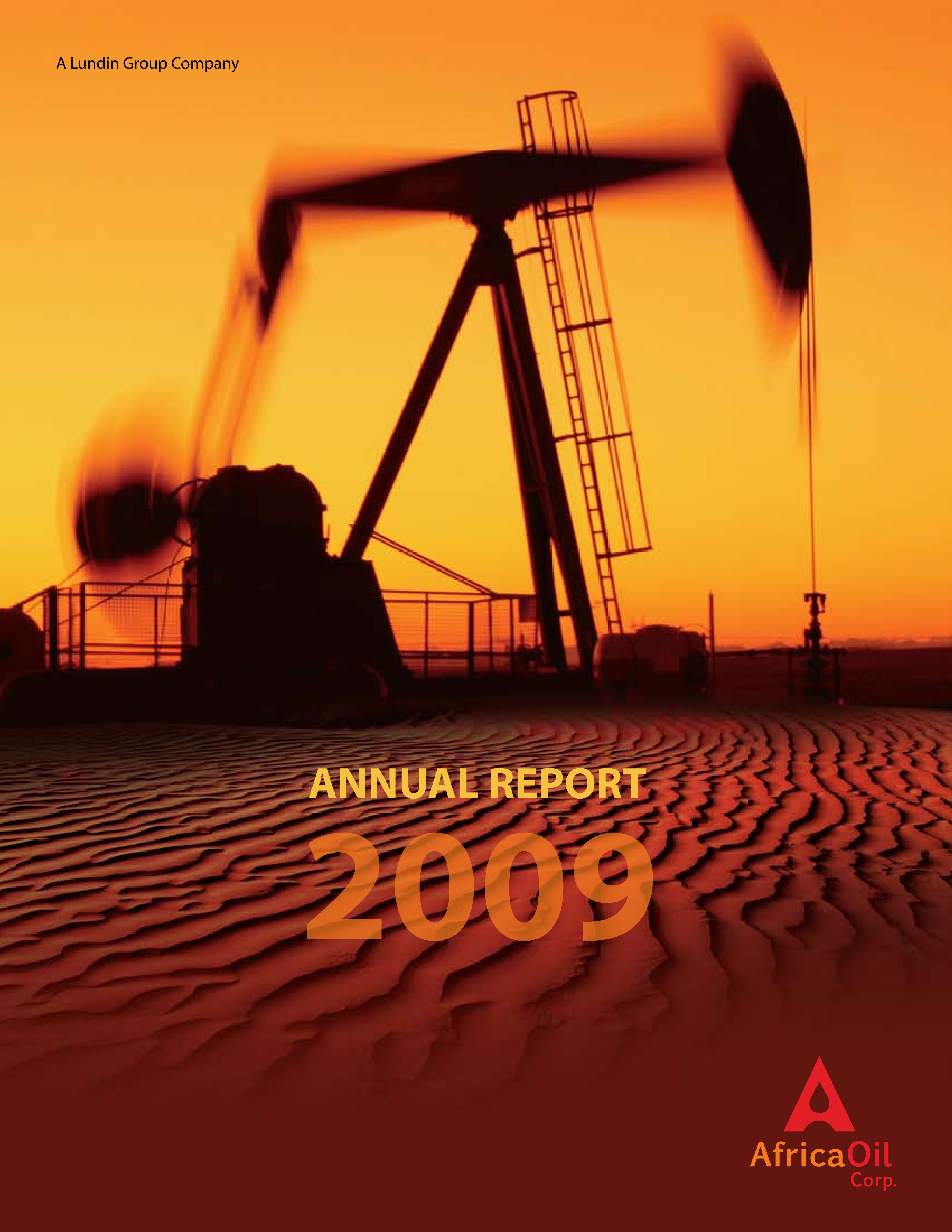
A Lundin Group Company



ANNUAL REPORT 2009

Africa Oil Corp.

Message from the President

Dear Shareholders,

The year 2009 was one of considerable achievement for Africa Oil. A year of seizing exciting opportunities – a year of expansion and diversification. Our goal is to build Africa Oil into a leading oil and gas explorer in East Africa. We've long recognized the enormous potential of this underexplored region. What little exploration has taken place over the past several years has yielded major new world class oil discoveries – and we want to be part of that.

As a member of the Lundin Group of companies we've had early access to some of the best exploration acreage in the East African Rift Trend located adjacent to the big new discoveries and on trend with all the major petroleum systems in the region. We were able to obtain a portfolio of over 200,000 square kilometers of land before the major rush occurred into East Africa. Our philosophy is to now parlay this land package into a number of leveraged farmouts that will allow us to explore these basins in a very cost effective manner but still retain the largest interest share and operatorship. To date we have closed three such farmouts and we are currently in negotiations with several interested parties.

Our initial portfolio holdings comprised two large blocks in Puntland, Somalia. Due to political instability in Somalia these blocks have had little work done on them, yet previous drilling had proven that both blocks are hydrocarbon bearing. Puntland has now emerged as a semi-autonomous and much more stable region of Somalia and we are excited to have initiated the first major exploration program there in over two decades. In 2009 we completed the processing and interpretation of new seismic that we acquired in 2008 as well as the reprocessing and interpretation of existing legacy seismic data. We also successfully renegotiated our production sharing agreement to extend the exploration period timeline and clarify certain terms. We are now preparing for a drilling campaign due to commence later in 2010 following the rainy season.

We've since added to our original holdings through the acquisition of several blocks in Kenya and Ethiopia. These new additions have created a truly world-class exploration portfolio for the Company. It's a diversified portfolio with multiple geologic plays and within multiple jurisdictions. This type of diversification provides us with many opportunities for great success. The East African Rift Trend represents the convergence of several large petroleum systems. There is the multi-billion barrel Muglad oil trend out of Sudan, the continuation of the Marib-Shabwa and Sayun-asila Basins of Yemen, the major oil deposits of Madagascar, the Albert Graben proven in Uganda, and many, many more plays. Throughout all these new blocks, we've been busy reprocessing existing seismic and planning the acquisition of new seismic all in preparation for an aggressive drill program over the next two years. One of our acquisitions was a block operated by CNOOC and they have a well currently drilling ahead which has encountered some strong gas shows. As a result, CNOOC is running a comprehensive set of wireline logs and investigating the possibility of testing multiple zones in order to help assess the hydrocarbon potential of this well. We should know the final assessment of this well in the next couple of months.

We have also been able to build a team capable of executing our strategy and now have fully manned operational offices in Addis Ababa, Ethiopia and Nairobi, Kenya as well as a technical office in Calgary. For the global economy we were happy to see that 2009 was a year of stabilization; for Africa Oil it was a year of expansion and taking advantage of the opportunities that presented itself as a result of the preceding economic crisis. Smart, value-driven acquisitions have created what we consider the best exploration portfolio in East Africa and through strategic farmouts of portions of our working interests we have set ourselves up to minimize our risk and expenditures. We are well-situated in one of the most promising yet one of the most underexplored oil provinces in the world. We look forward to an exciting time ahead.

On behalf of the Board,

Keith Hill

President and CEO

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the years ended December 31, 2009 and 2008

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and related notes thereto.

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

The effective date of this MD&A is April 20, 2009.

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

MAJOR DEVELOPMENTS DURING 2009

Acquisition from Lundin Petroleum AB

Effective April 28, 2009, the Company completed the acquisition of a portfolio of East African oil exploration projects from Lundin Petroleum AB ("LPAB"). The projects are located within a vastly underexplored region of the East African rift basin petroleum system. The projects acquired included an 85% working interest in Blocks 2, 6, 7 and 8 and a 50% working interest in the Adigala Block in Ethiopia plus a 100% interest in Block 10A and a 30% interest in Block 9 in Kenya. AOC has assumed operatorship of these projects excluding Block 9 in Kenya.

Pursuant to the Share Purchase Agreement ("SPA"), AOC paid as consideration to LPAB approximately $24.0 million which was funded through a convertible loan from LPAB maturing December 31, 2011, at an interest rate of six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, will be convertible, on the maturity date, at the option of either AOC or LPAB, into shares of AOC on the basis of CAD$0.90 per common share.

Equity Financing and Shareholder Loan Conversion

Concurrent with the SPA, AOC completed a non-brokered, private placement consisting of an aggregate of 37.4 million units of the Company at a price of CAD$0.95 per unit for net proceeds of approximately CAD$33.8 million (USD$27.3 million). Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. In the event that AOC trades at or above CAD$2.00 for a period of 30 consecutive days, a forced exercise provision will come into effect. Net proceeds of the private placement are being used towards the exploration work programs on the Company's projects in Puntland (Somalia), Ethiopia, and Kenya as well as for general corporate purposes.

On May 12, 2009, the Company's outstanding CAD$6.0 million loans (plus accrued interest) from a shareholder of the company were converted to approximately 6.5 million units of the company on the basis of CAD$0.95 per unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. In the event that AOC trades at or above CAD$2.00 for a period of 30 consecutive days, an accelerated exercise provision will come into effect.

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

East Africa Exploration Limited Farmout

On May 27, 2009 the Company executed a farmout agreement with Black Marlin Energy Limited's East Africa Exploration Limited ("EAX") for their entry into the production sharing contracts in both Ethiopia and Kenya.

In Ethiopia, the Company transferred a 30 percent license interest to EAX in the Block 2/6 and 7/8 Production Sharing Agreements ("PSA") located in the Ogaden Basin of Southern Ethiopia.

In Kenya, the Company transferred a 20 percent license interest to EAX in the Block 10A Production Sharing Contract ("PSC") located in the Anza Basin of northern Kenya.

As consideration for past costs incurred by the Company, EAX agreed to pay the Company $1,700,000, which has been included in accounts receivable at December 31, 2009. Ethiopia and Kenya government approvals of the farmout were received in the fourth quarter of 2009.

Turkana Energy Inc. Acquisition

On July 21, 2009, the Company completed the acquisition of all of the issued and outstanding common shares of Turkana Energy Inc. ("Turkana"). Turkana's principal asset is a 100% interest in Block 10BB, a highly prospective oil exploration block in northwest Kenya. The block is within the Tertiary rift trend of East Africa which has recently yielded major oil discoveries in Uganda by operators such as Heritage Oil plc and Tullow Oil plc. Block 10BB is located immediately west of the Company's holdings in the prospective Anza rift basin petroleum system.

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

Lion Energy Corp. Farmout Agreement

On May 27, 2009 the Company executed a farmout agreement with Lion Energy Corp. (formerly named Raytec Metals Corp.) ("Lion") for their entry into the production sharing contracts in the State of Puntland, Somalia and the Republic of Kenya.

In Puntland, the Company will transfer a 15 percent license interest to Lion in the Nugaal and Dharoor PSAs.

In Kenya, the Company will transfer a 10 percent interest in the Block 9 PSA, a 20 percent interest in the Block 10BB PSC and a 25 percent license interest in the Block 10A PSC.

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

Puntland (Somalia) PSA Amendments

During December 2009, the Company and Puntland State of Somalia entered into amending agreements modifying the terms of the existing January 17, 2007 PSAs in respect of the Dharoor Valley Exploration Block and the Nugaal Valley Exploration Block. The revised agreements were signed by the parties in Garowe on December 8, 2009 and the amending agreements were ratified by the parliament of the Puntland State of Somalia on December 23, 2009.

With the conclusion of the negotiations and the execution of the amending agreements, the Production Sharing Agreements, as amended, now provide for initial exploration periods in respect of both blocks that have been extended from 36 months to 48 months with a revised expiry of January 17, 2011. In addition, the terms of the exploration programs have been amended so that AOC can, at its option, drill one exploratory well in each of the Nugaal and Dharoor Valley Exploration Areas, or two exploratory wells in the Dharoor Valley.

In consideration of the extension of the exploration period, AOC agreed to voluntarily relinquish twenty-five percent of the original agreement area on or before January 17, 2010 and has agreed to pay a $1 million bonus within 30 days of a commercial discovery in each of the production blocks. AOC also agreed to certain enhanced abandonment and environmental safety measures and made a $1.05 million payment to the Puntland government for development of infrastructure.

PROFILE AND STRATEGY

AOC is a Canadian-based company whose common shares are traded on the TSX Venture Exchange 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 Puntland (Somalia), Ethiopia and Kenya.

AOC’s long range plan is to increase shareholder value through the acquisition and exploration of oil and gas assets, located in under-explored geographic areas, in the early phase of the upstream oil and gas life-cycle and maturing them into marketable opportunities for larger oil and gas industry players. The Company is focused on high-impact exploration opportunities and has secured a portfolio of East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across three East African countries and four under-explored petroleum systems. Africa Oil’s mission is to de-risk this portfolio of oil and gas prospects and leads, while generating additional prospects and leads, through continuous oil and gas exploration activities. The Company aims to pursue a leveraged farmout strategy allowing it to leverage the current large working interest holdings in each of its operated blocks. AOC aims to continue to identify highly prospective exploration targets in geologically favorable settings. The Company will continue to consider acquisition and merger opportunities with a focus on North Africa and the Middle East. In general, Africa Oil will continue its portfolio approach to exploring a large number of oil and gas opportunities with the goal of increasing shareholder value.

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

During the second quarter of 2009, the Company acquired a large portfolio of East African oil exploration projects from Lundin Petroleum AB. The projects are located within a vastly underexplored region of the East African rift basin petroleum system. The projects acquired include an 85% working interest in Blocks 2, 6, 7 and 8 and a 50% working interest in the Adigala Block in Ethiopia plus a 100% interest in Block 10A and a 30% interest in Block 9 in Kenya. AOC assumed operatorship of these projects, excluding Block 9 in Kenya.

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

The East African Rift Basin system is one of the last great rift basins to be explored. New discoveries have been announced on all sides of the Company's virtually unexplored land position including the major Heritage/Tullow Albert Graben oil discovery in neighbouring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds over 200,000 gross acres in this exciting new world-class exploration play fairway. The Company aims to have seismic and drilling results on all of the Company's blocks before the middle of 2011. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

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

Country	**Block/Area**	**Net Working Interest %[1]**
Puntland, Somalia	Dharoor Valley	65%
Puntland, Somalia	Nugaal Valley [2]	65%
Kenya	Block 10A	55%
Kenya	Block 9 (non-operated)	20%
Kenya	Block 10BB	80%
Ethiopia	Blocks 2/6	55%
Ethiopia	Blocks 7/8	55%
Ethiopia	Adigala	50%

Notes:

1 Net Working Interests are subject to back-in rights, if any, of the respective governments.

2 Nugaal Valley net working interest is subject to AOC fulfilling its sole funding obligation during the exploration period (see Commitments and Contingencies section below)

OPERATIONS UPDATE

Exploration Drilling

In Block 9, Kenya, the CNOOC-operated Bogal-1-1 exploration well was spud on October 28, 2009. The well is currently at a depth of approximately 5,000 meters of the originally planned total depth of approximately 5,500 meters. A comprehensive set of wireline logs has been run to assess the hydrocarbon potential of numerous Cretaceous age sandstones encountered to date. Evaluation of these logs is ongoing. The Company holds a 20% working interest in this Block.

Block 9 covers an area of 27,778 square kilometers in the centre of the Anza Basin. The Anza Basin is a NW-SE trending rift basin along trend with the prolific Mesozoic play of southern Sudan. The basin is over 580 kilometers long and 150 kilometers wide with a potential prospective area in excess of 50,000 square kilometers. The basin is filled in places with more than 6,000 meters of Mesozoic and Cenozoic sediments and locally by Plio-Pleistocene basalts. Bouger and residual gravity anomalies have highlighted several sub-basins separated by intra-basin highs. Historic wells drilled in the block have proven the existence of natural gas and possibly oil.

The Company has completed a comprehensive interpretation of newly acquired 2D seismic data over the Dharoor Block in Puntland (Somalia). Several large prospects have been identified. Africa Oil and its joint venture partners have agreed to initially drill one prospect in Dharoor. The well is expected to commence drilling before the end of 2010. The Company holds a 65% working interest in this project.

The Company has completed a re-interpretation of the existing 2D seismic data over the Nugaal Block in Puntland (Somalia). Several large prospects have been identified. Africa Oil and its joint venture partners are in discussion regarding drilling plans for 2010-2011. The Company holds a 65% working interest in this project.

Additional drilling activity in the Kenya Blocks and the Ethiopian Blocks will await completion of seismic acquisition, processing, and interpretation.

Seismic Program

In Ethiopia, in the Adigala Block, the Company completed 500 km of 2D seismic acquisition during the fourth quarter of 2009. The data processing has now been completed and interpretation is underway at the Company's technical office in Calgary. The basin prospectivity, at this early stage, appears excellent with a number of large structural leads having been identified from the seismic data. In addition, earlier completed surface geology and sampling has documented the presence of excellent quality source and reservoir along the basin margin. The Company holds a 50% working interest in this Block.

Seismic operations have been initiated in the Company's Ogaden area of Ethiopia. A base camp is under construction and supplies are being mobilized. Local labor has been hired and survey and line clearing crews are actively working. Seismic recording is planned to start during the second quarter of 2010. The Company's plans are to acquire 500 km of 2D data over previously identified leads in order to mature these leads into drillable prospects. The Company holds a 55% working interest in the Ogaden Blocks.

In Block 10BB, Kenya, the tendering process for 600 km of 2D seismic has been completed and it is anticipated the contract will be awarded shortly. The acquisition program is expected to commence before the end of the second quarter of 2010. The Company has reprocessed all available vintage seismic data sharpening the imaging and the amplitude response for use in detecting direct hydrocarbon indicators. The Company held its initial meeting with the local community leaders in March in order to formally introduce the Company and outline the planned work program for 2010. The Company holds a 80% working interest in this Block.

In Block 10A, Kenya, the Company is reprocessing all available vintage seismic data with the objective of improving the imaging of the data acquired in the late 1980s. New play concepts are being developed based on the reprocessed data in combination with vintage drilling data. The Company intends to acquire 750 km of 2D seismic in the Block following the Block 10BB seismic acquisition program. The Company holds a 55% working interest in this Block.

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

During 2008, in the Dharoor Block of Puntland, Somalia, the acquisition of 782 kilometers of good quality 2D seismic (comprised of 15 grid lines) was completed. The Company has combined 555 kilometers of previously acquired data into the seismic database and is currently being mapped to finalize exploration well locations.

The Company is currently planning to commence drilling of one exploration well in the Dharoor Block before the end of 2010.

Selected Annual Information

	Year ended December 31 2009	Year ended December 31 2008	Year ended December 31 2007
Statement of Operations Data			
Interest income	39,518	77,921	354,134
Net (loss) earnings	(1,358,400)	(3,662,005)	1,163,590
Data per Common Share			
Basic and diluted (loss) earnings per share ($/share)	(0.03)	(0.21)	0.07
Balance Sheet Data			
Net w orking capital	12,901,796	(9,712,788)	17,807,961
Total assets	94,708,403	35,211,634	25,035,587
Long term liabilities	1,326,630	-	-

The increase in total assets is indicative of the major acquisitions that took place during 2009, where the Company diversified its interest in East African exploration by adding Kenyan and Ethiopian concessions to its existing Puntland (Somalia) concessions. As the Company is in the exploration stage, no oil and gas revenue has been generated to date. Accordingly, the only income reported is interest income on its cash deposits.

Selected Quarterly Information

Three months ended	31-Dec 2009	30-Sep 2009	30-Jun 2009	31-Mar 2009	31-Dec 2008	30-Sep 2008	30-Jun 2008	Mar 31 2008
Interest Income ($'000)	13	18	7	2	5	11	18	44
Net earnings (loss) ($'000)	(738)	(80)	15	(555)	(799)	(1,376)	(1,016)	(471)
Weighted average shares - Basic ('000)	68,404	68,404	47,752	17,975	17,913	17,760	17,552	17,306
Weighted average shares - Diluted ('000)	68,451	68,404	48,123	17,975	17,913	17,760	17,552	17,306
Basic and diluted earnings (loss) per share ($)	(0.01)	-	-	(0.03)	(0.04)	(0.08)	(0.05)	(0.03)
Oil and Gas Interest Expenditures ($'000)	4,316	8,980	27,472	395	4,529	6,923	7,445	8,822

AOC's net loss remained constant during the last three quarters of 2009 with the exception of the the fourth quarter which was negatively impacted by a $803,000 finder's fee expense incurred in relation to the Lion farmout agreement. During the last three quarters of 2009, the Company continued to record foreign exchange gains associated with its holding of Canadian dollars which continued to offset the general and administrative expenses of the Company. The foreign exchange gains are related to the Canadian dollar funds which were raised through the non-brokered private placement which closed at the end of April, 2009. The Company does not hedge its foreign currency exchange exposure.

The Company continues to record net losses which are expected during the exploration phase. The continued losses reported are mainly the result of interest expense (refer to related party section for additional details), increased stock-based compensation charges and increased office and salaries cost due to increased staff levels associated with the Company's continued operational growth.

RESULTS OF OPERATIONS

	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
(Profit)/loss for the period	737,794	1,375,587	1,358,400	3,662,005
Less: exchange (gain)/loss	(559,784)	(60,498)	(3,325,758)	(375,769)
Loss before foreign exchange	1,297,578	1,436,085	4,684,158	4,037,774

Before exchange gains and losses, the Company incurred a $4.7 million loss during 2009 (2008 – $4.0 million). The 2008 loss was impacted by $1.1 million of finance expenses, related to CDN$ 6 million of short term loans that were provided to the Company during the third and fourth quarter of 2008. These loans were extinguished early in 2009. Eliminating the effect of these finance expenses and the fourth quarter of 2009 finder's fee expenses noted above, other Company expenses have increased 32% during 2009. This increase in expenses relates primarily to increased salaries and wages, stock-based compensation, and office costs associated with the Company's operational expansion in East Africa.

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

OIL AND GAS INTERESTS

	December 31, 2009	December 31, 2008
Oil and Gas Interests	$75,750,771	$34,587,729

During the nine months ended September 30, 2009, AOC incurred $41.2 million (net) of expenditures related to oil and gas interests in Puntland (Somalia), Ethiopia and Kenya. The majority of the increase is the result of the acquisition of the LPAB ($23.7 million) and Turkana ($9.1 million) projects, including capitalized accretion related to the convertible debenture. Additional expenditures were incurred in Block 9 (Kenya) with the ongoing drilling of the Bogal 1 well and in Ethiopia with the 500km seismic program in the Adigala Block. These costs will not be subject to depletion until such time that proved oil and gas reserves are identified.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009, the Company had cash of $11.1 million and working capital of $12.9 million as compared to cash of $0.3 million and negative working capital of $9.7 million at December 31, 2008.

During the second quarter of 2009, the Company closed a significant business acquisition, raised approximately $27.3 million of gross proceeds in a private placement and negotiated the conversion of the shareholder loans into Company shares. These events have enabled the Company to increase its cash position, improve its working capital position and provide funds for future exploration program expenditures. The Company's current working capital position may not provide it with sufficient capital resources to meet its minimum work obligations for the initial exploration period under the various PSAs and PSCs and for general corporate purposes. To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC.

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation during 2009 was $1.1 million (2008 - $1.3 million). The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating key personnel.

RELATED PARTY TRANSACTIONS

During the third quarter of 2008, a company affiliated with a significant shareholder, provided a loan to the Company in the amount of CAD$4.0 million (USD$3.2 million) at an interest rate of prime plus 2% for short-term working capital purposes. As consideration of the loan, the lender received a bonus payment of 188,679 common shares of the Company.

During the fourth quarter of 2008, a company affiliated with the same significant shareholder, provided an additional loan to the Company in the amount of CAD$2.0 million (USD$1.6 million) at an interest rate of prime plus 2% for short-term working capital purposes. As consideration of the loan, the lender received a bonus payment of 106,952 common shares of the Company.

Effective May 12, 2009, the Company's existing CAD$6.0 million loans (plus accrued interest in the amount of CAD$0.2 million) from a significant shareholder was converted to 6,521,601 units of AOC on the basis of CAD$0.95 per Unit. Each Unit comprises one common share and one share purchase warrant. Each whole warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. In the event that AOC trades at or above CAD$2.00 for a period of 30 consecutive days, a forced exercise provision will come into effect.

During 2009, the Company incurred costs of $0.2 million (2008 - $0.2 million) in administrative and support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by a significant shareholder.

COMMITMENTS AND CONTINGENCIES

Puntland (Somalia)

Under the PSAs for the Nugaal and Dharoor Blocks, as amended, the Company and its partners are required to drill one exploration well in each block in each exploration period or alternatively two exploration wells may be drilled in the Dharoor Block to fulfill both Block requirements during the first exploration period. The first exploration period expires in January 2011 and the second optional three-year exploration period would be expected to expire in January 2014.

Under the Joint Venture Agreement with Range Resources Ltd. (Range), in exchange for the 80% working interest in each block, the Company is obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the exploration period. In the event that a commercial discovery is declared on a block prior to AOC spending $22.8 million, AOC shall be deemed to have earned its interest in the block and the Company and Range will be responsible for future expenditures on the block in proportion to their respective working interests. In the event that AOC does not fund the required $22.8 million during the two three-year exploration periods, the Company's interest in the block would be forfeited. An additional $3.5 million will be payable to Range upon commencement of commercial production. The Company's net share of funding obligations under the Joint Venture Agreement with Range will be reduced as a result of the Lion farmout.

During the fourth quarter of 2008, the Company fulfilled its sole funding obligation related to the Dharoor Valley Block. As a result, Range is paying its 20% participating interest share of ongoing exploration costs related to this Block. In the Nugaal Valley Block, the Company has spent approximately $7.9 million towards sole funding obligation as of December 31, 2009.

Ethiopia

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

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

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

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

Kenya

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

The initial Block 10BB exploration period expires in January 2012. In accordance with the terms of the Block 10BB PSC, the Company and its partners are obligated to complete G&G operations (including acquisition of 600 kilometers of 2D seismic) with a minimum expenditure of $6.0 million gross ($3.8 million net). In addition, the Company is required to drill one exploration well with a minimum expenditure of $6.0 million ($3.6 million net). This commitment is supported by an outstanding letter of credit for $1.8 million in favour of the Kenyan Government, which is collateralized by a bank deposit of $1.8 million.

Under the terms of the Block 9 PSA, with the drilling of the Bogal-1-1 well, which is currently ongoing, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period.

DISCUSSION OF PROPOSED TRANSACTIONS

During February 2010, the Company announced that it signed a definitive agreement with Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc., to take an assignment of Platform's 100% interest in Blocks 12A and 13T in Kenya. Completing the proposed transaction is subject to Kenyan Government and TSX Venture Exchange approvals.

The new contract areas are adjacent to the Company's Block 10BB. Existing gravity data on Blocks 12A and 13T suggests that the proven Lokichar basin and other prospective sub-basins and known strong leads in Block 10BB may extend onto these new blocks. Subject to Kenyan Government approvals and TSX Venture Exchange approval, Platform's interest in Blocks 12A and 13T will be assigned to AOC in consideration for 2.5 million AOC common shares and 1.5 million AOC share purchase warrants exercisable into one common share at a price of $1.50 per share for a period of two years. The terms of the warrants contain an accelerated exercise clause which is triggered if AOC's common shares trade at over $2 per share for 20 consecutive trading days. If the acceleration clause is exercised by AOC, the warrants will expire on a date that is not less than 180 days from the date of written notice to Platform. Concurrent with the signing of the definitive agreement, Platform has submitted a request for approval from the Kenyan Government and continues to seek their consent.

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

OUTSTANDING SHARE DATA

As at December 31, 2009, the Company had 70,205,496 common shares and 43,952,013 share purchase warrants outstanding. In addition the Company has 2,527,500 stock options outstanding under its stock-based compensation plan. The following table outlines the maximum potential impact of share dilution upon full execution of outstanding convertible instruments:

Common shares outstanding	70,205,496
Outstanding share purchase options	2,527,500
Outstanding share purchase warrants	43,952,013
Assumed conversion of convertible debenture	26,930,719
Full dilution impact on common shares outstanding	143,615,728

As at the effective date of the MDA, the Company has 70,205,496 common shares outstanding. On April 6, 2010, the Company granted an aggregate of 1,617,500 incentive stock options to certain officers, directors and other eligible persons of the Company. Accordingly, the number of outstanding share purchase options has increased to 4,145,000 as at the effective date of the MDA.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of Canadian GAAP. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company' significant accounting estimates can be found in note 2 to its Annual Financial Statements.

Use of Estimates

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

Property, Plant and Equipment ("PP&E")

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

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

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

Stock Based Compensation

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

Income Tax

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

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- The CICA issued section 3064, "Goodwill and Other Intangible Assets", replacing section 3062, "Goodwill and Other Intangible Assets". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this standard has had no material impact of the Company's financial statements.

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that the transition date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises. Therefore the Company will be required to report its results in accordance with IFRS starting in 2011, with comparative IFRS information for the 2010 fiscal year.

The Company is assessing the potential impacts of this changeover and is developing its implementation plan accordingly; however, currently the impact on our future financial position and results of operations is not reasonably determinable. The impact assessment of the major differences between current Canadian GAAP and IFRS is ongoing.

The Company has commenced the conversion project and is establishing a functional steering committee to oversee the conversion. Regular reporting is provided to our executive management team and to the Audit Committee of our Board of Directors. Our project consists of four phases: impact assessment, planning & solution development, implementation and post implementation review.

During the implementation phase, activities will include executing the required changes to accounting and operational information systems as well as to disclosure controls and internal controls over financial reporting, writing accounting policies and training employees.

The post implementation review will include the compilation of IFRS compliant financial statements and make any required process changes. The Company will also continue to monitor the IFRS conversion efforts of many of its peers and will participate in any related industry initiatives, as appropriate.

AOC will be required to adopt the following CICA Handbook sections as of Jan 1, 2011:

(a) The CICA issued Handbook Section 1582, "Business Combinations" which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair value as of the date of the acquisition. The adoption of this standard will only impact the accounting treatment of future business combinations.

(b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 replace the former consolidated financial statement standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have a material impact on AOC's Consolidated Financial Statements.

(c) "Non-controlling Interests, Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on AOC's Consolidated Financial Statements.

RISK FACTORS

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

International Operations

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

Uncertainty of Title

Although the Company conducts title reviews prior to acquiring an interest in a concession, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question AOC's interest in the concession. Any uncertainty with respect to one or more of AOC's concession interests could have a material adverse effect on the Company's business, prospects and results of operations.

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

Competition

The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. AOC competes with numerous other companies in the search for and acquisition of prospects.

Risks Inherent in Oil and Gas Exploration and Development

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

Capital Requirements

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

Foreign Currency Exchange Rate Risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. AOC had no forward exchange contracts in place as at or during the year ended December 31, 2009.

For the year ended December 31, 2009, a 5% increase or decrease in the value of the Canadian dollar in relation the US dollar, which is the Company's functional currency, would have resulted in an approximately $610,000 increase or decrease in foreign exchange gains, respectively.

Interest Rate Risk

The Company's outstanding convertible debenture will incur interest charges at a rate of USD six-month LIBOR plus 3%. Fluctuations in the LIBOR lending rate impact the interest component of the convertible debenture. When assessing interest rate risk applicable to the Company's convertible debenture, the Company believes a 1% volatility is a reasonable measure. The effect of interest rates increasing or decreasing by 1% would have decreased or increased, respectively, the Company's cash flows by approximately $41,000 for the year ended December 31, 2009. Due to the nature of the convertible debenture and current market conditions, the Company does not believe that entering into interest rate swaps or other risk management contracts is necessary to mitigate this risk.

Liquidity Risk

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

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

Credit Risk

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

OUTLOOK

AOC has an aggressive exploration program planned for the next two years, which is anticipated to include seismic and drilling in both Ethiopia and Kenya, as well as a drilling program in Puntland (Somalia).

New discoveries have been announced on all sides of the Company's virtually unexplored land position including the major Tullow Oil pcl Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout the AOC's project areas.

Forward Looking Statements

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

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

Any statements regarding the following are forward-looking statements:

- planned exploration activity including both expected drilling and geological and geophysical related activities;
- 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 or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;

- future asset acquisitions or dispositions;
- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

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

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

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- volatility in energy trading markets;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict,
- conflict between states.

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

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

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Auditors' Report

To the Shareholders of
Africa Oil Corp.

We have audited the consolidated balance sheets of Africa Oil Corp. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit, shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

April 20, 2010

AFRICA OIL CORP.

Consolidated Balance Sheets
(Expressed in United States dollars)

		December 31, 2009		December 31, 2008
ASSETS				
Current assets				
Cash	$	11,145,486	$	253,324
Accounts receivable		5,396,253		370,581
Prepaid expenses		508,344		-
		17,050,083		623,905
Long-term assets				
Restricted cash (note 6)		1,800,000		-
Other property and equipment (note 8)		107,549		-
Oil and gas interest (note 8)		75,750,771		34,587,729
		77,658,320		34,587,729
Total assets	$	94,708,403	$	35,211,634
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	3,244,871	$	5,429,893
Current portion of convertible debenture (note 9)		903,416		-
Loans payable (note 10(b)(ii))		-		4,906,800
		4,148,287		10,336,693
Long-term liabilities				
Convertible debenture (note 9)		1,326,630		-
		1,326,630		-
Total liabilities		5,474,917		10,336,693
Shareholders' equity				
Share capital (note 10(b))		62,712,759		31,586,737
Warrants (note 10(c))		11,862,296		-
Equity portion of convertible debenture (note 9)		21,578,986		-
Contributed surplus		3,313,753		2,164,112
Deficit		(10,051,042)		(8,692,642)
Accumulated comprehensive income		(183,266)		(183,266)
Total shareholders' equity		89,233,486		24,874,941
Total liabilities and shareholders' equity	$	94,708,403	$	35,211,634

Commitments and contingencies (note 14)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"J. CAMERON BAILEY"

J. CAMERON BAILEY, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

AFRICA OIL CORP.

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

		For the year ended December 31, 2009		For the year ended December 31, 2008
Expenses				
Salaries and benefits	$	807,376	$	571,387
Stock-based compensation (note 10(d))		1,149,641		1,334,113
Finance expense		-		1,086,146
Interest and bank charges		175,534		75,462
Travel		302,845		380,673
Management fees (note 17)		204,499		171,153
Office and general		861,080		369,408
Depreciation (note 8)		50,165		-
Professional fees		1,119,532		75,592
Stock exchange and filing fees		53,004		51,761
		4,723,676		4,115,695
Other (income) expenses				
Interest and other income		(39,518)		(77,921)
Foreign exchange (gain)/loss		(3,325,758)		(375,769)
Loss and Comprehensive loss for the year		(1,358,400)		(3,662,005)
Deficit, beginning of year		(8,692,642)		(5,030,637)
Deficit, end of year	$	(10,051,042)	$	(8,692,642)
Basic and diluted loss per share	$	(0.03)	$	(0.21)
Weighted average number of shares outstanding				
Basic		51,326,595		17,617,766
Diluted		51,326,595		17,617,766

See accompanying notes to consolidated financial statements.

AFRICA OIL CORP.

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

		December 31, 2009		December 31, 2008
Share capital:				
Balance, beginning of year	$	31,586,737	$	28,496,473
Private placement, net (note 10(b))		17,230,449		-
Conversion of shareholder loan (note 10(b))		3,765,196		-
Turkana Acqusition (note 10(b))		10,130,377		-
Bonus shares on loans payable (note 10(b))		-		1,086,146
Exercise of options (note 10(d))		-		2,004,118
Balance, end of year		62,712,759		31,586,737
Warrants:				
Balance, beginning of year	$	-	$	-
Private placement, net (note 10(b))		10,078,390		-
Converted loans payable (note 10(b))		1,783,513		-
Turkana Acqusition (note 10(b))		393		-
Balance, end of year		11,862,296		-
Equity portion of convertible debenture:				
Balance, beginning of year	$	-	$	-
Convertible debenture issuance (note 9)		21,578,986		-
Balance, end of year		21,578,986		-
Contributed surplus:				
Balance, beginning of year	$	2,164,112	$	1,394,497
Stock based compensation (note 10(d))		1,149,641		1,334,113
Exercise of options		-		(564,498)
Balance, end of year		3,313,753		2,164,112
Deficit:				
Balance, beginning of year	$	(8,692,642)	$	(5,030,637)
Loss for the period		(1,358,400)		(3,662,005)
Balance, end of year		(10,051,042)		(8,692,642)
Accumulated other comprehensive income:				
Balance, beginning of year	$	(183,266)	$	(183,266)
Other comprehensive income		-		-
Balance, end of year		(183,266)		(183,266)
Shareholders' equity	$	89,233,486	$	24,874,941

See accompanying notes to consolidated financial statements.

AFRICA OIL CORP.

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

	For the year ended December 31, 2009	For the year ended December 31, 2008
Cash flows provided by (used in):		
Operations:		
Loss for the year	$ (1,358,400)	$ (3,662,005)
Stock-based compensation (note 10(d))	1,149,641	1,334,113
Depreciation (note 8)	50,165	-
Finance expense	-	1,086,146
Unrealized foreign exchange (gain)/loss	483,766	(375,769)
Changes in non-cash operating working capital:		
Accounts receivable and prepaid expenses	259,646	(345,574)
Accounts payable and accrued liabilities	(651,308)	155,582
	(66,489)	(1,807,507)
Investing:		
Investment in property and equipment	(157,714)	-
Investment in oil and gas interests (net)	(7,910,460)	(27,718,623)
Acquisition costs capitalized to oil and gas interests	(774,676)	
Changes in non-cash investing working capital:		
Accounts receivable and prepaid expenses	(5,793,662)	-
Accounts payable and accrued liabilities	(2,337,166)	4,915,791
	(16,973,679)	(22,802,832)
Financing:		
Common shares and warrants issued, net of issuance costs (note 10(b))	27,308,839	1,439,620
Proceeds from notes payable (note 10(b))	-	5,444,625
Repayment of liability portion of convertible debt	(163,000)	-
Changes in non-cash operating working capital:		
Accounts payable and accrued liabilities	803,452	-
	27,949,291	6,884,245
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency	(16,961)	(162,056)
Increase (decrease) in cash and cash equivalents	10,892,162	(17,888,150)
Cash and cash equivalents, beginning of year	$ 253,324	$ 18,141,474
Cash and cash equivalents, end of year	$ 11,145,486	$ 253,324
Supplementary information:		
Interest paid	Nil	Nil
Taxes paid	Nil	Nil

See accompanying notes to consolidated financial statements.

1. Incorporation and Nature of Business:

Africa Oil Corp. (collectively with its subsidiaries, “AOC” or “Company”) was incorporated on March 29, 1993 under the laws of British Columbia and is an international oil and gas exploration company based in Canada with oil interests in Puntland (Somalia), Ethiopia, and Kenya, referred to as, East Africa.

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

2. Significant Accounting Policies:

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

(a) Basis of consolidation:

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

All intercompany transactions and balances have been eliminated.

(b) Foreign currency translation:

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

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

(c) Oil and gas interests:

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

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

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

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

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

(d) Stock-based compensation:

The Company has a stock option plan as described in note 10(d). The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period, except for stock options granted to consultants which are expensed immediately, as stock-based compensation expense and an increase to contributed surplus. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

(e) Income taxes:

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

(f) Income/(loss) per share:

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

(g) Use of estimates: estimates

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

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

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

(h) Financial Instruments:

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the accounting standard. Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities are designated as "other financial liabilities". Transactions costs associated with financial liabilities are recognized in net income.

(i) Joint venture activities

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

3. Presentation:

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

4. Changes in Accounting Policy:

The following accounting pronouncements have been adopted for the current year.

(a) Goodwill and intangible assets

Effective January 1, 2009, the Company adopted the new Canadian standard, Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible assets. The new standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. There was no material impact to the consolidated financial statements as a result of the implementation of the new standard.

(b) Financial instruments – disclosure

In June, 2009 the CICA issued amendments to Handbook Section 3862, Financial Instruments – Disclosures. The amendments provide for enhanced disclosures on liquidity risk and require disclosures on fair value measurements of financial instruments. These requirements harmonize Canadian standards with IFRS and apply to annual financial statements for the fiscal years ending after September 30, 2009.

5. Future Accounting Pronouncements:

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that the transition date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises. Therefore the Company will be required to report its results in accordance with IFRS starting in 2011, with comparative IFRS information for the 2010 fiscal year.

The Company is assessing the potential impacts of this changeover and is developing its implementation plan accordingly, however, at this time; the impact on our future financial position and results of operations is not reasonably determinable.

The Company has commenced the conversion project and is establishing a functional steering committee to oversee the conversion. Regular reporting is provided to our executive management team and to the Audit Committee of our Board of Directors. Our project consists of four phases: impact assessment, planning & solution development, implementation and post implementation review.

The Company's impact assessment of major differences between current Canadian GAAP and IFRS is currently ongoing.

During the implementation phase, activities will include executing the required changes to accounting and operational information systems as well as to disclosure controls and internal controls over financial reporting, writing accounting policies and training employees.

The post implementation review will include the compilation of IFRS compliant financial statements and make any required process changes. The Company will also continue to monitor the IFRS conversion efforts of many of its peers and will participate in any related industry initiatives, as appropriate.

AOC will be required to adopt the following CICA Handbook sections as of Jan 1, 2011:

(a) The CICA issued Handbook Section 1582, "Business Combinations" which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair value as of the date of the acquisition. The adoption of this standard will only impact the accounting treatment of future business combinations.

(b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 replace the former consolidated financial statement standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have a material impact on AOC's Consolidated Financial Statements.

(c) "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on AOC's Consolidated Financial Statements.

6. Restricted Cash:

At December 31, 2009, the company has a restricted cash balance of $1,800,000 (December 31, 2008 - $ Nil) which represents a bank deposit securing an outstanding letter of credit in connection with the Block 10BB in favor of the Kenyan Government.

7. Business Acquisitions:

Lundin Petroleum AB

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

(Expressed in United States dollars unless otherwise indicated)

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

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

Turkana Energy Ltd.

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

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

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

8. Oil and Gas Interests:

Oil & Gas Interests:

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

					December 31, 2008
		Cost	Accumulated depletion		Net book value
Oil and Gas Interests	$	34,587,729	-	$	34,587,729

As at December 31, 2009, $75,750,771 of accumulated expenditures have been capitalized in oil and gas interests (December 31, 2008 - $ 34,587,729). These expenditures represent acquisition costs, geological and geophysical expenditures, materials and supplies and other intangible capitalized costs incurred to date.

(Expressed in United States dollars unless otherwise indicated)

These costs will not be subject to depletion until such time that proved oil and gas reserves are identified. During the year ended December 31, 2009, the Company capitalized $626,611 of general and administrative expenses related to exploration activities (December 31, 2008 – $ Nil).

As at December 31, 2009, the Company has recorded $107,549 of other property and equipment (December 31, 2008 - $ Nil) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years). During the year ended December 31, 2009, AOC recorded $50,165 of depreciation expense related to this equipment (December 31, 2008 - $ Nil)

During the year ended December 31, 2009, the Company capitalized $182,781 of accretion, in relation to its convertible debt, to oil and gas Interests.

9. Convertible Debenture:

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

		December 31, 2009		December 31, 2008
Face value of convertible debt issued during the year	$	23,789,251	$	-
Equity portion		(21,578,986)		-
Liability portion	$	2,210,265	$	-
Accretion		182,781		-
Liability portion of convertible debenture	$	2,393,046	$	-
Repayment of liability portion of convertible debenture		(163,000)		-
Liability, December 31, 2009	$	2,230,046	$	-
Less current portion		(903,416)		-
Liability portion of convertible debenture, end of period	$	1,326,630	$	-

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

10. Share capital:

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

(b) Issued:

(Expressed in United States dollars unless otherwise indicated)

	December 31, 2009			December 31, 2008		
	Shares		Amount	Shares		Amount
Balance, beginning of period	17,975,543	$	31,586,737	17,257,412	$	28,496,473
Private placements, net of issue costs (i)	37,421,018		17,230,449	-		-
Conversion of shareholder loans (ii)	6,521,601		3,765,196	-		-
Turkana Acquisition (note 7)	8,287,334		10,130,377	-		-
Bonus shares on loans payable	-		-	295,631		1,086,146
Exercise of options	-		-	422,500		2,004,118
Balance, end of period	70,205,496	$	62,712,759	17,975,543	$	31,586,737

i) On April 28, 2009, the Company closed a non-brokered private placement, issuing an aggregate of 37,421,018 million Units of the Company at a price of CAD$0.95 per Unit for gross proceeds of CAD$35,549,967. Each Unit is comprised of one common share and one full share purchase warrant. Each share purchase warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years, expiring April 29, 2012. In the event that AOC trades at or above CAD$2.00 for a period of 30 consecutive days, an accelerated exercise provision will come into effect. The Company incurred finder's fees of $1,543,571 thereby realizing net proceeds of $27,308,839.

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

ii) On May 8, 2009, the Company converted its' loans payable in the amount of CAD$6,000,000 plus accrued interest of CAD$195,521, from an existing shareholder to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years, expiring May 8, 2012 (see Note 13).

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

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

Each whole share purchase warrant entitles the holder to purchase an additional common share at CAD$4.84 until July 7, 2010. The share purchase warrants' fair value related to the issuance was determined to be $393. The share purchase warrants fair values were determined by using the Black Scholes option pricing model and assuming an expected volatility of 90% and a risk free interest rate of 0.50%.

(Expressed in United States dollars unless otherwise indicated)

(c) Warrants:

	Number of Warrants	Amount ($)
Balance, December 31, 2008:	$ -	$ -
Issued in Private Placement	37,421,018	10,078,390
Converted Loans Payable	6,521,601	1,783,513
Turkana Acquisition	9,394	393
Balance, December 31, 2009:	$ 43,952,013	$ 11,862,296

The following table outlines the exercise price and expiration dates of outstanding common share purchase warrants at December 31, 2009:

Issue Date	Number of Warrants		Exercise Price (CAD$)	Expiration Date
April 29, 2009	37,421,018	(1)	$ 1.50	April 29, 2012
May 8, 2009	6,521,601	(2)	$ 1.50	May 8, 2012
July 24, 2009	9,394	(3)	$ 4.84	July 7, 2010

(1) Warrants represent the number of whole warrants outstanding based on private placement
(2) Warrants represent the number of whole warrants outstanding based on conversion of loans payable
(3) Warrants represent the number of whole warrants outstanding based on Turkana acquisition

(d) Share purchase options:

At the 2008 Annual General Meeting, held on June 23, 2008, the Company had an amended stock option plan ("the Plan") approved. The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, option exercise prices reflect current trading values of the Company's shares and all options are subject to a four-month "hold" period from the date of grant. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

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

	December 31, 2009		December 31, 2008	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of period	1,510,000	4.80	1,067,500	3.93
Granted	2,812,500	1.15	870,000	5.23
Expired or cancelled	(1,795,000)	3.05	(5,000)	6.25
Exercised	-	-	(422,500)	3.43
Balance, end of period	2,527,500	1.99	1,510,000	4.80

The fair value of each option granted during the years ended December 31, 2009 and 2008 is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2009	2008
Fair value of options granted	0.42 - 0.73	1.64 - 2.69
Risk-free interest rate (%)	1.33 - 0.80	2.93 - 3.10
Expected life (years)	2.25	2.00 - 2.50
Expected volatility (%)	81 - 84	63 - 72
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at December 31, 2009.

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life
6.25	415,000	1.48
1.62	175,000	2.34
1.50	50,000	2.36
1.18	1,070,000	2.25
1.13	115,000	2.96
1.05	200,000	2.64
1.00	100,000	2.75
0.89	402,500	2.71
1.99	2,527,500	2.29

11. Financial Instruments and Financial Risk:

As at December 31, 2009 and 2008, the fair values of the Company's cash, amounts receivable, prepaid expenses, and accounts payable and accrued liabilities approximate their carrying amounts due to the immediate or short term to nature of these items.

Foreign currency exchange rate risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. AOC had no forward exchange contracts in place as at or during the year ended December 31, 2009.

For the year ended December 31, 2009, a 5% increase or decrease in the value of the Canadian dollar in relation the US dollar, which is the Company's functional currency, would have resulted in an approximately $610,000 increase or decrease in foreign exchange gains, respectively.

Interest rate risk

The Company's outstanding convertible debenture will incur interest charges at a rate of USD six-month LIBOR plus 3%. Fluctuations in the LIBOR lending rate impact the interest component of the convertible debenture. When assessing interest rate risk applicable to the Company's convertible debenture, the Company believes a 1% volatility is a reasonable measure. The effect of interest rates increasing or decreasing by 1% would have decreased or increased, respectively, the Company's cash flows by approximately $41,000 for the year ended

December 31, 2009. Due to the nature of the convertible debenture and current market conditions, the Company does not believe that entering into interest rate swaps or other risk management contracts is necessary to mitigate this risk.

Liquidity risk

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

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

Credit risk

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

12. Capital structure:

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

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

The Company does not have externally imposed capital requirements.

13. Segment Information:

At December 31, 2009, the Company and its subsidiaries operated in three reportable segments, for the exploration of oil and gas resources in East Africa:

	Somalia		Ethiopia		Kenya		Corporate		Total	
	Year Ended December 31									
(000s)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Capital expenditures										
Investment in oil and gas interests	**3,330**	27,719	**12,966**	-	**24,867**	-	**-**	-	41,163	27,719
Investment in property and equipment	**-**	-	**-**	-	**-**	-	**158**	-	158	-
Total capital expenditures	**3,330**	27,719	**12,966**	-	**24,867**	-	**158**	**-**	**41,321**	27,719
Revenue										
Interest Revenue	**-**	-	**-**	-	**-**	-	**40**	78	40	78
Total revenue	**-**	-	**-**	-	**-**	-	**40**	78	**40**	**78**
Other income and expenses										
Foreign exchange gain	**-**	-	**-**	-	**-**	-	**3,326**	376	3,326	376
Total segmented expenses	**74**	38	**158**	-	**110**	-	**4,382**	4,078	4,724	4,116
Segmented loss	**(74)**	(38)	**(158)**	-	**(110)**	-	**(1,017)**	(3,624)	**(1,358)**	(3,662)

14. Commitments and contingencies:

Puntland (Somalia):

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

Under the Joint Venture Agreement with Range Resources Ltd. (“Range”), relating to the Dharoor and Nugaal Valley Exploration Blocks, the Company is obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the exploration period, in exchange for a 80% working interest in each block. In the event that a commercial discovery is declared on a block prior to AOC spending $22.8 million, AOC shall be deemed to have earned its interest in the block and the Company and Range will be responsible for future expenditures on the block in proportion to their respective working interests. In the event that AOC does not fund the required $22.8 million during the two three-year exploration periods, the Company’s interest in the block would be forfeited. An additional $3.5 million will be payable to Range upon commencement of commercial production.

During the fourth quarter of 2008, the Company fulfilled its sole funding obligation related to the Dharoor Valley Block. As a result, Range is paying its 20% participating interest share of ongoing exploration costs related to this Block. In the Nugaal Valley Block, the Company has spent approximately $7.9 million towards sole funding obligation as of December 31, 2009.

Ethiopia:

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

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

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

Kenya:

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

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

Under the terms of the Block 9 PSA, with the drilling of the Bogal-1-1 well, which is currently ongoing, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period.

Office Lease Costs:

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

(Expressed in United States dollars unless otherwise indicated)

	2009
2010	159,973
2011	159,973
2012	159,973
2013	79,986
2014	-
Total minimum payments	559,904

15. Farmout Agreements:

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

Lion Energy Corp.

During August 2009, the Corporation announced it had completed negotiations entered into in May 2009 with Lion Energy Corp. ("Lion") (formerly Raytec Metals Corp.) in respect of production sharing contracts relating to the corporation's Somalia Interests and Kenyan Interests. Under the terms of the Farmout Agreement with Lion, AOC agreed to the following:

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

Under the terms of the Farmout Agreement, Lion is obligated to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas throughout 2009 and 2010. Lion deposited in escrow, as security for its payment obligations, $4 million. The effective date of the Farmout is August 19, 2009. Included in accounts receivable at December 31, 2009 is $2,905,735 due from Lion for their share of costs incurred on the respective Blocks during the period subsequent to the effective date. A finder's fee of $803,542 is payable in consideration for services provided in the negotiation and completion of the Lion Farmout Agreement. This amount has been accrued during 2009.

East Africa Exploration Limited

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

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

Under the terms of the Farmout Agreement, EAX is obligated to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas throughout 2009 and 2010. As consideration for past costs incurred by the Company, EAX agreed to pay the Company $1,700,000, which has been included in accounts receivable at December 31, 2009. The effective date of the EAX Farmout Agreement is December 9, 2009.

(Expressed in United States dollars unless otherwise indicated)

16. Income Taxes:

Substantially all of the difference between the actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery relates to losses not recognized. The Company has non-capital loss carry forwards of $1,341,545 which expires through 2010 and 2019.

The significant components of the Company's future income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

		2009		2008
Combined federal and provincial statutory income tax rate		25.00%		25.26%
Future income tax assets:				
Capital assets	$	203,066	$	207,982
Share issuance costs		312,115		-
Capital losses carried forward		483,213		488,956
Non-capital losses carried forward		335,386		537,558
Total future income tax assets		1,333,779		1,234,495
Valuation Allowance		(1,333,779)		(1,234,495)
Future income tax assets, net of allowance	$	-	$	-

17. Related Party Transactions:

During the third quarter of 2008, a company affiliated with a significant shareholder, provided a loan to the Company in the amount of CAD$4,000,000 at an interest rate of prime plus 2% for short term working capital purposes. As consideration of the loan, the lender received a bonus payment of 188,679 common shares of the Company.

During the fourth quarter of 2008, a company affiliated with a significant shareholder, provided an additional loan to the Company in the amount of CAD$2,000,000 at an interest rate of prime plus 2% for short term working capital purposes. As consideration of the loan, the lender received a bonus payment of 106,952 common shares of the Company.

On May 8, 2009, the Company's loans payable in the amount of CAD$6,000,000 plus accrued interest of $195,521, from an existing shareholder was converted to 6,521,601 Units of the Company on the basis of CAD$0.95 per Unit. Each Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one common share of AOC at a price of CAD$1.50 per share over a period of three years. In the event that AOC trades at or above CAD$2.00 for a period of 30 consecutive days, a forced exercise provision will come into effect.

During 2009, the Company incurred costs of $204,499 (2008 - $171,153) for administrative support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by a significant shareholder.

18. Subsequent Events:

Block 12A and 13T – Kenya

During February, 2010, the Company signed a definitive agreement with Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc., to take an assignment of Platform's 100% interest in Blocks 12A and 13T in Kenya. The new contract areas are adjacent to the Company's Block 10BB.

Subject to Kenyan Government approvals and TSX Venture Exchange approval, Platform's interest in Blocks 12A and 13T will be assigned to AOC in consideration for 2.5 million AOC common shares and 1.5 million share purchase warrants of AOC exercisable into one common share at a price of $1.50 per share for a period of two years. The terms of the warrants contain an accelerated exercise clause which is triggered if AOC's common shares trade at over $2 per share for 20 consecutive trading days. If the acceleration clause is exercised by AOC, the warrants will expire on a date that is not less than 180 days from the date of written notice to Platform. Concurrent with the signing of the definitive agreement, Platform has submitted a request for approval from the Kenyan Government. The Production Sharing Contracts covering Blocks 12A and 13T are dated September, 2008 and have an initial exploration period of 3 years. The initial minimum exploration expenditures are $3.65 million (Block 13T) and $3.6 million (Block 12A). The initial exploration work program includes 500km of 2D seismic or 100 km2 of 3D seismic (or a combination thereof) on each block.

Stock Option Grant

On April 6, 2010, the Company granted an aggregate of 1,617,500 incentive stock options to certain officers, directors and other eligible persons of the Company. The options are exercisable, subject to vesting provisions, over a period of three years and were priced based at the closing price on April 8, 2010.