



## **AFRICA OIL CORP.**

### **Management's Discussion and Analysis**

**Prepared by Management**

**AFRICA OIL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Amounts expressed in United States dollars unless otherwise indicated)**  
**For the three months ended March 31, 2011 and 2010**

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2011 and 2010 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009 and related notes thereto.

The financial information in this MD&A is derived from the Company's unaudited interim consolidated financial statements which have been prepared in United States ("U.S.") dollars, in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles.

The effective date of this MD&A is May 26, 2011.

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

## **PROFILE AND STRATEGY**

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

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 primarily East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. AOC's mission is to de-risk this portfolio of oil and gas prospects and leads, while generating additional prospects and leads, through continuous oil and gas exploration activities. The Company is pursuing a farmout strategy aiming to leverage the current large working interest holdings in each of its operated blocks. AOC aims to continue to identify additional highly prospective exploration targets in geologically favorable settings. The Company will continue to consider acquisition and merger opportunities with a focus on North Africa and the Middle East. In general, AOC will continue its portfolio approach to exploring a large number of oil and gas opportunities with the goal of increasing shareholder value.

The Company has acquired and commenced exploration activities on multiple exploration Blocks in East Africa (refer to table below). The 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 Tullow Oil plc Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds exploration acreage of

over 300,000 km<sup>2</sup> (gross) in this exciting new world-class exploration play fairway. The Company aims to have completed significant seismic and drilling programs on the majority of the Company's blocks over the next two years. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

## WORKING INTERESTS

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

Country	Block/Area	December 31, 2010 Net Working Interest % <sup>(1)</sup>	March 31, 2011 Net Working Interest % <sup>(1)</sup>	Net Working Interest % (net of proposed transactions) <sup>(3)</sup>
Kenya	Block 10A	55%	30%	30%
Kenya	Block 9	20.0%	66.7%	100.0%
Kenya	Block 10BB	80%	40%	50%
Kenya	Block 12A	100%	50%	50%
Kenya	Block 13T	100%	50%	50%
Kenya	Block 10BA	0%	50%	50%
Ethiopia	Blocks 2/6	55%	55%	55%
Ethiopia	Blocks 7/8	55%	55%	55%
Ethiopia	Adigala	50%	50%	50%
Ethiopia	South Omo	30%	30%	30%
Mali	Block 7	0%	25%	25%
Mali	Block 11	0%	25%	25%
Puntland, Somalia	Dharoor Valley	65%	45%	33% <sup>(4)</sup>
Puntland, Somalia	Nugaal Valley <sup>(2)</sup>	65%	45%	33% <sup>(4)</sup>

Footnotes:

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

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

<sup>3</sup> Net Working Interests upon close of proposed acquisition of Lion Energy Corp. ("Lion") and formation of new Puntland focused exploration company (see "Proposed Transactions").

<sup>4</sup> Represents AOC's Net Working Interest subsequent to the formation of a new Puntland focused exploration company (see "Proposed Transactions"). It is anticipated that AOC will own approximately 55% of the new company. This figure represents the new Company's Net Working Interest in the production sharing contracts, net of the anticipated 45% minority interest in the new company.

## RECENT DEVELOPMENTS

### Tullow Farmout and Lion Farmout Amendment

During the first quarter of 2011, the Company completed a farmout transaction with Tullow Oil plc ("Tullow") on Blocks 10BB, 10A, 12A and 13T in Kenya. The farmout on the South Omo Block in Ethiopia was completed on December 9, 2010. Tullow has acquired a 50% interest in, and operatorship of five of AOC's east African exploration blocks.

Under the terms of the Tullow farmout agreement, Tullow acquired a 50% interest in, and operatorship of, Blocks 10BB and 10A in Kenya and of the South Omo Block in Ethiopia. In consideration for the assignment of these interests, Tullow has paid to AOC \$9.5 million, representing 50% of AOC's audited past costs in the blocks. Tullow will fund its 50% working interest and AOC's working interest share of future joint venture expenditures in these blocks from July 1, 2010, the effective date, until the cap of \$23.75 million (based on AOC's carried interest) is reached. Once the expenditure cap has been met, AOC will be responsible for its working interest share of future costs. Subsequent to the quarter, AOC received \$11.1 million from Tullow representing their funding obligation from the July 1, 2010 to January 26, 2011, the close date of the Blocks 10A and 10BB farmout agreement.

Additionally, Tullow exercised an option to acquire 50% of AOC's interest in, and operatorship of, two additional exploration blocks in Kenya, 12A and 13T, recently acquired by AOC. Tullow has paid to AOC \$1.7 million as compensation for past costs. Tullow and AOC will be responsible for their working interest share of future joint venture expenditures in these blocks going forward.

The Company also amended their farmout agreement with Lion Energy Corp. ("Lion"). The amendment reduced Lion's interest in Block 10BB to 10% (originally 20%) and eliminated its interest in Block 10A (originally 25%). As consideration, the Company paid Lion \$2.5 million in cash and issued to Lion 2.5 million common shares of AOC. The Company has also agreed to the elimination of future expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia). At March 31, 2011, AOC had an obligation of approximately \$3.7 million due to Lion representing the reduction of their paying interest in joint venture expenditures from July 1, 2010, the effective date, to January 26, 2011, the close of the amendment to the farmout agreement. On April 3, 2011, the Company signed a definitive agreement with Lion to acquire all of its issued and outstanding common shares (see "Proposed Transactions").

### **Acquisition of Centric Energy**

Effective February 23, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Centric Energy Corp. ("Centric"), a publicly traded oil and gas company listed on the TSX Venture Exchange. Pursuant to the acquisition agreement, AOC acquired, by way of a plan of arrangement, all of the issued and outstanding shares of Centric in consideration for 0.3077 AOC shares and CAD\$0.0001 for each common share of Centric. The value of consideration issued was estimated at \$60.2 million.

The primary asset acquired is Block 10BA in Kenya which is strategically located within the highly prospective East African Tertiary Rift System between AOC's Block 10BB and its South Omo Block. This trend hosts the recent discoveries in the Albert Graben in Uganda where up to 2.5 billion barrels of oil have been discovered by Tullow. In addition, Centric also had a carried 25% interest in Block 7 and Block 11, both located in the Republic of Mali and operated by Heritage Oil Corporation.

Block 10BA is highly under-explored, with only sparse seismic data acquired in 1991. It covers 16,205 square kilometers (gross) and is directly north of the Loperot oil discovery drilled by Shell Exploration (Kenya) in 1992, within AOC's Block 10BB. The planned acquisition of new seismic data onshore and offshore is expected to considerably improve the understanding of the hydrocarbon potential of this Block.

Prior to the acquisition, Centric farmed out 50% working interest in Block 10BA to Tullow. In consideration for the assignment of these interests, Tullow paid Centric \$1.0 million for past costs in the block. Tullow will earn a 50% participating interest and operatorship in Block 10BA by funding 80% of the first \$30 million of gross joint venture expenditures under the Block 10BA Production Sharing Agreement. Once the expenditure cap has been met, each joint venture partner will be responsible for its working interest share of future costs.

An independent assessment of the prospective resources of Block 10BA has been prepared in accordance with National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities. This report calculates gross prospective resources for 25 Centric leads and prospects in the Block. The total of the prospective resources ranges from a low case (P90) of 955 million barrels of oil up to a high case (P10) of 4,379 million barrels of oil, with a best estimate (P50) of 2,188 million barrels of oil.

The Company holds a 25% interest in two exploration licenses in Mali where its costs are carried by Heritage Oil Corporation under the terms of a farmout agreement through the primary seismic program and the first exploration well. The area of the licenses totals approximately 73,000 square kilometers and is part of the Cretaceous-age Central Africa Rift Trend which contains significant oil accumulations in Chad, Sudan and Niger. The basin has been sparsely explored with only 600 kilometers of older vintage seismic data, the most recent shot in 1974, and one exploration well, drilled in 1976. A nearby water well had significant shows of oil and gas demonstrating an active petroleum system. The acquisition of at least 1,000 kilometers of new seismic data is currently in progress.

### **Extension of the First Exploration Period in Puntland (Somalia) and Red Emperor Farmout**

Subsequent to December 31, 2010, AOC entered into amending agreements with the Government of Puntland, represented by the Puntland Petroleum and Mineral Agency, in respect of the production sharing agreements ("PSAs") for the Dharoor Valley Exploration Area and the Nugaal Valley Exploration Area. Under the PSAs, as amended, the First Exploration Agreement has been extended for a further 12 months, from January 17, 2011 to January 17, 2012.

Under the amended PSAs, AOC is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of AOC, in the Dharoor Valley Exploration Area, by September 27, 2011.

In conjunction with this amendment, the Company completed its farmout agreement with Red Emperor Resources NL ("Red Emperor"). Under the terms of the farmout agreement and an election made by Red Emperor to increase their interests, Red Emperor will earn a 20% interest in both the Dharoor and Nugaal Valley Blocks and is committed to paying a disproportionate share of costs related to the one well drilling commitment included in the first exploration period of both the Dharoor and Nugaal Valley Production Sharing Agreements.

### **Kenya Block 9 – AOC Enters the First Additional Exploration Period**

The Company, together with its joint venture partner Lion, entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya. As a result of the withdrawal of its two other joint venture partners, AOC will now hold a 66.7% working interest in the PSC and has been approved by the government as Operator of Block 9. Lion will hold the remaining 33.3%. The First Additional Exploration Phase commenced on December 31, 2010 and will expire on December 31, 2013 with a one well work commitment (minimum depth 1,500 meters).

In addition to the gas prospectivity on the block (see discussion below in Operations Update section), the northwestern portion of the Block contains the Kaisut Basin which is an extension of the Anza Basin oil play currently being pursued by AOC and its joint venture partners in Block 10A. Several leads have been identified in this area on existing 2D seismic data and a 600 kilometer seismic survey is currently in progress aimed at upgrading these leads into drillable prospects.

## **Convertible Debenture**

As part of the Company's acquisition in April of 2009 of Lundin Petroleum AB's ("LPAB") oil and gas operations in Kenya and Ethiopia, a subsidiary of LPAB provided the Company with a \$23.8 million US dollar denominated convertible debenture to finance the acquisition. The convertible loan from LPAB carries an interest rate of USD six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, is convertible, at the option of either AOC or LPAB, into shares of the Company on the basis of CAD\$0.90 per common share. The convertible debenture was to mature December 31, 2011.

On March 1, 2011, the Company and LPAB amended the terms of the loan agreement to allow for full or partial conversion of the loan prior to the maturity date if agreed to, in writing, by both parties. On March 3, 2011, AOC and LPAB agreed to convert \$13.0 million of the convertible loan into 14 million shares of the Company. Subsequent to the end of the quarter, AOC and LPAB agreed to convert the remaining \$10.8 million of the convertible loan plus \$0.2 million of accrued interest into 11,850,100 shares of the Company.

## **Exercise of Warrants**

In accordance with agreements entered into with warrant holders, the Company has elected to exercise its rights to accelerate the expiry date of certain of its outstanding warrants to purchase common shares of AOC.

On November 22, 2010, the Company gave notice to the holders of the remaining warrants granted in April 2009 accelerating the expiry date of those warrants to December 23, 2010. Of the 37,421,018 warrants granted in April 2009, 37,220,365 were exercised in 2010 and 161,653 expired unexercised in 2010. On the exercise of warrants in 2010, the Company issued 37,220,365 common shares, realizing net proceeds of \$55.2 million. The Company extended the expiry 39,500 warrants to March 23, 2011 as it had difficulty notifying these warrant holders. In the first quarter of 2011, 30,000 of the remaining warrants were exercised prior to March 23, 2011 and the remaining 9,500 warrants expired unexercised. On the exercise of warrants in 2011, the Company issued 30,000 common shares, realizing net proceeds of \$46,242.

The Company also had 1,500,000 common share purchase warrants outstanding that were issued on September 9, 2010 (the "Additional Warrants"). On November 22, 2010, the Company gave notice to the holder of the Additional Warrants accelerating the expiry date of those warrants to May 22, 2011. Subsequent to the first quarter, all 1,500,000 warrants were exercised.

## **Study Block Definitive Agreement**

In December 2010, AOC signed a definitive agreement with the Government of Ethiopia to jointly study the Rift Valley Block. The Block is located north of the Company's South Omo Block and encompasses the remainder of the Tertiary age East Africa Rift Trend in Ethiopia. The Company has committed to carry out an airborne geophysical survey over the Block, which spans 42,519 square kilometers (gross). The Joint Study Agreement has an 18 month term, following which AOC will have the exclusive right to enter into negotiations for a production sharing agreement for all or part of the Rift Valley Block.

## **Court Proceedings – Interstate Petroleum Ltd. ("IPL")**

Kenyan court proceedings were brought by Interstate Petroleum Ltd. ("IPL") against the Permanent Secretary, Ministry for Energy. IPL was seeking a judicial review of the administrative process that led to the issuance of exploration permits in respect of, amongst others, Blocks 10BB, 10BA, 12A and 13T, which resulted in the Company being a named party to the proceedings. On December 16, 2010, these court proceedings were ruled to be without merit and were dismissed by the High Court in Kitale, Kenya.

On December 27, 2010, a Notice of Appeal was filed by IPL with the court. On February 4, 2011 AOC and its Kenyan counsel filed an application to strike the Notice of Appeal and expects that a hearing in respect of that matter will be held in September 2011.

## **PROPOSED TRANSACTIONS**

### **Acquisition of Lion Energy Corp.**

On April 3, 2011, the Company signed a definitive agreement with Lion Energy Corp. ("Lion"), a publicly traded oil and gas company listed on the TSX Venture Exchange, to acquire all of the issued and outstanding common shares of Lion. Pursuant to the agreement with Lion, AOC will acquire, by way of a plan of arrangement, all of the issued and outstanding shares of Lion in consideration for 0.20 common shares of AOC for each common share of Lion. Any options or warrants to purchase common shares of Lion that are outstanding on completion of the acquisition will be replaced or amended to entitle the holder to acquire common shares of AOC, with the number of shares to be acquired and the exercise price each adjusted to reflect the ratio of 0.20 shares of AOC for each 1.0 share of Lion.

Lion is a joint venture partner of AOC in Kenya and Puntland (Somalia), and currently holds the following working interests; 33.3% in Block 9 (Kenya), 10% in Block 10BB (Kenya), and 15% in each of Dharoor Valley and Nugaal Valley (Puntland). In addition to the above properties, Lion estimated that it had cash, accounts receivables and investments in marketable securities with an approximate aggregate value of CAD\$30 million at the date of signing the definitive agreement.

A meeting of Lion shareholders, to approve the transaction, is planned to be held in June 2011 and, assuming shareholder approval, the transaction is expected to close shortly thereafter. The transaction is subject to certain conditions precedent including TSX Venture Exchange, court and Kenyan and Puntland Government approvals and any requisite third-party consents and right of first refusal waivers.

### **Signs Letter of Intent to Create New Puntland Focused Exploration Company**

The Company has entered into a letter of intent dated May 11, 2011 for the creation of a new Puntland focused oil exploration company. The new company will be created as a result of the transfer of AOC's interest in its oil and gas properties in Puntland Somalia to Denovo Capital Corp. ("Denovo") (the "Transaction"). Denovo is a capital pool company and intends for the Transaction to constitute the "Qualifying Transaction" of Denovo, as that term is defined in the policies of the TSX Venture Exchange.

Under the terms of the letter of intent, AOC and Denovo will negotiate and enter into a definitive agreement pursuant to which AOC will transfer to Denovo all of the issued and outstanding shares of its subsidiary holding companies (the "Puntland Subsidiaries") which hold participating interests in the Dharoor Valley and Nugaal Valley Production Sharing Agreements in Puntland (Somalia) (the "Puntland PSAs"). AOC will receive, in consideration of the transfer, 27,777,778 common shares of Denovo.

As a result of the Transaction, the Puntland Subsidiaries will become wholly owned subsidiaries of Denovo.

AOC currently holds a 45% participating interest in the Puntland PSAs. Upon completion of the transaction, previously announced on April 3, 2011, for the acquisition of Lion Energy Corp, AOC's participating interest in the Puntland PSAs will be increased, directly or indirectly, to 60%. It is anticipated that the entire 60% participating interest will be transferred to Denovo.

It is anticipated that the definitive agreement will be entered into during the second quarter of 2011. The definitive agreement will provide for conditions precedent that are standard for a transaction of this nature, including receipt, by both AOC and Denovo, as required, of all regulatory, partner and third party

approvals including TSX Venture Exchange approval. Denovo will also seek Denovo shareholder approval for a proposed 0.65 (new) for 1.00 (old) consolidation of its common shares and a change of name of the company, both of which are conditions precedent to completion of the transaction. It will be a condition precedent of the transaction that AOC will have completed its proposed acquisition of Lion Energy Corp. and that Denovo will have completed a private placement of CAD\$35 million comprised of 38,888,889 subscription receipts of Denovo sold at a post-consolidation price of CAD\$0.90 per subscription receipt. Each subscription receipt will be exercised, upon completion of the transaction, into a unit of Denovo, comprised of one common share and one share purchase warrant (a "Denovo Warrant"). Each Denovo Warrant will entitle the holder to acquire an additional Denovo share for \$1.50 for two years, subject to accelerated exercise provisions if the Denovo shares trade at greater than \$2.00 for 10 consecutive trading days.

AOC will acquire 11,111,111 subscription receipts in the private placement financing, for proceeds of CAD\$10 million. At the conclusion of the Transaction and the private placement financing described above, AOC is anticipated hold approximately 55% (non-diluted) of the issued and outstanding common shares of Denovo. Upon completion of the Transaction it is expected that Denovo will meet the listing requirements of the Exchange for a Tier II Oil and Gas Issuer.

Upon completion of the Transaction, Africa Oil Corp. and Denovo will be considered common control entities. Management is expected to establish an accounting policy related to common control business combinations when the proposed transaction is completed. The accounting policy will be based on either the acquisition method or the predecessor values method.

## **OPERATIONS UPDATE**

The Company anticipates that 2011 will be a pivotal year in its progression with multiple exploration wells planned to spud during the year, over 4,000km (gross) of two dimensional seismic ("2D seismic") to be acquired and an extensive Full Tensor Gravity ("FTG") program planned to aid in assessing the overall prospectivity of the Tertiary and Cretaceous Rifts. The Company's Board of Directors has approved a \$43 million (net) capital budget (\$163 million gross exploration expenditures).

### **Tertiary Rift**

Tullow has taken over operatorship and are currently in the process of undertaking Full Tensor Gravity ("FTG") surveys and finalizing the prospect and lead inventory on Block 10BB. FTG is an airborne, high resolution gravity mapping tool which has been successfully utilized in the Lake Albert area of Uganda by Tullow, where gross discovered resources are over 2 billion barrels of oil. This technology will be utilized to provide basement image faulting, reduce uncertainty surrounding the structural configuration and to delineate structures to narrow the focus for subsequent 2D seismic surveys. Environmental impact assessments have been completed on Block 10BB over four potential drill sites and Government permits have been issued. Exploratory drilling is expected to commence in the third quarter of 2011.

FTG will be undertaken on the remainder of the Tertiary Rift blocks (South Omo (Ethiopia), Blocks 10BA, 12A, 13T (Kenya)), all of which will be operated by Tullow. The South Omo FTG survey is nearly 50% complete and a second plane has been contracted to accelerate the Kenyan surveys beginning in June of this year. 2D seismic operations are planned to commence during Q3 2011 and continue through the year on all of these blocks. The 2D seismic acquisition programs on these blocks are planned as follows on a gross basis; 1,000km on the South Omo Block, 1,300km on Block 10BA, and 500km on each of Blocks 12A and 13T.

The Company has completed a block-wide airborne high resolution gravity and magnetic survey on the Rift Valley Block in Ethiopia. In addition, the Company has utilized a specialized satellite imagery technique to observe natural oil seepage on several of the rift valley lakes within the new block. A team

was mobilized in early March to ground truth and sample the oil slicks. Samples have been collected and are being analyzed in a US based geochemical laboratory.

### **Cretaceous Rift**

In Block 10A, Kenya, the Company completed recording approximately 800km (gross) of 2D seismic in the first quarter of 2011. Seismic data acquired is currently being processed. The Company has reprocessed all available vintage seismic data with the objective of improving the imaging of the data acquired in the late 1980s. New play concepts have been developed based on the reprocessed data in combination with vintage drilling data. Tullow has taken over operatorship of this block and exploratory drilling is expected to commence in the fourth quarter of 2011.

In Block 9, Kenya, previous operator CNOOC and partner OPIC CHAD elected to relinquish their rights to the block subsequent to the drilling of the Bogal gas discovery. The Company and partner Lion Energy opted to continue into the First Additional Exploration Period which spans 3 years and carries a commitment of one exploration well to be drilled to at least 1500 meters. Current exploration activities in Block 9 are focused on the acquisition of 600km (gross) 2D seismic survey focused on the oil prone Kaisut sub-basin. The seismic crew has recently commenced recording and is anticipated to be completed at the end of the third quarter of 2011.

The Company has initiated a gas commercialization study to better understand alternative options for monetizing natural gas in East Africa, in anticipation of performing extended well tests on the potentially significant gas discovery that resulted from drilling the Bogal 1-1 well in 2010.

### **Permian-Triassic**

The Company completed its seismic acquisition program in the Company's Ogaden area of Ethiopia, acquiring 500 km of 2D seismic in December of 2010. The new data has been integrated with existing seismic to generate a series of new prospect maps. The Company continues to focus efforts on the large El Kuran prospect in the Blocks 7/8 license. The feature was de-risked in 1972 with two wells drilled by Tenneco; both wells recovered small amounts of light oil from Jurassic fractured carbonate reservoirs near 5000 feet. The Company contracted a Dubai-based consulting firm with extensive experience in appraising and developing analogous low porosity carbonate oil reservoirs in the Middle East. The consulting firm will evaluate the resource potential of the El Kuran discovery in addition to offering various options for appraisal and development of the accumulation. The Company plans to drill one well on the El Kuran prospect in 2012 in an attempt to establish commercial oil reserves. The Company holds 55% interest in both Blocks 2/6 and 7/8 licenses.

In Ethiopia, in the Adigala Block, the Company has completed interpretation of the 500 km of 2D seismic that was acquired during 2009. Additional geological and geophysical work is being contemplated, as part of a proposed one year extension. 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.

### **Cretaceous – Central Africa Rift Trend (Blocks 7 and 11 (Mali))**

The Company completed the acquisition of Centric Energy Corp. in the first quarter of 2010, obtaining a 25% interest in Block 7 and 11, which are operated by Heritage Oil Corporation ("Heritage"). Heritage has entered into an agreement with a 2D seismic subcontractor, and is currently in the process of acquiring reconnaissance seismic. The Company's share of seismic expenditures and the drilling of one exploration well will be carried by Heritage.

## Jurassic Rift

During 2009, 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 which has been mapped to determine exploration well locations. Exploration activities in Puntland are focused on drilling the first exploration well in Somalia in over 20 years. The Company has recently signed a letter of intent with a drilling contractor and plans to spud the first well in the Dharoor Block during the third quarter of 2011. A second well in the Dharoor Block is planned to commence following completion of the first exploration well.

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.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	31-Mar 2011	31-Dec 2010	30-Sep 2010	30-Jun 2010	31-Mar 2010	31-Dec 2009 (*)	30-Sep 2009 (*)	30-Jun 2009 (*)
Operating expenses (\$)	2,989	2,415	1,388	1,329	1,072	1,311	1,419	1,340
Interest income (\$)	244	54	24	4	5	13	18	7
Foreign exchange gain (loss) (\$)	1,582	1,590	440	(106)	64	560	1,321	1,348
Fair market value gain (loss) - warrants (\$)	779	3,755	(8,469)	(4,276)	6,882	-	-	-
Fair market value gain (loss) - convertible debenture (\$)	1,722	(6,687)	(9,469)	(1,743)	4,642	-	-	-
Net income (loss) (\$)	1,338	(3,703)	(18,862)	(7,450)	10,521	(738)	(80)	15
Weighted average shares - Basic	154,451	108,243	91,366	70,520	70,205	68,404	68,404	47,752
Weighted average shares - Diluted	162,549	119,960	91,366	70,520	74,275	68,404	68,404	48,123
Basic earnings (loss) per share (\$)	0.01	(0.03)	(0.21)	(0.11)	0.15	(0.01)	-	-
Diluted earnings (loss) per share (\$)	(0.01)	(0.03)	(0.21)	(0.11)	0.08	(0.01)	-	-
Oil and gas expenditures (\$)	54,180	2,553	12,629	1,431	2,902	4,316	8,980	27,472

\*Note: The second, third and fourth quarters of 2009 are financial results based on Canadian GAAP and have not been restated to conform with IFRS.

As the Company is in the exploration stage, no oil and gas revenue has been generated to date. Accordingly, income reported primarily relates to interest income on its cash deposits, potential foreign exchange gains mainly the result of holding Canadian dollar deposits, and fair market value adjustments on warrants and convertible debentures.

Operating expenses were relatively consistent on a quarterly basis until the fourth quarter of 2010 when they increased \$1.0 million to \$2.4 million. The increase from the third quarter of 2010 was due to increased compensation costs in the fourth quarter of 2010, increased listing fees associated with our listing on the NASDAQ OMX Stock Exchange in Sweden, and increased professional fees associated with farmout activity and the Centric acquisition. Operating expenses increased a further \$0.6 million in the first quarter of 2011 from the fourth quarter of 2010. This increase was due to a \$1.3 million increase in stock-based compensation costs associated with stock options granted in the first quarter of 2011, partially offset by a reduction in professional fees and listing fees from elevated levels experienced in the fourth quarter of 2010.

Interest income increased in the first quarter of 2011 due to a significant increase in cash late in the fourth quarter of 2010 as a result of cash received on the exercise of warrants.

The \$1.6 million foreign exchange gain in the first quarter of 2011 and the fourth quarter of 2010 is the result of holding Canadian dollars raised through the non-brokered private placement (CAD \$25 million gross proceeds) which closed during July 2010 and the warrant exercises in the fourth quarter of 2010

(CAD \$55.8 million gross proceeds). During the last three quarters of 2009, the Company recorded foreign exchange gains associated with its holding of Canadian dollars 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 fair market value adjustments to warrants and convertible debt are performed on a quarterly basis. The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. The convertible debenture entitles the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the company's functional currency (US dollar for AOC), and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The fair market value adjustments to both the warrants and convertible debt increased and decreased throughout 2010 and 2011 in correlation with AOC's share price with the exception of warrants in the fourth quarter of 2010. This exception was the result of the warrants being exercised in the quarter at a price lower than the fair market value of the warrants at the end of the previous quarter.

Subsequent to the end of the quarter, the convertible debenture was fully repaid. Accordingly, fair market value gains or losses relating to the convertible debenture will not be recognized subsequent to the second quarter of 2011.

At March 31, 2011, 8.0 million warrants were outstanding. Subsequent to the end of the quarter, 1.5 million warrants were exercised, leaving 6.5 million warrants currently outstanding. The Company will incur fair market value adjustments on the remaining 6.5 million warrants until they are exercised or they expire on May 8, 2012.

## RESULTS OF OPERATIONS

	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
Net income (loss) for the period	1,338,232	10,520,509
Fair market value gain - warrants	(779,181)	(6,881,571)
Fair market value gain - convertible debt	(1,722,256)	(4,641,657)
Interest and other income	(243,686)	(5,316)
Foreign exchange gain	(1,582,451)	(64,230)
Operating expenses	2,989,342	1,072,265

Operating expenses increased to \$3.0 million in the first quarter of 2011 from \$1.1 million in the first quarter of 2010 due a \$1.3 million increase in stock-based compensation related to options granted in the first quarter of 2011. The remainder of the increase can be attributed to increased salary and benefit costs, increased costs associated with our listing on the NASDAQ OMX, and an increase in general office costs and professional fees associated with increased operational expansion.

The fair market value gain on warrants and convertible debt was significantly larger in the first quarter of 2010 due to a larger reduction in AOC's share price from the end of the previous quarter. Interest income was higher in the first quarter of 2011 due to a significant increase in the average cash balance versus the first quarter of 2010. The \$1.6 million foreign exchange gain in the first quarter of 2011 is the result of an increase in the value of the Canadian dollar at a time when AOC was holding a significant amount of Canadian dollars raised through the non-brokered private placement (CAD \$25 million gross proceeds) which closed during July 2010 and the warrant exercises in the fourth quarter of 2010 (CAD \$55.8 million gross proceeds).

## INTANGIBLE EXPLORATION ASSETS

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Intangible exploration assets	\$150,648,738	\$96,468,816

During the three months ended March 31, 2011, AOC increased its investment in intangible exploration assets by \$54.2 million. The acquisition of Centric Energy Corp accounted for an increase of \$58.8 million. The Tullow farmout with respect to Blocks 10A, 10BB, 12A and 13T closed in the first quarter, reducing AOC's intangible exploration assets by \$21.0 million. Of this reduction, \$9.9 million was received as consideration for past costs incurred and \$11.1 million representing Tullow's share of costs from July 1, 2010, the effective date of the farmout agreement, to the date the farmout closed which was received subsequent to the end of the quarter. During the quarter, the Company also amended its farmout agreement with Lion resulting in AOC acquiring an additional 10% interest in Block 10BB and 25% in Block 10A, in Kenya. As consideration for this interest, AOC paid Lion \$2.5 million in cash and issued 2.5 million common shares valued at \$5.3 million. A further \$3.7 million is due to Lion representing payments made by Lion relating to their divested interest from the effective date of the amended farmout agreement, July 1, 2010, to the date the farmout closed.

The Company spent an additional \$2.2 million in Kenya, including \$1.1 million on the Block 10A seismic program prior to close of the Tullow farmout. The Company spent \$2.2 million in Puntland on PSC related expenditures and costs associated with setting up an office and preparing to drill a well in the third quarter of 2011. The remaining expenditures relate to geological and geophysical programs in the Company's other areas of operation, required PSC related expenditures, and general and administrative costs. 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 March 31, 2011, the Company had cash of \$77.8 million and working capital of \$57.2 million as compared to cash of \$76.1 million and working capital of \$70.6 million at December 31, 2010. The Company's liquidity and capital resource position has remained strong throughout the quarter. Working capital decreased due to the convertible debenture becoming current in the quarter offset by an increase in accounts receivable upon closing of the Tullow farmout.

The Company's liquidity has been further enhanced subsequent to the end of the quarter as the remaining convertible debenture was converted into shares of the Company.

The Company currently has more than sufficient funds to meet its portion of expenditure obligations as per the approved 2011 work programs which includes the following: completion of seismic acquisition on Block 10A (Kenya); seismic acquisition and full tensor gravity on Blocks 10BA (Kenya), 12A (Kenya), 13T (Kenya), and the South Omo Block (Ethiopia); additional seismic acquisition on Block 9 (Kenya); and three exploratory wells, one on each of Blocks 10BB and 10A in Kenya and one in Puntland (Somalia). The Company's current working capital position may not provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods 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 or disposition arrangements. The Company is actively marketing the opportunity for interested parties to farm in to its operated oil and gas concessions in East Africa. 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 for the three months ended March 31, 2011 was \$1.5 million as compared to \$0.2 million for the same period in 2010. The increase can be attributed to options granted in the first quarter of 2011 with 1/3 vesting immediately. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

## **RELATED PARTY TRANSACTIONS**

During May 2009, the Company's loans payable due to Lorito Holdings (Guernsey) Limited ("Lorito") in the amount of CAD\$6,000,000 plus accrued interest of \$195,521 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 20 consecutive days, the Company has the option to accelerate the expiry date. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin.

During the three months ended March 31, 2011, the Company incurred costs of \$64,122 (March 31, 2010 - \$56,924) for administrative support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by Lukas H. Lundin.

## **COMMITMENTS AND CONTINGENCIES**

Please note that the following commitments and contingencies are representative of AOC's net obligations at the effective date of the MD&A and reflect the following changes from commitments and contingencies as reported in the notes to the consolidated financial statements as at March 31, 2011; Tullow farmout, amended Lion farmout, and the Red Emperor farmout.

### **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.

In January 2011, the Company announced further 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 a further 12 months, with a revised expiry period of January 17, 2012. Under the amended PSCs, AOC is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of AOC, in the Dharoor Valley Exploration Area, by September 27, 2011.

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 initial exploration period, 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 \$8.4 million towards sole funding obligation as of December 31, 2010.

### **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 gross expenditure of \$11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of \$6.0 million. The Company's current working interest in Blocks 7/8 is 55%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs.

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 gross expenditure of \$10.8 million. The Company's current working interest in Blocks 2/6 is 55%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs.

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

Under the terms of the South Omo PSA, during the initial exploration period which expires in January 2012, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of \$8.0 million. The Company's current working interest in the South Omo Block is 30%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding letter of credit of \$294,000 in favor of Tullow Oil plc ("Tullow") which is collateralized by a bank deposit of \$294,000.

### **Kenya:**

Under the terms of the Block 10A Production Sharing Contract ("PSC"), the initial 4 year exploration period expires in January 2012. AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of \$7.8 million. Additionally, AOC and its partners are obligated to drill one exploration well with a minimum expenditure of \$8.5 million. The Company's current working interest in Block 10A is 30%; however, the Company's

portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding bank guarantee of \$0.7 million in favor of Tullow Oil plc and \$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 and its partners are obligated to complete G&G operations (including acquisition of 600 kilometers of 2D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of \$6.0 million. The Company's current working interest in Block 10BB is 40%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of the farmout agreement with Tullow which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding bank guarantee of \$0.7 million in favor of Tullow and letter of credit of \$1.8 million in favor of the Kenyan Government, both of which are collateralized by a bank deposit of \$1.8 million.

Under the terms of the Block 9 PSC, with the drilling of the Bogal-1-1 well, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period. Effective December 31, 2010, the Company entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partners are required to drill one additional exploratory well to a minimum depth of 1,500 meters per well with a minimum gross expenditure of \$2.5 million. The Company's current working interest in Block 9 is 66.7%.

Under the terms of the Block 12A and 13T PSC, the exploration periods expire in December 2011. In accordance with the terms of the PSCs, the initial minimum gross exploration expenditures are \$3.65 million (Block 13T) and \$3.6 million (Block 12A). The Company and its partner are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km<sup>2</sup> of 3D seismic (or a combination thereof) on each block. The Company's current working interest in Blocks 12A and 13T is 50%. The commitments on Block 12A and 13T are supported by outstanding letters of credit of \$540,000 and \$547,500, respectively in favor of the Kenyan Government, which is collateralized by bank deposit of \$540,000 and \$547,500, respectively.

Under the terms of the Block 10BA PSC, the exploration periods expire in April 2013. The Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of \$3.0 million. The Company's current working interest in Block 10BA is 50%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of the farmout agreement with Tullow which require AOC's joint venture partner to pay a disproportionate share of joint venture costs. The commitments on Block 10BA are supported by an outstanding letter of credit of \$450,000 in favor of the Kenyan Government which is collateralized by bank deposit of \$450,000.

#### **Mali:**

Under the terms of the Block 7 and 11 PSCs, the exploration periods expire in July 2012 and June 2011. In accordance with the terms of the PSCs, the initial minimum gross exploration expenditures are \$11.6 million (Block 7) and \$10.4 million (Block 11), including an \$8.0 million exploration well in each block and \$3.6 million and \$2.4 million of seismic and G&G expenditures, respectively on Blocks 7 and 11. In exchange for 75% working interest, our partner has committed to funding all seismic and G&G costs associated with both blocks and one of the exploration well commitments.

## OUTSTANDING SHARE DATA

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

Common shares outstanding	196,045,042
Outstanding share purchase options	6,521,601
Outstanding share purchase warrants	6,809,667
Full dilution impact on common shares outstanding	229,414,933

\*see Proposed Transactions section of the MD&A for potential changes to the number of fully diluted common shares outstanding.

Subsequent to quarter end, the Company issued 11,850,100 shares of AOC with respect to conversion of the remaining \$10.8 million of the \$23.8 million convertible debenture. AOC issued 1,500,000 shares on warrants exercised that were issued to Platform Resources as consideration for the assignment of Blocks 12A and 13T. AOC also granted an aggregate of 100,000 incentive stock options to certain officers, directors, and other eligible persons of the Company while 137,001 were cancelled and 3,333 were exercised.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## CRITICAL ACCOUNTING ESTIMATES

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

### Use of Estimates

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

### Intangible Explorations Assets

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

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of operations. If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a single field cost center within "oil and gas interests" subsequent to determining that the assets are not impaired.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The allocation of the company's assets into CGUs requires judgment.

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

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

### **Stock Based Compensation**

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

### **Warrants and Convertible Debentures**

An obligation to issue shares for a price that is not fixed in the company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. The convertible debenture entitles the holder to convert the US dollar denominated loan into common shares for a fixed Canadian dollar price per share. The estimated fair value is adjusted on a quarterly basis with gains or losses recognized in the statement of operations. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing the warrants and convertible debentures. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

## **Income Tax**

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

## **NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES**

### **International Financial Reporting Standards**

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the three months ended March 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

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

## **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 March 31, 2011.

For the three months ended March 31, 2011, a 5% increase or decrease in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately \$800,000 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 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 \$240,000 with no impact to net income for the three months ended March 31, 2011. 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 and its partners have an aggressive exploration program planned for the next two years, which is anticipated to include seismic and drilling across all play types and geographic areas of operation. The Company enters the second quarter 2011 in an extremely strong financial position with working capital in excess of \$57 million. Additional financing is not required at this time to meet current operational plans.

New discoveries have been announced on all sides of the Company's virtually unexplored land position including the major Tullow Oil plc 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:

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

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

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

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- volatility in energy trading markets;

- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict,
- conflict between states.

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

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



Interim Consolidated Financial Statements  
(Expressed in United States dollars)

**AFRICA OIL CORP.**

For the three months ended March 31, 2011 and 2010

Unaudited  
Prepared by Management

# AFRICA OIL CORP.

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

	Note	March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		\$ 77,811,360	\$ 76,125,834	\$ 11,145,486
Accounts receivable		8,767,575	2,323,208	5,396,253
Prepaid expenses		289,840	595,729	508,344
		86,868,775	79,044,771	17,050,083
Long-term assets				
Restricted cash	5	5,082,750	3,181,500	1,800,000
Property and equipment	7	35,809	39,621	107,549
Intangible exploration assets	8	150,648,738	96,468,816	76,138,940
		155,767,297	99,689,937	78,046,489
Total assets		\$ 242,636,072	\$ 178,734,708	\$ 95,096,572
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>				
Current liabilities				
Accounts payable and accrued liabilities		\$ 5,275,375	\$ 7,122,007	\$ 3,244,871
Current portion of warrants	11	701,704	874,949	-
Current portion of convertible debenture	9	23,729,065	411,220	407,950
		29,706,144	8,408,176	3,652,821
Long-term liabilities				
Warrants	11	4,570,913	5,195,914	21,673,039
Convertible debenture	9	-	54,077,952	40,820,217
		4,570,913	59,273,866	62,493,256
Total liabilities		34,277,057	67,682,042	66,146,077
Equity attributable to common shareholders				
Share capital	10(b)	257,929,756	163,231,076	62,712,759
Contributed surplus		5,661,377	4,391,940	3,313,753
Deficit		(55,232,118)	(56,570,350)	(37,076,017)
Total equity attributable to common shareholders		208,359,015	111,052,666	28,950,495
Total liabilities and equity attributable to common shareholders		\$ 242,636,072	\$ 178,734,708	\$ 95,096,572
Commitments and contingencies	16			
Subsequent events	18			
Reconciliation of Canadian GAAP to IFRS	23			

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

Approved on behalf of the Board:

"CAMERON BAILEY"

CAMERON BAILEY, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

# AFRICA OIL CORP.

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

		<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
	<b>Note</b>		
Operating expenses			
Salaries and benefits		\$ 436,617	\$ 235,755
Stock-based compensation	12	1,456,226	167,356
Bank charges		99,388	10,312
Travel		136,652	168,292
Management fees	20	64,122	56,924
Office and general		413,059	236,083
Depreciation	7	14,119	24,780
Professional fees		217,715	133,273
Stock exchange and filing fees		151,444	39,490
		2,989,342	1,072,265
Finance income	19	(4,327,574)	(11,592,774)
Net income and comprehensive income attributable to common shareholders		1,338,232	10,520,509
Net income (loss) per share	22		
Basic		\$ 0.01	\$ 0.15
Diluted		\$ (0.01)	\$ 0.08
Weighted average number of shares outstanding	22		
Basic		154,450,530	70,205,496
Diluted		162,549,283	74,274,808

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

# AFRICA OIL CORP.

Consolidated Statement of Equity Attributable to Common Shareholders  
(Expressed in United States dollars)  
(Unaudited)

	Note	March 31, 2011	March 31, 2010
<b>Share capital:</b>			
	10		
Balance, beginning of period		\$ 163,231,076	\$ 62,712,759
Acquisition of Centric Energy		60,165,193	-
Issued on conversion of convertible debenture		28,795,200	-
Amended Farmout Agreement with Lion Energy		5,274,675	-
Exercise of warrants		61,631	-
Farmout agreement finder's fees		94,960	-
Exercise of options		307,021	-
Balance, end of period		257,929,756	62,712,759
<b>Contributed surplus:</b>			
Balance, beginning of period		\$ 4,391,940	\$ 3,313,753
Expiration of warrants	11	3,676	-
Stock based compensation	12	1,456,226	167,356
Issuance of shares in lieu of finder's fee	10	(94,960)	-
Exercise of options	12	(95,505)	-
Balance, end of period		5,661,377	3,481,109
<b>Deficit:</b>			
Balance, beginning of period		\$ (56,570,350)	\$ (37,076,017)
Net income (loss) for the period		1,338,232	10,520,509
Balance, end of period		(55,232,118)	(26,555,508)
Equity Attributable to Common Shareholders		\$ 208,359,015	\$ 39,638,360

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

# AFRICA OIL CORP.

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

	Note	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash flows provided by (used in):			
Operations:			
Net income for the period		\$ 1,338,232	\$ 10,520,509
Item not affecting cash:			
Stock-based compensation	12	1,456,226	167,356
Depreciation	7	14,119	24,780
Fair market value adjustment - warrants		(779,181)	(6,881,571)
Fair market value adjustment - convertible debt		(1,722,256)	(4,641,657)
Unrealized foreign exchange gain		(1,594,595)	(174,853)
Changes in non-cash operating working capital:			
Accounts receivable and prepaid expenses		26,196	(88,563)
Accounts payable and accrued liabilities		21,574	37,509
		(1,239,686)	(1,036,490)
Investing:			
Property and equipment expenditures	7	(1,484)	(3,799)
Intangible exploration expenditures	8	(4,973,882)	(2,902,406)
Farmout proceeds, net	8,17	14,900,160	-
Cash received on business acquisition, net of cash issued	6	738,960	-
Repayment of liability portion of convertible debt	9	(411,220)	(407,949)
Changes in non-cash investing working capital:			
Accounts receivable and prepaid expenses		(6,013,668)	2,427,287
Accounts payable and accrued liabilities		(1,868,206)	(1,027,160)
		2,370,660	(1,914,027)
Financing:			
Common shares issued, net of issuance costs	10	257,758	-
Issuance of cash for bank guarantee	5	(1,451,250)	-
Changes in non-cash financing working capital:			
Accounts payable and accrued liabilities		168,569	-
		(1,024,923)	-
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency			
		1,579,475	161,219
Increase (decrease) in cash and cash equivalents		1,685,526	(2,789,298)
Cash and cash equivalents, beginning of period		\$ 76,125,834	\$ 11,145,486
Cash and cash equivalents, end of period		\$ 77,811,360	\$ 8,356,188
Supplementary information:			
Interest paid		411,220	407,949
Taxes paid		Nil	Nil

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
(Expressed in United States dollars unless otherwise indicated)  
(Unaudited)

## 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 and gas interests in Kenya, Ethiopia, Puntland (Somalia) and Mali. The Company's registered address is Suite 2610 Oceanic Plaza, 1066 West Hastings Street Vancouver, BC, V6E 3X1.

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

## 2) Basis of preparation:

### a) Statement of compliance:

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 22, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 22 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
(Expressed in United States dollars unless otherwise indicated)  
(Unaudited)

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 26, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

b) Basis of measurement:

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

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

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

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

i) *Oil and gas reserves:*

Reserve estimates impact a number of the areas in particular the valuation of property and equipment and the calculation of depletion and depreciation. See further discussion in subsection 3(d), Depletion and depreciation, below. No reserves have been discovered by the Company.

ii) *Impairment testing:*

Discounted future net cash flows for impairment testing purposes are calculated using commodity price, cost and discount rate assumptions on forecast production profiles.

iii) *Depletion:*

Depletion charges are calculated on a field-by-field basis using oil and gas reserve estimates and future capital cost assumptions. No depletion has been recorded as the Company has no production or reserves.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
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iv) *Share-based payments:*

Charges for share-based payments are based on the fair value at the date of the award. The shares are valued using Black-Scholes, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding.

v) *Derivative financial instruments:*

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

### 3) Significant accounting policies:

Subject to certain IFRS 1 transition elections, the accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Basis of consolidation:

i) Subsidiaries:

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

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

ii) Jointly controlled operations and jointly controlled assets:

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

iii) Transactions eliminated on consolidation:

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
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b) Foreign currency:

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

c) Property and equipment and Intangible exploration assets:

i) *Pre-exploration expenditures:*

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

ii) *Exploration expenditures:*

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

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

Net proceeds from any disposal of an intangible exploration asset are initially credited against the previously capitalized costs. Any surplus proceeds are recorded as a gain in the statement of net income and comprehensive income.

iii) *Development and production costs:*

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

Net proceeds from any disposal of "oil and gas interests" are credited against the previously capitalized cost. A gain or loss on disposal is recognized in the statement of net income and comprehensive income to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalized costs of the asset.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
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d) Depletion and depreciation:

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

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

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

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

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

e) Impairment:

i) Financial assets carried at amortized cost:

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

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

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

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

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
(Expressed in United States dollars unless otherwise indicated)  
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## ii) Non-financial assets:

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

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

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

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

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

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

## f) Stock-based compensation:

The Company has a stock option plan as described in note 12. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
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(Unaudited)

are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

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

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

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

h) Income tax:

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

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

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

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

i) Earnings per share:

Basic earnings per share is calculated by dividing the statement of net income and comprehensive income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the statement of net income and comprehensive income and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, warrants outstanding and convertible debentures.

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
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j) Financial instruments:

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

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

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

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

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

ii) *Available-for-sale investments:*

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

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

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

iii) *Loans and receivables:*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash and accounts receivable. Loans and receivables are initially recognized at

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the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iv) *Financial liabilities at amortized cost:*

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

v) *Derivative financial instruments:*

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

(1) Warrants

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

(2) Convertible debenture

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

k) Provisions:

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

i) Decommissioning obligations:

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

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

## 4) Future accounting changes:

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

### a) IFRS 9, "Financial Instruments":

As of January 1, 2013, AOC will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

### b) Recent Pronouncements:

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

## 5) Restricted cash:

At March 31, 2011, the Company has a restricted cash balance of \$5,082,750 (December 31, 2010 - \$3,181,500) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	March 31, 2011	December 31, 2010	January 1, 2010
10A	Tullow Oil plc	\$ 731,250	\$ -	\$ -
10BB	Republic of Kenyan	1,800,000	1,800,000	1,800,000
10BB	Tullow Oil plc	720,000	-	-
12A	Republic of Kenyan	540,000	540,000	-
13T	Republic of Kenyan	547,500	547,500	-
South Omo	Tullow Oil plc	294,000	294,000	-
10BA	Republic of Kenyan	450,000	-	-
		\$ 5,082,750	\$ 3,181,500	\$ 1,800,000

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## 6) Business acquisitions:

### a) Centric Energy Corp.

On February 23, 2011, the Company acquired all of the issued and outstanding commons shares of Centric Energy Corp. ("Centric") for total consideration of \$60.2 million. Centric is an oil and gas exploration company with operations in Kenya and the Republic of Mali. The consideration consisted of \$9,917 of cash and 30,155,524 common shares of the Company valued at CAD\$1.98 per share, being the trading price of the shares on the date the acquisition closed. The financial results of Centric's operations have been included in the Company's consolidated financial statements since the effective date.

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

<b>Net Assets acquired</b>	
Cash and cash equivalents	\$ 748,877
Accounts receivable	135,886
Restricted cash	450,000
Property and equipment	8,823
Intangible exploration assets	58,831,524
<b>Total net assets acquired</b>	<b>\$ 60,175,110</b>

<b>Consideration</b>	
Shares issued	\$ 60,165,193
Cash issued	9,917
<b>Total purchase price</b>	<b>\$ 60,175,110</b>

Had Centric been consolidated from January 1, 2011, net income per the consolidated statement of net income and comprehensive income would have been \$102,110.

## 7) Property and equipment:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Cost, beginning of period	\$ 166,599	\$ 157,714
Additions	1,484	8,885
Business acquisitions	8,823	-
<b>Cost, end of period</b>	<b>176,906</b>	<b>166,599</b>
Accumulated depreciation, beginning of period	(126,978)	(50,165)
Depreciation	(14,119)	(76,813)
<b>Accumulated depreciation, end of period</b>	<b>(141,097)</b>	<b>(126,978)</b>
<b>Net carrying amount, beginning of period</b>	<b>\$ 39,621</b>	<b>\$ 107,549</b>
<b>Net carrying amount, end of period</b>	<b>\$ 35,809</b>	<b>\$ 39,621</b>

As at March 31, 2011, the Company has recorded \$35,809 of other property and equipment (December 31, 2010 - \$39,621) 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 three

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months ended March 31, 2011, AOC recorded \$14,119 of depreciation expense related to this equipment (March 31, 2010 - \$24,780). The Company has reviewed property and equipment and determined that there is no indication of impairment.

## 8) Intangible exploration assets:

	March 31, 2011	December 31, 2010
Net carrying amount, beginning of period	\$ 96,468,816	\$ 76,138,940
Additions, net	4,973,882	20,329,876
Farmout proceeds, net	(9,625,485)	-
Business acquisitions	58,831,524	-
Net carrying amount, end of period	\$ 150,648,738	\$ 96,468,816

As at March 31, 2011, \$150,648,738 of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2010 - \$96,468,816). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to operations. At March 31, 2011, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated. During the quarter, no facts or circumstances occurred that suggest that the carrying amount of intangible explorations assets exceeded the recoverable amount.

During the three months ended March 31, 2011, the Company capitalized \$152,230 of general and administrative expenses related to intangible exploration assets (March 31, 2010 - \$323,604). During the three months ended March 31, 2011, the Company capitalized \$168,569 of interest expense in relation to its convertible debt to intangible exploration assets (March 31, 2010 - \$223,173).

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

## 9) Convertible debenture:

As part of the Company's acquisition in April of 2009 of Lundin Petroleum AB's ("LPAB") oil and gas operations in Kenya and Ethiopia, a subsidiary of LPAB provided the Company with a \$23.8 million US dollar denominated convertible debenture to finance the acquisition. The convertible loan from LPAB carries an interest rate of USD six-month LIBOR plus 3%. The loan, including any accrued and unpaid interest, is convertible, at the option of either AOC or LPAB, into shares of the Company on the basis of CAD\$0.90 per common share. The convertible debenture was to mature December 31, 2011.

On March 1, 2011, the Company and LPAB amended the terms of the loan agreement to allow for full or partial conversion of the loan prior to the maturity date if agreed to, in writing, by both parties. On March 3, 2011, AOC and LPAB agreed to convert \$13.0 million of the convertible loan into 14 million shares of the Company.

Subsequent to the end of the quarter, AOC and LPAB agreed to convert the remaining \$10.8 million of the convertible loan plus \$0.2 million of accrued interest into 11,850,100 shares of the Company.

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

The following table outlines the change in the convertible debt for the periods ended March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
Balance, beginning of the period	\$	54,489,172	\$	41,228,167
Fair market value adjustment		(1,722,256)		13,257,735
Converted portion of convertible debenture		(28,795,200)		-
Accrued interest		168,569		857,567
Repayment of the interest		(411,220)		(854,297)
Balance, end of the period	\$	23,729,065	\$	54,489,172
Less, current portion of convertible debenture		(23,729,065)		(411,220)
Long-term portion of convertible debt, end of the period	\$	-	\$	54,077,952

## 10) Share capital:

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

	March 31, 2011		December 31, 2010	
	Shares	Amount	Shares	Amount
Balance, beginning of period	135,806,100	\$ 163,231,076	70,205,496	\$ 62,712,759
Acquisition of Centric Energy (note 6)	30,155,524	60,165,193	-	-
Issued on conversion of convertible debenture (note 9)	14,000,000	28,795,200	-	-
Amended Farmout Agreement with Lion Energy (note 17)	2,500,000	5,274,675	-	-
Private placements, net of issue costs (i)	-	-	25,416,666	23,176,474
Exercise of warrants, net of issue costs (note 11)	30,000	61,631	37,220,365	73,582,210
Assignment of Blocks 12A and 13T in Kenya (ii)	-	-	2,500,000	3,243,470
Farmout agreement finder's fees (note 17)	51,653	94,960	405,240	422,588
Exercise of options (note 12)	148,332	307,021	58,333	93,575
Balance, end of period	182,691,609	\$ 257,929,756	135,806,100	\$ 163,231,076

- i) In July 2010, the Company closed a non-brokered private placement, issuing an aggregate of 25 million common shares of AOC at a price of CAD\$1.00 per share for gross proceeds of CAD\$25,000,000. Shares issued pursuant to the private placement were subject to a four month hold period. The Company incurred finder's fees and share issue costs of \$1,072,385, including 416,666 shares issued in lieu of finder's fees, realizing net proceeds of \$23,176,474.

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- ii) In September of 2010, the Company completed the assignment of a 100% interest in Blocks 12A and 13T in Kenya. The Blocks were assigned to the Company by Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc. In consideration for Platform's interest in Blocks 12A and 13T, AOC issued to Platform 2.5 million AOC common shares, valued at \$3.2 million, and 1.5 million AOC share purchase warrants, valued at \$0.8 million, exercisable into one common share at a price of CAD\$1.50 per share for a period of two years. The terms of the warrants included an accelerated expiry provision which was exercised by the Company in November 2010 (note 11(c)).

## 11) Warrants:

	Number of Warrants	Amount (\$)
<b>Balance, January 1, 2010:</b>	<b>43,952,013</b>	<b>\$ 21,673,039</b>
Expiration of warrants (a)	(9,394)	-
Expiration of April 2009 Private Placement warrants (b)	(161,153)	(79,818)
Exercise of April 2009 Private Placement warrants (b)	(37,220,365)	(18,435,049)
Assignment of Blocks 12A and 13T in Kenya (note 10(b)(ii)), (c)	1,500,000	804,379
Fair market value adjustment		2,108,312
<b>Balance, December 31, 2010:</b>	<b>8,061,101</b>	<b>\$ 6,070,863</b>
Less, current portion of warrants	1,500,000	874,949
Long-term portion of warrants at December 31, 2010	6,561,101	\$ 5,195,914
Expiration of April 2009 Private Placement warrants (b)	(9,500)	(3,676)
Exercise of April 2009 Private Placement warrants (b)	(30,000)	(15,389)
Fair market value adjustment		(779,181)
<b>Balance, March 31, 2011:</b>	<b>8,021,601</b>	<b>\$ 5,272,617</b>
Less, current portion of warrants	1,500,000	701,704
Long-term portion of warrants at March 31, 2011	6,521,601	\$ 4,570,913

- a) On July 7, 2010, whole share purchase warrants issued on July 21, 2009 as part of a business acquisition expired unexercised.
- b) On November 22, 2010, the Company elected to accelerate the expiry date for all outstanding warrants issued as part of the April 28, 2009 private placement. The expiry date with respect to these warrants was amended to December 23, 2010. Of the 37,421,018 warrants granted in April 2009, all of which were outstanding at the beginning of 2010, 37,220,365 were exercised and 161,153 expired unexercised. The expiry for the remaining 39,500 warrants was extended to March 23, 2011. As a result of warrants exercised in 2010, the Company issued 37,220,365 common shares, realizing net proceeds of \$55.2 million. The fair value of warrants transferred to share capital was \$18.4 million. In the first quarter of 2011, 30,000 of the remaining warrants were exercised and 9,500 expired unexercised. As a result of warrants exercised in the first quarter of 2011, the Company issued 30,000 common shares, realizing net proceeds of \$46,242. The fair value of warrants transferred to share capital was \$15,389.
- c) On November 22, 2010, the Company elected to accelerate the expiry date for 1,500,000 warrants issued to Platform as consideration for the assignment of blocks 12A and 13T (note 10(b)(ii)). The expiry date with respect to these warrants was amended to May 22, 2011. At March 31, 2010, none of these warrants were exercised. Subsequent to the end of the quarter, these warrants were exercised.

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The following table outlines the exercise price and expiration dates of outstanding common share purchase warrants at March 31, 2011:

Issue Date	Number of Warrants	Exercise Price (CAD\$)	Expiration Date
May 8, 2009	6,521,601 <sup>(1)</sup>	\$ 1.50	May 8, 2012
September 9, 2010	1,500,000 <sup>(2)</sup>	\$ 1.50	May 22, 2011

(1) Warrants represent the number of whole warrants outstanding based on conversion of loans payable

(2) Warrants represent the number of whole warrants outstanding based on assignment of Blocks 12A and 13T in Kenya

Each warrant is measured at fair valued quarterly using the Black-Scholes options pricing model. The fair value of warrants outstanding at March 31, 2011 and December 31, 2010 were estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	March 31, 2011	December 31, 2010
Number of outstanding at the end of the period	8,021,601	8,061,101
Fair value of warrants outstanding (\$)	0.66	0.75
Risk-free interest rate (%)	1.69	1.25
Expected life (years)	0.9	1.2
Expected volatility (%)	56	60

## 12) Share purchase options:

At the 2010 Annual General Meeting, held on May 27, 2010, the Company approved the stock option plan ("the Plan") which was last amended at the 2008 Annual General Meeting. The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

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

	March 31, 2011		December 31, 2010	
	Number of shares	Weighted average exercise price (CAD\$)	Number of shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	3,946,667	1.67	2,527,500	1.99
Granted	3,090,000	2.05	1,617,500	1.13
Expired or cancelled	(38,334)	3.14	(140,000)	1.24
Exercised	(148,332)	1.41	(58,333)	1.12
Balance, end of period	6,850,001	1.84	3,946,667	1.67

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The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted during the three months ended March 31, 2011 and the year ended December 31, 2010 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2011	2010
Number of options granted during the period	3,090,000	1,617,500
Fair value of options granted	0.96	0.52
Risk-free interest rate (%)	1.68	1.63
Expected life (years)	2.25	2.25
Expected volatility (%)	80	80
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at March 31, 2011:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life
6.25	400,000	0.20
2.10	2,390,000	2.79
1.94	300,000	2.97
1.85	400,000	2.92
1.62	91,668	1.06
1.18	1,045,000	0.97
1.13	1,580,833	1.97
1.05	140,000	1.36
1.00	100,000	1.47
0.89	402,500	1.43
1.84	6,850,001	2.04

## 13) Financial risk management:

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

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

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

### a) Credit risk:

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

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Company is equal to the sum of its cash, restricted cash, and accounts receivable. None of the Company's accounts receivable due at March 31, 2011 was past due.

b) Liquidity risk:

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

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

c) Market risk:

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

i) Foreign currency exchange rate risk:

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in foreign exchange rates.

For the three months ended March 31, 2011, a 5% increase or decrease on an annualized basis 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 \$820,000 increase or decrease in foreign exchange gains, respectively.

At March 31, 2011, the Company had \$66.6 million Canadian dollars in cash and cash equivalents.

ii) 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 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 \$240,000 with no impact on net income for the three months ended March 31, 2011. The Company has not entered into any derivative instruments in an effort to mitigate exposure to fluctuations in interest rates. The convertible debenture was repaid in full subsequent to the end of the quarter.

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iii) Commodity price risk:

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

## 14) Capital management:

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

The Company manages its capital structure and makes adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, 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.

## 15) Segment information:

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

<b>Three months ended March 31, 2011</b> (thousands)	Puntland	Ethiopia	Kenya	Mali	Corporate	Total
<b>Capital expenditures</b>						
Intangible exploration assets, net	\$ 2,212	\$ 480	\$ 2,282	\$ -	\$ -	\$ 4,974
Property and equipment	-	-	-	-	1	1
	\$ 2,212	\$ 480	\$ 2,282	\$ -	\$ 1	\$ 4,975
<b>Statement of operations</b>						
Expenses	\$ 44	\$ 50	\$ 50	\$ -	\$ 2,845	\$ 2,989
Finance income	-	(1)	(1)	-	(4,326)	(4,328)
Segmented loss/(gain)	\$ 44	\$ 49	\$ 49	\$ -	\$ (1,481)	\$ (1,339)

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<b>Three months ended March 31, 2010</b> (thousands)	Puntland	Ethiopia	Kenya	Mali	Corporate	<b>Total</b>
<b>Capital expenditures</b>						
Intangible exploration assets, net	\$ 1,569	\$ 308	\$ 1,025	\$ -	\$ -	\$ 2,902
Property and equipment	-	-	-	-	4	4
	\$ 1,569	\$ 308	\$ 1,025	\$ -	\$ 4	\$ 2,906
<b>Statement of operations</b>						
Expenses	\$ -	\$ (44)	\$ 18	\$ -	\$ 1,098	\$ 1,072
Finance income	-	-	-	-	(11,593)	(11,593)
Segmented loss/(gain)	\$ -	\$ (44)	\$ 18	\$ -	\$ (10,495)	\$ (10,521)

<b>At March 31, 2011</b> (thousands)	Puntland	Ethiopia	Kenya	Mali	Corporate	<b>Total</b>
Total assets	\$ 41,646	\$ 19,426	\$ 96,966	\$ 3,126	\$ 81,472	\$ 242,636
Intangible exploration assets	40,971	18,099	88,467	3,112	-	150,649
Property and equipment	-	-	-	9	27	36

<b>At December 31, 2010</b> (thousands)	Puntland	Ethiopia	Kenya	Mali	Corporate	<b>Total</b>
Total assets	\$ 39,763	\$ 25,889	\$ 43,838	\$ -	\$ 69,245	\$ 178,735
Intangible exploration assets	38,759	17,619	40,091	-	-	96,469
Property and equipment	-	-	-	-	40	40

## 16) Commitments and contingencies:

### a) Contractual obligations

#### i) 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.

In January 2011, the Company announced further 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 a further 12 months, with a revised expiry period of January 17, 2012. Under the amended PSCs, Africa Oil is obligated to spud a minimum of one exploratory well

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in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of Africa Oil, in the Dharoor Valley Exploration Area, by September 27, 2011.

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 initial exploration period, 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 \$8.4 million towards sole funding obligation as of December 31, 2010.

## ii) 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 gross expenditure of \$11.0 million. In addition, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of \$6.0 million. The Company's current working interest in Blocks 7/8 is 55%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs.

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 gross expenditure of \$10.8 million. The Company's current working interest in Blocks 2/6 is 55%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs.

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

Under the terms of the South Omo PSA, during the initial exploration period which expires in January 2012, AOC and its partners are obligated to complete certain G&G operations (including acquisition of 400 kilometers of 2D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of \$8.0 million. The Company's current working interest in the South Omo Block is 30%; however, the Company's

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portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding letter of credit of \$294,000 in favor of Tullow Oil plc ("Tullow") which is collateralized by a bank deposit of \$294,000 (see note 5).

iii) Kenya:

Under the terms of the Block 10A Production Sharing Contract ("PSC"), the initial 4 year exploration period expires in January 2012. AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of \$7.8 million. Additionally, AOC and its partners are obligated to drill one exploration well with a minimum expenditure of \$8.5 million. The Company's current working interest in Block 10A is 30%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of farmout agreements which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding bank guarantee of \$0.7 million in favour of Tullow Oil plc and \$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 and its partners are obligated to complete G&G operations (including acquisition of 600 kilometers of 2D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partners are required to drill one exploration well with a minimum gross expenditure of \$6.0 million. The Company's current working interest in Block 10BB is 40%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of the farmout agreement with Tullow which require AOC's joint venture partners to pay a disproportionate share of joint venture costs. This commitment is supported by an outstanding bank guarantee of \$0.7 million in favour of Tullow and letter of credit of \$1.8 million in favor of the Kenyan Government, both of which are collateralized by bank deposits totalling \$2.5 million (see note 5).

Under the terms of the Block 9 PSC, with the drilling of the Bogal-1-1 well, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period. Effective December 31, 2010, the Company entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partners are required to drill one additional exploratory well to a minimum depth of 1,500 meters per well with a minimum gross expenditure of \$2.5 million. The Company's current working interest in Block 9 is 66.7%.

Under the terms of the Block 12A and 13T PSC, the exploration periods expire in December 2011. In accordance with the terms of the PSCs, the initial minimum gross exploration expenditures are \$3.65 million (Block 13T) and \$3.6 million (Block 12A). The Company and its partner are obligated to complete G&G operations including the acquisition of 500km of 2D seismic or 100 km<sup>2</sup> of 3D seismic (or a combination thereof) on each block. The Company's current working interest in Blocks 12A and 13T is 50%. The commitments on Block 12A and 13T are supported by outstanding letters of credit of \$540,000 and \$547,500, respectively in favor of the Kenyan Government, which is collateralized by bank deposit of \$540,000 and \$547,500, respectively (see note 5).

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Under the terms of the Block 10BA PSC, the exploration periods expire in April 2013. The Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of \$3.0 million. The Company's current working interest in Block 10BA is 50%; however, the Company's portion of minimum expenditures is expected to be less than its working interest due to the terms of the farmout agreement with Tullow which require AOC's joint venture partner to pay a disproportionate share of joint venture costs. The commitments on Block 10BA are supported by an outstanding letter of credit of \$450,000 in favor of the Kenyan Government which is collateralized by bank deposit of \$450,000 (see note 5).

iv) Mali:

Under the terms of the Block 7 and 11 PSCs, the exploration periods expire in July 2012 and June 2011. In accordance with the terms of the PSCs, the initial minimum gross exploration expenditures are \$11.6 million (Block 7) and \$10.4 million (Block 11), including an \$8.0 million exploration well in each block and \$3.6 million and \$2.4 million of seismic and G&G expenditures, respectively on Blocks 7 and 11. In exchange for 75% working interest, our partner has committed to funding all seismic and G&G costs associated with both blocks and one of the exploration well commitments.

v) Office Lease Costs:

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

2011	129,211
2012	172,281
2013	86,141
2014	-
2015	-
Total minimum payments	387,633

vi) Title disputes:

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

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## 17) Farmout agreements:

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

### i) Tullow Oil plc:

During September 2010, the Company signed a definitive farmout agreement with Tullow Oil plc ("Tullow") allowing Tullow to acquire a 50% interest in, and operatorship of, Blocks 10BB and 10A in Kenya and of the South Omo Block in Ethiopia. In consideration for the assignment of these interests, Tullow has paid to AOC \$9.5 million, representing 50% of AOC's audited past costs in the blocks. Tullow will fund its 50% working interest and AOC's working interest share of future joint venture expenditures in these blocks from July 1, 2010, the effective date, until the cap of \$23.75 million (based on AOC's carried interest) is reached. Once the expenditure cap has been met, AOC will be responsible for its working interest share of future costs. Subsequent to the quarter, AOC received \$11.1 million from Tullow representing their funding obligation from the July 1, 2010 to January 26, 2011, the closing date of the Blocks 10A and 10BB farmout agreement.

Additionally, Tullow has also exercised an option to acquire 50% of AOC's interest in, and operatorship of, two additional exploration blocks in Kenya, 12A and 13T, recently acquired by AOC. Tullow has paid to AOC \$1.7 million as compensation for past costs. Tullow and AOC will be responsible for their working interest share of future joint venture expenditures in these blocks going forward. The effective date of this agreement is July 1, 2010.

The South Omo portion of this farmout agreement closed during December 2010 while the farmouts relating to Blocks 10A, 10BB, 12A and 13T closed during January 2011.

### ii) Lion Energy Corp.:

During August 2009, the Corporation completed a definitive farmout agreement 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 was 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. AOC agreed to issue 810,480 common shares of the Company as a finder's fee in consideration for services provided in the negotiation and completion of the Lion farmout

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agreement. Half of the share consideration was issued during the three months ended June 30, 2010. The remaining common shares to be issued under the agreement will be issued from time to time as Lion fulfills their funding obligations under the Lion farmout agreement, subject to TSX Venture Exchange approval. The remaining finder's fee obligation has been accrued at March 31, 2010.

During September 2010, the Company amended their farmout agreement with Lion in order to provide Tullow (described above) with the necessary working interests. The amendment provides that Lion will reduce its interest in Block 10BB to 10% (originally 20%) and will not retain any interest in Block 10A (originally 25%). As consideration, Africa Oil has agreed to pay Lion US\$2.5 million in cash and to issue to Lion 2.5 million common shares of AOC. The Company has also agreed to the elimination of future expenditure promotes in Block 10BB and on the Company's projects in Puntland (Somalia). The effective date of this agreement is July 1, 2010.

The amended farmout agreement with Lion closed on January 26, 2011. At March 31, 2011, AOC had an obligation of approximately \$3.7 million due to Lion representing the reduction of their paying interest in joint venture expenditures from July 1, 2010, the effective date, to January 26, 2011, the close of the amendment to the farmout agreement.

### iii) Red Emperor Resources NL:

During August 2010, AOC executed a definitive farmout agreement with Red Emperor Resources NL ("Red Emperor") pursuant to which Red Emperor will acquire a participating interest in the Dharoor and Nugaal Valley Blocks located in Puntland (Somalia). Under the terms of the farmout agreement and an election made by Red Emperor to increase their interests, Red Emperor will earn a 20% interest in both the Dharoor and Nugaal Valley Blocks and is committed to paying a disproportionate share of costs related to the one well drilling commitment included in the first exploration period of both the Dharoor and Nugaal Valley Production Sharing Agreements. The farmout agreement was completed during the first quarter of 2011. The effective date of this agreement is June 15, 2010.

### iv) 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. As consideration for past costs incurred by the Company, EAX has paid the Company \$1,700,000. The effective date of the EAX farmout agreement is December 9, 2009.

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## 18) Subsequent events:

- a) Convertible debenture – see note 9.
- b) Warrants – see note 11.
- c) Definitive agreement to acquire Lion Energy Corp.

On April 3, 2011, the Company signed a definitive agreement with Lion Energy Corp. ("Lion"), a publicly traded oil and gas company listed on the TSX Venture Exchange, to acquire all of the issued and outstanding shares of Lion.

Pursuant to the agreement with Lion, the Company will acquire, by way of a plan of arrangement, all of the issued and outstanding shares of Lion in consideration for 0.20 AOC shares for each common share of Lion. Any options or warrants to purchase common shares of Lion that are outstanding on completion of the acquisition will be replaced or amended to entitle the holder to acquire common shares of AOC, with the number of shares to be acquired and the exercise price each adjusted to reflect the ratio of 0.20 shares of AOC for each 1.0 share of Lion.

The transaction is subject to certain conditions precedent including TSX Venture Exchange approval, Lion shareholder approval, court and Kenyan and Puntland Government approvals and any requisite third-party consents and right of first refusal waivers.

- d) AOC signs Letter of Intent to create new Puntland focused exploration company

The Company has entered into a letter of intent dated May 11, 2011 for the creation of a new Puntland focused oil exploration company. The new company will be created as a result of the transfer of AOC's interest in its oil and gas properties in Puntland Somalia to Denovo Capital Corp. ("Denovo") (the "Transaction"). Denovo is a capital pool company and intends for the Transaction to constitute the "Qualifying Transaction" of Denovo, as that term is defined in the policies of the TSX Venture Exchange.

Under the terms of the letter of intent, AOC and Denovo will negotiate and enter into a definitive agreement pursuant to which AOC will transfer to Denovo all of the issued and outstanding shares of its subsidiary holding companies (the "Puntland Subsidiaries") which hold participating interests in the Dharoor Valley and Nugaal Valley Production Sharing Agreements in Puntland (Somalia) (the "Puntland PSAs"). AOC will receive, in consideration of the transfer, 27,777,778 common shares of Denovo.

As a result of the Transaction, the Puntland Subsidiaries will become wholly owned subsidiaries of Denovo.

AOC currently holds a 45% participating interest in the Puntland PSAs. Upon completion of the transaction, previously announced on April 3, 2011, for the acquisition of Lion Energy Corp, AOC's participating interest in the Puntland PSAs will be increased, directly or indirectly, to 60%. It is anticipated that the entire 60% participating interest will be transferred to Denovo.

It is anticipated that the definitive agreement will be entered into during the second quarter of 2011. The definitive agreement will provide for conditions precedent that are standard for a transaction of this nature, including receipt, by both AOC and Denovo, as required, of all regulatory, partner and third party approvals including TSX Venture Exchange approval. Denovo will also seek Denovo shareholder approval for a

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proposed 0.65 (new) for 1.00 (old) consolidation of its common shares and a change of name of the company, both of which are conditions precedent to completion of the transaction. It will be a condition precedent of the transaction that AOC will have completed its proposed acquisition of Lion Energy Corp. and that Denovo will have completed a private placement of CAD\$35 million comprised of 38,888,889 subscription receipts of Denovo sold at a post-consolidation price of CAD\$0.90 per subscription receipt. Each subscription receipt will be exercised, upon completion of the transaction, into a unit of Denovo, comprised of one common share and one share purchase warrant (a "Denovo Warrant"). Each Denovo Warrant will entitle the holder to acquire an additional Denovo share for \$1.50 for two years, subject to accelerated exercise provisions if the Denovo shares trade at greater than \$2.00 for 10 consecutive trading days.

AOC will acquire 11,111,111 subscription receipts in the private placement financing, for proceeds of CAD\$10 million. At the conclusion of the Transaction and the private placement financing AOC will hold approximately 55% (non-diluted) of the issued and outstanding common shares of Denovo.

Upon completion of the Transaction it is expected that Denovo will meet the listing requirements of the Exchange for a Tier II Oil and Gas Issuer.

Upon completion of the Transaction, Africa Oil Corp. and Denovo will be considered common control entities. Management is expected to establish an accounting policy related to common control business combinations when the proposed transaction is completed. The accounting policy will be based on either the acquisition method or the predecessor values method.

## 19) Finance income and expense:

Finance income for the three months ended March 31, 2011 and 2010 is comprised of the following:

	2011	2010
Fair market value adjustment - w warrants	779,181	6,881,571
Fair market value adjustment - convertible debt	1,722,256	4,641,657
Interest and other income	243,686	5,316
Foreign exchange gain	1,582,451	64,230
	4,327,574	11,592,774

## 20) Related party transactions:

During May 2009, the Company's loans payable due to Lorito Holdings (Guernsey) Limited ("Lorito") in the amount of CAD\$6,000,000 plus accrued interest of \$195,521 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 closes at or above CAD\$2.00 for a period of 20 consecutive trading days, the Company may elect to accelerate the expiry date to 30 days from the date of written notice to the warrant holder. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin.

During the three months ended March 31, 2011, the Company incurred management fees of \$64,122 (March 31, 2010 - \$56,924) for administrative support services fees to Namdo Management Services Ltd ("Namdo"). Namdo is a private corporation owned by Lukas H. Lundin.

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## 21) Subsidiaries:

The Company has the following wholly owned subsidiaries; 0845379 B.C. Ltd. (British Columbia), Africa Oil Holdings Cooperatief U.A. (Netherlands), Africa Oil Turkana B.V. (Netherlands), Africa Oil Kenya B.V. (Netherlands), Africa Oil Ethiopia B.V (Netherlands), Africa Oil Turkana Ltd. (Kenya), Canmex Holdings (Bermuda) I Ltd. (Bermuda), Canmex Holdings (Bermuda) II Ltd. (Bermuda), Africa Oil Holdings (Bermuda) I Ltd. (Bermuda), 0903658 B.C. Ltd. (British Columbia), Centric Energy Holdings (Barbados) Inc. (Barbados), Centric Energy Kenya (Barbados) Inc. (Barbados), Centric Energy (Kenya) Ltd. (Kenya), Mali Oil Development SARL (Mali, West Africa).

## 22) Earnings per share:

	March 31, 2011			March 31, 2010		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic income per share						
Net income attributable to common shareholders	\$ 1,338,232	154,450,530	\$ 0.01	\$10,520,509	70,205,496	\$ 0.15
Effect of dilutive securities						
Stock options	-	-		-	72,099	
Warrants	(779,181)	1,824,484		-	-	
Convertible debentures	(1,553,687)	6,274,269		(4,418,484)	3,997,213	
Dilutive income (loss) per share	\$ (994,636)	162,549,283	\$ (0.01)	\$ 6,102,025	74,274,808	\$ 0.08

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## 23) Reconciliation of Canadian GAAP to IFRS:

### Consolidated Balance Sheets

As at January 1, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
	23(a)			
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		\$ 11,145,486	\$ -	\$ 11,145,486
Accounts receivable		5,396,253	-	5,396,253
Prepaid expenses		508,344	-	508,344
		17,050,083	-	17,050,083
Long-term assets				
Restricted cash		1,800,000	-	1,800,000
Property and equipment		107,549	-	107,549
Oil and gas interest	(i)	75,750,771	(75,750,771)	-
Intangible exploration assets	(i)(iv)	-	76,138,940	76,138,940
		77,658,320	388,169	78,046,489
Total assets		\$ 94,708,403	\$ 388,169	\$ 95,096,572
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>				
Current liabilities				
Accounts payable and accrued liabilities		\$ 3,244,871	\$ -	\$ 3,244,871
Current portion of convertible debenture	(iv)	903,416	(495,466)	407,950
		4,148,287	(495,466)	3,652,821
Long-term liabilities				
Warrants	(iii)	-	21,673,039	21,673,039
Convertible debenture	(iv)	1,326,630	39,493,587	40,820,217
		1,326,630	61,166,626	62,493,256
Total liabilities		5,474,917	60,671,160	66,146,077
Equity attributable to common shareholders				
Share capital		62,712,759	-	62,712,759
Warrants	(iii)	11,862,296	(11,862,296)	-
Equity portion of convertible debenture	(iv)	21,578,986	(21,578,986)	-
Contributed surplus		3,313,753	-	3,313,753
Deficit		(10,051,042)	(27,024,975)	(37,076,017)
Accumulated comprehensive income	(ii)	(183,266)	183,266	-
Total equity attributable to common shareholders		89,233,486	(60,282,991)	28,950,495
Total liabilities and equity attributable to common shareholders		\$ 94,708,403	\$ 388,169	\$ 95,096,572

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	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
	23(a)			
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		\$ 8,356,188	\$ -	\$ 8,356,188
Accounts receivable		3,325,555	-	3,325,555
Prepaid expenses		240,318	-	240,318
		11,922,061	-	11,922,061
Long-term assets				
Restricted cash		1,800,000	-	1,800,000
Property and equipment		86,568	-	86,568
Oil and gas interest	(i)	78,706,397	(78,706,397)	-
Intangible exploration assets	(i)(iv)	-	79,264,518	79,264,518
		80,592,965	558,121	81,151,086
Total assets		\$ 92,515,026	\$ 558,121	\$ 93,073,147
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>				
Current liabilities				
Accounts payable and accrued liabilities		\$ 2,241,586	\$ -	\$ 2,241,586
Current portion of convertible debenture	(iv)	999,149	(775,976)	223,173
		3,240,735	(775,976)	2,464,759
Long-term liabilities				
Warrants	(iii)	-	14,791,468	14,791,468
Convertible debenture	(iv)	876,168	35,302,392	36,178,560
		876,168	50,093,860	50,970,028
Total liabilities		4,116,903	49,317,884	53,434,787
Equity attributable to common shareholders				
Share capital		62,712,759	-	62,712,759
Warrants	(iii)	11,862,296	(11,862,296)	-
Equity portion of convertible debenture	(iv)	21,578,986	(21,578,986)	-
Contributed surplus		3,481,109	-	3,481,109
Deficit		(11,053,761)	(15,501,747)	(26,555,508)
Accumulated comprehensive income	(ii)	(183,266)	183,266	-
Total equity attributable to common shareholders		88,398,123	(48,759,763)	39,638,360
Total liabilities and equity attributable to common shareholders		\$ 92,515,026	\$ 558,121	\$ 93,073,147

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As at December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
	23(a)			
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		\$ 76,125,834	\$ -	\$ 76,125,834
Accounts receivable		2,323,208	-	2,323,208
Prepaid expenses		595,729	-	595,729
		79,044,771	-	79,044,771
Long-term assets				
Restricted cash		3,181,500	-	3,181,500
Property and equipment		39,621	-	39,621
Oil and gas interest	(i)	95,372,778	(95,372,778)	-
Intangible exploration assets	(i)(iv)		96,468,816	96,468,816
		98,593,899	1,096,038	99,689,937
Total assets		\$ 177,638,670	\$ 1,096,038	\$ 178,734,708
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>				
Current liabilities				
Accounts payable and accrued liabilities		\$ 7,059,507	\$ 62,500	\$ 7,122,007
Current portion of warrants	(iii)	-	874,949	874,949
Current portion of convertible debenture	(iv)	1,525,447	(1,114,227)	411,220
		8,584,954	(176,778)	8,408,176
Long-term liabilities				
Warrants	(iii)		5,195,914	5,195,914
Convertible debenture	(iv)	-	54,077,952	54,077,952
		-	59,273,866	59,273,866
Total liabilities		8,584,954	59,097,088	67,682,042
Equity attributable to common shareholders				
Share capital		154,820,376	8,410,700	163,231,076
Warrants	(iii)	2,598,531	(2,598,531)	-
Equity portion of convertible debenture	(iv)	21,578,986	(21,578,986)	-
Contributed surplus		4,260,957	130,983	4,391,940
Deficit		(14,021,868)	(42,548,482)	(56,570,350)
Accumulated comprehensive income	(ii)	(183,266)	183,266	-
Total equity attributable to common shareholders		169,053,716	(58,001,050)	111,052,666
Total liabilities and equity attributable to common shareholders		\$ 177,638,670	\$ 1,096,038	\$ 178,734,708

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
 For the three months ended March 31, 2011 and 2010  
 (Expressed in United States dollars unless otherwise indicated)  
 (Unaudited)

## Consolidated Statement of Net Income/(Loss) and Comprehensive Income/(Loss)

Three months ended March 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
	23(a)			
Expenses				
Salaries and benefits		\$ 235,755	\$ -	\$ 235,755
Stock-based compensation		167,356	-	167,356
Bank charges		10,312	-	10,312
Travel		168,292	-	168,292
Management fees		56,924	-	56,924
Office and general		236,083	-	236,083
Depreciation		24,780	-	24,780
Professional fees		133,273	-	133,273
Stock exchange and filing fees		39,490	-	39,490
		1,072,265	-	1,072,265
Finance income	(iii)(iv)	(69,546)	(11,523,228)	(11,592,774)
Net income/(loss) and comprehensive income/(loss) for the period attributable to common shareholders		(1,002,719)	11,523,228	10,520,509
Net income/(loss) per share				
Basic		\$ (0.01)		\$ 0.15
Diluted		\$ (0.01)		\$ 0.08
Weighted average number of shares outstanding				
Basic		70,205,496		70,205,496
Diluted		70,205,496		74,274,808

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
 For the three months ended March 31, 2011 and 2010  
 (Expressed in United States dollars unless otherwise indicated)  
 (Unaudited)

## Consolidated Statement of Loss and Comprehensive Loss

Year ended December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
	23(a)			
<b>Expenses</b>				
Salaries and benefits		\$ 1,369,025	\$ -	\$ 1,369,025
Stock-based compensation		933,144	-	933,144
Bank charges		122,697	-	122,697
Travel		714,179	-	714,179
Management fees		228,542	-	228,542
Office and general		1,078,274	-	1,078,274
Depreciation		76,813	-	76,813
Professional fees	(v)	1,094,765	157,460	1,252,225
Stock exchange and filing fees		428,476	-	428,476
		6,045,915	157,460	6,203,375
Finance income		(2,181,195)	-	(2,181,195)
Finance expense	(iii)(iv)	106,106	15,366,047	15,472,153
<b>Loss and comprehensive loss for the year attributable to common shareholders</b>				
		(3,970,826)	(15,523,507)	(19,494,333)
<b>Loss per share</b>				
Basic and diluted		\$ (0.05)		\$ (0.23)
<b>Weighted average number of shares outstanding</b>				
Basic and diluted		85,164,170		85,164,170

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
(Expressed in United States dollars unless otherwise indicated)  
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a) Notes to reconciliations

i) IFRS 1 election for full cost oil and gas entities

The Company elected an IFRS 1 exemption whereby exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under Canadian. This resulted in the following increase in intangible exploration assets with a corresponding decrease in oil and gas interests:

	January 1, 2010	March 31, 2010	December 31, 2010
Oil and gas interest	(75,750,771)	(78,706,397)	(95,372,778)
Intangible exploration assets	75,750,771	78,706,397	95,372,778

ii) IFRS 1 election for cumulative translation differences

The Company elected an IFRS 1 exemption whereby cumulative translation differences for all foreign subsidiaries and foreign equity method investments to be deemed zero at transition with offsetting entry recorded directly to deficit.

iii) Warrants

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net income and comprehensive income as they arise. The Company has recorded these changes in financing income and expenses. Under Canadian GAAP, the warrants were classified as equity and changes in fair value were not recognized. This change in accounting resulted in the following adjustments:

	January 1, 2010	March 31, 2010	December 31, 2010
Warrants (Current Portion - Liabilities)	-	-	874,949
Warrants (Liabilities)	21,673,039	14,791,468	5,195,914
Warrants (Shareholders' Equity)	(11,862,296)	(11,862,296)	(2,598,531)
Deficit	(9,810,743)	(2,929,172)	(3,472,332)
Financing income	-	6,881,571 (1)	-
Financing expense	-	-	2,108,312 (2)

(1) Three months ended March 31, 2010

(2) Twelve months ended December 31, 2010

iv) Convertible debenture

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements  
For the three months ended March 31, 2011 and 2010  
(Expressed in United States dollars unless otherwise indicated)  
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recorded these changes in financing income and expenses. Under Canadian GAAP, the majority of the convertible debenture was classified as equity and changes in fair value were not recognized. This change in accounting resulted in the following adjustments:

	January 1, 2010	March 31, 2010	December 31, 2010
Intangible exploration assets	388,169	558,121	1,096,038
Current portion of convertible debenture (Liabilities)	(495,466)	(775,976)	(1,114,227)
Convertible debenture (Liabilities)	39,493,587	35,302,392	54,077,952
Equity portion of convertible debenture	(21,578,986)	(21,578,986)	(21,578,986)
Deficit	(17,030,966)	(12,389,309)	(30,288,701)
Financing income	-	4,641,657 (1)	-
Financing expense	-	-	13,257,735 (2)

(1) Three months ended March 31, 2010

(2) Twelve months ended December 31, 2010

v) Finder's fees

The Company is obligated to pay a finder's fee with respect to the Red Emperor farmout when a drilling contract is in place with respect to the first well in the Dharoor block of Puntland (Somalia). Under IFRS, this obligation is recognized when it is more likely than not that a drilling contract obtained. Under Canadian GAAP, the obligation would not be realized until the contract was signed. The obligation is payable in shares and cash.

vi) Consolidated statement of cash flows

There has been no significant change to the consolidated statements of cash flows.