



**AFRICA OIL CORP.**

**Report to Shareholders**

**September 30, 2017**

## **AFRICA OIL CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Amounts expressed in United States dollars unless otherwise indicated)**

**For the three and nine months ended September 30, 2017 and 2016**

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 and also should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes thereto.

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

The effective date of this MD&A is November 14, 2017.

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

### **PROFILE AND STRATEGY**

AOC is a Canadian-based company whose common shares are traded on the TSX and Nasdaq Stockholm 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 and Ethiopia.

AOC's long-range plan is to increase shareholder value through the acquisition, exploration and development 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 has actively explored on multiple onshore exploration blocks in various geological settings in East Africa (refer to table below). The Company has made numerous oil discoveries in the South Lokichar Basin (Blocks 10BB and 13T) located in the Tertiary Rift trend in Kenya. Appraisal activities, including extended well testing, appraisal drilling and engineering studies are being undertaken with the goal of sanctioning development of the oil fields in the South Lokichar Basin.

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 had older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic showed robust leads and prospects throughout AOC's project areas. The Company continues to hold extensive exploration acreage in this exciting new world-class exploration play fairway.

## UPDATED ASSESSMENT OF CONTINGENT RESOURCES

In May of 2016, the Company announced details of an updated independent assessment of the Company's contingent resources for the South Lokichar Basin in Blocks 10BB and 13T. The effective date of this assessment was December 31, 2015, 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 South Lokichar Basin contains gross 2C contingent resources of 766 million barrels of oil (Development Pending: 754 million barrels and Development Unclassified: 12 million barrels). Please refer to the Company's press release dated May 10, 2016 for details of the contingent resources by field.

## MAERSK FARMOUT

During the first quarter of 2016, the Company completed its previously announced (November 9, 2015) farmout transaction with Maersk Olie og Gas A/S, a Danish oil and gas company owned by the Maersk Group ("Maersk") whereby Maersk acquired 50% of AOC's interests in Blocks 10BB, 13T and 10BA in Kenya and the Rift Basin and South Omo Blocks in Ethiopia in consideration for reimbursement of a portion of AOC's past costs and a future carry on certain exploration and development costs.

At closing, \$439.4 million of farmout related proceeds were received from Maersk: \$350.0 million as reimbursement of past costs incurred by the Company prior to the agreed March 31, 2015 effective date and \$89.4 million representing Maersk's share of costs incurred between the effective date and closing, including a carry reimbursement of \$15.0 million related to exploration expenditures.

During the second quarter of 2017, the Company and Maersk agreed to payment terms related to the \$75.0 million advance development carry. Africa Oil is due to receive equal quarterly payments of \$18.75 million at the end of each calendar quarter during 2018. These proceeds were recognized in accounts receivable (\$56.2 million current and \$18.8 million long term) and intangible exploration assets during 2017. Upon Final Investment Decision ("FID") of the South Lokichar development project, Maersk may be obligated to carry the Company for an additional amount of up to \$405.0 million dependent upon meeting certain thresholds of resource growth and timing of first oil.

## 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	Current Net Working Interest % <sup>(1)</sup>
Kenya	Block 10BB	Tullow	25%
Kenya	Block 13T	Tullow	25%
Kenya	Block 10BA	Tullow	25%
Kenya	Block 9	AOC	100%
Ethiopia	Rift Basin Area	AOC	100%

Footnotes:

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

During the fourth quarter of 2016, the Company elected to relinquish its 15% working interest in the South Omo Block (Ethiopia) at the end of the exploration period, resulting in a \$6.5 million impairment of previously capitalized intangible exploration assets.

During February 2017, the Company notified its Partners of its decision to withdraw from Block 12A (Kenya). During the fourth quarter of 2016, Company wrote off \$2.0 million of previously capitalized intangible exploration assets related to Block 12A.

## **STRATEGIC PARTNERSHIP: ECO (ATLANTIC) OIL AND GAS LTD.**

On 13 November 2017 the Company announced that it has entered into a strategic partnership with Eco (Atlantic) Oil and Gas Ltd. (TSXV:EOG or AIM:ECO) for exploration in West Africa and Guyana. Under the terms of an investment agreement (the "Investment Agreement"), AOC has agreed to acquire a 19.77% shareholding in ECO through the purchase, by way of private placement, of 29.2 million common shares at CAD\$0.48 per share for a total consideration of CAD\$14.0 million (approximately \$10.9 million). The Investment Agreement also provides the Company with the right to participate in any future ECO equity issuances, on a pro rata basis, and to appoint one nominee to ECO's board of directors. Keith Hill, President and CEO of AOC, will join the ECO board of directors as soon as practicable. As part of the Investment Agreement, the parties have also entered into a Strategic Alliance Agreement (the "SAA"), whereby they will jointly pursue new exploration projects. Pursuant to the terms of the SAA, AOC will be entitled to bid jointly on any new assets or ventures proposed to be acquired by ECO, on the same terms as ECO and for an interest at least equal to the Company's percentage holding of the common shares in ECO from time to time. Additionally, under the terms of the SAA, AOC will also have a right of first offer on the farmout of exploration properties currently held by ECO. This new investment is a good complement to the Company's existing investment in Africa Energy Corp. (AFE:TSXV) ("AFE") in which the Company holds a 28.5% shareholding interest. AFE holds blocks in Namibia adjacent to the ECO acreage and a block offshore South Africa. Together, the two companies represent significant holdings in several of the most attractive exploration areas in the world.

## **OPERATIONS UPDATE**

### **Tertiary Rift – Kenya**

#### **Exploration and Appraisal (Blocks 10BB and 13T)**

The 2017 exploration and appraisal drilling campaign concluded subsequent to the end of the third quarter, following the drilling of the Amosing-7 appraisal well. The PR Marriott Rig-46 has been demobilized. Two discoveries were made during the campaign.

In January 2017, the Erut-1 well resulted in a discovery, proving that oil has migrated to the northern limit of the South Lokichar basin. The second discovery was made during May 2017, at Emekuya-1, encountering significant oil sands, demonstrating oil charge across an extensive part of the Greater Etom structure and further de-risking the northern area of the basin.

The Etiir-1 exploration well, which targeted a large, shallow, structural closure immediately to the west of the Greater Etom structure, spudded in late June and was unsuccessful with no material reservoir development or shows encountered. Although dry, drilling results will be utilized in defining the westerly extent of the Greater Etom Structure. The Etiir-1 well has been plugged and abandoned.

The Ekales-3 well was drilled to a total measured depth of 2,721 meters and finished drilling during the third quarter of 2017. The well targeted an undrilled fault block adjacent to the Ekales field. While reservoir and oil shows were encountered, and oil sampled, the well was deemed non-commercial.

Multiple appraisal wells have been drilled in the Ngamia, Amosing and Etom fields during 2017: Ngamia-10 (65 meters of net oil pay), Amosing-6 (35 meters of net oil and gas pay), Amosing-7 (25 meters of net oil and gas pay) and Etom-3 (25 meters of net oil and gas pay). An extensive wireline evaluation program, including sampling has been undertaken on all appraisal wells. The Ngamia-10, Amosing-6 and 7 and Etom-3 wells have all improved the definition of the limits of their respective fields. However, the presence of rift edge facies has limited their net pay. These drilling results will be incorporated into the geological models that will be utilized for potential fields development plans.

The Auwerwer and Lokone reservoirs in the Etom-2 well were tested utilising artificial lift and flowed at 752 bopd and 580 bopd respectively which was lower than anticipated. As a result, the Joint Venture Partners will undertake further technical work to assess how representative the tests may have been and identify potential options to increase flow rates from the Etom field.

Activity will now move to focus on collecting dynamic field data through extended production and water injection testing. The Ngamia-11 appraisal well (143 meters of net oil pay) has been completed and will be utilized in a waterflood pilot test planned for the first half of 2018. The waterflood pilot will include the previously drilled Ngamia 3, 6 and 8 wells. This pilot is designed to deliver a long-term assessment of the rate of enhanced oil recovery that may be expected as a result of water injection. The waterflood pilot follows up the successful water injection testing program which was completed during the first half of 2017 on the Ngamia and Amosing fields. Additionally, the partnership aims to initiate extended well testing on wells in the Amosing and Ngamia fields, commencing in the first quarter of 2018. Produced oil from testing will be stored and is planned to be transported as part of the Early Oil Production Scheme (EOPS). This scheme will initially entail the evacuation of stored crude oil to Mombasa by road, and first production from EOPS is now expected to commence in the first half of 2018, subject to receiving the necessary consents and approvals.

Africa Oil Corp. has a 25% working interest in Blocks 10BB and 13T with Tullow Oil plc (50% and Operator) and Maersk Olie og Gas A/S (25%) holding the remaining interests.

#### ***Field Development (Blocks 10BB and 13T)***

In addition to the drilling and operational activities to support the FID for the Kenya Full Field Development, engineering studies and contracting activities are under way in preparation for the start of the Front End Engineering Design ("FEED"), which are expected to take place during 2018. The Joint Venture Partners are continuing optimization of the development plans that will allow field and pipeline infrastructure to move forward while limiting upfront capital spend.

A Joint Development Agreement ("JDA"), setting out a structure for the Government of Kenya and the Kenya Joint Venture Partners to progress the development of the export pipeline, was signed on 25 October 2017. The JDA allows important studies to commence such as FEED, Environmental and Social Impact Assessments ("ESIA"), as well as studies on pipeline financing and ownership.

#### ***Exploration Blocks 10BA***

During this period the partnership informed the Government of Kenya of its intention to enter the Second Additional Exploration Period on Block 10BA.

## Cretaceous Anza Rift – Kenya

In Block 9, the Company continues to assess the results of its 2014 drilling program. The Government of Kenya has granted a twelve-month extension to the second additional exploration period, which will now expire in June 2018. The Company plans to re-process and reevaluate existing geological and geophysical data while completing gas development and commercialization studies.

## Tertiary Rift – Ethiopia

During the third quarter of 2015 in the Rift Basin Area Block, a 2D seismic program was completed, which consisted of approximately 600 kilometers of land and lake seismic. Source rock outcrops and oil slicks on the lakes have been identified in the block where there was previously no existing seismic or wells. The Government of Ethiopia has granted an additional twelve month extension to the initial exploration period, which will now expire in February 2018.

## RECENT DEVELOPMENTS

### Court Proceedings

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

To date, the Company has ultimately been successful in defending these proceedings, and in appealing unfavorable decisions. Most recently, on July 29, 2016, the Kenyan Court of Appeal ruled in favor of the Company, allowing the Company’s appeal in respect of a High Court decision in Judicial Review Number 1 of 2012, and set aside the previous Court decision which had allowed the Applicants to institute the proceedings.

Costs were awarded to the Company by the Court of Appeal and the Company is pursuing those awards. The Company is also pursuing winding-up proceedings against IPL. These proceedings would cause IPL to be wound-up or “dissolved”, which would terminate any further action in respect of the judicial review proceedings commenced by it.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015
Operating expenses (\$)	2,309	1,892	2,411	12,094	2,505	2,314	3,672	79,288
Interest income (\$)	1,288	802	769	804	925	845	366	106
Net loss attributable to common shareholders (\$)	(944)	(1,150)	(1,641)	(11,322)	(1,593)	(1,485)	(3,362)	(79,323)
Weighted average shares - Basic	456,617	456,617	456,562	456,417	456,417	456,417	456,417	456,417
Weighted average shares - Diluted	456,617	456,617	456,562	456,417	456,417	456,417	456,417	456,417
Basic loss per share (\$)	(0.00)	(0.00)	0.00	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)
Diluted loss per share (\$)	(0.00)	(0.00)	0.00	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)
Oil and gas expenditures (\$)	15,861	16,201	14,871	16,946	8,395	10,969	12,266	24,521

(1) AOC currently owns approximately 28.5% of Africa Energy Corp. (“Africa Energy”) and accounts for its share of Africa Energy as an equity investment.

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

### Operating expenses

Increased operating expenses, recorded during the fourth quarter of 2015, primarily relate to the recognition of a \$70.7 million impairment of intangible exploration assets related to the Company's exploration Blocks in Ethiopia. Operating expenses also increased during the quarter as a result of an increase of \$1.1 million in professional fees which were incurred associated with entering into the Maersk farmout agreement.

Decreased operating expenses, recorded during the second quarter of 2016, primarily relate to the decreased professional fees, which were being incurred during 2015 and the first quarter of 2016 relating to the Company's farmout efforts.

Increased operating expenses, recorded during the fourth quarter of 2016, primarily relate to the recognition of a \$6.5 million impairment of intangible exploration assets related to the Company's remaining exploration Blocks in Ethiopia as well as a \$2.0 million impairment of intangible exploration assets related to the Company's decision to withdraw from Block 12A in Kenya. Discretionary bonuses paid to employees of the Company at the end of 2016 also attributed to the increase in operating expenses during the fourth quarter of 2016.

Decreased operating expenses, recorded during the second quarter of 2017, primarily relate to a \$0.9 million reduction in donations to the Lundin Foundation which were offset by a \$0.2 million increase in equity-based compensation and a \$0.1 million increase in professional fees relating to fees associated with the settlement of the advance development carry with Maersk.

Increased operating expenses, recorded during the third quarter of 2017, primarily relate to an increase of \$0.1 million relating to travel as well as an increase in office and general expenses of \$0.3 million which primarily relates to an increase in corporate consulting fees.

### Equity-based compensation

Three months ended (thousands, except per share amounts)	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015
Options granted	-	-	-	1,611	-	-	-	2,579
Performance share units granted	-	-	848	-	-	-	1,024	-
Restricted share units granted	-	-	1,083	-	-	-	1,270	-
Exercise price per share (\$CAD)	-	-	-	2.12	-	-	-	1.99
Equity-based compensation expense (\$)	740	676	455	1,074	774	786	690	1,741

The Company uses the fair value method of accounting for stock options granted to eligible plan participants whereby the fair value of all stock options granted is recorded as a charge to operations. The estimated fair value is recognized over the applicable vesting period. All options granted vest over a two-year period, of which one-third vest immediately, and expire three to five years after the grant date. Equity-based compensation relating to the issuance of stock options for the three and nine months ended September 30, 2017 was \$0.1 million and \$0.5 million, respectively, compared to \$0.3 million and \$1.3 million for the three and nine months ended September 30, 2016, respectively. The decrease in equity-based compensation expense can be mainly attributed to the decrease in the number of stock options granted in prior periods and the vesting of costs associated with options granted during 2014 being fully amortized by the end of 2016. As one-third of the fair value of the stock options is expensed immediately upon grant, the remaining expense is expected to decrease over the remaining vesting period. There were no stock options granted during the nine months ended September 30, 2017 and 2016.

On April 19, 2016, the shareholders of the Company approved a new Long Term Incentive Plan (“LTIP”). Under the terms of the LTIP, eligible plan participants may be granted Performance Share Units (“PSUs”) and Restricted Share Units (“RSUs”). The LTIP provides that an aggregate number of common shares which may be reserved for issuance shall not exceed 4% of the issued and outstanding common shares of the Company. PSUs are notional share instruments which track the value of the common shares and are subject to non-market performance conditions related to key strategic, financial and operational milestones. PSUs cliff vest three years from the date of grant, at which time the Board of Directors will assign a performance multiple ranging from nil to two hundred percent to determine the ultimate vested number of PSUs. PSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The Company’s PSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	1,024,000	-
Granted	848,000	1,024,000
Forfeited	(143,000)	-
Vested	-	-
<b>Balance, end of the period</b>	<b>1,729,000</b>	<b>1,024,000</b>

The Company recognized \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2017, respectively, in equity-based compensation relating to PSUs (\$0.2 million and \$0.4 million during the three and nine months ended September 30, 2016, respectively).

RSUs are notional share instruments which track the value of the common shares. RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). RSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The Company’s RSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	1,270,000	-
Granted	1,083,024	1,270,000
Forfeited	(95,333)	-
Vested	(341,334)	-
<b>Balance, end of the period</b>	<b>1,916,357</b>	<b>1,270,000</b>

During the first quarter of 2017, 235,024 RSUs (2016 – 246,000) were granted to Non-Executive Directors and 848,000 RSUs (2016 – 1,024,000) were granted to other plan participants. The Company recognized \$0.4 million and \$1.0 million during the three and nine months ended September 30, 2017, respectively, in equity-based compensation relating to the RSUs (\$0.3 million and \$0.6 million for the three and nine months ended September 30, 2016, respectively).

During the first quarter of 2017, 341,334 RSUs had vested and were settled for a cash payment of \$0.5 million. No RSUs vested during 2016. The Company does not intend to settle any future vested RSUs in cash.



The Company recognized a total of \$0.7 million and \$1.9 million in equity-based compensation relating to the LTIP and Stock Option Plan during the three and nine months ended September 30, 2017, respectively (\$0.8 million and \$2.3 million for the three and nine months ended September 30, 2016, respectively).

## Donations

Three months ended (thousands)	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015
Donation expense	-	-	850	300	350	100	550	980

During the three and nine months ended September 30, 2017, the Company made \$ nil and \$0.9 million, respectively, in donations to the Lundin Foundation compared to \$0.4 million and \$1.0 million during the three and nine months ended September 30, 2016, respectively. While the Company is committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contributions made are a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

## Interest income

Interest Income fluctuates in accordance with cash balances, the currency that the cash is held in, and prevailing market interest rates. The Company holds the vast majority of its cash on hand in US dollars, the Company's functional currency.

## RESULTS OF OPERATIONS

(thousands)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Salaries and benefits	\$ 419	\$ 435	\$ 989	\$ 1,264
Equity-based compensation	740	774	1,871	2,250
Travel	262	259	576	685
Office and general	353	64	442	143
Donation	-	350	850	1,000
Depreciation	26	5	78	8
Professional fees	76	82	455	1,471
Stock exchange and filing fees	161	202	467	602
Share of loss from equity investment	272	334	884	1,068
Operating expenses	\$ 2,309	\$ 2,505	\$ 6,612	\$ 8,491

Operating expenses decreased \$0.2 million during the third quarter of 2017 compared to the same period in 2016. Office and general expenses increased by \$0.2 million during the three months ended September 30, 2017 compared to the same period in 2016 which primarily relates to an increase in consulting fees associated with the corporate activities within the Company. The increase was offset by a decrease in donations as the Company made a donation of \$0.4 million during the third quarter of 2016 compared \$ nil during the third quarter of 2017.

Operating expenses decreased \$1.9 million during the nine months ended September 30, 2017 compared to the same period in 2016. Salaries and benefits decreased \$0.3 million during 2017 compared to the same period in 2016 which is primarily due to the recovery of costs relating to the secondment of an employee and a reduced headcount. Equity-based compensation expense decreased by \$0.4 million which can be mainly attributed to the decrease in the number of stock options granted in prior periods and the vesting of costs associated with options granted during 2014 being fully amortized by the end of 2016. As one-third of the fair value of the stock options is expensed immediately upon grant, the remaining expense is expected to decrease over the remaining vesting period. There were no options granted during the nine months ended September 30, 2017 and 2016. Travel decreased by \$0.1 million which is due to a decrease in activity within the Company. The \$1.0 million decrease in professional fees relates to the completion of the farmout transaction with Maersk during the first quarter of 2016 compared to a lower fee associated with the settlement of the advance development carry with Maersk during 2017. Donations decreased by \$0.1 as a result of the Company donating \$0.9 million to the Lundin Foundation during the nine months ended September 30, 2017 compared to \$1.0 million during the nine months ended September 30, 2016. Stock exchange and filing fees decreased by \$0.1 million which is primarily due to a decrease in investor relation activities during the nine months ended September 30, 2017 compared to the same period in 2016. The Company's share of losses from the equity investment in Africa Energy decreased by \$0.2 million during the nine months ended September 30, 2017. The decreases were offset by an increase in office and general expenses of \$0.3 million which primarily relates to an increase in consulting fees associated with the corporate activities within the Company.

## INTANGIBLE EXPLORATION ASSETS

(thousands)	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
Intangible exploration assets	\$	506,862	\$	534,929

During 2017, intangible exploration assets decreased by \$28.1 million. Expenditures of \$46.9 million were incurred during the nine months ended September 30, 2017, which was offset by a \$75.0 million advance development carry settlement from Maersk. These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: geological and geophysical studies, exploratory and appraisal drilling, well testing, water injection testing, development studies and related general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments.

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

For the nine months ended (thousands)	<b>September 30, 2017</b>			<b>September 30, 2016</b>		
	<b>Kenya</b>	<b>Ethiopia</b>	<b>Total</b>	<b>Kenya</b>	<b>Ethiopia</b>	<b>Total</b>
Drilling and completion	\$ 23,256	\$ 87	\$ 23,343	\$ 14,646	\$ 1	\$ 14,647
Development studies	13,464	-	13,464	5,738	-	5,738
Exploration surveys and studies	1,048	179	1,227	3,211	469	3,680
PSA and G&A related	7,664	1,235	8,899	7,128	437	7,565
<b>Total</b>	<b>\$ 45,432</b>	<b>\$ 1,501</b>	<b>\$ 46,933</b>	<b>\$ 30,723</b>	<b>\$ 907</b>	<b>\$ 31,630</b>

AOC incurred \$45.4 million of intangible exploration expenditures in Kenya for nine months ended September 30, 2017. Drilling and completion expenditures primarily relate to the drilling of the Erut-1, Emekuya-1 and Etiir-1 exploration wells in Block 13T, the drilling of the Ngamia-10, Amosing-6, Ngamia-11 and Amosing-7 appraisal wells

in Block 10BB, the drilling of the Etom-3 and Ekales-3 appraisal wells in Block 13T, as well as the completion of the water injection testing on the Amosing-2A, Amosing-3, and Ngamia-5 wells in Block 10BB. Development study expenditures are associated with studies aimed at progressing towards project sanction for the South Lokichar Basin. Exploration studies costs continue to be incurred in Kenya in conjunction with the exploration and appraisal drilling campaign which recommenced in the fourth quarter of 2016 and has been completed subsequent to the third quarter of 2017.

The Company incurred \$1.5 million of intangible exploration expenditures in Ethiopia for the nine months ended September 30, 2017, which consists of license fees and general and administrative costs.

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 related fees.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2017, the Company had cash of \$423.9 million and working capital of \$443.1 million as compared to cash of \$463.1 million and working capital of \$435.0 million at December 31, 2016.

Until detailed engineering is completed and a final South Lokichar Basin development plan is approved, the Company will continue to assess the sufficiency of its capital resources. The Company's current working capital position may not provide it with sufficient capital resources to complete development activities being considered in the South Lokichar Basin (Kenya). 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.

## **OUTLOOK**

The Company continues to work closely with its Kenyan Joint Venture Partners to focus efforts on advancing the South Lokichar Basin development in Blocks 10BB and 13T (Kenya). With the completion of the 2017 exploration and appraisal drilling campaign, activity will now move to focus on collecting further dynamic data from the fields through extended production and water injection testing. A waterflood pilot test is planned in the Ngamia field for the first half of 2018 and is designed to deliver a long-term assessment of the rate of enhanced oil recovery that may be expected as a result of water injection. Additionally, the partnership aims to initiate extended well testing in the Amosing and Ngamia fields, commencing in the first quarter of 2018. Produced oil from testing will be stored and is planned to be transported as part of the EOPS. This scheme will initially entail the evacuation of stored crude oil to Mombasa by road, and first production from EOPS is now expected to commence in the first half of 2018, subject to receiving the necessary consents and approvals. Engineering studies and contracting activities are under way in preparation for the start of the FEED, which are expected to take place during 2018. The Joint Venture Partners are continuing optimization of the development plans that will allow field and pipeline infrastructure to move forward while limiting upfront capital spend. With the Joint Development Agreement entered into, the Government of Kenya and Kenya Joint Venture Partners have agreed a structure to progress the oil export pipeline. Planned activities associated with the pipeline include FEED, ESIA and studies on financing and ownership.

## RELATED PARTY TRANSACTIONS

### *Transactions with Africa Energy Corp. ("Africa Energy")*

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Africa Energy which resulted in the Company owning 51.4% of the outstanding shares of Africa Energy. In June 2012, March 2014, March 2015 and December 2015, Africa Energy completed non-brokered private placements reducing the Company's ownership interest in Africa Energy to 32%. During November 2016, the Company invested \$2.4 million in a non-brokered private placement, diluting the Company's ownership interest in Africa Energy to 28.5%. Prior to March 2015, when the Company's investment in Africa Energy changed from a position of control to significant influence, the transactions between the Company and Africa Energy were eliminated upon consolidation.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy \$0.1 million during the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 - \$ nil). The management fee charged to Africa Energy 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 Africa Energy.

During the nine months ended September 30, 2017, the Company invoiced Africa Energy \$0.1 million for reimbursable expenses paid by the Company on behalf of Africa Energy (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 - \$0.06 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.

### **Kenya:**

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in September 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 9 PSC, the Company and its partner entered into the second additional exploration period in Kenya which was to expire on December 31, 2015. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's extension to the second additional exploration period which expires in June 2018. Under the terms of the PSC, AOC is required to reprocess 300 line kilometers of 2D seismic data, conduct geological and geophysical studies and re-evaluation of the identified prospects in the block, and undertake engineering and well design for re-evaluation and testing of Bogal-1 well. In addition, the Company must undertake a gas development and commercialization study in the block. At September 30, 2017, the Company's working interest in Block 9 was 100%.

Under the terms of the Block 10BA PSC, the Company and its partners entered into the first additional exploration period in Kenya which was set to expire in April 2016. During March 2016, the Company received approval for an eighteen-month extension to the first additional exploration period which expires in October 2017. The partnership has informed the Government of Kenya of its intention to enter the second additional exploration period. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is \$17.0 million. At September 30, 2017, the Company's working interest in Block 10BA was 25%.

Under the terms of the Block 12A PSC, the Company and its partners entered into the first additional exploration period in Block 12A which was scheduled to expire in September 2016. During July 2016, the Company received approval for a fifteen-month extension to the first additional exploration period which expires in December 2017. All work and functional obligations to the end of the first additional exploration period have been satisfied. During February 2017, the Company notified its Partners of its decision to withdraw from its 20% working interest in Block 12A.

### **Ethiopia:**

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2018, 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. At September 30, 2017, the Company's working interest in the Rift Basin Area Block was 100%.

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the first additional exploration period which expired in January 2015 and the second additional exploration period which expired in January 2017. During the fourth quarter of 2016, the Company elected to relinquish its 15% interest in the South Omo Block.

### **OUTSTANDING SHARE DATA**

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

Common shares outstanding	456,617,074
Outstanding share purchase options	8,347,833
Outstanding performance share units	1,729,000
Outstanding restricted share units	1,916,357
<b>Full dilution impact on common shares outstanding</b>	<b>468,610,264</b>

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2016.

### **Use of Estimates**

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

### **Intangible Exploration Assets**

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

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

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

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

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

### **Equity-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 equity-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.

The estimated fair value of the PSUs is initially determined at the time and is based on non-market performance conditions. The estimated fair value of the PSUs is assessed for revaluation at the end of every reporting period. The estimated fair value is recognized over the applicable vesting period as equity-based compensation expense.

The fair value of the RSUs is determined at the time of grant and is recognized over the applicable vesting period as equity-based compensation expense.

### **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.

## **INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

### *Disclosure controls and procedures*

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is

accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of September 30, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

#### *Internal controls over financial reporting*

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of September 30, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **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 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.

#### ***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.

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

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

### ***Competition***

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

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

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

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

pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

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

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

#### ***Well-flow Test Results***

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

#### ***Capital Requirements***

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

#### ***Foreign currency exchange rate risk***

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

#### ***Interest rate risk***

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

**Liquidity risk**

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

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

**Credit risk**

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

**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, appraisal and development activity including both expected drilling and geological and geophysical related activities;
- future development costs and the funding thereof;
- 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;
- pipeline or delivery constraints;
- 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,
- internal conflicts within state or regions.
- conflict between states.

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

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

# AFRICA OIL CORP.

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

		September 30, 2017	December 31, 2016
	<b>Note</b>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 423,905	\$ 463,061
Accounts receivable	4	56,402	213
Due from related party	12	-	57
Prepaid expenses		1,160	1,155
		481,467	464,486
Long-term assets			
Accounts receivable	4	18,750	-
Equity investment	13	6,446	7,330
Property and equipment	5	132	197
Intangible exploration assets	6	506,862	534,929
		532,190	542,456
<b>Total assets</b>		<b>\$ 1,013,657</b>	<b>\$ 1,006,942</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 38,329	\$ 29,501
		38,329	29,501
<b>Total liabilities</b>		<b>38,329</b>	<b>29,501</b>
Equity attributable to common shareholders			
Share capital	7(b)	1,290,796	1,290,389
Contributed surplus		50,892	49,677
Deficit		(366,360)	(362,625)
<b>Total equity attributable to common shareholders</b>		<b>975,328</b>	<b>977,441</b>
<b>Total liabilities and equity attributable to common shareholders</b>		<b>\$ 1,013,657</b>	<b>\$ 1,006,942</b>
Commitments and contingencies	10		
Subsequent events	18		

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

Approved on behalf of the Board:

*"ANDREW BARTLETT"*

ANDREW BARTLETT, DIRECTOR

*"KEITH HILL"*

KEITH HILL, DIRECTOR

# AFRICA OIL CORP.

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

		Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	<b>Note</b>				
Operating expenses					
Salaries and benefits		\$ 419	\$ 435	989	\$ 1,264
Equity-based compensation	8	740	774	1,871	2,250
Travel		262	259	576	685
Office and general		353	64	442	143
Donation	17	-	350	850	1,000
Depreciation	5	26	5	78	8
Professional fees		76	82	455	1,471
Stock exchange and filing fees		161	202	467	602
Share of loss from equity investment	13	272	334	884	1,068
		2,309	2,505	6,612	8,491
Finance income	11	(1,371)	(925)	(2,904)	(2,136)
Finance expense	11	6	13	27	85
Net loss and comprehensive loss attributable to common shareholders		944	1,593	3,735	6,440
Net loss attributable to common shareholders per share	14				
Basic		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Diluted		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Weighted average number of shares outstanding for the purpose of calculating earnings per share	14				
Basic		456,617,074	456,417,074	456,599,041	456,417,074
Diluted		456,617,074	456,417,074	456,599,041	456,417,074

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



# AFRICA OIL CORP.

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

		September 30, 2017	September 30, 2016
	<b>Note 7(b)</b>		
<b>Share capital:</b>			
Balance, beginning of the period		\$ 1,290,389	\$ 1,290,389
Exercise of options		407	-
Balance, end of the period		1,290,796	1,290,389
<b>Contributed surplus:</b>			
Balance, beginning of the period		\$ 49,677	\$ 46,353
Equity-based compensation	8	1,871	1,476
Settlement of Restricted Share Units	8	(553)	-
Exercise of options	8	(103)	-
Balance, end of the period		50,892	47,829
<b>Deficit:</b>			
Balance, beginning of the period		\$ (362,625)	\$ (344,863)
Net loss and comprehensive loss attributable to common shareholders		(3,735)	(4,847)
Balance, end of the period		(366,360)	(349,710)
Total equity		\$ 975,328	\$ 988,508

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

# AFRICA OIL CORP.

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

		Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows provided by (used in):					
	<b>Note</b>				
Operations:					
Net loss and comprehensive loss for the period		\$ (944)	\$ (1,593)	\$ (3,735)	\$ (6,440)
Items not affecting cash:					
Equity-based compensation	8	740	774	1,871	2,250
Depreciation	5	26	5	78	8
Share of loss from equity investment	13	272	334	884	1,068
Unrealized foreign exchange (gain) loss		(83)	3	(45)	58
Changes in non-cash operating working capital	16	7	171	190	(99)
		18	(306)	(757)	(3,155)
Investing:					
Property and equipment expenditures	5	(1)	(23)	(13)	(27)
Intangible exploration expenditures	6	(15,861)	(8,395)	(46,933)	(31,630)
Farmout proceeds received on closing	6	-	-	-	386,970
Farmout proceeds released from restricted cash	6	-	-	-	52,500
Changes in non-cash investing working capital	16	2,809	(6,418)	8,751	(19,935)
		(13,053)	(14,836)	(38,195)	387,878
Financing:					
Common shares issued	7(b)	-	-	304	-
Settlement of Restricted Share Units	8	-	-	(553)	-
Release of bank guarantee		-	-	-	1,250
		-	-	(249)	1,250
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		83	(3)	45	(58)
Increase (decrease) in cash and cash equivalents		(12,952)	(15,145)	(39,156)	385,915
Cash and cash equivalents, beginning of the period		\$ 436,857	\$ 505,265	\$ 463,061	\$ 104,205
Cash and cash equivalents, end of the period		\$ 423,905	\$ 490,120	\$ 423,905	\$ 490,120
Supplementary information:					
Interest paid		Nil	Nil	Nil	Nil
Income taxes paid		Nil	Nil	Nil	Nil

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 1) Incorporation and nature of business:

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

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

## 2) Basis of preparation:

### a) Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles for interim periods, specifically International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2016.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at November 14, 2017, 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 except as disclosed in the significant accounting policies in Note 3 of the annual financial statements for the year ended December 31, 2016.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

The issuance of performance share units and restricted share units during the first quarter of 2017 requires the use of estimates and judgments and is described further in Note 7 below. All other significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2016.

### 3) New accounting standards:

There are no new standards or amendments to existing standards effective January 1, 2017.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements.

#### *IFRS 9: Financial instruments*

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has assessed the impact of IFRS 9 and has determined that IFRS 9 will not materially impact the quantitative disclosures on the financial statements.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## *IFRS 15: Revenue from contracts with customers*

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has assessed the impact of IFRS 15 and has determined that it will not affect the current 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.

### 4) Accounts receivable:

	September 30, 2017			December 31, 2016		
	Short term	Long term	Total	Short term	Long term	Total
Advance development carry	\$ 56,250	\$ 18,750	\$ 75,000	\$ -	\$ -	\$ -
Other	152	-	152	213	-	213
	\$ 56,402	\$ 18,750	\$ 75,152	\$ 213	\$ -	\$ 213

Please refer to Note 6 for details relating to the Advance development carry receivables.

### 5) Property and equipment:

	September 30, 2017	December 31, 2016
Cost, beginning of the period	\$ 597	\$ 398
Additions	13	199
Cost, end of the period	610	597
Accumulated depreciation, beginning of the period	(400)	(366)
Depreciation	(78)	(34)
Accumulated depreciation, end of the period	(478)	(400)
Net carrying amount, beginning of the period	\$ 197	\$ 32
Net carrying amount, end of the period	\$ 132	\$ 197

As at September 30, 2017, the Company has recorded \$0.1 million of property and equipment (December 31, 2016 - \$0.2 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).

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 6) Intangible exploration assets:

	September 30, 2017	December 31, 2016
Net carrying amount, beginning of the period	\$ 534,929	\$ 934,293
Intangible exploration expenditures	46,933	48,576
Impairment of intangible exploration assets	-	(8,470)
Advance development carry	(75,000)	-
Farmout proceeds	-	(439,470)
Net carrying amount, end of the period	\$ 506,862	\$ 534,929

As at September 30, 2017, \$506.9 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2016 - \$534.9 million). These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: geological and geophysical studies, exploratory and appraisal drilling, well testing, development studies and related general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments. At September 30, 2017, 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.

On February 4, 2016, the Company completed the Kenyan portion of the farmout with Maersk whereby Maersk acquired 50% of the Company's interests in Blocks 10BB, 13T and 10BA in Kenya. At completion, AOC received \$426.6 million (inclusive of the deposit of \$52.5 million previously received) from Maersk. This amount represents \$343.6 million of reimbursed past costs incurred by AOC prior to the agreed March 31, 2015 effective date of the farmout and \$83.0 million representing Maersk's share of costs incurred between the effective date and December 31, 2015, including a carry reimbursement of \$15.0 million of exploration expenditures. During the second quarter of 2017, the Company and Maersk agreed to payment terms related to the \$75.0 million advance development carry. Africa Oil is due to receive equal quarterly payments of \$18.75 million at the end of each calendar quarter during 2018. These proceeds were recognized in accounts receivable (\$56.2 million current and \$18.8 million long term) and credited against intangible exploration assets during the second quarter of 2017. Upon Final Investment Decision ("FID") of the South Lokichar development project, Maersk may be obligated to carry the Company for an additional amount of up to \$405.0 million dependent upon meeting certain thresholds of resource growth and timing of first oil.

On February 22, 2016, the Company completed the Ethiopian portion of the farmout with Maersk whereby Maersk acquired 50% of the Company's interests in the South Omo and Rift Basin blocks in Ethiopia. At completion, AOC received \$12.8 million from Maersk. This amount represents \$6.4 million of reimbursed past cost incurred by AOC prior to the agreed March 31, 2015 effective date of the farmout and \$6.4 million representing Maersk's share of costs incurred between the effective date and December 31, 2015.

During the nine months ended September 30, 2017, the Company capitalized \$6.5 million of general and administrative expenses related to intangible exploration assets (nine months ended September 30, 2016 - \$5.5 million).

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

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

(Unaudited)

During the fourth quarter of 2016, the Company elected to relinquish its interest in the South Omo Block (Ethiopia) at the end of the current exploration period, resulting in a \$6.5 million impairment of previously capitalized intangible exploration assets.

During February 2017, the Company notified its Partners of its decision to withdraw from Block 12A (Kenya). The Company wrote off \$2.0 million of previously capitalized intangible exploration assets related to Block 12A during the fourth quarter of 2016.

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

## 7) Share capital:

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

b) Issued:

	Note	September 30, 2017		December 31, 2016	
		Shares	Amount	Shares	Amount
Balance, beginning of the period		456,417,074	\$ 1,290,389	456,417,074	\$ 1,290,389
Exercise of options	8	200,000	407	-	-
Balance, end of the period		456,617,074	\$ 1,290,796	456,417,074	\$ 1,290,389

## 8) Equity-based compensation:

a) Share purchase options

At the 2016 Annual General Meeting, held on April 19, 2016, the Company's shareholders approved the terms of the new stock option plan (the "Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive share purchase options shall not exceed 5% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

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

	September 30, 2017		December 31, 2016	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the period	14,748,500	4.58	18,452,500	5.20
Granted	-	-	1,610,500	2.12
Expired	(6,200,667)	7.79	(5,314,500)	5.97
Exercised	(200,000)	1.99	-	-
Balance, end of the period	8,347,833	2.26	14,748,500	4.58

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

During the nine months ended September 30, 2017, 0.2 million share purchase options were exercised in which \$0.1 million in contributed surplus was transferred to share capital. No share purchase options were exercised during the year ended December 31, 2016.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model and the fair value of the options granted is expensed over the vesting period of the options. The fair value of each option granted by the Company during the nine months ended September 30, 2017 and the year ended December 31, 2016 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2017	2016
Number of options granted	-	1,610,500
Fair value of options granted (CAD\$ per option)	-	0.75
Risk-free interest rate (%)	-	0.69
Expected life (years)	-	3.00
Expected volatility (%)	-	52
Expected dividend yield	-	-

The following table summarizes information regarding the Company's share purchase options outstanding at September 30, 2017:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
2.48	3,885,000	2.32
2.25	600,000	2.45
2.12	1,538,333	4.21
1.99	2,174,500	3.23
1.98	150,000	3.14
2.26	8,347,833	2.93

As at September 30, 2017, 6,535,331 share purchase options were exercisable.

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. The Company recognized \$0.1 million and \$0.5 million in equity-based compensation during the three and nine months ended September 30, 2017, respectively, (\$0.3 million and \$1.3 million for the three and nine months ended September 30, 2016, respectively), related to share purchase options.

## b) Performance share units ("PSUs")

On April 19, 2016, the shareholders of the Company approved a new Long Term Incentive Plan ("LTIP"). Under the terms of the LTIP, eligible plan participants may be granted PSUs and Restricted Share Units ("RSUs"). The LTIP provides that an aggregate number of common shares which may be reserved for issuance shall not exceed 4% of the issued and outstanding common shares of the Company. PSUs are notional share instruments which track the value of the common shares and are subject to non-market performance conditions related to key strategic, financial and operational milestones. PSUs cliff vest three years from the date of grant, at which time the Board of Directors will assign a performance multiple ranging from nil to two hundred percent



# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

to determine the ultimate vested number of PSUs. PSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The non-market performance conditions include:

- i) metrics relating to completion of the Maersk farmout agreement and confirming resource quantities providing entitlement to associated advance, and contingent carry;
- ii) metrics relating to the growth in contingent resources and reserves; and
- iii) additional milestones related to South Lokichar development, pipeline development and financing associated with these developments.

The Company's PSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	1,024,000	-
Granted	848,000	1,024,000
Forfeited	(143,000)	-
Vested	-	-
Balance, end of the period	1,729,000	1,024,000

The Company accounts for PSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. The Company recognized \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2017, respectively, in equity-based compensation relating to the PSUs (\$0.2 million and \$0.4 million during the three and nine months ended September 30, 2016, respectively).

## c) Restricted share units ("RSUs")

RSUs are notional share instruments which track the value of the common shares. RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). RSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The Company's RSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	1,270,000	-
Granted	1,083,024	1,270,000
Forfeited	(95,333)	-
Vested	(341,334)	-
Balance, end of the period	1,916,357	1,270,000

During the first quarter of 2017, 235,024 RSUs (2016 – 246,000) were granted to Non-Executive Directors and 848,000 RSUs (2016 – 1,024,000) were granted to other plan participants. The Company accounts for RSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. The Company recognized \$0.4 million and \$1.0 million during the three and nine months ended

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

September 30, 2017, respectively, in equity-based compensation relating to the RSUs (\$0.3 million and \$0.6 million for both three and nine months ended September 30, 2016, respectively).

During the first quarter of 2017, 341,334 RSUs had vested and were settled for a cash payment of \$0.5 million. No RSUs had vested during 2016. The Company does not intend to settle any future vested RSUs in cash.

The Company recognized a total of \$0.7 million and \$1.9 million in equity-based compensation relating to the LTIP and Stock Option Plan during the three and nine months ended September 30, 2017, respectively (\$0.8 million and \$2.3 million for the three and nine months ended September 30, 2016, respectively).

## 9) Segment information:

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

<b>At September 30, 2017</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
Total assets	\$ 594,695	\$ 7,915	\$ 411,047	<b>\$ 1,013,657</b>
Intangible exploration assets	504,363	2,499	-	<b>506,862</b>
Property and equipment	-	-	132	<b>132</b>

  

<b>At December 31, 2016</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
Total assets	\$ 539,901	\$ 6,073	\$ 460,968	<b>\$ 1,006,942</b>
Intangible exploration assets	533,931	998	-	<b>534,929</b>
Property and equipment	-	-	197	<b>197</b>

  

<b>Three months ended September 30, 2017</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 15,192	\$ 669	\$ -	<b>\$ 15,861</b>
Property and equipment	-	-	1	<b>1</b>
	\$ 15,192	\$ 669	\$ 1	<b>\$ 15,862</b>
<b>Statement of operations</b>				
Expenses	\$ 28	\$ 4	\$ 2,277	<b>\$ 2,309</b>
Finance income	-	-	(1,371)	<b>(1,371)</b>
Finance expense	-	-	6	<b>6</b>
Segmented loss	\$ 28	\$ 4	\$ 912	<b>\$ 944</b>

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

<b>Three months ended September 30, 2016</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 8,244	\$ 151	\$ -	\$ 8,395
Property and equipment	-	-	23	23
	\$ 8,244	\$ 151	\$ 23	\$ 8,418
<b>Statement of operations</b>				
Expenses	\$ 7	\$ 4	\$ 2,494	\$ 2,505
Finance income	-	-	(925)	(925)
Finance expense	-	-	13	13
Segmented loss	\$ 7	\$ 4	\$ 1,582	\$ 1,593
<b>Nine months ended September 30, 2017</b>				
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 45,432	\$ 1,501	\$ -	\$ 46,933
Property and equipment	-	-	13	13
	\$ 45,432	\$ 1,501	\$ 13	\$ 46,946
<b>Statement of operations</b>				
Expenses	\$ 47	\$ 12	\$ 6,552	\$ 6,612
Finance income	-	-	(2,904)	(2,904)
Finance expense	-	-	27	27
Segmented loss	\$ 47	\$ 12	\$ 3,675	\$ 3,735
<b>Nine months ended September 30, 2016</b>				
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 30,723	\$ 907	\$ -	\$ 31,630
Property and equipment	-	-	27	27
	\$ 30,723	\$ 907	\$ 27	\$ 31,657
<b>Statement of operations</b>				
Expenses	\$ 25	\$ 11	\$ 8,455	\$ 8,491
Finance income	-	-	(2,136)	(2,136)
Finance expense	-	-	85	85
Segmented loss	\$ 25	\$ 11	\$ 6,404	\$ 6,440

## 10) Commitments and contingencies:

### a) Contractual obligations

#### i) Kenya:

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

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

(Unaudited)

Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in September 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 9 PSC, the Company and its partner entered into the second additional exploration period in Kenya which was to expire on December 31, 2015. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's extension to the second additional exploration period which expires in June 2018. Under the terms of the PSC, AOC is required to reprocess 300 line kilometers of 2D seismic data, conduct geological and geophysical studies and re-evaluation of the identified prospects in the block, and undertake engineering and well design for re-evaluation and testing of Bogal-1 well. In addition, the Company must undertake a gas development and commercialization study in the block. At September 30, 2017, the Company's working interest in Block 9 was 100%.

Under the terms of the Block 10BA PSC, the Company and its partners entered into the first additional exploration period in Kenya which was set to expire in April 2016. During March 2016, the Company received approval for an eighteen-month extension to the first additional exploration period which expires in October 2017. The partnership has informed the Government of Kenya of its intention to enter the second additional exploration period. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is \$17.0 million. At September 30, 2017, the Company's working interest in Block 10BA was 25%.

Under the terms of the Block 12A PSC, the Company and its partners entered into the first additional exploration period in Block 12A which was scheduled to expire in September 2016. During July 2016, the Company received approval for a fifteen-month extension to the first additional exploration period which expires in December 2017. All work and financial obligations to the end of the first additional exploration period have been satisfied. During February 2017, the Company notified its Partners of its decision to withdraw from its 20% working interest in Block 12A.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

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

(Unaudited)

ii) Ethiopia:

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2018, 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. At September 30, 2017, the Company's working interest in the Rift Basin Area Block was 100%.

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the first additional exploration period which expired in January 2015 and the second additional exploration period which expired in January 2017. During the fourth quarter of 2016, the Company elected to relinquish its 15% interest in the South Omo Block.

b) 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.

## 11) Finance income and expense:

Finance income and expense for three and nine months ended September 30, 2017 and 2016 is comprised of the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest and other income	\$ 1,288	\$ 925	\$ 2,859	\$ 2,136
Bank charges	(6)	(10)	(27)	(27)
Foreign exchange gain (loss)	83	(3)	45	(58)
Finance income	\$ 1,371	\$ 925	\$ 2,904	\$ 2,136
Finance expense	\$ (6)	\$ (13)	\$ (27)	\$ (85)

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 12) Related party transactions:

Transactions with Africa Energy Corp. ("Africa Energy")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Africa Energy which resulted in the Company owning 51.4% of the outstanding shares of Africa Energy. In June 2012, March 2014, March 2015 and December 2015, Africa Energy completed non-brokered private placements reducing the Company's ownership interest in Africa Energy to 32%. During November 2016, the Company invested \$2.4 million in a non-brokered private placement, diluting the Company's ownership interest in Africa Energy to 28.5%. Prior to March 2015, when the Company's investment in Africa Energy changed from a position of control to significant influence, the transactions between the Company and Africa Energy were eliminated upon consolidation.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy \$0.1 million during the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 - \$ nil). The management fee charged to Africa Energy 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 Africa Energy.

During the nine months ended September 30, 2017, the Company invoiced Africa Energy \$0.1 million for reimbursable expenses paid by the Company on behalf of Africa Energy (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 - \$0.06 million).

## 13) Equity investment:

The Company owns 28.5% of the issued and outstanding shares of Africa Energy Corp and accounts for its investment in Africa Energy as an equity investment.

	<b>September 30, December 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of the period	\$ 7,330	\$ 6,262
Share of loss from equity investment	(884)	(1,312)
Additional investment through private placements	-	2,380
Balance, end of the period	\$ 6,446	\$ 7,330

The Company recognized losses of \$0.3 million and \$0.9 million during the three and nine months ended September 30, 2017, respectively, related to its investment in Africa Energy (\$0.3 million and \$1.1 million for the three and nine months ended September 30, 2016, respectively).

As a result of the value attributed to the Company's investment in Africa Energy during 2015 and the value of additional investments made in Africa Energy and the Company's share of losses recognized since the change to a position of significant influence, \$6.4 million is recorded as an equity investment as at September 30, 2017 (December 31, 2016 - \$7.3 million).

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 14) Net loss per share:

For the three months ended	September 30, 2017			September 30, 2016		
	Weighted Average			Weighted Average		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ 944	456,617,074	\$ 0.00	\$ 1,593	456,417,074	\$ 0.00
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 944	456,617,074	\$ 0.00	\$ 1,593	456,417,074	\$ 0.00
For the nine months ended	September 30, 2017			September 30, 2016		
	Weighted Average			Weighted Average		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ 3,735	456,599,041	\$ 0.01	\$ 6,440	456,417,074	\$ 0.01
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 3,735	456,599,041	\$ 0.01	\$ 6,440	456,417,074	\$ 0.01

For the nine months ended September 30, 2017, 8,347,833 options, 1,729,000 PSUs and 1,916,357 RSUs were anti-dilutive and were not included in the calculation of dilutive loss per share (nine months ended September 30, 2016, 13,138,000 options, 1,024,000 PSUs and 1,270,000 RSUs).

## 15) Financial instruments:

Assets and liabilities at September 30, 2017 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, accounts receivable, due from related party and accounts payable and accrued liabilities are assessed on the fair value hierarchy described above. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. The fair value of the investment in Africa Energy at the time of loss of control was determined by a quoted stock price and is classified as Level 1. The investment in Africa Energy does not require any revaluation after the time of loss of control. 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.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 16) Supplementary information:

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Changes in non-cash working capital				
Accounts receivable <sup>(1)</sup>	\$ 189	\$ (2,719)	\$ 61	\$ (3,353)
Prepaid expenses	(47)	185	(5)	(110)
Due from related party	16	(22)	57	13
Accounts payable and accrued liabilities	2,658	(3,691)	8,828	(16,584)
	2,816	(6,247)	8,941	(20,034)
Relating to:				
Operating activities	\$ 7	\$ 171	\$ 190	\$ (99)
Investing activities	2,809	(6,418)	8,751	(19,935)
Changes in non-cash working capital	\$ 2,816	\$ (6,247)	\$ 8,941	\$ (20,034)

The change in accounts receivable excludes a non-cash component relating to the advance development carry of \$56.3 million included in accounts receivable at September 30, 2017 (Note 4).

## 17) Donation:

As part of the Company's Community Social Responsibility commitment, the Company made donations to the Lundin Foundation of \$ nil and \$0.9 million for the three and nine months ended September 30, 2017, respectively (\$0.4 million and \$1.0 million for the three and nine months ended September 30, 2016). 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.

## 18) Subsequent events:

On 13 November 2017 the Company announced that it has entered into a strategic partnership with Eco (Atlantic) Oil and Gas Ltd. (TSXV:EOG or AIM:ECO) for exploration in West Africa and Guyana. Under the terms of an investment agreement (the "Investment Agreement"), AOC has agreed to acquire a 19.77% shareholding in ECO through the purchase, by way of private placement, of 29.2 million common shares at CAD\$0.48 per share for a total consideration of CAD\$14.0 million (approximately \$10.9 million). The Investment Agreement also provides the Company with the right to participate in any future ECO equity issuances, on a pro rata basis, and to appoint one nominee to ECO's board of directors. Keith Hill, President and CEO of AOC, will join the ECO board of directors as soon as practicable. As part of the Investment Agreement, the parties have also entered into a Strategic Alliance Agreement (the "SAA"), whereby they will jointly pursue new exploration projects. Pursuant to the terms of the SAA, AOC will be entitled to bid jointly on any new assets or ventures proposed to be acquired by ECO, on the same terms as ECO and for an interest at least equal to the Company's percentage holding of the common shares in ECO from time to time. Additionally, under the terms of the SAA, AOC will also have a right of first offer on the farmout of exploration properties currently held by ECO.