AFRICA OIL CORP.

Report to Shareholders

December 31, 2013

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the years ended December 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 audited consolidated financial statements for the years ended December 31, 2013 and 2012 and related notes thereto.

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

The effective date of this MD&A is March 26, 2014.

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

PROFILE AND STRATEGY

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

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

The Company has acquired and commenced exploration activities on multiple exploration blocks in East Africa (refer to table below). The Company has encountered oil in multiple wells drilled in the Tertiary Rift trend. The East African Rift Basin system is one of the last great rift basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds exploration acreage of over 215,000 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)	December 31, 2013 Net Working Interest % (1)	Current Net Working Interest % (1)
Kenya (5)	Block 10A	Tullow	30%	0%	0%
Kenya	Block 9	AOC	50%	50%	50%
Kenya	Block 10BB	Tullow	50%	50%	50%
Kenya	Block 12A	Tullow	20%	20%	20%
Kenya	Block 13T	Tullow	50%	50%	50%
Kenya	Block 10BA	Tullow	50%	50%	50%
Ethiopia	Blocks 7/8	New Age	30%	30%	30%
Ethiopia (6)	Adigala	New Age	50%	50%	10%
Ethiopia	South Omo	Tullow	30%	30%	30%
Ethiopia (3)	Rift Basin Area	AOC	0%	100%	50%
Mali (4)	Block 7	Heritage	25%	0%	0%
Mali (4)	Block 11	Heritage	25%	0%	0%
Puntland, Somalia	Dharoor Valley	Horn	27% (2)	27% (2)	27% (2)
Puntland, Somalia	Nugaal Valley	Horn	27% (2)	27% (2)	27% (2)

Footnotes:

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

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

[3] Under Recent Developments, see the update on the Rift Basin Area in Ethiopia. In 2013, the Company completed a PSA with the Ministry of Mines in Ethiopia with respect to the Rift Basin Area. Subsequent to the end of 2013, the Company completed a farmout of 50% participating interest to Marathon Oil Corporation ("Marathon").

[4] Under Operations Update, see update on Mali. The Company terminated its interest in Blocks 7 and 11 in Mali.

[5] Under Recent Developments, see update on Block 10A. In December of 2013, the Company and its partners notified the Ministry of Energy in Kenya that they were electing not to enter the next exploration period.

[6] Under Operations Update, see update on the Adigala Block. Subsequent to the end of 2013, the Company completed a farmout of 40% participating interest to New Age (Africa Global Energy) Limited ("New Age").

OPERATIONS UPDATE

On the back of the successful exploration activities in Kenya during 2012, the Company, together with its partners, ramped 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. Two additional Tullow-Africa Oil joint venture rigs (one of which is a testing and completion unit) were mobilized, the drilling unit commenced operations in November 2013 and the testing and completions unit commenced operations in February 2014. The Company, as operator, and its partner in Block 9 (Kenya) secured a sixth rig, which commenced drilling operations in September 2013. In addition, the Company and its partners in Block 7/8 (Ethiopia) mobilized a seventh rig for a one well commitment, which commenced drilling operations in October 2013. Currently, the Company has seven rigs operating; however, it will shortly release the second drilling unit operating in Ethiopia, and then expects to have five drilling rigs and one testing and completion rig operating in the region through the rest of 2014. During 2013, the Company completed seven exploration wells and two multi-zone well tests across its blocks and exited the year with three wells drilling and one well under test.

All operations in Block 10BB and Block 13T in Northern Kenya were temporarily suspended for approximately 12 days beginning on October 28, 2013 as a precautionary measure following demonstrations by members of local communities. Operations resumed after successful discussions relating to the operating environment with central and regional government and local community leaders. These discussions led to the signing of a Memorandum of Understanding which clearly lays out a plan for the Government of Kenya, county government, local communities in Northern Kenya and the Tullow-Africa Oil joint venture to work together inclusively over the long-term and to ensure operations can continue without disruption in the future.

During the first half of 2013, the Company completed a series of well tests at both Twiga South-1 and Ngamia-1 on Blocks 13T and 10BB in Kenya, respectively. These successful well tests confirmed over 5,000 barrels of oil per day ("bopd") flow potential per well and doubled the previous estimates of net oil pay. Transient Pressure Analysis has been conducted on the Twiga South-1 and Ngamia-1 well tests. No pressure depletion was recorded over the duration of the tests.

In July 2013, the Company announced a new oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and was the first test of the Basin Flank Play in the eastern part of the South Lokichar Basin. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval based on log analysis. In February 2014, the Company announced the results of five well tests conducted on five Lokhone pay intervals in Etuko-1. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 barrels of oil equivalent per day. In March 2014, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the previously announced Etuko discovery. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.

In September 2013, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicated a potential pay zone of 60 to 100 meters to be confirmed by flow testing. Well testing was conducted utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig. In March 2014, the company announced the results of testing operations on the Ekales-1 well which confirmed this significant discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.

In November 2013, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. Logs indicate a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Well testing will commence imminently and an appraisal well is planned in the first half of 2014.

In January 2014, the Company announced a new oil discovery at Amosing-1 located seven kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicate 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. Well testing and an appraisal well are planned for the first half of 2014.

Also in January 2014, the Company announced a new oil discovery at Ewoi-1 located four kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the South Lokichar Basin in Block 10BB. Logs indicate potential net pay of 20 to 80 meters to be confirmed by well testing.

In March 2014, the Company announced the results of the Emong-1 well located four kilometers northwest of Ngamia-1 field discovery in Block 13T. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. The results are not expected to impact the thickness and quality of reservoir throughout the main Ngamia field area.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015 or early 2016.

To facilitate these development activities in parallel with exploration and appraisal, an "Area of Interest" (AOI) encompassing the South Lokichar Basin discoveries and further prospects in Blocks 10BB and 13T, was agreed with the Government of Kenya in February 2013. This agreement allows a multiple field approach to development of the resources while permitting the continued focus on exploration to increase the resource base while concurrently appraising discoveries.

In the first quarter of 2013, the Tullow-Africa Oil joint venture tested a Cretaceous play in the Anza Basin with the Paipai-1 commitment well in Block 10A (Kenya), encountering light hydrocarbon shows. Due to concerns over economic viability, the Company and its partners have relinquished Block 10A as the partnership focuses its activities on the main Tertiary Rift Play across Kenya and Ethiopia.

In December 2013, the Company reported that the Bahasi-1 well on Block 9 in Kenya, had only encountered minor shows of gas. The rig then moved to drill Sala-1 on the northeastern flank of the basin to test a large prospect in the Cretaceous Anza rift, which is up-dip of two wells that had significant hydrocarbon shows. The Sala-1 well is currently drilling and is expected to complete in the second quarter of 2014.

In July 2013, the Company reported that the Sabisa-1 well on the South Omo Block in Ethiopia, the most northerly well drilled on the Tertiary rift trend to date, had confirmed a viable hydrocarbon system with oil and heavy gas shows. In December 2013, the Company announced that the potential hydrocarbon bearing sands in Sabisa-1 were not present at the Tultule-1 well location. There were gas shows in the section, which point to a potential hydrocarbon source, and the results of these two wells will be analyzed to determine the future exploration program direction in the North Turkana Basin. Preparations are underway to drill two exploration wells in the Chew Bahir Basin, located to the east of the South Omo Block, in 2014. The first of these wells, Shimela-1, will spud imminently.

The Company and its partners continued to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 3,044 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T in Kenya and the South Omo Block in Ethiopia with two onshore and one offshore 2D seismic crews operating through the year. A third onshore 2D seismic crew operating in the South Omo Block was released in May 2013 after completing 1,174 kilometers of 2D seismic. During 2014, the Company is planning to acquire 1,270 km 2D seismic over the North Lokichar and Kerio Basins covering Blocks 10BB, 10BA and 13T. In addition, the Company and its partner in Blocks 10BB and 13T have commenced the acquisition a 550 square kilometer 3D seismic survey over the discoveries and prospects along the western basin bounding fault in the South Lokichar Basin.

In September 2013, the Company announced details of an updated independent assessment of the Company's contingent and prospective resources on its Kenyan and Ethiopian exploration properties. The effective date of this assessment was 31 July 2013 and it was carried out in accordance with the standards established by the Canadian Securities Administrators in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The assessment confirmed that the discovered South Lokichar Basin in Northern Kenya contains gross contingent resources of 368 million barrels of oil in the first three of seven discoveries in the basin, an increase of 557% over the assessment conducted in mid 2012. In addition, gross risked prospective resources of 1,213 million barrels of oil are estimated for the South Lokichar Basin. Net Contingent Resources for the Company are estimated at 231 million barrels of oil. Net Unrisked Prospective Resources for the Company are estimated at 9,647 million barrels of oil (excluding Puntland) and Net Risked Prospective Resources at 1,294 million barrels of oil (excluding Puntland). Please refer to the Company's press release dated September 3, 2013 for details of the prospective and contingent resources by prospect and lead, including the geologic chance of success. Plans are underway to update this independent resource assessment to include well results since July 2013 for release in the second quarter of 2014.

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

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 three drilling rigs and a testing and completion rig operating in the South Lokichar Basin in Northern Kenya. The Company completed three exploration wells and two multi-zone well tests across Blocks 10BB and 13T during 2013. In addition, on exiting the year the Company had two exploration wells drilling and one well under test.

The Company has completed a series of six well tests at the Ngamia-1 discovery. The cumulative flow rate from the six well tests was over 3,200 bopd constrained by completion techniques and surface equipment. With optimized completion techniques and surface equipment it is estimated that these combined flow rates would increase to a rate of 5,400 bopd. Five of the well tests were completed over the Auwerwer sandstones to verify reservoir quality and fluid content which appears of similar quality to those tested at the Twiga South-1 well in the same basin. High quality waxy sweet crude (25-35 degrees API) was flowed from all five zones in the Auwerwer formation with good quality reservoir sands encountered. One well test was conducted in the Lower Lokhone sandstone proving it to be a productive reservoir with 30 degree API oil. All zones produced dry oil with no water produced and no pressure depletion. As a result of testing several previously indeterminate zones in the well, net oil pay in the Ngamia-1 well has double to over 200 meters over a gross oil column of over 1,100 meters.

In July 2013, the Company announced a new oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the South Lokichar Basin. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval. In February 2014, the Company announced the results of five well tests conducted on five Lokhone pay intervals in Etuko-1. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 barrels of oil equivalent per day. In March 2014, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the discovered Lokhone pay intervals identified in Etuko-1. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir, but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.

In January 2014, the Company announced a new oil discovery at Ewoi-1 located four kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the South Lokichar Basin. Logs indicate potential net pay of 20 to 80 meters to be confirmed by well testing.

Also in January 2014, the Company announced a new oil discovery at Amosing-1 located seven kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play. Logs indicate 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. Well testing and an appraisal well are planned for the first half of 2014.

The 2D seismic crews operating in Block 10BB acquired approximately 1,128 kilometers of 2D seismic during 2013. Much of this program focused on defining prospects in the Kerio Basin, with the aim of defining drilling prospects for the 2014 exploratory drilling program. The plan is to acquire an additional 720 kilometers of 2D seismic over the block during 2014 to define prospects in the Kerio and North Lokichar Basins. Preparations are underway to drill the Dyepa prospect in the Kerio Basin spudding around mid 2014. In addition, the Company and its partner have commenced a 550 square kilometer 3D seismic survey over the Ngamia and Twiga South 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 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 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.

In September 2013, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicate a potential pay zone of 60 to 100 meters to be confirmed by flow testing. Well testing was conducted utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig. In March 2014, the company announced the results of testing operations on the Ekales-1 well which confirmed this significant discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.

In November 2013, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. Logs indicated a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Well testing will commence imminently and an appraisal well is planned in the first half of 2014.

In March 2014, the Company announced the results of the Emong-1 well located four kilometers northwest of Ngamia-1 field discovery in Block 13T. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. The results are not expected to impact the thickness and quality of reservoir throughout the main Ngamia field area.

The Company has recently commenced the acquisition a 550 square kilometer 3D seismic survey over the Twiga South and Ngamia structures, in Blocks 13T and 10BB combined. The plan is to acquire an additional 200 kilometers of 2D seismic over the block during 2014 to define prospects in the North Lokichar Basin.

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

Block 10BA

The Company and its operating partner on Block 10BA, Tullow, have completed a 1,450 kilometer 2D seismic program, split evenly between onshore and offshore, half of which was acquired in 2013. The plan is to acquire an additional 350 kilometers of onshore 2D seismic over the block during 2014 to define prospects in the Kerio and North Lokichar Basins. Preparations are underway to drill two exploration wells in the West Turkana Basin commencing with the Kiboko prospect in the second half of 2014. 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 completed a 548 kilometer 2D seismic acquisition program in 2013, and committed to an additional 120 kilometer infill program that was completed in February 2014. The 2D seismic program is mainly focused in the Kerio Valley in the southwestern portion of the block. The 2D seismic acquired to date exceeds the work obligations of the initial exploration period under the Block 12A PSC which expires in September 2014.

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 but attempts to sample the reservoir fluid were unsuccessful. The license has subsequently been relinquished as the Tullow-Africa Oil partnership focuses its activities on the main Tertiary Rift Play across Kenya and Ethiopia. The Paipai-1 well fully satisfied the remaining work obligations under the Block 10A PSC.

Block 9

Block 9 is in the Cretaceous rift basin on trend with the South Sudan oil fields. In December 2013, the Company announced that it had drilled the Bahasi-1 well to a depth of 2,900 meters, encountering basement at 2,850 meters. The well encountered a thick section of Tertiary and Cretaceous interbedded sands and shales, but with only minor hydrocarbon shows. The Company is currently drilling the Sala-1 well which has a planned total depth of 3,450 meters and is expected to complete in the second quarter of 2014. The Sala prospect is a large three way dip closed structure against the rift bounding fault in the Cretaceous Anza Basin in a similar structural setting to the Tertiary Ngamia-1 discovery in Block 10BB. The Sala prospect is up-dip of the Bogal-1 and Nduvo-1 wells both of which encountered significant hydrocarbon shows. The Bahasi-1 well satisfied the remaining work commitment in the first additional exploration period under the Block 9 PSC, which expired in December 2013. The Company and its joint venture partner elected to enter the second additional exploration period under the PSC, which will expire in December 2015, and required the relinquishment of 50% of the block area and the commitment to an exploration well, which will be satisfied by the drilling of Sala-1.

ETHIOPIA

<u>South Omo Block</u>
The South Omo Block is located in the northern portion of the Tertiary East African Rift trend where Africa Oil and their partners have made seven significant oil discoveries in Northern Kenya. In January 2013, the Company and its partners on the South Omo Block spudded the Sabisa-1 well which is located in the North Turkana Basin. The Sabisa-1 well was drilled to a preliminary total depth of 1,810 meters. Hydrocarbon indications in sands beneath a thick claystone top seal were recorded while drilling, but hole instability issues required the drilling of a sidetrack to comprehensively log and sample these zones of interest. The sidetrack was drilled to a total depth of 2,082 meters. The well encountered reservoir quality sands, oil shows and heavy gas shows indicating an oil prone source rock and thick shale section which should provide a good seals for the numerous fault bounded traps identified in the basin. Only the lowermost sands appeared to be in trapping configuration at Sabisa-1.

Based on the encouragement of the results of the Sabisa well, the Company decided to drill the nearby Tultule prospect, which was drilled to a total depth of 2,101 meters. The Tultule-1 well encountered a section similar to the nearby Sabisa-1 well in the upper portion of the well but the sands which appeared to be hydrocarbon bearing in the Sabisa-1 well were not present on the Tultule horst block feature with multiple volcanic units and shales in this section. There were gas shows in the section which indicate a potential hydrocarbon source. The results of these two wells will be analyzed to determine the future exploration program direction in the North Turkana Basin.

During 2013, the Company and its partners completed a 1,174 kilometer 2D seismic program in the Chew Bahir Basin on the eastern portion of the South Omo Block, which identified a number of prospects and leads. Shimela-1 has been identified as the first well in the area and is expected to spud imminently. A second well on the Gardim prospect will follow Shimela-1.

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

<u>Rift Basin Area</u>
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 completed the acquisition of a 36,500 line kilometer Full Tensor Gradiometry ("FTG") survey in October 2013. The Company has completed an exhaustive environmental and social impact assessment over the block in preparation for a 1,200 kilometer 2D seismic program which is expected to commence in the second half of 2014. The initial exploration period, which expires in February 2016, includes a commitment to acquire an FTG survey and 400 kilometers of 2D seismic.

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 partners have recently announced that drilling of the El Kuran-3 well, in the Somali region of Ethiopia, reached a total depth of 3528 meters and is currently undergoing logging and evaluation prior to taking a decision on the way forward on the well. There have been numerous oil and gas shows in the well which is a follow up to a discovery made by Tenneco in the 1970's. There appears to be a significant amount of oil and gas in several intervals and the primary issues are the quality of the reservoir and potential commerciality give the remote location.

Adigala Block

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

PUNTLAND (SOMALIA)

Dharoor Valley and Nugaal Valley Blocks

The Company continues to evaluate the encouraging results of the two wells drilled in 2012 on the Dharoor Valley block which proved all the critical elements exist for oil accumulations, namely a working petroleum system, good quality reservoirs and thick seal rocks. Based on these encouraging results, the Company, 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 drilling at the Shabeel-1 and Shabeel North-1 locations in 2012. 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 discussion with potential joint venture partners and is reviewing new venture opportunities in the region. Somalia is going through an unprecedented period in its history with a real opportunity for all stakeholders to assist in the rebuilding of the country. The first internationally recognized Federal government took power in 2012 following over 20 years of transitional or no government. The Company actively engages with a range of governments and organizations, domestic and international, around how Somalia can best develop a stable Federal state including the institutions and systems it needs to properly manage its natural resources.

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

Africa Oil Private Placement

During October 2013, the Company completed a brokered private placement issuing an aggregate of 56,505,217 shares at a price of SEK 51.75 per share for gross proceeds of SEK 2,924,144,980. Net proceeds of $440 million were received on closing after taking into consideration a $13.8 million commission paid to the joint book running syndicate and other transaction related costs, including foreign exchange. The common shares issued in the private placement were subject to a statutory hold period which expired on March 1, 2014.

Completed Production Sharing Agreements and Farmout Transactions

Rift Basin Area - Marathon

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.

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

Adigala Block – New Age

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

Court Proceedings

The Company is a party to two separate court proceedings in Kenya initiated by Interstate Petroleum Ltd. ("IPL"), and certain related parties of IPL, as Applicants. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involve a dispute concerning the administrative process that 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. IPL has also commenced numerous court applications and appeals in respect of these proceedings, including an application to the Kenyan Supreme Court for leave to appeal a High Court decision which determined that further appeals in respect of Judicial Review Number 30 of 2010 would not be permitted. A decision in respect of that application is expected in the second quarter of 2014.

The Company and certain of its affiliates are named as Interested Parties in these proceedings. The Company has initiated its own court proceedings against IPL and certain related parties, including various applications for costs and Winding-Up Cause No. 1 of 2012. This proceeding is an application to cause IPL to be wound-up or "dissolved", which would terminate any further action in respect of the judicial review proceedings. IPL's most recent Notice of Appeal, filed in May 2013 in respect of Judicial review Number 30 of 2010, was struck by a court order made February 24, 2014.

All of these proceedings are working their way through the Kenyan judicial system. Most of the proceedings to which the Company is a party are now being rescheduled for adjudication. 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	**31-Dec 2013**	**30-Sep 2013**	**30-Jun 2013**	**31-Mar 2013**	**31-Dec 2012**	**30-Sep 2012**	**30-Jun 2012**	**31-Mar 2012**
Operating expenses ($)	31,099	4,577	8,533	2,160	8,224	4,035	4,732	4,690
Interest income ($)	184	161	309	372	25	65	74	162
Foreign exchange gain (loss) ($)	(7,660)	867	(1,349)	(1,043)	(1,116)	550	(123)	1,258
Fair market value gain (loss) - warrants ($)	28	205	155	2,727	(2,684)	17,279	9,906	(23,669)
Fair market gain (loss) on marketable securities ($)	-	-	-	-	-	-	-	(124)
Net income (loss) attributable to common shareholders ($)	(38,272)	(3,251)	(9,263)	(1,874)	(9,551)	1,368	(968)	(13,642)
Net income (loss) attributable to non-controlling interest ($)	(282)	(98)	(160)	1,762	(2,463)	12,483	6,084	(13,429)
Weighted average shares - Basic	291,366	252,960	252,735	252,166	229,901	220,952	218,664	213,065
Weighted average shares - Diluted	291,366	252,960	252,735	252,166	229,901	226,664	225,319	213,065
Basic earnings (loss) per share ($)	(0.13)	(0.01)	(0.04)	(0.01)	(0.04)	0.01	-	(0.06)
Diluted earnings (loss) per share ($)	(0.13)	(0.01)	(0.04)	(0.01)	(0.04)	0.01	-	(0.06)
Oil and gas expenditures ($)	71,985	62,898	55,304	39,266	43,535	30,144	38,249	21,896

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

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

Operating expenses

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 in the second quarter of 2012 was partially offset by increased stock-based compensation costs associated with stock options granted in the third quarter of 2012. The Company issued 750,000 stock options of AOC to directors, officers and employees in the third quarter of 2012 of which one-third vested immediately. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel. The $4.2 million increase in operating expenses from the third quarter to the fourth quarter of 2012 can be mainly attributed to a $2.3 million donation made by AOC to the Lundin Foundation in the fourth quarter of 2012, increased compensation related costs associated with annual bonus incentives and travel costs associated with increased operational activity and headcount. The Lundin Foundation is a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries. Operating expenses decreased $6.1 million from the fourth quarter of 2012 to the first quarter of 2013 due mainly to the donation to the Lundin Foundation, annual bonus incentives, and 2,820,000 option grants in Horn of which one-third vested immediately, all of which occurred in the fourth quarter of 2012. The $6.3 million increase from the first quarter to the second quarter of 2013 can be attributed to increased stock-based compensation costs in the second quarter of 2013. The Company issued 5,673,500 options of AOC to directors, officers and employees in the second quarter of 2013 of which one-third vested immediately. The $4.0 million decrease from the second quarter to the third quarter of 2013 can be attributed to a decreased in stock-based compensation costs as a result of the stock option grant in the second quarter of 2013. The $26.5 million increase in operating expenses from the third quarter to the fourth quarter of 2013 can be mainly attributed to a $22.9 million impairment of previously capitalized Block 10A exploration expenditures, increased compensation related costs associated with annual bonus incentives, and a $1.0 million donation to the Lundin Foundation.

While the Company is legally committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation, as evident by $3.5 million in contributions by AOC and Horn over the past two years, is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contribution is a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

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

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

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

At December 31, 2013, nil warrants were outstanding in AOC and 9.5 million warrants were outstanding in Horn. AOC holds 2.2 million of the warrants outstanding in Horn. The Company recorded a $3.1 million gain on the revaluation of warrants for the year ended December 31, 2013 due to a reduction in the number of Horn warrants outstanding, a reduction of the remaining life of the Horn warrants that remain outstanding, and a reduction in the volatility of the Horn's share price. The Company will record fair market value adjustments on the Horn warrants until they are exercised or they expire (all expire in June 2014).

RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
Salaries and benefits	$ 3,528	$ 2,684	$ 5,040	$ 3,665
Stock-based compensation	2,114	1,154	12,746	4,943
Travel	420	659	1,588	1,469
Office and general	325	295	1,160	1,012
Donation	1,051	2,313	1,151	2,313
Depreciation	15	11	55	48
Professional fees	462	532	786	4,187
Stock exchange and filing fees	310	565	969	916
Impairment of intangible exploration assets	22,874	11	22,874	3,127
Operating expenses	$ 31,099	$ 8,224	$ 46,369	$ 21,680

Three Months Ended December 31, 2013

Operating expenses increased $22.9 million for the three months ended December 31, 2013 compared to the same period in the prior year. The Company recorded a $22.9 million impairment of intangible exploration assets relating to Block 10A in Kenya in the fourth quarter of 2013 as the Company relinquished the block late in the year. The Company made $1.1 million of donations in the fourth quarter of 2013 and $2.3 million of donations in in the fourth quarter of 2012, both to the Lundin Foundation. The increase of $1.0 million in stock-based compensation is attributable to an increase in the number of options granted in 2013 compared to 2012. The $0.8 million increase in salary and benefits is the result of increased operational activity and increased headcount in 2013.

Year Ended December 31, 2013

Operating expenses increased $24.7 million for the year ended December 31, 2013 compared to the prior year. The Company recorded a $22.9 million impairment of intangible exploration assets relating to Block 10A in Kenya in 2013, while in 2012, the Company recorded a $3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali. The increase of $7.8 million in stock-based compensation is attributable to an increase in the number of options granted in 2013 compared to 2012. The $3.4 million decrease in professional fees was mainly the result of 420,000 common shares issued in 2012 as a settlement of claimed professional fees relating to previously completed farmout transactions. The $1.4 million increase in salary and benefits is the result of increased operational activity and increased headcount in 2013. The Company made $1.2 million donation in 2013 and a $2.3 million donation in 2012, both to the Lundin Foundation.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	**2013**	**2012**	**2011**
Statement of Operations Data			
Interest income	$ 1,026	$ 326	$ 966
Net income and comprehensive income attributable to non-controlling interest	1,222	2,676	1,691
Net loss and comprehensive loss attributable to common shareholders	(52,660)	(22,793)	(10,644)
Data per Common Share			
Basic loss per share ($/share)	(0.20)	(0.10)	(0.06)
Diluted loss per share ($/share)	(0.20)	(0.10)	(0.08)
Balance Sheet Data			
Net w orking capital	439,806	237,671	90,200
Total assets	987,824	559,457	304,111
Long term liabilities	$ -	$ 828	$ 2,882

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

Interest income increased in 2013 compared to 2012 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. The decrease in interest income from 2011 to 2012 can be attributed to a lower yield for cash held on deposit.

The net income attributable to non-controlling interest represents the Company's non-ownership percentage of Horn's net income.

The net loss attributable to common shareholders increased $29.9 million to $52.7 million in 2013 from $22.8 million in 2012, mainly as a result of a $24.7 million increase in operating expenses (described above in Results of Operations) and an increase in foreign exchange losses, offset partially by an increase in the gain on the revaluation of the warrant liability. The Company recorded a $9.2 million foreign exchange loss in 2013, compared to a foreign exchange gain of $0.6 million in 2012. Of foreign exchange loss in 2013, $7.4 million related to a derivative instrument entered into by the Company in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013. The remainder of the foreign exchange loss resulted from a weakening of the Canadian dollar versus the US dollar exchange rate, impacting the Company's Canadian dollar cash held on deposit. The Company recorded a $3.1 million gain on the revaluation of the warrant liability in 2013, compared to a $0.8 million gain in 2012. The increase in the gain from 2012 to 2013 is due to a reduction in the number of Horn warrants outstanding, a reduction of the remaining life of the Horn warrants that remain outstanding, and a reduction in the volatility of the Horn's share price.

The net loss attributable to common shareholders increased $12.1 million to $22.8 million in 2012 from $10.6 million in 2011. The increase in the net loss attributable to common shareholders from 2011 to 2012 can be attributed to a $3.7 million increase in operating expenses, gains in 2011 relating to the Lion Energy Corp ("Lion") acquisition and the revaluation of warrants, offset partially by a dilution loss in 2011 in relation to the Horn Transaction. The $3.7 million increase in operating expenses from 2011 to 2012 is mainly attributable to $3.8 million of professional fees resulting from the issuance of 420,000 common shares as settlement of claimed professional fee in 2012, a $2.3 million donation to the Lundin Foundation in 2012, and compensation and travel cost increases in 2012 associated with increased operational activity and increased headcount in 2012. These increases were offset partially by a $3.9 million reduction in impairment charges. In 2012, the Company recorded a $3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali, while in 2011, the Company recorded a $7.0 million impairment of intangible exploration assets relating to Blocks 2/6 in Ethiopia. The Company recorded a $4.1 million gain on the acquisition of Lion in 2011 as the fair value of the net working capital and intangible exploration assets acquired were in excess of the consideration issued. The gains on revaluation of warrants in 2011 resulted from a reduction in the share price of the Company and Horn as well as a reduction in the remaining life of the warrants. The Company recorded a $4.6 million loss in 2011 on the sale of its subsidiary holding the working interest Puntland (Somalia) to Horn. 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 improvement in working capital from 2012 to 2013 is due the brokered private placement in October 2013 which raised $440 million in cash net of issuance costs and related foreign exchange, offset partially by intangible exploration expenditures and cash-based operating expenditures during 2013. The improvement in working capital from 2011 to 2012 is due mainly to the non-brokered private placement in December 2012 which raised $226.4 million and farmout transactions which closed in 2012, offset partially by intangible exploration expenditures and cash-based operating expenses during 2012.

The increase in total assets from 2012 to 2013 is due to the brokered private placement in October 2013 which raised $440 million net of issuance costs and related foreign exchange. The increase in total assets from 2011 to 2012 is due mainly to the non-brokered private placement in December 2012 which raised $226.4 million.

The decrease in long-term liabilities from 2012 to 2013 is the result of all warrants outstanding being current as at December 31, 2013. The decrease in long-term liabilities from 2011 to 2012 is due to warrants issued as part of the non-brokered private placement in September 2011 becoming current in 2012.

INTANGIBLE EXPLORATION ASSETS

(thousands)	**December 31, 2013**	**December 31, 2012**
Intangible exploration assets	$488,688	$282,109

During the year ended December 31, 2013, intangible exploration assets increased by $206.6 million; $229.5 million intangible exploration expenditures were partially offset by a $22.9 million impairment of intangible exploration assets. The following tables breaks down the material components of intangible exploration expenditures:

For the year ended	**December 31, 2013**				**December 31, 2012**			
(thousands)	**Kenya**	**Ethiopia**	**Puntland**	**Total**	**Kenya**	**Ethiopia**	**Puntland**	**Total**
Drilling and completion	$121,183	$43,604	$ 374	**$165,161**	$56,600	$ 4,844	$30,455	**$ 91,899**
Exploration surveys and studies	25,754	10,094	28	**35,876**	20,218	8,056	325	**28,599**
PSA and G&A related	21,377	5,375	1,664	**28,416**	7,351	2,493	3,481	**13,325**
Total	$168,314	$59,073	$ 2,066	**$229,453**	$84,169	$15,393	$34,261	**$133,823**

AOC incurred $168.3 million of intangible exploration expenditures in Kenya for the year ended December 31, 2013. The majority of drilling expenditures related to the Company's portion of drilling costs on the Ngamia-1 well testing (Block 10BB), the Paipai-1 well (Block 10A), the Etuko-1 well and testing (Block 10BB), the Amosing-1 well (Block 10BB), the Ewoi-1 well (Block 10BB), the Twiga South-1 well testing (Block 13T), the Ekales-1 well (Block 13T), and the Agete-1 well (Block 13T). The majority of exploration surveys and studies related to 2D seismic acquisition costs on Blocks 10BB, 12A, and 10BA.

AOC incurred $59.1 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2013. The majority of drilling expenditures related to the Company's portion of drilling costs at El Kuran-3 in Blocks 7/8, and Sabisa-1 and Tultule-1 in the South Omo block. The majority of exploration surveys and studies related to 2D seismic acquisition costs the Chew Bahir basin in the South Omo Block.

AOC incurred $2.1 million of intangible exploration expenditures in Puntland for the year ended December 31, 2013. The majority of expenditures related to PSA related expenditures, capitalized general and administrative costs ("G&A") and expenditures related to exploratory well costs at the Shabeel North-1 well which was completed in 2012.

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

During December 2013, the Company and its partners notified the Ministry of Energy in Kenya of their decision not to enter into the next additional exploration period in Block 10A. Accordingly, the Company has written-off $22.9 million of capitalized intangible exploration assets.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company had cash of $493.2 million and working capital of $439.8 million as compared to cash of $272.2 million and working capital of $237.7 million at December 31, 2012. Of the $493.2 million in cash at December 31, 2013, $3.6 million is cash held by Horn. The Company's liquidity and capital resource position has improved significantly since the end of 2012 due to the brokered private placement in October 2013 which raised $440 million net of issuance costs and related foreign exchange, offset partially by intangible asset expenditures and cash-based operating expenses.

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

	Variances in planed use of proceeds
East African w ork program	No
General w orking capital	No

The Company's current working capital position is not anticipated to provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods under the various PSAs and

PSCs and the accelerated exploration and appraisal program following recent discoveries in the Tertiary Rift trend. To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC.

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the year ended December 31, 2013 was $12.7 million as compared to $4.9 million in 2012. The increase in stock-based compensation was dues to the 6,081,000 options granted in 2013 compared to only 1,385,000 granted in the prior year. One-third of stock options granted vested immediately. Of the $12.7 million stock-based compensation expense recognized in 2013, $0.5 million relates to stock-based compensation expense of Horn. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

RELATED PARTY TRANSACTIONS

Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At December 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 $0.9 million during 2013 (2012 – $0.9 million). At December 31, 2013, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (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 $0.03 million during 2013 (2012 - $0.3 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2013, $0.01 million was outstanding and recorded in due from related party (2012 – $ nil).

During 2013, AOC invoiced Horn $0.1 million for reimbursable expenses paid by AOC on behalf of Horn (2012 - $0.3 million). As at December 31, 2013, $0.1 million was outstanding and recorded in due from related party (2012 – $ nil).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of $1.5 million to Horn, via AOC. AOC transferred the funds to Horn during the first quarter of 2012.

Remuneration of Directors and Senior Management

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

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

For the years ended December 31, (thousands)		2013		2012
Directors' fees	$	221	$	230
Directors' share-based compensation		1,159		457
Management's short-term wages, bonuses and benefits		5,782		4,006
Management's share-based compensation		8,532		3,382
	$	15,694	$	8,075

For the year ended December 31, 2013, $2.6 million of management remuneration was capitalized to intangible exploration assets (2012 - $1.8 million).

COMMITMENTS AND CONTINGENCIES

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

Ethiopia:

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expires in April 2014, 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 amended minimum work and financial obligations of the second exploration period which expired in July 2013. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the third exploration period with amended minimum work commitments. Under the third exploration period which expires in July 2015, AOC and its partners are obligated to complete acquisition of 500 kilometers of 2D seismic. In addition, the Company and its partners are required to drill one exploration well in the event that a viable prospect can be identified. The Company's current working interest in the Adigala Block is 10%.

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in January 2013. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the first additional exploration period which expires in January 2015. During the first additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. The Company's current working interest in the South Omo Block is 30%.

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

Kenya:

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

Under the terms of the Block 10BB PSC, AOC and its partner are currently in the first additional exploration period. During the first additional 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 Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. The Company's current working interest in Block 9 is 50%.

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2014, the initial minimum gross exploration expenditure is $3.6 million. The Company and its partners are obligated to complete G&G operations including the acquisition of 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 are currently in the first additional exploration period. During the first additional exploration period which expires in September 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $15.0 million. The Company's current working interest in Block 13T is 50%.

Under the terms of the Block 10BA PSC, 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%.

Puntland (Somalia):

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

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

OUTSTANDING SHARE DATA

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

Common shares outstanding	310,524,989
Outstanding share purchase options	18,289,056
Full dilution impact on common share outstanding	328,814,045

Subsequent to the end of the year, the Company issued 1,054,666 common shares resulting from the exercise of as many stock options, the Company granted 5,958,500 stock options at an option price of CAD$8.44, and the Company cancelled 10,000 stock options, all of which have been factored into the table above.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

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

Intangible 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

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

IFRS 10: Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 to replace SIC-12, "Consolidation - Special Purpose Entities", and parts of IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements.

IFRS 11: Joint Arrangements

In May 2011, the IASB issued IFRS 11 to replace IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers". IFRS 11 requires entities to follow the substance rather than legal form of a joint arrangement and removes the choice of accounting method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements.

IFRS 12: Disclosure of Interest in Other Entities

In May 2011, the IASB issued IFRS 12, which aggregates and amends disclosure requirements included within other standards. IFRS 12 requires entities to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements.

IFRS13: Fair Value Measurement

In May 2011, the IASB issued IFRS 13 to clarify the definition of fair value and provide guidance on determining fair value. IFRS 13 amends disclosure requirements included within other standards and establishes a single framework for fair value measurement and disclosure. IFRS 13 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard required minimal disclosure changes in the consolidated financial statements.

IAS 1: Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 to require separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future from those that would not. These amendments are effective for annual periods beginning on or after July 1, 2012; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

IAS 28: Investment in Associates and Joint Ventures

In May 2011, the IASB issued amendments to IAS 28 to prescribe the accounting for investments in associates and set out the requirements for applying the equity method when accounting for investments in associates and joint ventures. These amendments are effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

IFRS 7: Financial Instruments: Disclosures

In October 2010, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective for annual periods beginning after July 1, 2011. In December 2011, the IASB issued further amendments to IFRS 7 to provide additional disclosures about offsetting financial assets and financial liabilities on the entity's balance sheet when permitted. These amendments are effective for annual periods beginning on or after January 1, 2013. These amendments had no material impact on the consolidated financial statements.

IAS 19: Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses, and require additional disclosures. These amendments are effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these financial statements.

IFRS 9: Financial instruments

IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company has not fully assessed the impact of IFRS 9

IAS 32: Financial Instruments: Presentation

In 2011, the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are required to be adopted for periods beginning January 1, 2014, and the Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

IAS 36: Impairment of Assets

In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). The amendment is required to be adopted for periods beginning January 1, 2014, and the Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

IFRIC 21: 'Levies'

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

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

RISK FACTORS

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

International Operations

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

International Boundary Disputes

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

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

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

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

Political Instability

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

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

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

Different Legal System and Litigation

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

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

Financial Statements Prepared on a Going Concern Basis

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

Shared Ownership and Dependency on Partners

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

Uncertainty of Title

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

Competing Claims From ConocoPhillips

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

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

Risks Relating to Concessions, Licenses and Contracts

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

Competition

The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. AOC competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. AOC's competitors include oil companies which have greater financial resources, staff and facilities than those of AOC and its partners. AOC's ability to discover reserves in the future will depend on its ability to successfully explore its present properties, to select and acquire suitable producing properties or prospects on which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas. AOC's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

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

Risks Inherent in Oil and Gas Exploration and Development

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

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

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

Well-flow Test Results

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

Capital Requirements

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

Foreign currency exchange rate risk

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

In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013, in which the Company issued shares for Swedish Krona. As a result, the Company incurred losses on foreign currency instrument of $7.4 million (2012 - $ nil).

For the year ended December 31, 2013, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $2.2 million (2012 - $1.5 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2013, the Company had $3.0 million Canadian dollars (2012 - $114.5 million Canadian dollars) in cash and cash equivalents.

Interest rate risk

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

Liquidity risk

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

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

Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. As at December 31, 2013, the Company held $13.2 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

OUTLOOK

The Company has increased the pace of exploration significantly during 2013. Seven rigs are currently operating. Completion of the brokered private placement in October 2013 has increased the

Company's liquidity and capital resource position which is expected to fund the Company's portion of exploration, appraisal and development activities until mid 2015.

The near term focus of exploration is to continue drilling and testing wells in the South Lokichar Basin in Northern Kenya improving on recent cost efficiencies realized while continuing to grow the Company's contingent resource base, and to drill potential basin-opening wells in the Turkana, Chew Bahir, Kerio, and Anza basins within Kenya and Ethiopia.

The results to date onshore Kenya are an important step towards understanding the potential and commerciality of the South Lokichar Basin. Resources discovered to date are of a scale that the Tullow-Africa Oil joint venture has initiated discussions with the Government of Kenya and other relevant stakeholders regarding development options including an export pipeline. It is understood that discussions are ongoing between the Governments of Kenya, Uganda and Sudan regarding a regional crude oil pipeline export system to Lamu in Kenya and the Government of Kenya has indicated that it will issue an Expression of Interest within the next few months seeking parties willing to fund, build and operate the pipeline system.

In 2014, the Company expects to drill six new basin opening wells, drill all key prospects in the South Lokichar Basin, fully appraise the Ngamia and Twiga discoveries, and have a defined understanding of development.

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.

March 26, 2014

Independent Auditor's Report

To the Shareholders of
Africa Oil Corp.

We have audited the accompanying consolidated financial statements of Africa Oil Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of net loss and comprehensive loss, equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

AFRICA OIL CORP.

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

	Note		December 31, 2013		December 31, 2012
ASSETS					
Current assets					
Cash and cash equivalents		$	493,209	$	272,175
Accounts receivable			3,195		2,848
Prepaid expenses			1,379		1,124
			497,783		276,147
Long-term assets					
Restricted cash	5		1,250		1,119
Property and equipment	6		103		82
Intangible exploration assets	7		488,688		282,109
			490,041		283,310
Total assets		$	987,824	$	559,457
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	57,976	$	36,188
Current portion of w arrants	9		1		2,288
			57,977		38,476
Long-term liabilities					
Warrants	9		-		828
			-		828
Total liabilities			57,977		39,304
Equity attributable to common shareholders					
Share capital	8(b)		1,007,414		558,555
Contributed surplus			24,396		12,123
Deficit			(150,736)		(98,076)
			881,074		472,602
Non-controlling interest			48,773		47,551
Total equity			929,847		520,153
Total liabilities and equity		$	987,824	$	559,457

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

Approved on behalf of the Board:

"CAMERON BAILEY" *"KEITH HILL"*

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

AFRICA OIL CORP.

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

For the years ended	**Note**	**December 31, 2013**	**December 31, 2012**
Operating expenses			
Salaries and benefits		$ 5,040	$ 3,665
Stock-based compensation	10	12,746	4,943
Travel		1,588	1,469
Office and general		1,160	1,012
Donation	22	1,151	2,313
Depreciation	6	55	48
Professional fees		786	4,187
Stock exchange and filing fees		969	916
Impairment of intangible exploration assets	7	22,874	3,127
		46,369	21,680
Gain on acquisition of Lion Energy	6(b)	-	-
Dilution loss on sale of subsidiary	6(c)	-	-
Finance income	16	(4,141)	(1,727)
Finance expense	16	9,210	164
Net loss and comprehensive loss		51,438	20,117
Net income and comprehensive income attributable to non-controlling interest		(1,222)	(2,676)
Net loss and comprehensive loss attributable to common shareholders		52,660	22,793
Net loss attributable to common shareholders per share	19		
Basic		$ 0.20	$ 0.10
Diluted		$ 0.20	$ 0.10
Weighted average number of shares outstanding for the purpose of calculating earnings per share	19		
Basic		263,081,763	220,664,278
Diluted		263,081,763	220,664,278

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

AFRICA OIL CORP.

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

	Note	December 31, 2013	December 31, 2012
Share capital:	**8(b)**		
Balance, beginning of year		$ 558,555	$ 306,510
Private placement, net		447,355	226,446
Exercise of warrants		-	14,340
Shares issued in lieu of professional fees		-	3,763
Exercise of options		1,504	7,496
Balance, end of year		1,007,414	558,555
Contributed surplus:			
Balance, beginning of year		$ 12,123	$ 8,425
Exercise of Horn warrants	9(b)	-	1,148
Stock based compensation	10	12,746	4,943
Exercise of options	10	(473)	(2,393)
Balance, end of year		24,396	12,123
Deficit:			
Balance, beginning of year		$ (98,076)	$ (75,283)
Net loss and comprehensive loss attributable to common shareholders		(52,660)	(22,793)
Balance, end of year		(150,736)	(98,076)
Total equity attributable to common shareholders		$ 881,074	472,602
Non-controlling interest:			
Balance, beginning of year		$ 47,551	$ 36,296
Non-controlling interest on issuance of Horn shares		-	8,579
Net income and comprehensive income attributable to non-controlling interest		1,222	2,676
Balance, end of year		48,773	47,551
Total equity		$ 929,847	$ 520,153

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

AFRICA OIL CORP.

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

	Note	December 31, 2013	December 31, 2012
Cash flows provided by (used in):			
Operations:			
Net loss and comprehensive loss for the year		$ (51,438)	$ (20,117)
Items not affecting cash:			
Stock-based compensation	10	12,746	4,943
Share-based expense	8(b)(i)	-	3,763
Depreciation	6	55	48
Loss on marketable securities	16	-	124
Impairment of intangible exploration assets	7	22,874	3,127
Fair value adjustment - warrants	16	(3,115)	(832)
Foreign exchange loss related to financing	16	7,396	-
Unrealized foreign exchange loss		25	1,055
Changes in non-cash operating working capital	23	(756)	(657)
		(12,213)	(8,546)
Investing:			
Property and equipment expenditures	6	(76)	(91)
Intangible exploration expenditures	7	(229,453)	(133,823)
Farmout proceeds	7	-	34,259
Proceeds from sale of marketable securities		-	2,442
Changes in non-cash investing working capital	23	21,942	12,373
		(207,587)	(84,840)
Financing:			
Common shares issued	8(b)	448,386	255,169
Foreign exchange loss related to financing	16	(7,396)	-
Deposit of cash for bank guarantee	5	(1,250)	(375)
Release of bank guarantee	5	1,119	2,175
		440,859	256,969
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(25)	(966)
Increase in cash and cash equivalents		221,034	162,617
Cash and cash equivalents, beginning of year		272,175	$ 109,558
Cash and cash equivalents, end of year		493,209	$ 272,175
Supplementary information:			
Interest paid		Nil	Nil
Income taxes paid		Nil	Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 26, 2014, the date the Board of Directors approved the statements.

b) Basis of measurement:

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

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

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

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

i) Exploration and evaluation costs:

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount (see note 7).

ii) Share-based payments:

Charges for share-based payments are based on the fair value at the date of the award. Stock options are valued using the Black-Scholes model, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 10).

iii) Derivative financial instruments:

The Company's warrants are treated as derivative financial liabilities. The estimated fair value, based on the Black-Scholes model, of each is adjusted on a quarterly basis with gains or losses recognized in the statement of net loss and comprehensive loss. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term (see note 9).

3) Significant accounting policies:

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

a) Basis of consolidation:

i) Subsidiaries:

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

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

ii) Jointly controlled operations and jointly controlled assets:

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

iii) Transactions eliminated on consolidation:

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

b) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect on the date of the transaction. Revenues and expenses are translated at exchange rates at the date of transaction. Exchange gains or losses arising from translation are included in the statement of net loss and comprehensive loss.

c) Property and equipment and Intangible exploration assets:

i) Pre-exploration expenditures:

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

ii) Exploration expenditures:

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

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

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

iii) Development and production costs:

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalized within "oil and gas interests" on a cash-generating unit basis. Subsequent expenditures are capitalized only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed in the statement of net loss and comprehensive loss.

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

d) Depletion and depreciation:

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

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

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

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

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

e) Impairment:

i) Financial assets carried at amortized cost:

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

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

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

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

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

ii) Non-financial assets:

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

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

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

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

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

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

f) Stock-based compensation:

The Company has a stock option plan as described in note 10. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

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

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

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

h) Income tax:

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

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

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

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

i) Earnings per share:

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

j) Financial instruments:

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

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

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

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

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

ii) Available-for-sale investments:

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

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

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

iii) Loans and receivables:

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

iv) Financial liabilities at amortized cost:

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

v) Derivative financial instruments:

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

(1) Warrants

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 9).

k) Provisions:

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

Decommissioning obligations:

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

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

4) New accounting standards:

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

IFRS 10: Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 to replace SIC-12, "Consolidation - Special Purpose Entities", and parts of IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements.

IFRS 11: Joint Arrangements

In May 2011, the IASB issued IFRS 11 to replace IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities - Non-monetary Contributions by Venturers". IFRS 11 requires entities to follow the substance rather than legal form of a joint arrangement and removes the choice of accounting method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements.

IFRS 12: Disclosure of Interest in Other Entities

In May 2011, the IASB issued IFRS 12, which aggregates and amends disclosure requirements included within other standards. IFRS 12 requires entities to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard had no material impact on the consolidated financial statements. The Company has provided the additional disclosures in note 18.

IFRS13: Fair Value Measurement

In May 2011, the IASB issued IFRS 13 to clarify the definition of fair value and provide guidance on determining fair value. IFRS 13 amends disclosure requirements included within other standards and establishes a single framework for fair value measurement and disclosure. IFRS 13 is effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted this standard for the year ending December 31, 2013. The adoption of this standard required minimal disclosure changes in the consolidated financial statements.

IAS 1: Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 to require separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future from those that would not. These amendments are effective for annual periods beginning on or after July 1, 2012; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

IAS 28: Investment in Associates and Joint Ventures

In May 2011, the IASB issued amendments to IAS 28 to prescribe the accounting for investments in associates and set out the requirements for applying the equity method when accounting for investments in associates and joint ventures. These amendments are effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

IFRS 7: Financial Instruments: Disclosures

In October 2010, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective for annual periods beginning after July 1, 2011. In December 2011, the IASB issued further amendments to IFRS 7 to provide additional disclosures about offsetting financial assets and financial liabilities on the entity's balance sheet when permitted. These amendments are effective for annual periods beginning on or after January 1, 2013. These amendments had no material impact on the consolidated financial statements.

IAS 19: Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses, and require additional disclosures. These amendments are effective for annual periods beginning on or after January 1, 2013; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these financial statements.

IFRS 9: Financial instruments

IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company has not fully assessed the impact of IFRS 9.

IAS 32: Financial Instruments: Presentation

In 2011, the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are required to be adopted for periods beginning January 1, 2014, and the Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

IAS 36: Impairment of Assets

In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). The amendment is required to be adopted for periods beginning January 1, 2014, and the Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

IFRIC 21, 'Levies',

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company does not expect that these amendments will have a material impact on the Company's consolidated financial statements.

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

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

5) Restricted cash:

At December 31, 2013, the Company has a restricted cash balance of $1.3 million, (December 31, 2012 - $1.1 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	December 31, 2013	December 31, 2012
Rift Basin	Republic of Ethiopia	$ 1,250	$ -
South Omo	Tullow Oil plc	-	294
9	Republic of Kenya	-	375
10BA	Republic of Kenya	-	450
		$ 1,250	$ 1,119

6) Property and equipment:

	December 31, 2013	December 31, 2012
Cost, beginning of year	$ 306	$ 215
Additions	76	91
Cost, end of year	382	306
Accumulated depreciation, beginning of year	(224)	(176)
Depreciation	(55)	(48)
Accumulated depreciation, end of year	(279)	(224)
Net carrying amount, beginning of year	$ 82	$ 39
Net carrying amount, end of year	$ 103	$ 82

As at December 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). The Company has reviewed property and equipment and determined that there is no indication of impairment.

7) Intangible exploration assets:

	December 31, 2013	December 31, 2012
Net carrying amount, beginning of year	$ 282,109	$ 185,672
Additions	229,453	133,823
Impairment of Intangible exploration assets	(22,874)	(3,127)
Farmout proceeds	-	(34,259)
Net carrying amount, end of year	$ 488,688	$ 282,109

As at December 31, 2013, $488.7 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 December 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.

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

During the year ended December 31, 2013, the Company capitalized $12.7 million of general and administrative expenses related to intangible exploration assets (December 31, 2012 – $6.3 million).

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

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

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 Petroleum Corporation ("Horn"), has a market capitalization below the carrying value of its net assets, the Company believes that the following factors support the judgment that the value of Horn's intangible exploration assets are not impaired: Horn has fulfilled its financial and work obligations required during the first exploration period of its production sharing contracts and has elected to enter into the second exploration period based on the technical encouragement resulting from its first two exploration wells drilled during 2012; Horn is actively planning future exploration activities; Horn continues to engage parties potentially interested in farming into its exploration blocks; and Horn is in a positive working capital position enabling it to continue exploration.

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

8) Share capital:

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

b) Issued:

		December 31, 2013			December 31, 2012		
	Note	Shares		Amount	Shares		Amount
Balance, beginning of year		252,165,938	$	558,555	211,413,059	$	306,510
Private placements, net of issue costs	(ii), (iii)	56,505,217		447,355	30,000,000		226,446
Exercise of warrants	9	-		-	6,521,601		14,340
Shares issued in lieu of professional fees	(i)	-		-	420,000		3,763
Exercise of options	10	799,168		1,504	3,811,278		7,496
Balance, end of year		309,470,323	$	1,007,414	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.

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

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.

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

9) Warrants:

	Note	Number of AOC Warrants		Amount ($)
Balance, December 31, 2011:		**6,521,601**	**$**	**1,513**
Exercise of warrants	(a)	(6,521,601)		(4,464)
Fair market value adjustment		-		2,951
Balance, December 31, 2012:		-	$	-
Balance, December 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 December 31, 2013, the Company recorded $ nil (December 31, 2012 - $0.8 million) in long-term warrant liability and $0.001 million (December 31, 2012 - $2.3 million) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn. During 2013, the Company recognized a $3.1 million gain on the revaluation of Horn's warrant liability (2012 – $3.8 million). The Company recognized an increase in contributed surplus of $1.1 million in relation to Horn warrants exercised in the second quarter of 2012.

10) Share purchase options:

At the 2012 Annual General Meeting, held on June 3, 2013, the Company approved the stock option plan ("the Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

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

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

	December 31, 2013		December 31, 2012	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	8,277,056	1.54	10,830,668	1.54
Granted	6,081,000	6.07	1,385,000	9.12
Expired or cancelled	(163,666)	8.62	(127,334)	2.29
Exercised	(799,168)	1.31	(3,811,278)	1.37
Balance, end of year	13,395,222	4.35	8,277,056	1.54

The weighted average closing share price on the day options were exercised during the year ended December 31, 2013 was CAD$6.06 (December 31, 2012 - 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 years ended December 31, 2013 and 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 year	6,081,000	1,385,000
Fair value of options granted ($ per option)	2.82	3.67
Risk-free interest rate (%)	1.01	1.10
Expected life (years)	2.25	2.25
Expected volatility (%)	72	70
Expected dividend yield	-	-

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

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

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
1.13	100,000	1.46
1.27	16,667	0.66
1.49	3,840,333	0.90
1.56	50,000	0.93
1.70	16,666	0.51
1.85	399,889	0.20
1.88	33,334	0.30
1.94	100,000	0.25
2.09	17,500	1.17
2.10	1,562,333	0.07
5.94	5,666,000	2.29
7.59	2,500	2.60
7.86	400,000	2.59
8.10	25,000	1.91
8.32	315,000	1.51
8.90	100,000	1.68
9.90	750,000	1.69
4.35	13,395,222	1.49

All options granted vest annually over a two-year period, of which one-third vest immediately, and expire three years after the grant date. During the year ended December 31, 2013, the Company recognized $12.3 million and $0.5 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (2012 - $4.1 million and $0.8 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

11) Financial risk management:

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

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

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

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. As at December 31, 2013, the Company held $13.2 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity describes a company's ability to access cash. Companies operating in the upstream oil and gas industry, during the exploration phase, require sufficient cash in order to fulfill their work commitments in accordance with contractual obligations and to be able to potentially acquire strategic oil and gas assets.
The Company will potentially issue equity and enter into farmout agreements with joint venture partners to ensure the Company has sufficient available funds to meet current and foreseeable financial requirements. The Company actively monitors its liquidity to ensure that its cash flows and working capital are adequate to support these financial obligations and the Company's capital programs. The Company will also adjust the pace of its exploration activities to manage its liquidity position.

c) Market risk:

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

i) Foreign currency exchange rate risk:

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars.
In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013, in which the Company issued shares for Swedish Krona. As a result, the Company incurred losses on foreign currency instrument of $7.4 million (2012 $ nil).
For the year ended December 31, 2013, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $2.2 million (2012 - $1.5 million) increase or decrease in foreign exchange gains, respectively.
At December 31, 2013, the Company had $3.0 million Canadian dollars (2012 - $114.5 million Canadian dollars) in cash and cash equivalents.

ii) Interest rate risk:

As at December 31, 2013, the Company's has no outstanding convertible debenture. The convertible debenture was repaid in full during 2011. The Company further has not entered into any derivative instruments or borrowing arrangements in which exposure to fluctuations in interest rates exists.

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

iii) Commodity price risk:

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

12) Capital management:

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

The Company manages its capital structure and makes adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure which currently consists exclusively of equity instruments, the Company may issue additional shares, issue debt, execute working interest farm-out arrangements and revise its capital expenditures program. In addition, the Company manages its cash and cash equivalents balances based on forecasted capital outlays and foreign exchange risks in order to ensure that the risk of negative foreign exchange effects are minimized while ensuring that interest yields on account balances are appropriate. The Company does not have externally imposed capital requirements.

13) Segment information:

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

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

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**

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

Year ended December 31, 2013	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	$ 168,314	$ 59,073	$ 2,066	$ -	$ -	**$ 229,453**
Property and equipment	-	-	-	-	76	**76**
	$ 168,314	$ 59,073	$ 2,066	$ -	$ 76	**$ 229,529**
Statement of operations						
Expenses	$ 22,919	$ 26	$ 21	$ -	$ 23,403	**$ 46,369**
Finance income	-	-	-	-	(4,141)	**(4,141)**
Finance expense	-	-	-	-	9,210	**9,210**
Segmented loss	$ 22,919	$ 26	$ 21	$ -	$28,472	**$ 51,438**

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

14) Commitments and contingencies:

a) Contractual obligations

i) Puntland (Somalia):

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

Under the Joint Venture Agreement with Range Resources Ltd. (“Range”), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to pay 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. At December 31, 2013, the Company’s working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks was 60%.

ii) Ethiopia:

Under the terms of the Blocks 7/8 PSA, during the initial exploration period which was extended by the Ministry of Mines in Ethiopia and expires in April 2014, the Company and its partners are obligated to complete certain geological and geophysical ("G&G") operations (including acquisition of 1,250 kilometers of 2D seismic) with a minimum gross expenditure of $11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2013, the Company's working interest in Blocks 7/8 was 30%.

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the amended minimum work and financial obligations of the second exploration period which expired in July 2013. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the third exploration period with amended minimum work commitments. Under the third exploration period which expires in July 2015, AOC and its partners are obligated to complete acquisition of 500 kilometers of 2D seismic. In addition, the Company and its partners are required to drill one exploration well in the event that a viable prospect can be identified. At December 31, 2013, the Company's working interest in the Adigala Block was 50%. See note 24 for information with respect to a farmout completed subsequent to the end of 2013.

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in January 2013. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the first additional exploration period which expires in January 2015. During the first additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. At December 31, 2013, the Company's working interest in the South Omo Block was 30%.

In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of $1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of $1,250,000 (see note 5). At December 31, 2013, the Company's working interest in the Rift Basin Area Block was 100%. See note 24 for information with respect to a farmout completed subsequent to the end of 2013.

iii) Kenya:

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

Under the terms of the Block 10BB PSC, AOC and its partner are currently in the first additional exploration period. During the first additional 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. At December 31, 2013, the Company's working interest in Block 10BB was 50%.

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

Under the terms of the Block 12A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in September 2014, the initial minimum gross exploration expenditure is $3.6 million. The Company and its partners are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof). At December 31, 2013, the Company's working interest in Blocks 12A was 20%.

Under the terms of the Block 13T PSC, AOC and its partner are currently in the first additional exploration period. During the first additional exploration period which expires in September 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At December 31, 2013, the Company's working interest in Block 13T was 50%.

Under the terms of the Block 10BA PSC, during the initial exploration period which was extended by the Ministry of Energy 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. At December 31, 2013, the Company's working interest in Block 10BA was 50%.

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

b) Office Lease Costs:

The Company has committed to future minimum payments at December 31, 2013 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2014	416
2015	416
2016	414
2017	408
2018	136
Total minimum payments	1,790

c) Title disputes:

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

15) Farmout agreements:

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

a) Tullow Oil plc ("Tullow"):

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

b) Marathon Oil Corporation ("Marathon"):

In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in Block 9 and a 15% interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the Company $32.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of $28.5 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made.

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

c) New Age (Africa Global Energy) Limited ("New Age"):

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

16) Finance income and expense:

Finance income and expense for the years ended December 31, 2013 and 2012 is comprised of the following:

For the years ended	December 31, 2013	December 31, 2012
Loss on marketable securities	-	(124)
Fair value adjustment - warrants	3,115	832
Interest and other income	1,026	326
Bank charges	(24)	(40)
Foreign exchange gain (loss)	(9,186)	569
Finance income	4,141	1,727
Finance expense	(9,210)	(164)

In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013, in which the Company issued shares for Swedish Krona. Of the $9.2 million of foreign exchange losses, $7.4 million relates to a loss recorded on the derivative instrument entered into by the Company.

17) Related party transactions:

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

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At December 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 $0.9 million during 2013 (2012 – $0.9 million). At December 31, 2013, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (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.

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

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.03 million during 2013 (2012 - $0.3 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2013, $0.01 million was outstanding and recorded in due from related party (2012 – $ nil).

During 2013, AOC invoiced Horn $0.1 million for reimbursable expenses paid by AOC on behalf of Horn (2012 - $0.3 million). As at December 31, 2013, $0.1 million was outstanding and recorded in due from related party (2012 – $ nil).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of $1.5 million to Horn, via AOC. AOC transferred the funds to Horn during the first quarter of 2012.

b) Remuneration of Directors and Senior Management

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

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

For the years ended December 31, (thousands)	**2013**	**2012**
Directors' fees	$ 221	$ 230
Directors' share-based compensation	1,159	457
Management's short-term wages, bonuses and benefits	5,782	4,006
Management's share-based compensation	8,532	3,382
	$ 15,694	$ 8,075

For the year ended December 31, 2013, $2.6 million of management remuneration was capitalized to intangible exploration assets (2012 - $1.8 million).

18) Subsidiaries:

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

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

19) Earnings per share:

For the years ended	December 31, 2013			December 31, 2012		
		Weighted Average			Weighted Average	
	Loss	Number of shares	Per share amounts	Loss	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ 52,660	263,081,763	$ 0.20	$ 22,793	220,664,278	$ 0.10
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ 52,660	263,081,763	$ 0.20	$ 22,793	220,664,278	$ 0.10

20) Financial Instruments:

Assets and liabilities at December 31, 2013 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's cash and cash equivalents, loans and receivables and warrants are assessed on the fair value hierarchy described above. The Company's cash and cash equivalents are classified as Level 1. The Company's warrants are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period.

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

21) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery related to losses not recognized and share issue costs. The Company has estimated non-capital losses carry forward of $50.0 million which expire from 2014 through 2033.

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

For the years ended December 31,	2013	2012
Net loss and comprehensive loss	51,438	20,117
Combined federal and provincial statutory income tax rate	25.0%	25.0%
Expected tax recovery	12,860	5,029
Stock-based compensation	(3,186)	(1,236)
Non-taxable portion of gains on marketable securities	-	(20)
Non-taxable income (expense) items	(4,981)	(597)
Unrecognized tax losses	(4,693)	(3,176)
Tax recovery	-	-

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

At December 31,	2013	2012
Unbooked deductible temporary differences		
Capital assets	$ 236	$ 66
Share issuance costs	8,691	10,270
Capital losses carried forward	3,823	5,225
Non-capital losses carried forward	50,021	31,061
Charitable donations	4,438	3,308
	67,209	49,930

22) Donation:

During the year-ended December 31, 2013, as part of the Company's Community Social Responsibility commitment, the Company made a $1.1 million donation to the Lundin Foundation (2012 - $2.3 million), a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

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

23) Supplementary information:

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

	December 31, 2013	December 31, 2012
Changes in non-cash working capital		
Accounts receivable	(347)	(131)
Prepaid expenses	(255)	(573)
Accounts payable and accrued liabilities	21,788	12,420
	21,186	11,716
Relating to:		
Operating activities	(756)	(657)
Investing activities	21,942	12,373
Changes in non-cash working capital	21,186	11,716

24) Subsequent event:

i) Stock options

Subsequent to the end of the year, the Company granted an aggregate of 5,958,500 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 two years at a price of $8.44 CAD per share.

ii) Marathon Oil Corporation (“Marathon”):

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

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

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