



AFRICA OIL CORP.

Report to Shareholders

September 30, 2013

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the three and nine months ended September 30, 2013 and 2012

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2013 and 2012 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2012 and 2011, and related notes thereto.

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

The effective date of this MD&A is November 22, 2013.

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

PROFILE AND STRATEGY

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

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

The Company has acquired and commenced exploration activities on multiple exploration blocks in East Africa (refer to table below). The Company has encountered oil in its first five wells drilled in the Tertiary Rift trend. The East African Rift Basin system is one of the last great rift basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout AOC's project areas. The Company now holds exploration acreage of over 250,000 km² (gross) in this exciting new world-class exploration play fairway. The Company aims to have completed significant seismic and drilling programs on the majority of the Company's blocks over the next two years. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

WORKING INTERESTS

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

Country	Block/Area	Operator	December 31, 2012 Net Working Interest % ⁽¹⁾	September 30, 2013 Net Working Interest % ⁽¹⁾
Kenya	Block 10A	Tullow	30%	30%
Kenya	Block 9	AOC	50%	50%
Kenya	Block 10BB	Tullow	50%	50%
Kenya	Block 12A	Tullow	20%	20%
Kenya	Block 13T	Tullow	50%	50%
Kenya	Block 10BA	Tullow	50%	50%
Ethiopia	Blocks 7/8	New Age	30%	30%
Ethiopia	Adigala	New Age	50%	50%
Ethiopia	South Omo	Tullow	30%	30%
Ethiopia ⁽³⁾	Rift Basin Area	AOC	0%	100%
Mali ⁽⁴⁾	Block 7	Heritage	25%	0%
Mali ⁽⁴⁾	Block 11	Heritage	25%	0%
Puntland, Somalia	Dharoor Valley	Horn	27% ⁽²⁾	27% ⁽²⁾
Puntland, Somalia	Nugaal Valley	Horn	27% ⁽²⁾	27% ⁽²⁾

Footnotes:

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

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

³ Under Recent Developments, see the update on the Rift Basin Area in Ethiopia. During the first quarter of 2013, the Company completed a PSA with the Ministry of Mines in Ethiopia with respect to the Rift Basin Area.

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

OPERATIONS UPDATE

On the back of the successful exploration activities in Kenya during 2012, the Company, together with its partners, continues to ramp up its exploration program in Kenya and Ethiopia. Entering the year, two Tullow-Africa Oil joint venture rigs were operating in Kenya and one joint venture rig was operating in Ethiopia. Two additional Tullow-Africa Oil joint venture rigs (one of which is a testing and completion unit) have been mobilized and will commence operations in Kenya during November 2013. The Company, as operator, and its partner in Block 9 (Kenya) secured a sixth rig, which commenced drilling operations in September 2013. In addition, the Company and its partners in Block 7/8 (Ethiopia) mobilized a seventh rig for a one well commitment, which commenced drilling operations in October 2013. For a period, the Company will have seven rigs operating and expects to exit the year with five drilling rigs and one testing and completion rig operating in the region. The Company expects that at year end it will have completed eight exploration wells and two multi-zone well tests across its exploration blocks during 2013, and will exit the year with four wells drilling and two wells under test.

All operations in Block 10BB and Block 13T in Northern Kenya were temporarily suspended on October 28, 2013 as a precautionary measure following demonstrations by members of local communities.

Operations resumed on November 8, 2013 after successful discussions relating to the operating environment with central and regional government and local community leaders. These discussions led to the signing of a Memorandum of Understanding which clearly lays out a plan for the Government of Kenya, county government, local communities in Northern Kenya and the Tullow-Africa Oil joint venture to work together inclusively over the long-term and to ensure operations can continue without disruption in the future.

During the first half of the year, the Company completed a series of well tests at both Twiga South-1 and Ngamia-1 on Blocks 13T and 10BB in Kenya, respectively. These successful well tests confirmed over 5,000 barrels of oil per day ("bopd") flow potential per well and a doubling of our previous estimates of net oil pay. Transient Pressure Analysis has been conducted on the Twiga South-1 and Ngamia-1 well tests. No pressure depletion was recorded over the duration of the tests. Flow periods ranged from 0.5 to 2.5 days and build up periods ranged between three to twelve days.

In July, the Company announced a new major oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval. Well testing will commence later in November utilizing one of the recently mobilized Tullow-Africa Oil joint venture rigs. Following testing operations, an appraisal well will be drilled from the same well pad to test a shallow Auwerwer zone that was not able to be properly evaluated in the Etuko-1 discovery well.

In September, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicate a potential pay zone of 60 to 100 meters which will be confirmed by flow testing. Well testing will commence later in November utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.

In November, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. The Agete-1 well is the fifth consecutive oil discovery by the Tullow-Africa Oil joint venture in the Northern Kenyan basin. Logs indicate a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Well testing will commence early in 2014 utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.

The Amosing-1 exploration well, located south of the Ngamia discovery and also along the Basin Bounding Fault Play, is scheduled to commence later this month.

The Ewoi-1 exploration is scheduled to commence before the end of the year, and will be the second exploration well drilled by the Tullow-Africa Oil joint venture in the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya.

The excellent results to date onshore Kenya are an important step towards understanding the overall potential and commerciality of the discovered basin in Northern Kenya. Resources discovered to date are of a scale that the Tullow-Africa Oil joint venture will initiate discussions with the Government of Kenya and other relevant stakeholders to consider development options. These discussions include consideration of a "start-up phase" oil production system with potential to deliver significant production rates with oil export via road or rail in advance of a full-scale pipeline development. It is understood that discussions are ongoing between the Governments of Kenya, Uganda and Sudan regarding a regional crude oil pipeline export system to Lamu in Kenya and the Government of Kenya has indicated that it will issue an Expression of Interest within the next few months seeking parties willing to fund, build and operate the pipeline system.

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

In July, the Company reported that the Sabisa-1 well on the South Omo Block in Ethiopia, the most northerly well drilled on the Tertiary rift trend to date, had confirmed a viable hydrocarbon system with oil and heavy gas shows. Based on the encouragement of the results, the decision was made to drill Tultule-1 as the next well on the South Omo Block. This well is currently drilling and results are expected in December. Preparations are also underway to drill two exploration wells in the Chew Bahir basin, located to the east of the South Omo Block, in 2014.

The Company and its partners plan to continue to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 2,648 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T in Kenya and the South Omo Block in Ethiopia with two onshore and one offshore 2D seismic crews operating throughout the remainder of the year. A third onshore 2D seismic crew operating in the South Omo Block was released in May 2013 after completing 1,174 kilometers of 2D seismic. In addition, the Company and its partner in Blocks 10BB and 13T have mobilized a 3D seismic crew to begin a 550 square kilometer 3D seismic survey over the Ngamia-1 and Twiga South-1 discoveries.

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

KENYA

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

Block 10BB

Based on the very positive results at Ngamia-1 on Block 10BB in 2012, the Company and its partner, Tullow, have accelerated the pace of exploration along the Ngamia trend in Block 10BB and Block 13T. The Company currently has three drilling rigs and a testing and completion rig operating in the discovered basin in Northern Kenya. At year end, the Company will have drilled three exploration wells and will have tested two wells across Blocks 10BB and 13T during 2013. In addition, on exiting the year the Company will have two exploration wells drilling and two wells under test.

The Company has completed a series of six well tests at the Ngamia-1 discovery. The cumulative flow rate from the six well tests was over 3,200 bopd constrained by completion techniques and surface equipment. With optimized completion techniques and surface equipment it is estimated that these combined flow rates would increase to a rate of 5,400 bopd. Five of the well tests were completed over the Auwerwer sandstones to verify reservoir quality and fluid content which appears of similar quality to those tested at the Twiga South-1 well in the same basin. High quality waxy sweet crude (25-35 degrees

API) was flowed from all five zones in the Auwerwer formation with good quality reservoir sands encountered. One well test was conducted in the Lower Lokhone sandstone proving it to be a productive reservoir with 30 degree API oil. All zones produced dry oil with no water produced and no pressure depletion. As a result of testing several previously indeterminate zones in the well, net oil pay in the Ngamia-1 well has double to over 200 meters over a gross oil column of over 1,100 meters.

In July, the Company announced a new major oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval. Testing of the well will commence during November. Following testing operations an appraisal well will be drilled from the same well pad to test a shallow Auwerwer zone that was not able to be properly evaluated in the Etuko discovery well. There are a number of follow-on prospects on trend with Etuko-1, the first of which is Ewoi-1, which is expected to spud before year-end.

The Amosing-1 exploration well, located south of the Ngamia-1 discovery and also along the Basin Bounding Fault Play, is scheduled to commence later this month.

The 2D seismic crews operating in Block 10BB intend to acquire approximately 1,128 kilometers of 2D seismic during 2013. Much of this program will be focused on defining prospects in the South and North Kerio Basins, with the aim of defining drilling prospects for the 2014 exploratory drilling program. In addition, the Company and its partner have commenced a 550 square kilometers 3D seismic survey over the Ngamia and Twiga South structures in Block 10BB and Block 13T combined.

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

Block 13T

During the first quarter of 2013, the Company and its partner, Tullow, conducted well testing operations at Twiga South-1, which resulted in a cumulative flow rate of 2,812 bopd from three zones, despite being constrained by surface equipment. With optimized production equipment, the cumulative flow rate is anticipated to have increased to a cumulative rate of approximately 5,200 bopd. High quality 37 degree API waxy sweet crude flowed from all three zones in the Auwerwer formation with good quality reservoir sands encountered. The well was suspended as a potential future production well.

In September, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicate a potential pay zone of 60 to 100 meters which will be confirmed by flow testing. Well testing will commence later in November utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.

In November, the Company announced a new oil discovery at Agete-1. Logs indicate a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Well testing will commence early in 2014 utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.

The Company has recently commenced the acquisition a 550 square kilometer 3D seismic survey over the Twiga South and Ngamia structures, in Blocks 13T and 10BB combined.

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

Block 10A

In the first quarter of 2013, the Company and its operating partners on Block 10A completed drilling the Paipai-1 exploration well. The Paipai-1 well tested a large four-way closed structure with Cretaceous-age sandstone targets at multiple depths. Paipai-1 spudded in September 2012 and completed drilling in the first quarter of 2013 to a total depth of 4,255 meters. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval. Attempts to sample the reservoir fluid were unsuccessful and the hydrocarbons encountered while drilling were not recovered to surface. The Company and its partners were unable to test the well at the time due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered at this depth. As a result, the well has been temporarily suspended pending further data evaluation. A well test for Paipai-1 is being scheduled for 2014. Paipai-1 fully satisfied the remaining work obligations for the initial exploration period, which was extended to January 2014 to allow for evaluation of the well results. The rig was subsequently mobilized to Block 10BB (Kenya) to drill follow-up prospects in the discovered basin in Northern Kenya.

Block 10BA

The Company and its operating partner on Block 10BA, Tullow, have concluded a 1,450 kilometer 2D seismic program, split evenly between onshore and offshore, half of which was acquired in 2013. Plans are currently being made to acquire an additional 250 kilometers of 2D seismic program offshore. The 2D seismic acquired to date exceeds the work obligations of the initial exploration period under the Block 10BA PSC which expires in April 2014.

Block 12A

The Company and its partners on Block 12A expect to complete a 520 kilometer 2D seismic acquisition program by the end of the year. The 2D seismic program is mainly focused in the Kerio Valley in the southwestern portion of the block. The Block 12A 2D seismic program commenced shooting near the end of the second quarter of 2013. The planned 2D seismic program will satisfy the 500 kilometer 2D seismic work obligation for the initial exploration period under the Block 12A PSC which was recently extended and now expires in September 2014.

Block 9

The Company and its partner are currently drilling the Bahasi-1 exploration well in Block 9, and expect to complete the well in November. Block 9 is in the Cretaceous rift basin on trend with the South Sudan oil fields and the play concept was confirmed by the recent Paipai-1 well drilled in Block 10A. Two major prospects, Bahasi-1 and Sala-1, with large volume potential were identified by 2D seismic. Following drilling of the Bahasi-1 well, the Company and its partners will mobilize the rig to drill the Sala-1 exploration well, which will spud around year-end. Access road and well site construction are ongoing for the Sala-1 well. The Bahasi-1 well will satisfy the remaining exploration commitment for the second exploration period under the PSC which expires in December 2013. Discussions are ongoing with the Government of Kenya to enter the final exploration period under the PSC which will expire in December 2015. The Sala-1 well would fulfill the minimum work obligation under the final exploration period.

ETHIOPIA

South Omo Block

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

trapping configuration at Sabisa-1. Based on the encouragement of the results of this well, the Company decided to drill the nearby Tultule prospect, which appears to be a horst-block structure four kilometers to the east of Sabisa-1. The Tultule-1 well is currently drilling and is expected to complete in December.

The Company and its partners have completed a 1,174 kilometer 2D seismic program in the Chew Bahir Basin on the eastern portion of the South Omo Block. This survey has identified a number of prospects and leads. The Shimela prospect has been identified as the first well in the area and is expected to spud in 2014. A second well location is also being considered for 2014.

The current exploration period under the PSC expires in January 2015. The remaining work commitments on the block will be satisfied by the completion of the Tultule-1 well.

Ogaden Blocks 7/8

The Company and its partners continue to focus on the El Kuran oil accumulation on Block 8, discovered in the early 1970's. After completing reservoir characterization studies, the Company focused efforts on testing and completion strategies for producing commercial quantities of oil and gas. The Company and its joint operating partners on Blocks 7/8 are currently drilling the El Kuran-3 appraisal well which is expected to complete around end November. Should the well show encouragement, a multi-zone acid fracture stimulation well test is planned during 2014. The initial exploration period under the PSC has been extended to April 2014 to allow drilling and testing of the well. The Company's remaining work obligation for the Block will be satisfied by the completion of the El Kuran-3 well.

Adigala Block

As part of work obligations for the second exploration period which expired July 2013, the Company and its partner incorporated newly acquired Full Tensor Gradiometry data with seismic data to improve the subsurface interpretation of the block. The Company and its partner also integrated results of recent surface geological studies and reprocessed data acquired in 2009 with the goal of improving the data quality. The parties to the block agreed to enter the final exploration period under the PSC, which expires in July 2015 and carries a 500 kilometer 2D seismic work commitment. The Company and its partner have committed to a 1,000 kilometer 2D seismic program which will commence in December.

Rift Basin Area

In first quarter of 2013, the Company executed a PSC for the Rift Basin Area in Ethiopia. Located north of the South Omo Block, the Rift Basin Area covers 42,519 square kilometers. This block is on trend with highly prospective blocks in the Tertiary rift valley including the South Omo Block in Ethiopia, and Kenyan Blocks 10BA, 10BB, 13T, and 12A. The Company commenced acquiring a Full Tensor Gradiometry survey in May 2013, which is approximately 90% complete, and is conducting an exhaustive environmental and social impact assessment over the block in preparation for a seismic program in 2014. The initial exploration period, which expires in February 2016, includes a commitment to acquire a Full Tensor Gradiometry survey and 400 kilometers of 2D seismic.

PUNTLAND (SOMALIA)

Dharoor Valley and Nugaal Valley Blocks

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

Efforts are now focused on making preparations for a seismic acquisition campaign in the Dharoor Valley area which will include a regional seismic reconnaissance grid in the previously unexplored eastern portion of the basin as well as prospect specific seismic to delineate a drilling candidate in the western

portion of the basin where an active petroleum system was confirmed by the recent drilling at the Shabeel-1 and Shabeel North-1 locations. The Company continues to pursue efforts to drill an exploration well in the Nugaal Valley block and is working with the Puntland government to move this project forward.

Horn has been in discussion with potential joint venture partners and is reviewing new venture opportunities in the region. Somalia is going through an unprecedented period in its history with a real opportunity for all stakeholders to assist in the rebuilding of the country. The first internationally recognized Federal government took power in 2012 following over 20 years of transitional or no government. Africa Oil actively engages with a range of governments and organizations, domestic and international, around how Somalia can best develop a stable Federal state including the institutions and systems it needs to properly manage its natural resources.

MALI

Blocks 7 and 11

The deteriorating security and political situation in Mali halted operations on the Company's blocks. As a consequence, the Company impaired \$3.1 million of capitalized intangible exploration assets during the first quarter of 2012. During the first quarter of 2013, the Company and its operating partner, Heritage, terminated their interest in Block 7 and 11 and have been released from all future PSC obligations in relation to these blocks by the Ministry of Mines in the Republic of Mali.

RECENT DEVELOPMENTS

Africa Oil Private Placement

During October 2013, the Company completed a brokered private placement issuing an aggregate of 56,505,217 common shares at a price of 51.75 Swedish Kronas ("SEK") per common share for net proceeds of \$440 million. The common shares were placed through a syndicate comprising Citigroup Global Markets Limited, Dundee Securities Europe LLP and Pareto Securities AS, who together acted as joint bookrunners (the "Joint Bookrunners"). A cash commission equal to 3% of the gross proceeds was paid to the Joint Bookrunners.

Completed Production Sharing Agreements

In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million. The Company's current working interest in the Rift Basin Area is 100%.

Court Proceedings

The Company is a party to two separate court proceedings in Kenya initiated by Interstate Petroleum Ltd. ("IPL"), and certain related parties of IPL, as Applicants. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involve a dispute concerning the administrative process that lead to the issuance of exploration permits in respect of, amongst others, Blocks 10BA, 10BB, 12A and 13T. The primary Respondents include the Minister and the Ministry of Energy, Republic of Kenya. IPL has also initiated certain civil applications and appeals, including an appeal of the decision of the High Court of Kenya dismissing IPL's initial application in Judicial Review Number 30 of 2010.

The Company and certain of its affiliates are named as Interested Parties in these proceedings. The Company has initiated its own court proceedings against IPL, including Winding-Up Cause No. 1 of 2011

and Winding-Up Cause No. 1 of 2012. These proceedings involve applications to cause IPL to be wound-up or “dissolved”, which would terminate any further action in respect of Judicial Review Number 30 of 2010, which the Company considers to be the principal court proceeding.

All of these proceedings are working their way through the Kenyan judicial system. Most of the proceedings to which the Company is a party were initially adjourned until October 2013 at the earliest and are only now being rescheduled for adjudication. The Company will continue to pursue its remedies through the courts. In the interim, it will vigorously defend any application made by the Applicants in any of these proceedings.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Sep 2013	30-Jun 2013	31-Mar 2013	31-Dec 2012	30-Sep 2012	30-Jun 2012	31-Mar 2012	31-Dec 2011
Operating expenses (\$)	4,577	8,533	2,160	8,224	4,035	4,732	4,690	3,758
Interest income (\$)	161	309	372	25	65	74	162	226
Foreign exchange gain (loss) (\$)	867	(1,349)	(1,043)	(1,116)	550	(123)	1,258	2,067
Fair market value gain (loss) - warrants (\$)	205	155	2,727	(2,684)	17,279	9,906	(23,669)	4,010
Fair market gain (loss) on marketable securities (\$)	-	-	-	-	-	-	(124)	776
Net income (loss) attributable to common shareholders (\$)	(3,251)	(9,263)	(1,874)	(9,551)	1,368	(968)	(13,642)	695
Net income (loss) attributable to non- controlling interest (\$)	(98)	(160)	1,762	(2,463)	12,483	6,084	(13,429)	2,606
Weighted average shares - Basic	252,960	252,735	252,166	229,901	220,952	218,664	213,065	211,413
Weighted average shares - Diluted	252,960	252,735	252,166	229,901	226,664	225,319	213,065	212,656
Basic earnings (loss) per share (\$)	(0.01)	(0.04)	(0.01)	(0.04)	0.01	-	(0.06)	-
Diluted earnings (loss) per share (\$)	(0.01)	(0.04)	(0.01)	(0.04)	0.01	-	(0.06)	-
Oil and gas expenditures (\$)	62,898	55,304	39,266	43,535	30,144	38,249	21,896	20,883

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

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

Operating expenses

The \$0.9 million increase from the fourth quarter of 2011 to the first quarter of 2012 can be mainly attributed to a \$3.1 million impairment of intangible exploration assets in Mali offset partially by decreased stock-based compensation, a \$0.4 million donation made by Horn to the Lundin Foundation in the fourth quarter of 2011, and a reduction in professional fees from the fourth quarter of 2011 associated with a reduction in transaction related professional fees. The Company issued 4,270,000 stock options of AOC to directors, officers and employees in the fourth quarter of 2011 of which one-third vested immediately. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel. The Lundin Foundation is a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries. Operating expenses were consistent from the first quarter to the second quarter of 2012. The impairment in Mali which occurred in the first quarter of 2012 was offset by professional fees in the second quarter of 2012 associated with shares issued in respect of previously completed farmout transactions. Operating expenses decreased by \$0.7 million from the second quarter to the third quarter of 2012. A significant reduction in professional fees in the second quarter of 2012 was partially offset by increased stock-based compensation costs associated with stock options granted in the third quarter of 2012. The Company issued 750,000 stock options of AOC to directors, officers and employees in the third quarter of 2012 of which one-third vested immediately. The \$4.2 million increase in operating expenses from the third quarter to the fourth quarter of 2012 can be mainly attributed to a \$2.3 million donation

made by AOC to the Lundin Foundation in the fourth quarter of 2012, increased compensation related costs associated with annual bonus incentives and travel costs associated with increased operational activity and headcount. Operating expenses decreased \$6.1 million from the fourth quarter of 2012 to the first quarter of 2013 due mainly to the donation to the Lundin Foundation, annual bonus incentives, and 2,820,000 option grants in Horn of which one-third vested immediately, all of which occurred in the fourth quarter of 2012. The \$6.3 million increase from the first quarter to the second quarter of 2013 can be attributed to increased stock-based compensation costs in the second quarter of 2013. The Company issued 5,673,500 options of AOC to directors, officers and employees in the second quarter of 2013 of which one-third vested immediately. The \$4.0 million decrease from the second quarter to the third quarter of 2013 can be attributed to a decreased in stock-based compensation costs as a result of the stock option grant in the second quarter of 2013.

While the Company is legally committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation; as evident by \$0.4 million contribution by Horn in the fourth quarter of 2011, the \$2.4 million contribution by AOC in the fourth quarter in 2012 and first quarter of 2013, is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contribution is a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

Interest income

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

Foreign exchange gains and losses

The foreign exchange gains and losses are the direct result of changes in the value of the Canadian dollar in comparison to the US dollar. The Company has recorded foreign exchange gains when the Canadian dollar has strengthened versus the US dollar, and has recorded losses when the Canadian dollar has weakened versus the US dollar.

Fair market value adjustments – warrants

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

At September 30, 2013, nil warrants were outstanding in AOC and 9.5 million warrants were outstanding in Horn. AOC holds 2.2 million of the warrants outstanding in Horn. The Company recorded a \$3.1 million gain on the revaluation of warrants for the nine months ended September 30, 2013 due to a reduction in the volatility of the shares of Horn combined with a reduction in the remaining life of the warrants. The Company will record fair market value adjustments on the Horn warrants until they are exercised or they expire (9,375,000 expire June 8, 2014, 156,248 expire June 11, 2014, and 15,000 expire June 18, 2014).

Fair market value adjustments – marketable securities

The gains and losses on revaluation of marketable securities are the result of changes in the value of 10 million shares held in Encanto Potash Corp which were acquired on the acquisition of Lion Energy Corp. ("Lion") in the second quarter of 2011. These shares were disposed of during the first quarter of 2012 and;

RESULTS OF OPERATIONS

(thousands)	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Salaries and benefits	\$ 472	\$ 404	\$ 1,512	\$ 981
Stock-based compensation	2,847	2,572	10,632	3,789
Travel	441	347	1,168	810
Office and general	375	212	835	717
Donation	-	-	100	-
Depreciation	15	11	40	37
Professional fees	130	411	324	3,655
Stock exchange and filing fees	297	77	659	351
Impairment of intangible exploration assets	-	-	-	3,115
Operating expenses	\$ 4,577	\$ 4,034	\$ 15,270	\$ 13,455

Operating expenses increased \$0.5 million for the three months ended September 30, 2013 compared to the prior year. The increase occurred for all operating expense categories, with the exception of professional fees, and can be attributed to increased headcount and operational activity. Professional fees decreased in the third quarter of 2013 from the same period in 2012, as professional fees were incurred the third quarter of 2012 in respect of previously completed farmout transactions.

Operating expenses increased \$1.8 million for the nine months ended September 30, 2013 compared to the prior year due mainly to an increase of \$6.8 million in stock-based compensation relating to the 5,673,500 options granted in the current period. The increase was offset by a decrease of \$3.3 million in professional fees and \$3.1 million in impairment of intangible exploration assets relating to the abandonment of Blocks 7 and 11 in Mali during the prior period. Professional fees were high in the nine months ended September 30, 2012 due to shares issued in respect of previously completed farmout transactions. The remaining \$1.4 million increase can be mainly attributed to increased salary, travel and office related costs associated with increased headcount and operational activity.

INTANGIBLE EXPLORATION ASSETS

(thousands)	September 30, 2013	December 31, 2012
Intangible exploration assets	\$439,577	\$282,109

During the nine months ended September 30, 2013, the Company's intangible exploration expenditures were \$157.5 million. The following tables breaks down the material components of intangible exploration expenditures:

For the nine months ended (thousands)	September 30, 2013				September 30, 2012			
	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	\$ 80,125	\$ 29,851	\$ 544	\$ 110,520	\$ 33,370	\$ 1,254	\$ 26,691	\$ 61,315
Exploration surveys and studies	20,277	8,127	26	28,430	13,922	4,709	219	18,850
PSA and G&A related	12,643	4,498	1,377	18,518	5,433	1,615	3,076	10,124
Total	\$113,045	\$ 42,476	\$ 1,947	\$ 157,468	\$ 52,725	\$ 7,578	\$ 29,986	\$ 90,289

The main component of the drilling and completion expenditures in Kenya for the nine months ended September 30, 2013, was the testing costs on the Ngamia-1 well (Block 10BB) and the Twiga South-1 well (Block 13T), and drilling costs on the Paipai-1 well (Block 10A), the Etuko-1 well (Block 10BB), the

Ekales-1 well (Block 13T), and the Agete-1 well (Block 13T). The majority of the exploration surveys and studies expenditures related to the Company's portion of 2D seismic costs on Blocks 10BB, 13T and 10BA.

The main component of the drilling and completion expenditures in Ethiopia for the nine months ended September 30, 2013, was drilling costs on the Sabisa-1 well and the Tultule-1 well (South Omo Block), and drilling preparation costs for the El Kuran-3 well (Block 8). The majority of the exploration surveys and studies expenditures related to the Company's portion of 2D seismic costs over the Chew Bahir basin in South Omo.

The main component of the expenditures in Puntland (Somalia) for the nine months ended September 30, 2013, were PSA related expenditures, capitalized general and administrative costs ("G&A") and expenditures related to exploratory well costs at the Shabeel North-1 well which was completed in 2012.

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2013, the Company had cash of \$133.3 million and working capital of \$77.6 million as compared to cash of \$272.2 million and working capital of \$237.7 million at December 31, 2012. Of the \$133.3 million in cash at September 30, 2013, \$4.5 million is cash held by Horn. The Company's cash and working capital position has reduced significantly throughout the first three quarters of 2013 due primarily to intangible exploration and operating expenditures. Subsequent to the end of the quarter, the Company completed a brokered private placement for net proceeds of approximately \$440 million US equivalent, substantially improving its cash and working capital position.

In December 2012, the Company closed the first and second tranches of its private placement, issuing 30,000,000 common shares at CAD\$7.75 per common share for gross proceeds of \$232.5 million. Net proceeds of the private placement were expected to be used towards the Company's ongoing work program in East Africa as well as for general working capital purposes.

The following table summarizes any change in the intended use of the proceeds and any variances:

	Variances in planned use of proceeds
East African work program	No
General working capital	No

The Company's current working capital position is not anticipated to provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods under the various PSAs and PSCs and the accelerated exploration and appraisal program following recent discoveries in the Tertiary Rift trend. To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC.

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the nine months ended September 30, 2013 was \$10.6 million as compared to \$3.8 million for the same period in 2012. The increase in stock-based compensation was due to the 6,081,000 options granted in the current period compared to only 1,360,000 granted in same period in the prior year. One-third of stock options granted vested immediately. Of the \$10.6 million stock-based compensation expense recognized in the nine months ended September 30, 2013, \$0.4 million relates to stock-based compensation expense of Horn. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

RELATED PARTY TRANSACTIONS

Transactions with Lorito Holdings (Guernsey) Limited ("Lorito")

During May 2009, the Company's loans payable due to Lorito in the amount of CAD\$6.0 million plus interest of \$0.2 million was converted to 6,521,601 Units of the Company on the basis of CAD\$0.95 per Unit. Each Unit was comprised of one common share and one share purchase warrant. Each warrant was exercisable into one common share of AOC at a price of CAD\$1.50 per share over a period of three years. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin. During the first quarter of 2012, Lorito exercised each of its 6,521,601 warrants into a common share of the Company.

Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At September 30, 2013, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.7 million during the nine months ended September 30, 2013 (nine months ended September 30, 2012 – \$0.7 million). At September 30, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn \$0.03 million during the nine months ended September 30, 2013 (nine months ended September 30, 2012 - \$0.2 million) for services provided by geologists and geophysicists employed by AOC. At September 30, 2013, the outstanding balance receivable from Horn was \$0.01 million (at December 31, 2012 – \$ nil).

During the nine months ended September 30, 2013, AOC invoiced Horn \$0.06 million for reimbursable expenses paid by AOC on behalf of Horn (nine months ended September 30, 2012 - \$0.3 million). At September 30, 2013, the outstanding balance receivable from Horn was \$0.03 million (at December 31, 2012 - \$ nil).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of \$1.5 million to Horn, via AOC. At December 31, 2011, the funds were on deposit with AOC. AOC transferred the funds to Horn during the first quarter of 2012.

COMMITMENTS AND CONTINGENCIES

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

Ethiopia:

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

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

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

The Rift Basin Area PSA was executed in February 2013. Under the terms of the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million. The Company's current working interest in the Rift Basin Area is 100%. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of \$1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of \$1,250,000.

Kenya:

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in January 2014, AOC and its partners are obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of \$7.8 million. Additionally, AOC and its partners are obligated to drill one

exploration well with a minimum expenditure of \$8.5 million. The Company's current working interest in Block 10A is 30%.

Under the terms of the Block 10BB PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in July 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partner's entry into the next exploration period. During the next exploration period which expires in July 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of \$7.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of \$6.0 million. The Company's current working interest in Block 10BB is 50%.

Under the terms of the Block 9 PSC, with the drilling of the Bogal-1 well, AOC and its partners have fulfilled and exceeded the minimum work and financial obligations of the initial exploration period. Effective December 31, 2010, the Company entered into the next exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2013. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of \$2.5 million. The Company's current working interest in Block 9 is 50%. The commitments on Block 9 are supported by an outstanding letter of credit of \$375,000 in favor of the Kenyan Government which is collateralized by bank deposit of \$375,000.

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

Under the terms of the Block 13T PSC, AOC and its partner fulfilled the minimum work and financial obligations of the initial exploration period which expired in September 2012. The Ministry of Energy for the Republic of Kenya approved the Company and its partner's entry into the next exploration period. During the next exploration period which expires in September 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of \$6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of \$15.0 million. The Company's current working interest in Block 13T is 50%.

Under the terms of the Block 10BA PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expires in April 2014, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum expenditure of \$3.0 million. The Company's current working interest in Block 10BA is 50%.

Puntland (Somalia):

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

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

its 20% participating interest share of ongoing exploration costs related to each block. Upon commencement of commercial production, \$3.5 million will be payable to Range. The Company's current working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks is 60%.

OUTSTANDING SHARE DATA

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

Common shares outstanding	309,470,323
Outstanding share purchase options	13,400,222
Full dilution impact on common share outstanding	322,870,545

Subsequent to the end of the quarter, the Company completed a brokered private placement issuing an aggregate of 56,505,217 common shares, which has been factored into the table above.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

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

Intangible Explorations Assets

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

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

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

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

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

Stock Based Compensation

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

Warrants

An obligation to issue shares for a price that is not fixed in the company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The warrants which were fully exercised in the quarter entitled the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. The Company used the fair value method, utilizing the Black-Scholes option pricing model, for valuing the warrants. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

Income Tax

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

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 10: Consolidated Financial Statements

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

IFRS 11: Joint Arrangements

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

IFRS 12: Disclosure of Interest in Other Entities

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

IFRS13: Fair Value Measurement

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

IAS 1: Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 to require separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future

from those that would not. These amendments are effective for annual periods beginning on or after July 1, 2012; accordingly, the Company has adopted these amendments for the year ending December 31, 2013. These amendments had no material impact on the consolidated financial statements.

IAS 28: Investment in Associates and Joint Ventures

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

IFRS 7: Financial Instruments: Disclosures

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

IAS 19: Employee Benefits

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

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, civil unrest, expropriation, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on AOC's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, AOC could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which AOC acquires an interest. The Company may require licenses or permits from

various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that AOC will be able to obtain all necessary licenses and permits when required.

International Boundary Disputes

As a result of ongoing political disputes, the legal international boundaries between Somalia (which includes Puntland, a semi-autonomous region within Somalia) and its neighboring countries are in dispute. For instance, in September 2007, AOC was advised that the Ministry of Water and Mineral Resources of the Republic of Somaliland was claiming ownership of the Nugaal and AhlMedo Valley basins, including some or all of the areas that comprise the Puntland PSA, granted by the Government of Puntland. That claim was repeated in correspondence received by the Company in February 2012. The Republic of Somaliland and Somalia have disputed their respective borders since May 1991 when the Republic of Somaliland was established. As recently as August 2011, there have been armed confrontations at the Somalia / Somaliland border. AOC disputes the claims of the Republic of Somaliland; however, the outcome of this dispute cannot be predicted with any certainty.

Political Instability

Through Horn, the Company is highly exposed to significant political risk in Puntland (Somalia). The political climate in Puntland (Somalia) is characterized by strong internal political tension, turmoil and factional fighting. The political tensions sometimes escalate into violence or the threat of violence.

Through Horn, the Company continues to work and cooperate with government leaders in Somalia, however, there can be no certainty as to if, or when, the current political instability will be resolved.

Different Legal System and Litigation

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

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

Financial Statements Prepared on a Going Concern Basis

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

Uncertainty of Title

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

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

Competition

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

Risks Inherent in Oil and Gas Exploration and Development

AOC's business is subject to all of the risks and hazards inherent in businesses involved in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas, many of which cannot be overcome even with a combination of experience and knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment or personal injury. Short term well test results on exploration and appraisal wells do not necessarily indicate the long term performance or ultimate recovery that may be expected from a well.

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 nine months ended September 30, 2013.

Interest rate risk

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

Liquidity risk

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

their work commitments in accordance with contractual obligations and to be able to potentially acquire strategic oil and gas assets.

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

Credit risk

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

OUTLOOK

The Company has recently increased the pace of exploration significantly, and at a point in the fourth quarter of the year, it will have seven rigs operating. Completion of the recent brokered private placement has increased the Company's liquidity and capital resource position by approximately \$440 million which is expected to fund the Company's portion of exploration, appraisal and development activities until mid 2015.

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

The excellent results to date onshore Kenya are an important step towards understanding the potential and commerciality of the discovered basin in Northern Kenya. Resources discovered to date are of a scale that the Tullow-Africa Oil joint venture will initiate discussions with the Government of Kenya and other relevant stakeholders to consider development options. These discussions include consideration of a "start-up phase" oil production system with potential to deliver significant production rates with oil export via road or rail in advance of a full-scale pipeline development. It is understood that discussions are ongoing between the Governments of Kenya, Uganda and Sudan regarding a regional crude oil pipeline export system to Lamu in Kenya and the Government of Kenya has indicated that it will issue an Expression of Interest within the next few months seeking parties willing to fund, build and operate the pipeline system.

By mid 2015, the Company expects to have drilled wells in five new basins, drilled all key prospects in the discovered basin in Northern Kenya, fully appraised the Ngamia and Twiga discoveries, and have a defined understanding of development.

Forward Looking Statements

Certain statements in this document are "forward-looking statements". Forward-looking statements are statements that are not historical fact and are generally identified by words such as "believes", "anticipates", "expects", "estimates", "pending", "intends", "plans", "will", "would have" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, regulations and

taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

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

Any statements regarding the following are forward-looking statements:

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

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

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

- market prices for oil and gas and chemical products;
- our ability to explore, develop, produce and transport crude oil and natural gas to markets;

- ultimate effectiveness of design or design modification to facilities;
- the results of exploration and development drilling and related activities;
- short term well test results on exploration and appraisal wells do not necessarily indicate the long term performance or ultimate recovery that may be expected from a well;
- volatility in energy trading markets;
- foreign-currency exchange rates;
- economic conditions in the countries and regions in which we carry on business;
- governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations;
- renegotiations of contracts;
- results of litigation, arbitration or regulatory proceedings; and
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict,
- conflict between states.

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

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

AFRICA OIL CORP.

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

		September 30, 2013	December 31, 2012
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		\$ 133,316	\$ 272,175
Accounts receivable		1,574	2,848
Prepaid expenses		1,336	1,124
		136,226	276,147
Long-term assets			
Restricted cash	3	1,625	1,119
Property and equipment	4	111	82
Intangible exploration assets	5	439,577	282,109
		441,313	283,310
Total assets		\$ 577,539	\$ 559,457
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 58,578	\$ 36,188
Current portion of w arrants	7	29	2,288
		58,607	38,476
Long-term liabilities			
Warrants	7	-	828
		-	828
Total liabilities		58,607	39,304
Equity attributable to common shareholders			
Share capital	6(b)	560,059	558,555
Contributed surplus		22,282	12,123
Deficit		(112,464)	(98,076)
		469,877	472,602
Non-controlling interest		49,055	47,551
Total equity		518,932	520,153
Total liabilities and equity		\$ 577,539	\$ 559,457

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

Approved on behalf of the Board:

"CAMERON BAILEY"

CAMERON BAILEY, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

AFRICA OIL CORP.

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

		Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	Note				
Operating expenses					
Salaries and benefits		\$ 472	\$ 404	\$ 1,512	\$ 981
Stock-based compensation	8	2,847	2,572	10,632	3,789
Travel		441	347	1,168	810
Office and general		375	212	835	717
Donation		-	-	100	-
Depreciation	4	15	11	40	37
Professional fees		130	411	324	3,655
Stock exchange and filing fees		297	77	659	351
Impairment of intangible exploration assets	5	-	-	-	3,115
		4,577	4,034	15,270	13,455
Finance income	11	(1,233)	(17,895)	(3,929)	(5,502)
Finance expense	11	5	10	1,543	151
Net income (loss) and comprehensive income (loss)					
		(3,349)	13,851	(12,884)	(8,104)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest					
		(98)	12,483	1,504	5,139
Net income (loss) and comprehensive income (loss) attributable to common shareholders					
		(3,251)	1,368	(14,388)	(13,243)
Net income (loss) attributable to common shareholders per share					
	14				
Basic		\$ (0.01)	\$ 0.01	\$ (0.06)	\$ (0.06)
Diluted		\$ (0.01)	\$ 0.01	\$ (0.06)	\$ (0.06)
Weighted average number of shares outstanding for the purpose of calculating earnings per share					
	14				
Basic		252,960,247	220,952,010	252,623,459	217,566,174
Diluted		252,960,247	226,664,381	252,623,459	217,566,174

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

AFRICA OIL CORP.

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

		September 30, 2013	September 30, 2012
	Note 6(b)		
Share capital:			
Balance, beginning of period		\$ 558,555	\$ 306,510
Exercise of warrants		-	14,340
Shares issued in lieu of professional fees		-	3,763
Exercise of options		1,504	7,330
Balance, end of period		560,059	331,943
Contributed surplus:			
Balance, beginning of period		\$ 12,123	\$ 8,425
Exercise of Horn warrants	7(b)	-	1,148
Stock based compensation	8	10,632	3,789
Exercise of options	8	(473)	(2,351)
Balance, end of period		22,282	11,011
Deficit:			
Balance, beginning of period		\$ (98,076)	\$ (75,283)
Net loss and comprehensive loss attributable to common shareholders		(14,388)	(13,243)
Balance, end of period		(112,464)	(88,526)
Total equity attributable to common shareholders		\$ 469,877	254,428
Non-controlling interest:			
Balance, beginning of period		\$ 47,551	\$ 36,296
Non-controlling interest on issuance of Horn shares		-	8,579
Net income and comprehensive income attributable to non-controlling interest		1,504	5,139
Balance, end of period		49,055	50,014
Total equity		\$ 518,932	\$ 304,442

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

AFRICA OIL CORP.

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

		Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash flows provided by (used in):		Note			
Operations:					
Net income (loss) and comprehensive income (loss) for the period		\$ (3,349)	\$ 13,851	\$ (12,884)	\$ (8,104)
Items not affecting cash:					
Stock-based compensation	8	2,847	2,572	10,632	3,789
Share-based expense	6(b)(i)	-	465	-	3,763
Depreciation	4	15	11	40	37
Loss on marketable securities	11	-	-	-	124
Impairment of intangible exploration assets	5	-	-	-	3,115
Fair value adjustment - w warrants	11	(205)	(17,279)	(3,087)	(3,516)
Unrealized foreign exchange (gain) loss		(2,547)	158	(312)	245
Changes in non-cash operating working capital		(66)	(487)	(862)	(1,271)
		(3,305)	(709)	(6,473)	(1,818)
Investing:					
Property and equipment expenditures	4	(28)	(9)	(69)	(73)
Intangible exploration expenditures	5	(62,898)	(30,144)	(157,468)	(90,289)
Farmout proceeds		-	1,127	-	1,127
Proceeds from sale of marketable securities		-	-	-	2,442
Changes in non-cash investing working capital		17,487	(5,040)	24,314	4,225
		(45,439)	(34,066)	(133,223)	(82,568)
Financing:					
Common shares issued	6(b)	26	4,366	1,031	28,599
Deposit of cash for bank guarantee	3	-	-	(1,250)	(375)
Release of bank guarantee	3	-	900	744	2,175
		26	5,266	525	30,399
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		2,547	(108)	312	(155)
Decrease in cash and cash equivalents		(46,171)	(29,617)	(138,859)	(54,142)
Cash and cash equivalents, beginning of period		179,487	85,033	\$ 272,175	\$ 109,558
Cash and cash equivalents, end of period		133,316	\$ 55,416	\$ 133,316	\$ 55,416
Supplementary information:					
Interest paid		Nil	Nil	Nil	Nil
Income taxes paid		Nil	Nil	Nil	Nil

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

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

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

(Unaudited)

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

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

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at November 22, 2013, the date the Board of Directors approved the statements.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the Company's consolidated financial statements for the year ended December 31, 2012. Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

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

(Unaudited)

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

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

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

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

IFRS 10: Consolidated Financial Statements

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

IFRS 11: Joint Arrangements

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

IFRS 12: Disclosure of Interest in Other Entities

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

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

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

(Unaudited)

IFRS 13: Fair Value Measurement

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

IAS 1: Presentation of Financial Statements

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

IAS 28: Investment in Associates and Joint Ventures

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

IFRS 7: Financial Instruments: Disclosures

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

IAS 19: Employee Benefits

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

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

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

(Unaudited)

3) Restricted cash:

As at September 30, 2013, the Company has a restricted cash balance of \$1.6 million, (December 31, 2012 - \$1.1 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	September 30, 2013	December 31, 2012
South Omo	Tullow Oil plc	\$ -	\$ 294
Rift Basin	Republic of Ethiopia	1,250	-
9	Republic of Kenya	375	375
10BA	Republic of Kenya	-	450
		\$ 1,625	\$ 1,119

4) Property and equipment:

	September 30, 2013	December 31, 2012
Cost, beginning of period	\$ 306	\$ 215
Additions	69	91
Cost, end of period	375	306
Accumulated depreciation, beginning of period	(224)	(176)
Depreciation	(40)	(48)
Accumulated depreciation, end of period	(264)	(224)
Net carrying amount, beginning of period	\$ 82	\$ 39
Net carrying amount, end of period	\$ 111	\$ 82

As at September 30, 2013, the Company has recorded \$0.1 million of property and equipment (December 31, 2012 - \$0.1 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years).

5) Intangible exploration assets:

	September 30, 2013	December 31, 2012
Net carrying amount, beginning of period	\$ 282,109	\$ 185,672
Additions	157,468	133,823
Impairment of Intangible exploration assets	-	(3,127)
Farmout proceeds	-	(34,259)
Net carrying amount, end of period	\$ 439,577	\$ 282,109

As at September 30, 2013, \$439.6 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2012 - \$282.1 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At September 30, 2013, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

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

(Unaudited)

During the nine months ended September 30, 2013, the Company capitalized \$13.6 million of general and administrative expenses related to intangible exploration assets (nine months ended September 30, 2012 – \$6.6 million).

During the fourth quarter of 2012, the Company relinquished Blocks 7 and 11 in Mali. Accordingly, the Company has written-off \$3.1 million of capitalized intangible exploration assets. The remaining carrying value of the Mali intangible exploration assets is \$ nil.

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

6) Share capital:

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

b) Issued:

	Note	September 30, 2013		December 31, 2012	
		Shares	Amount	Shares	Amount
Balance, beginning of period		252,165,938	\$ 558,555	211,413,059	\$ 306,510
Private placements, net of issue costs	(ii)	-	-	30,000,000	226,446
Exercise of warrants	7	-	-	6,521,601	14,340
Shares issued in lieu of professional fees	(i)	-	-	420,000	3,763
Exercise of options	8	799,168	1,504	3,811,278	7,496
Balance, end of period		252,965,106	\$ 560,059	252,165,938	\$ 558,555

- i) During the third quarter of 2012, the Company issued 420,000 common shares as a settlement of claimed professional fees relating to previously completed farmout transactions. The Company has recorded the issuance of these shares as professional fees in the statement of net income (loss) and comprehensive income (loss).
- ii) During December 2012, the Company completed a non-brokered private placement issuing an aggregate of 30,000,000 shares at a price of CAD\$7.75 per share for gross proceeds of \$235.1 million. A finder's fee was paid in the amount of \$8.6 million in cash. The Company issued 27,881,991 of the common shares on December 7, 2012 ("first tranche") and issued 2,118,009 common shares on December 13, 2012 ("second tranche"). The common shares issued under the first and second tranche of the private placement were subject to a statutory hold period which expired on April 8, 2013 and April 14, 2013, respectively.

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7) Warrants:

	Note	Number of AOC Warrants	Amount (\$)
Balance, December 31, 2011:		6,521,601	\$ 1,513
Exercise of warrants	(a)	(6,521,601)	(4,464)
Fair market value adjustment		-	2,951
Balance, December 31, 2012:		-	\$ -
Balance, September 30, 2013:		-	\$ -

- a) On March 12, 2012, the Company's remaining outstanding warrants were exercised. As a result of the warrants being exercised, the Company issued 6,521,601 common shares, realizing net proceeds of \$9.9 million. The fair value of warrants transferred to share capital was \$4.5 million.
- b) At September 30, 2013, the Company recorded \$ nil (December 31, 2012 - \$0.8 million) in long-term warrant liability and \$0.03 million (December 31, 2012 - \$2.3 million) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn Petroleum Corporation ("Horn"). During the three and nine months ended September 30, 2013, the Company recognized gains of \$0.2 million and \$3.1 million, respectively, on the revaluation of Horn's warrant liability (three and nine months ended September 30, 2012 - \$17.3 million gain and \$6.4 million gain, respectively). During the nine months ended September 30, 2012, the Company recognized an increase in contributed surplus of \$1.1 million in relation to Horn warrants exercised in the second quarter of 2012.

8) Share purchase options:

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

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

	September 30, 2013		December 31, 2012	
	Number of shares	Weighted average exercise price (CAD\$)	Number of shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	8,277,056	2.87	10,830,668	1.54
Granted	6,081,000	6.07	1,385,000	9.12
Expired or cancelled	(158,666)	8.65	(127,334)	2.29
Exercised	(799,168)	1.31	(3,811,278)	1.37
Balance, end of period	13,400,222	4.35	8,277,056	2.87

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The weighted average closing share price on the day options were exercised during the nine months ended September 30, 2013 was CAD\$6.06. The weighted average closing share price on the day options were exercised during the twelve months ended December 31, 2012 was CAD\$7.54.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the nine months ended September 30, 2013 and the year ended December 31, 2012 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2013	2012
Number of options granted during the period	6,081,000	1,385,000
Fair value of options granted (\$ per option)	2.82	3.67
Risk-free interest rate (%)	1.01	1.10
Expected life (years)	2.25	2.25
Expected volatility (%)	72	70
Expected dividend yield	-	-

The following table summarizes information regarding the Company's stock options outstanding at September 30, 2013:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
1.13	100,000	1.71
1.27	16,667	0.91
1.49	3,840,333	1.15
1.56	50,000	1.18
1.70	16,666	0.76
1.85	399,889	0.45
1.88	33,334	0.55
1.94	100,000	0.50
2.09	17,500	1.42
2.10	1,562,333	0.32
5.94	5,666,000	2.55
7.59	7,500	2.85
7.86	400,000	2.84
8.10	25,000	2.16
8.32	315,000	1.76
8.90	100,000	1.93
9.90	750,000	1.95
4.35	13,400,222	1.74

All options granted vest annually over a two-year period, of which one-third vest immediately, and expire three years after the grant date. During the nine months ended September 30, 2013, the Company recognized \$10.2 million and \$0.4 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (nine months ended September 30, 2012 - \$3.2 million and \$0.6 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

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9) Segment information:

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

At September 30, 2013	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Total assets	\$ 278,319	\$ 83,829	\$ 89,709	\$ -	\$ 125,682	\$ 577,539
Intangible exploration assets	276,468	73,860	89,249	-	-	439,577
Property and equipment	-	-	-	-	111	111

At December 31, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Total assets	\$ 164,112	\$ 34,553	\$ 88,343	\$ -	\$ 272,449	\$ 559,457
Intangible exploration assets	163,423	31,384	87,302	-	-	282,109
Property and equipment	-	-	-	-	82	82

Three months ended September 30, 2013	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 45,418	\$ 17,237	\$ 243	\$ -	\$ -	\$ 62,898
Property and equipment	-	-	-	-	28	28
	\$ 45,418	\$ 17,237	\$ 243	\$ -	\$ 28	\$ 62,926
Statement of operations						
Expenses	\$ 9	\$ 5	\$ 5	\$ -	\$ 4,558	\$ 4,577
Finance income	-	-	-	-	(1,233)	(1,233)
Finance expense	-	-	-	-	5	5
Segmented loss	\$ 9	\$ 5	\$ 5	\$ -	\$ 3,330	\$ 3,349

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Three months ended September 30, 2012	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 17,479	\$ 3,669	\$ 8,996	\$ -	\$ -	\$ 30,144
Property and equipment	-	-	-	-	9	9
	\$ 17,479	\$ 3,669	\$ 8,996	\$ -	\$ 9	\$ 30,153
Statement of operations						
Expenses	\$ 13	\$ 5	\$ 4	\$ -	\$ 4,012	\$ 4,034
Finance income	-	-	-	-	(17,895)	(17,895)
Finance expense	-	-	-	-	10	10
Segmented loss (gain)	\$ 13	\$ 5	\$ 4	\$ -	(\$13,873)	\$ (13,851)
Nine months ended September 30, 2013						
	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 113,045	\$ 42,476	\$ 1,947	\$ -	\$ -	\$ 157,468
Property and equipment	-	-	-	-	69	69
	\$ 113,045	\$ 42,476	\$ 1,947	\$ -	\$ 69	\$ 157,537
Statement of operations						
Expenses	\$ 36	\$ 20	\$ 16	\$ -	\$ 15,198	\$ 15,270
Finance income	-	-	-	-	(3,929)	(3,929)
Finance expense	-	-	-	-	1,543	1,543
Segmented loss	\$ 36	\$ 20	\$ 16	\$ -	\$12,812	\$ 12,884
Nine months ended September 30, 2012						
	Kenya	Ethiopia	Puntland	Mali	Corporate	Total
Capital expenditures						
Intangible exploration assets	\$ 52,725	\$ 7,578	\$ 29,986	\$ -	\$ -	\$ 90,289
Property and equipment	-	-	-	-	73	73
	\$ 52,725	\$ 7,578	\$ 29,986	\$ -	\$ 73	\$ 90,362
Statement of operations						
Expenses	\$ 175	\$ 17	\$ 16	\$ 3,129	\$ 10,118	\$ 13,455
Finance income	-	-	-	-	(5,502)	(5,502)
Finance expense	-	-	-	-	151	151
Segmented loss	\$ 175	\$ 17	\$ 16	\$ 3,129	\$4,767	\$ 8,104

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10) Commitments and contingencies:

- a) Significant changes to the Company's contractual obligations from those disclosed in the audited consolidated financial statements for the year ended December 31, 2012 are as follows:

Ethiopia

In February 2013, the Company entered into a PSA on the Rift Basin Area (formerly referred to as the Rift Valley Block) in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million.

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

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

Under the terms of the Adigala Block PSA, AOC and its partners fulfilled the amended minimum work and financial obligations of the second exploration period which expired in July 2013. The Ministry of Mines in Ethiopia approved the Company and its partners' entry into the third exploration period with amended minimum work commitments. Under the third exploration period which expires in July 2015, AOC and its partners are obligated to complete acquisition of 500 kilometers of 2D seismic. In addition, the Company and its partners are required to drill one exploration well in the event that a viable prospect can be identified.

Kenya

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

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11) Finance income and expense:

Finance income and expense for the three and nine months ended September 30, 2013 and 2012 is comprised of the following:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Loss on marketable securities	-	-	-	(124)
Fair value adjustment - w warrants	205	17,279	3,087	3,516
Interest and other income	161	66	842	301
Bank charges	(5)	(10)	(18)	(27)
Foreign exchange gain (loss)	867	550	(1,525)	1,685
Finance income	1,233	17,895	3,929	5,502
Finance expense	(5)	(10)	(1,543)	(151)

12) Related party transactions:

a) Transactions with Lorito Holdings (Guernsey) Limited ("Lorito")

During May 2009, the Company's loans payable due to Lorito in the amount of CAD\$6.0 million plus interest of \$195 was converted to 6,521,601 Units of the Company on the basis of CAD\$0.95 per Unit. Each Unit was comprised of one common share and one share purchase warrant. Each warrant was exercisable into one common share of AOC at a price of CAD\$1.50 per share over a period of three years. Lorito is beneficially owned by Ellegrove Capital Ltd., a private trust the settler of which is the late Adolf H. Lundin. During the first quarter of 2012, Lorito exercised each of its 6,521,601 warrants into a common share of the Company.

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

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At September 30, 2013, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn \$0.7 million during the nine months ended September 30, 2013 (nine months ended September 30, 2012 – \$0.7 million). At September 30, 2013, the outstanding balance receivable from Horn was \$ nil (at December 31, 2012 – \$ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

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Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn \$0.03 million during the nine months ended September 30, 2013 (nine months ended September 30, 2012 - \$0.2 million) for services provided by geologists and geophysicists employed by AOC. At September 30, 2013, the outstanding balance receivable from Horn was \$0.01 million (at December 31, 2012 – \$ nil).

During the nine months ended September 30, 2013, AOC invoiced Horn \$0.06 million for reimbursable expenses paid by AOC on behalf of Horn (nine months ended September 30, 2012 - \$0.3 million). At September 30, 2013, the outstanding balance receivable from Horn was \$0.03 million (at December 31, 2012 – \$ nil).

During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. commenced the transfer of \$1.5 million to Horn, via AOC. At December 31, 2011, the funds were on deposit with AOC. AOC transferred the funds to Horn during the first quarter of 2012.

13) Subsidiaries:

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

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14) Earnings per share:

For the three months ended	September 30, 2013			September 30, 2012		
	Weighted Average			Weighted Average		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net income (loss) attributable to common shareholders	\$ (3,251)	252,960,247	\$ (0.01)	\$ 1,368	220,952,010	\$ 0.01
Effect of dilutive securities						
Stock options	-	-	-	-	5,712,371	-
Dilutive income (loss) per share	\$ (3,251)	252,960,247	\$ (0.01)	\$ 1,368	226,664,381	\$ 0.01
For the nine months ended	September 30, 2013			September 30, 2012		
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	\$ (14,388)	252,623,459	\$ (0.06)	\$ (13,243)	217,566,174	\$ (0.06)
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ (14,388)	252,623,459	\$ (0.06)	\$ (13,243)	217,566,174	\$ (0.06)

15) Financial Instruments:

Assets and liabilities at September 30, 2013 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

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

16) Subsequent events:

Subsequent to the end of the quarter, the Company completed a brokered private placement where an aggregate of 56,505,217 common shares were issued for net proceeds of approximately \$440 million. A cash commission equal to 3% of the gross proceeds was paid to a syndicate of brokers that facilitated the brokered private placement.