 three months ended March 31, 2013, the Company capitalized \$3.5 million of general and administrative expenses related to intangible exploration assets (three months ended March 31, 2012 - \$1.2 million).

During the fourth quarter of 2012, the Company relinquished Blocks 7 and 11 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.

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.

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

6) Share capital:

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

b) Issued:

	Note	March 31, 2013		December 31, 2012	
		Shares	Amount	Shares	Amount
Balance, beginning of period		252,165,938	\$ 558,555	211,413,059	\$ 306,510
Private placements, net of issue costs	(ii)	-	-	30,000,000	226,446
Exercise of w arrants	7	-	-	6,521,601	14,340
Shares issued in lieu of professional fees	(i)	-	-	420,000	3,763
Exercise of options	8	-	-	3,811,278	7,496
Balance, end of period		252,165,938	\$ 558,555	252,165,938	\$ 558,555

i) 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.

ii) 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 were subject to a statutory hold period which expired on April 8, 2013 and April 14, 2013, respectively.

7) Warrants:

	Note	Number of AOC	
		Warrants	Amount (\$)
Balance, December 31, 2011:		6,521,601	\$ 1,513
Exercise of w arrants	(a)	(6,521,601)	(1,513)
Fair market value adjustment		-	-
Balance, December 31, 2012:		-	\$ -
Balance, March 31, 2013:		-	\$ -

a) 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.

b) At March 31, 2013, the Company recorded \$0.4 million (December 31, 2012 - \$0.8 million) in long-term warrant liability and \$0.01 million (December 31, 2012 - \$2.3 million) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn Petroleum Corporation ("Horn"). During the three months ended March 31, 2013, the Company recognized a \$2.7 million gain on the revaluation of Horn's warrant liability (three months ended March 31, 2012 - \$23.7 million loss).

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

8) 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:

	March 31, 2013		December 31, 2012	
	Number of shares	Weighted average exercise price (CAD\$)	Number of shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	8,277,056	2.87	10,830,668	1.54
Granted	-	-	1,385,000	9.12
Expired or cancelled	(103,666)	8.66	(127,334)	2.29
Exercised	-	-	(3,811,278)	1.37
Balance, end of period	8,173,390	2.80	8,277,056	2.87

No stock options were exercised during the three months ended March 31, 2013. The weighted average closing share price on the day options were exercised during the twelve months ended December 31, 2012 was CAD\$7.54.

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 three months ended March 31, 2013 and the year ended December 31, 2012 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2013	2012
Number of options granted during the period	-	1,385,000
Fair value of options granted (\$ per option)	-	3.67
Risk-free interest rate (%)	-	1.10
Expected life (years)	-	2.25
Expected volatility (%)	-	70
Expected dividend yield	-	-

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

The following table summarizes information regarding the Company's stock options outstanding at March 31, 2013:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
1.13	730,000	0.29
1.27	16,667	1.41
1.49	3,890,333	1.65
1.56	50,000	1.68
1.70	16,666	1.26
1.85	399,889	0.95
1.88	33,334	1.05
1.94	100,000	1.00
2.09	23,500	1.92
2.10	1,673,001	0.82
8.10	25,000	2.67
8.32	315,000	2.27
8.90	150,000	2.42
9.90	750,000	2.45
2.80	8,173,390	1.43

During the three months ended March 31, 2013, the Company recognized \$0.6 million and \$0.1 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (three months ended March 31, 2012 - \$0.4 million and \$0.2 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

9) 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 March 31, 2013	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Total assets	\$ 202,428	\$ 54,067	\$ 88,813	\$ -	\$ 217,783	\$ 563,091
Intangible exploration assets	189,621	43,139	88,615	-	-	321,375
Property and equipment	-	-	-	-	83	83

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

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
Three months ended March 31, 2013						
	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 26,198	\$ 11,755	\$ 1,313	\$ -	\$ -	\$ 39,266
Property and equipment	-	-	-	-	14	14
	\$ 26,198	\$ 11,755	\$ 1,313	\$ -	\$ 14	\$ 39,280
Statement of operations						
Expenses	\$ 13	\$ 6	\$ 4	\$ -	\$ 2,137	\$ 2,160
Finance income	-	-	-	-	(3,099)	(3,099)
Finance expense	-	-	-	-	1,051	1,051
Segmented loss	\$ 13	\$ 6	\$ 4	\$ -	\$ 89	\$ 112
Three months ended March 31, 2012						
	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 11,770	\$ 2,659	\$ 7,467	\$ -	\$ -	\$ 21,896
Property and equipment	-	-	-	-	64	64
	\$ 11,770	\$ 2,659	\$ 7,467	\$ -	\$ 64	\$ 21,960
Statement of operations						
Expenses	\$ 8	\$ 3	\$ 7	\$ 3,122	\$ 1,550	\$ 4,690
Finance income	-	-	-	-	(1,420)	(1,420)
Finance expense	-	-	-	-	23,801	23,801
Segmented loss	\$ 8	\$ 3	\$ 7	\$ 3,122	\$ 23,931	\$ 27,071

10) Commitments and contingencies:

a) Contractual obligations

Ethiopia:

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.

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

11) Finance income and expense:

Finance income and expense for the three months ended March 31, 2013 and 2012 is comprised of the following:

	March 31, 2013	March 31, 2012
Loss on marketable securities	-	(124)
Fair value adjustment - w warrants	2,727	(23,669)
Interest and other income	372	162
Bank charges	(8)	(8)
Foreign exchange gain (loss)	(1,043)	1,258
Finance income	3,099	1,420
Finance expense	(1,051)	(23,801)

12) 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 three months ended March 31, 2013, the Company incurred management fees of \$0.1 million (three months ended March 31, 2012 - \$0.1 million) for administrative support services fees to Namdo. Namdo is a private corporation owned by Lukas H. Lundin. At March 31, 2013, the Company had no outstanding amounts due to Namdo in respect of management fees (at December 31, 2012 - \$ 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. At March 31, 2013, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.2 million during the

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

three month ended March 31, 2013 (three month ended March 31, 2012 – \$0.2 million). At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn \$0.01 million during the three months ended March 31, 2013 (three months ended March 31, 2012 - \$0.06 million) for services provided by geologists and geophysicists employed by AOC. At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil).

During the three months ended March 31, 2013, AOC invoiced Horn \$0.02 million for reimbursable expenses paid by AOC on behalf of Horn (three months ended March 31, 2012 - \$0.1 million). At March 31, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil).

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. AOC transferred the funds to Horn during the first quarter of 2012.

13) Subsidiaries:

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

14) Earnings per share:

For the three months ended	March 31, 2013			March 31, 2012		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ 1,874	252,165,938	\$ 0.01	\$ 13,642	213,064,923	\$ 0.06
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 1,874	252,165,938	\$ 0.01	\$ 13,642	213,064,923	\$ 0.06

15) Financial Instruments:

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

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

(Unaudited)

The financial assets and financial liabilities that are recorded at fair value are calculated on the basis of information available at the balance sheet date. At March 31, 2013, the Company held no financial assets or liabilities that are subject to valuation using the fair value hierarchy.

16) Subsequent events:

Subsequent to the end of the quarter, the Company granted an aggregate of 5,773,500 incentive stock options to certain officers, directors, and other eligible persons of the Company. The options are exercisable, subject to vesting provisions, over a period of three years at prices of \$5.94 and \$6.69 per share.