AFRICA OIL CORP.

Report to Shareholders

December 31, 2016

AFRICA OIL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the years ended December, 2016 and 2015

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

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

The effective date of this MD&A is February 27, 2017.

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 and Nasdaq Stockholm under the symbol "AOI". The Company is an international oil and gas exploration and development company, based in Canada, with oil and gas interests in Kenya and Ethiopia.

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

The East African Rift Basin system is one of the last great rift Basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions had older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic showed robust leads and prospects throughout AOC's project areas. The Company continues to hold extensive exploration acreage in this exciting new world-class exploration play fairway.

UPDATED ASSESSMENT OF CONTINGENT RESOURCES

In May of 2016, the Company announced details of an updated independent assessment of the Company's contingent resources for the South Lokichar Basin in Blocks 10BB and 13T. The effective date of this assessment was Dec 31, 2015, and it was carried out in accordance with the standards established by the Canadian Securities Administrators in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The assessment confirmed that the South Lokichar Basin contains gross 2C contingent resources of 766 million barrels of oil (Development Pending: 754 million barrels and Development Unclarified: 12 million barrels), an increase of 24% over the assessment conducted in September 2014 and gross 3C contingent resources of 1.63 billion barrels of oil an increase of 26% over the prior assessment. Please refer to the Company's press release dated May 10, 2016 for details of the contingent resources by field

MAERSK FARMOUT

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

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

An additional $75.0 million development carry may be available to AOC upon confirmation of existing resources. Upon Final Investment Decision ("FID"), Maersk will be obligated to carry AOC for an additional amount of up to $405.0 million depending on meeting certain thresholds of resource growth and timing of first oil.

WORKING INTERESTS

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

Country	Block/Area	Operator	Current Net Working Interest % [1]
Kenya	Block 10BB	Tullow	25%
Kenya	Block 13T	Tullow	25%
Kenya	Block 10BA	Tullow	25%
Kenya	Block 9 [2]	AOC	100%
Ethiopia	Rift Basin Area [2]	AOC	100%

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] The Company's joint venture partners have provided notification of their intent to withdraw from the joint venture. Accordingly, the Company's effective working interest in the Block is 100%.

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

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

OPERATIONS UPDATE

The 2016 work program was primarily focused on advancing development plans associated with the discovered South Lokichar Basin in Kenya. The Company's assessment of contingent resources in the South Lokichar Basin highlights the considerable resource potential within the Basin. The work program includes; continuing studies to support reservoir modelling, additional core analysis, petrophysical analysis, and advancement of the development plans associated with both upstream and midstream activities. AOC, with our joint venture partners is pleased to have recommenced exploration and appraisal drilling activities during the fourth quarter of 2016 in the South Lokichar Basin. One drilling rig is currently active and is undertaking an initial program of four wells with the potential to extend the program with an additional four wells. The first well in the drilling program, Erut-1 (Block 13T) resulted in a discovery (additional details below). Following Erut-1, the PR Marriott Rig-46 moved to Block 10BB, where it is currently drilling the Amosing-6 appraisal well. Additional prospects in the drilling program include Etete (an offset to the Etom-2 discovery) and further appraisal of the Ngamia and Amosing fields to target un-drilled volumes, with an aim of extending the size of these existing discoveries. In addition, the Kenya joint venture partners are undertaking an extensive water injection test program, which commenced in the fourth quarter of 2016, to collect data to optimize the field development plans. The Kenya joint venture partners continue to progress towards sanctioning Front End Engineering and Design ("FEED") for both Upstream and Mid-stream developments. Upstream FEED is expected to commence in the second half of 2017.

Tertiary Rift - Kenya

Late in 2015, the results of the Etom-2 well in the South Lokichar Basin (Block 13T) were announced. The Etom-2 well was drilled based on recently acquired and interpreted 3D seismic in a previously undrilled fault block adjacent to the Etom oil discovery. The well encountered 102 meters of net oil pay in two columns. Oil samples, sidewall cores and wire line logging all indicate the presence of high API oil in the best quality reservoir encountered in the South Lokichar Basin to date. Discovering this thick interval of high quality oil reservoirs at Etom-2 further underpins the development options and resource base in the South Lokichar Basin. The result follows careful evaluation of 3D seismic data which was shot after the Etom-1 well completed drilling and demonstrates how the partnership has improved its understanding of the Basin. This result also suggests significant potential in this underexplored part of the block, as at the time of drilling, it was the most northerly well drilled in the South Lokichar Basin and is located close to the axis of the Basin away from the Basin-bounding fault.

During January 2017, the Company announced that the Erut-1 well in Block 13T, Northern Kenya, discovered a gross oil interval of 55 meters with 25 meters of net oil pay at a depth of 700 meters. The overall oil column for the field is between 100 and 125 meters. Potential exists for additional pay but will need to be confirmed by laboratory analysis. The objective of the well was to test a structural trap at the northern limit of the South Lokichar Basin. The Erut-1 well was drilled ten kilometers north of the Etom-2 well and shares important characteristics. Fluid samples taken and wireline logging all indicate the presence of oil. Erut-1 successfully shows that oil has migrated to the northern limit of the South Lokichar Basin and has de-risked multiple prospects in this area which will now be considered as part of the Partnership's future exploration and appraisal drilling program.

In April 2016, the Governments of Uganda and Kenya announced that separate export pipelines would be developed for the export of production from the development of oil resources in their respective countries. The Kenya joint venture partners have signed an MoU with the Government of Kenya which confirms the intent of the parties to jointly progress the development of a Kenya crude oil pipeline which will run from South Lokichar to the port of Lamu. The pipeline Joint Development Agreement is currently in the final stages of negotiation and sets out a structure for the Government of Kenya and the South Lokichar joint venture partners to progress the development of the export pipeline. This agreement will ultimately enable important studies to commence such as FEED, ESIA, as well as studies on pipeline financing and ownership.

In addition to progressing the full field development work in Kenya, an Early Oil Pilot Scheme (EOPS) transporting oil from South Lokichar to Mombasa, utilizing road, has been approved by the joint venture partners. This will provide technical and non-technical information that will assist in full field development planning. The EOPS would utilize existing upstream wells and oil storage tanks to initially produce 2,000 bopd around mid-2017, subject to agreement with National and County governments.

In the first quarter of 2016, the Government of Kenya agreed to an 18-month extension to the first additional exploration period on Block 10BA, allowing the joint venture partners to fully integrate the learnings from activities on Blocks 13T and 10BB into decisions on activities to be undertaken on Block 10BA. In the third quarter of 2016, the Government of Kenya agreed to a three-year extension to the Second Additional Exploration Period in Blocks 10BB and 13T (now expiring 18 September 2020).

A draft field development plan for the discoveries in the South Lokichar Basin was submitted in December 2015 to the Kenyan authorities. Further refinement of the field development plan and engagement with the Government of Kenya is ongoing.

During the first quarter of 2016, the Cheptuket-1 well (Block 12A) completed drilling to a depth of 3,083 meters. The well encountered oil shows, seen in cuttings and rotary sidewall cores, across a large interval of over 700 meters. Cheptuket-1 was the first well to test the Kerio Valley Basin. While shows were encouraging, upon further technical and commercial review the Company elected to withdraw from the block during the first quarter of 2017.

Cretaceous Anza Rift – Kenya

In Block 9, the Company continues to assess the results of its 2014 drilling program. The Government of Kenya has granted an eighteen-month extension to the second additional exploration period, which will now expire in June 2017.

Tertiary Rift – Ethiopia

During the third quarter of 2015 in the Rift Basin Area Block, a 2D seismic program was completed, which consisted of approximately 600 kilometers of land and lake seismic. Source rock outcrops and oil slicks on the lakes have been identified in the block where there was previously no existing seismic or wells. The Government of Ethiopia has granted a twelve month extension to the initial exploration period, which will now expire in February 2017.

RECENT DEVELOPMENTS

Equity Financing

During February 2015, the Company completed a brokered private placement issuing an aggregate of 57,020,270 shares at a price of SEK 18.50 per share for gross proceeds of $125.0 million. A cash commission was paid in the amount of $4.7 million.

During May 2015, the Company completed a non-brokered private placement issuing an aggregate of 52,623,377 shares at a price of CAD $2.31 for gross proceeds of $100.0 million. Total costs related to the share issuance amounted to $0.1 million.

During August 2015, the company completed a non-brokered private placement issuing an aggregate of 31,169,048 shares at a price of CAD $2.10 for gross proceeds of $50.0 million. Total costs related to the share issuance amounted to $0.1 million.

Court Proceedings

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

In December 2014, the Company filed its record of appeal in respect of a High Court decision in Judicial Review Number 1 of 2012. That decision had allowed the Applicants to institute certain proceedings which the Company maintained had previously been adjudicated and settled in the determination of Judicial Review Number 30 of 2010. On July 29, 2016 the Kenyan Court of Appeal ruled in favor of the Company allowing the Company's appeal and setting aside the previous Court decision which had allowed the Applicants to institute the proceedings.

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

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	**31-Dec 2016**	**30-Sep 2016**	**30-Jun 2016**	**31-Mar 2016**	**31-Dec 2015**	**30-Sep 2015**	**30-Jun 2015**	**31-Mar 2015**
Operating expenses ($)	12,094	2,505	2,314	3,672	79,288	3,584	3,333	1,170
Interest income ($)	804	925	845	366	106	99	80	130
Foreign exchange loss ($)	(22)	(3)	(6)	(49)	(81)	(184)	(117)	(15)
Net loss attributable to non-controlling interest ($) [(1)]	-	-	-	-	-	-	-	(249)
Net loss attributable to common shareholders ($)	(11,322)	(1,593)	(1,485)	(3,362)	(79,323)	(3,681)	(3,375)	(811)
Weighted average shares - Basic	456,417	456,417	456,417	456,417	456,417	435,412	391,130	338,312
Weighted average shares - Diluted	456,417	456,417	456,417	456,417	456,417	435,412	391,130	338,312
Basic loss per share ($)	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)	(0.01)	(0.01)	(0.00)
Diluted loss per share ($)	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)	(0.01)	(0.01)	(0.00)
Oil and gas expenditures ($)	16,946	8,395	10,969	12,266	24,521	48,693	69,272	77,300

(1) AOC currently owns approximately 28.5% of Africa Energy Corp. (“Africa Energy”) and accounts for its share of Africa Energy as an equity investment. The change from control to equity investment occurred due to a change in the composition of the Board of Directors as well as a significantly reduced involvement from AOC management in the operations of Africa Energy. The majority of Africa Energy’s Board is now comprised of independent Board members. As the Board and management of Africa Oil no longer have the power to direct the activities of Africa Energy, control of Africa Energy has been lost. Prior to the loss of control, which occurred during the first quarter of 2015, AOC owned approximately 44.6% of Africa Energy and accounted for Africa Energy on a consolidated basis.

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

Operating expenses

Reduced operating expenses, recorded during the first quarter of 2015, primarily relate to a $4.2 million gain recorded during the quarter as a result of the Company’s investment in Africa Energy changing from a position of control to a position of significant influence. The Company is required to recognize its investment in its former subsidiary at fair market value on the date control ceases which resulted in a gain being recorded for accounting purposes.

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

Decreased operating expenses, recorded during the second quarter of 2016, primarily relate to the decrease of $1.1 million in professional fees, which were incurred during the fourth quarter of 2015 and the first quarter of 2016 relating to the Maersk farmout agreement.

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

Equity-based compensation

Three months ended (thousands, except per share amounts)	**31-Dec 2016**	**30-Sep 2016**	**30-Jun 2016**	**31-Mar 2016**	**31-Dec 2015**	**30-Sep 2015**	**30-Jun 2015**	**31-Mar 2015**
Options granted	1,611	-	-	-	2,579	-	-	5,194
Performance share units granted	-	-	-	1,024	-	-	-	-
Restricted share units granted	-	-	-	1,270	-	-	-	-
Exercise price per share ($CAD)	2.12	-	-	-	1.99	-	-	2.45
Equity-based compensation expense ($)	1,074	774	786	690	1,741	1,243	1,148	3,975

The Company uses the fair value method of accounting for stock options granted to eligible plan participants whereby the fair value of all stock options granted is recorded as a charge to operations. The estimated fair value is recognized over the applicable vesting period. All options granted vest over a two-year period, of which one-third vest immediately, and expire three to five years after the grant date. Equity-based compensation relating to the issuance of stock options for the year ended December 31, 2016 was $1.9 million compared to $8.1 million during the same period in 2015. The decrease in equity-based compensation expense can be mainly attributed to the issuance of 1,610,500 stock options of eligible plan participants during 2016 compared to 7,773,000 stock options during 2015. As one-third of the fair value of the stock options is expensed immediately upon grant, the remaining expense is expected to decrease over the remaining vesting period.

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

During the first quarter of 2016, 1,024,000 PSUs were granted to certain senior officers of the Company. During the year ended December 31, 2016, the Company recognized $0.5 million in equity-based compensation relating to the PSUs.

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

During the first quarter of 2016, 246,000 RSUs were granted to Non-Executive Directors and 1,024,000 RSUs were granted to other plan participants. The Company recognized $0.9 million in equity-based compensation relating to the RSUs during the year ended December 31, 2016.

During the year ended December 31, 2016, the Company recognized a total of $3.3 million in equity-based compensation relating to the LTIP and Stock Option Plan (December 31, 2015 - $8.1 million).

Donations

Three months ended (thousands)	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015	30-Sep 2015	30-Jun 2015	31-Mar 2015
Donation expense	300	350	100	550	980	500	785	-

During the year ended December 31, 2016, the Company made $1.3 million in donations to the Lundin Foundation compared to $2.3 million in 2015. While the Company is committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contributions made are a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

Interest income

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

Foreign exchange gains and losses

The foreign exchange gains and losses are primarily related to changes in the value of the Canadian dollar in comparison to the US dollar.

RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and benefits	$ 1,452	$ 2,411	$ 2,716	$ 3,729
Equity-based compensation	1,074	1,741	3,324	8,107
Travel	130	248	815	1,124
Office and general	175	396	318	991
Donation	300	980	1,300	2,265
Depreciation	26	3	34	20
Professional fees	134	1,317	1,605	1,763
Stock exchange and filing fees	89	1,022	691	1,739
Share of loss from equity investment	244	500	1,312	1,122
Gain on loss of control	-	-	-	(4,155)
Impairment of intangible exploration assets	8,470	70,670	8,470	70,670
Operating expenses	$ 12,094	$ 79,288	$ 20,585	$ 87,375

Operating expenses decreased $67.2 million during the fourth quarter of 2016 compared to the fourth quarter in 2015. The Company recognized an impairment relating to the Company's intangible exploration assets in Ethiopia of $6.5 million during the fourth quarter of 2016 compared to $70.7 during the same period in 2015. In addition, as part of the Company's decision to withdraw from Block 12A (Kenya), the Company wrote off $2.0 million in intangible exploration assets relating to the block. Salaries and benefits decreased due to reduced discretionary bonuses during the fourth quarter of 2016 as well as the foreign exchange benefits of Canadian denominated salaries for Canadian staff. Equity-based compensation decreased $0.6 million due to a decrease in stock-based compensation of $1.1 million which was a result of issuing less stock options to eligible plan

participants in 2016 than in 2015 (Q4 2016 – 1.6 million, Q4 2015 – 2.4 million). This decrease was offset by $0.5 million of equity based compensation expenses associated with PSUs and RSUs. One-third of the fair value of the stock options is expensed immediately upon grant, the remaining expense is expected to decrease over the remaining vesting period. PSUs and RSUs were issued as part of the new LTIP which commenced during the first quarter of 2016. Professional fees decreased by $1.2 million relating to the Company entering into the Maersk farmout agreement during the fourth quarter of 2015. The Company made a donation for $0.3 million to the Lundin Foundation during the fourth quarter of 2016 compared to $1.0 million during the same period in 2015.

Operating expenses decreased $66.8 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. The Company recognized an impairment relating to the Company's intangible exploration assets in Ethiopia of $6.5 million during the fourth quarter of 2016 compared to $70.7 during the same period in 2015. In addition, as part of the Company's decision to withdraw from Block 12A (Kenya), the Company wrote off $2.0 million in intangible exploration assets relating to the block. Salaries and benefits decreased due to reduced discretionary bonuses during 2016 compared to 2015 as well as the foreign exchange benefits of Canadian denominated salaries for Canadian staff. Equity-based compensation decreased by $4.8 million during 2016 which was a result of issuing less stock options to eligible plan participants in 2016 than in 2015 (2016 – 1.6 million, 2015 – 7.8 million). This decrease was offset by $1.4 million of equity based compensation expenses associated with PSUs and RSUs. One-third of the fair value of the stock options is expensed immediately upon grant; the remaining expense is expected to decrease over the remaining vesting period. Stock exchange and filling fees decreased by $1.0 million due fees associated with multiple equity financings completed during 2015 (no equity financings in 2016). A non-cash gain of $4.2 million was recognized during 2015 due to the Company's investment in Africa Energy changing from a position of control to a position of significant influence. The Company made donations to the Lundin Foundation of $1.3 million during 2016 compared to $2.3 million during 2015.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	**2016**	**2015**	**2014**
Statement of Operations Data			
Interest income	$ 2,940	$ 415	$ 1,267
Net loss and comprehensive loss attributable to non-controlling interest	-	(249)	(48,773)
Net loss and comprehensive loss attributable to common shareholders	(17,762)	(87,190)	(106,937)
Data per Common Share			
Basic loss per share ($/share)	(0.04)	(0.21)	(0.34)
Diluted loss per share ($/share)	(0.04)	(0.21)	(0.34)
Balance Sheet Data			
Net w orking capital	434,985	49,518	10,569
Total assets	1,006,942	1,100,691	950,548
Long term liabilities	$ -	$ 52,500	$ -

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

Interest income increased in 2016 compared to 2015 due to the increase in cash upon closing of the farmout agreement with Maersk. Interest income decreased in 2015 compared to 2014 due to a decrease in cash.

The net loss attributable to non-controlling interest represents the Company's non-ownership percentage of Africa Energy's net loss. The Company's investment in Africa Energy changed from a position of control to a position of significant influence during March 2015. As a result of the change, the Company's investment in Africa Energy is recorded as an equity investment. The significant loss incurred in 2014 is the direct result of the impairment of intangible exploration assets in Puntland (Somalia) which was recorded in the fourth quarter of 2014 by Africa Energy.

The net loss attributable to common shareholders decreased by $69.6 million in 2016 compared to the year ended 2015 due to a decrease in operating expenses, as described above. The net loss attributable to common shareholders decreased $19.7 million to $87.2 million in 2015 from $106.9 million in 2014, mainly as a result of a $69.3 million decrease in operating expenses, as well as the change in the Company's investment in Africa Energy from a position of control to a position of significant influence.

The increase in net working capital from 2015 to 2016 is primarily due to the completion of the farmout agreement with Maersk in which the Company received proceeds of $439.4 million. The increase in net working capital from 2014 to 2015 is primarily due to the $275 million (gross) of equity issuances completed during 2015. Total assets have remained consistent year over year.

During the fourth quarter of 2015, Africa Oil received a deposit in relation to the Maersk farmout transaction which amounted to $52.2 million. The bank guarantee was released at the beginning of 2016

INTANGIBLE EXPLORATION ASSETS

(thousands)	December 31, 2016	December 31, 2015
Intangible exploration assets	$ 534,929	$ 934,293

During 2016, intangible exploration assets decreased by $399.4 million. Expenditures of $48.6 million were incurred during the year, which was offset by an impairment charge of $8.5 million as well as a reduction to intangible exploration assets of $439.4 million relating to the completion of the farmout transaction with Maersk. Maersk acquired 50% of AOC's interests in Blocks 10BB, 13T and 10BA in Kenya and the Rift Basin and South Omo Blocks in Ethiopia in consideration for reimbursement of a portion of AOC's past costs and a future carry on certain exploration and development costs.

An additional $75.0 million development carry may be available to AOC upon confirmation of existing resources. Upon Final Investment Decision ("FID"), Maersk may be obligated to carry AOC for an additional amount of up to $405.0 million dependent upon meeting certain thresholds of resource growth and timing of first oil.

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

For the years ended	**December 31, 2016**			**December 31, 2015**		
(thousands)	**Kenya**	**Ethiopia**	**Total**	**Kenya**	**Ethiopia**	**Total**
Drilling and completion	$ 21,806	$ -	**$ 21,806**	$155,533	$ (5,118)	**$150,415**
Development studies	8,411	-	**8,411**	19,170	-	**19,170**
Exploration surveys and studies	2,242	232	**2,474**	18,048	5,837	**23,885**
PSA and G&A related	14,190	1,695	**15,885**	26,248	68	**26,316**
Total	$ 46,649	$ 1,927	**$ 48,576**	$218,999	$ 787	**$219,786**

AOC incurred $46.6 million of intangible exploration expenditures in Kenya for the year ended December 31, 2016. Drilling and completion expenditures primarily relate to the Cheptuket-1 exploration well in Block 12A, the water injection testing performed on the Amosing-3 appraisal well in Block 10BB, the drilling of Erut-1 in Block 13T, as well as costs associated with demobilizing and remobilizing the PR Marriott 46 Rig and associated services. Drilling costs continue to be incurred in association with the recommencement of the exploration and appraisal drilling program in the South Lokichar Basin. Development study expenditures are associated with studies aimed at progressing towards project sanction for the South Lokichar Basin. Exploration studies costs continue to be incurred in Kenya in conjunction with exploration and appraisal drilling campaign which recommenced in Q4 2016.

The Company incurred $1.9 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2016, which consists of license fees and general and administrative costs.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had cash of $463.1 million and working capital of $435.0 million as compared to cash of $104.2 million and working capital of $49.5 million at December 31, 2015. The Company's liquidity and capital resource position improved dramatically during the first quarter of 2016 with the receipt of $439.4 million (inclusive of deposit received prior to year-end) upon completion of the Maersk Farmout (refer to Maersk Farmout Section above for details).

Until detailed engineering is completed and a final South Lokichar Basin development plan is approved, the Company will continue to assess the sufficiency of its capital resources. The Company's current working capital position may not provide it with sufficient capital resources to complete development activities being considered in the South Lokichar Basin (Kenya). To finance its future acquisition, exploration, development and operating costs, AOC may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to AOC.

OUTLOOK

In light of the current and forecast short to mid-term oil price environment, the Company has worked closely with its joint venture partners to focus efforts on advancing the South Lokichar Basin development in Blocks 10BB and 13T (Kenya) by undertaking activities aimed at increasing resource certainty and progressing development studies and planning. We are pleased that Maersk have acquired a 25% interest in the project given the vast financial and technical capabilities they bring to the joint venture and related development activities.

A draft South Lokichar Field Development Plan was submitted to the Government of Kenya in December 2015 and will assist discussions as we progress towards a potential final investment decision. Preparation for FEED is under way. Scoping studies and terms of reference for the detailed upstream environmental and social impact assessments have been submitted to the regulatory authorities in Kenya.

In April 2016, the Governments of Uganda and Kenya announced that separate export pipelines would be developed for the export of production from the development of oil resources in their respective countries. The Kenya Joint Venture Partners have signed an MoU with the Government of Kenya which confirms the intent of the parties to jointly progress the development of a Kenya crude oil pipeline which will run from South Lokichar to the port of Lamu. The pipeline Joint Development Agreement is currently in the final stages of negotiation and sets out a structure for

the Government of Kenya and the South Lokichar joint venture partners to progress the development of the export pipeline. This agreement will ultimately enable important studies to commence such as FEED, ESIA, as well as studies on pipeline financing and ownership.

The vast resource potential of the South Lokichar Basin has been highlighted by our recent independent assessment of contingent resources. We are pleased to have recommenced drilling activities in the South Lokihar Basin during the fourth quarter of 2016 with the first well, Erut-1, resulting in an additional oil discovery. Following Erut-1, the PR Marriott Rig-46 moved to Block 10BB, where it is currently drilling the Amosing-6 appraisal well. Additional prospects in the drilling program include Etete (an offset to the Etom-2 discovery) and further appraisal of the Ngamia and Amosing fields to target un-drilled volumes, with an aim of extending the size of these existing discoveries. Other activity during the year included water injection trials which were successfully completed on the Amosing discovery in the South Lokichar Basin. Data from the trials shows the viability of water injection for development planning and a similar program of water injection tests on the Ngamia discovery is scheduled to commence later this month.

RELATED PARTY TRANSACTIONS

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

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

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy $0.1 million during 2016 (2015 – $0.4 million). At December 31, 2016, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2015 – $ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

During 2016, the Company invoiced Africa Energy $0.1 million for reimbursable expenses paid by the Company on behalf of Africa Energy (2015 - $0.1 million). At December 31, 2016, the outstanding balance receivable from Africa Energy was $0.06 million (at December 31, 2015 – $0.09 million).

Remuneration of Directors and Senior Management

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

Directors' fees include Board and Committee Chair retainers. Management's short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Equity-based compensation includes expenses related to the Company's share purchase option plan as well as the Long Term Incentive Plan.

For the years ended December 31, (thousands)		**2016**		**2015**
Directors' fees	$	247	$	90
Directors' equity-based compensation		226		722
Management's short-term wages, bonuses and benefits		2,194		3,298
Management's equity-based compensation		1,864		4,428
	$	4,531	$	8,538

For the year ended December 31, 2016, $0.4 million of management remuneration was capitalized to intangible exploration assets (2015 - $1.3 million).

COMMITMENTS AND CONTINGENCIES

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

Kenya:

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At December 31, 2016, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in September 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At December 31, 2016, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 9 PSC, the Company and its partner entered into the second additional exploration period in Kenya which was to expire on December 31, 2015. During May 2015, the Company received approval for an eighteen-month extension to the second additional exploration period which will expire on June 30, 2017. Under the terms of the PSC, AOC and its partner were required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. At December 31, 2016, the Company's working interest in Block 9 was effectively 100%.

Under the terms of the Block 10BA PSC, the Company and its partners entered into the first additional exploration period in Kenya which was set to expire in April 2016. During March 2016, the Company received approval for an eighteen-month extension to the first additional exploration period which expires in October 2017. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is $17.0 million. At December 31, 2016, the Company's working interest in Block 10BA was 25%.

Under the terms of the Block 12A PSC, the Company and its partners entered into the first additional exploration period in Block 12A which was scheduled to expire in September 2016. During July 2016, the Company received approval for a fifteen-month extension to the first additional exploration period which expires in December 2017. All work and functional obligations to the end of the first additional exploration period have been satisfied. During February 2017, the Company notified its Partners of its decision to withdraw from Block 12A. At December 31, 2016, the Company's working interest in Block 12A was 20%..

Ethiopia:

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

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2017, the Company and its partners are obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. At December 31, 2016, the Company's working interest in the Rift Basin Area Block was effectively 100%.

OUTSTANDING SHARE DATA

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

Common shares outstanding	456,417,074
Outstanding share purchase options	14,548,500
Outstanding performance share units	1,024,000
Outstanding restricted share units	1,270,000
Full dilution impact on common shares outstanding	473,259,574

USE OF PROCEEDS

The Company continues to utilize the proceeds from the following private placements to fund their operations:

Date of placement	May 29, 2015	August 31, 2015
Net proceeds	$99.9 million	$49.9 million
Shares issued	52,623,377	31,169,048
Planned use of proceeds	East African work program and general working capital	East African work program and general working capital
Uses of proceeds other than planned	None	None

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

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

Intangible Exploration Assets

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

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

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

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

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

Equity Based Compensation

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

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

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

Income Tax

The Company follows the balance sheet method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Annual Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management assesses, based on all available evidence,

the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more than likely that future income tax assets will not be realized. As a result, future earnings are subject to significant Management judgment

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

The accounting policies set up below has been applied to these consolidated financial statements.

a) PSUs

> PSUs are accounted for as equity based awards. The estimated fair value of the awards is calculated based on non-market performance conditions set by the Company which are initially determined at the time of grant. The Company will assess the progress of reaching the individual performance conditions during each reporting period. PSUs cliff vest three years from the date of grant and the estimated fair value of the grant will be expensed evenly throughout the remaining vesting period.

b) RSUs

> RSUs are accounted for as equity based awards. The estimated fair value of the awards is determined at the time of grant. RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). The RSUs will be expensed evenly throughout the remaining vesting period.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements.

IFRS 9: Financial instruments

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

IFRS 15: Revenue from contracts with customers

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

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The company is currently assessing the impact of this standard.

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

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2015, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of

assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of December 31, 2016, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

RISK FACTORS

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

International Operations

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

Different Legal System and Litigation

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

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

Financial Statements Prepared on a Going Concern Basis

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

Shared Ownership and Dependency on Partners

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

Uncertainty of Title

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

Risks Relating to Concessions, Licenses and Contracts

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

Competition

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

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

Risks Inherent in Oil and Gas Exploration and Development

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

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

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

Well-flow Test Results

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

Capital Requirements

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

Foreign currency exchange rate risk

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

For the year ended December 31, 2016, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $0.7 million (2015 - $0.1 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2016, the Company had $0.9 million Canadian dollars (2015 - $2.2 million Canadian dollars) in cash and cash equivalents.

Interest rate risk

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

Liquidity risk

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

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

Credit risk

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

Forward Looking Statements

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

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

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration, appraisal and development activity including both expected drilling and geological and geophysical related activities;
- future development costs and the funding thereof;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;

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

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

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

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

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

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

February 27, 2017

Independent Auditor's Report

To the Shareholders of
Africa Oil Corp.

We have audited the accompanying consolidated financial statements of Africa Oil Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of net loss and comprehensive loss, equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: 403 509 7500, F:403 781 1825, www.pwc.com/ca

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Africa Oil Corp. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

AFRICA OIL CORP.

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

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 463,061	$ 104,205
Accounts receivable		213	393
Due from related party	15	57	87
Prepaid expenses		1,155	1,145
		464,486	105,830
Long-term assets			
Restricted cash	5	-	54,274
Equity investment	16	7,330	6,262
Property and equipment	6	197	32
Intangible exploration assets	7	534,929	934,293
		542,456	994,861
Total assets		$ 1,006,942	$ 1,100,691
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 29,501	$ 56,312
		29,501	56,312
Long-term liabilities			
Deposit for farmout	5	-	52,500
		-	52,500
Total liabilities		29,501	108,812
Equity attributable to common shareholders			
Share capital	8(b)	1,290,389	1,290,389
Contributed surplus		49,677	46,353
Deficit		(362,625)	(344,863)
Total equity attributable to common shareholders		977,441	991,879
Total liabilities and equity attributable to common shareholders		$ 1,006,942	$ 1,100,691
Commitments and contingencies	13		

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

Approved on behalf of the Board:

"ANDREW BARTLETT"

ANDREW BARTLETT, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

AFRICA OIL CORP.

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

For the years ended	Note	December 31, 2016	December 31, 2015
Operating expenses			
Salaries and benefits		2,716	$ 3,729
Equity-based compensation	9	3,324	8,107
Travel		815	1,124
Office and general		318	991
Donation	22	1,300	2,265
Depreciation	6	34	20
Professional fees		1,605	1,763
Stock exchange and filing fees		691	1,739
Share of loss from equity investment	16	1,312	1,122
Gain on loss of control	16	-	(4,155)
Impairment of intangible exploration assets	7	8,470	70,670
		20,585	87,375
Finance income	14	(2,940)	(415)
Finance expense	14	117	479
Net loss and comprehensive loss		17,762	87,439
Net loss and comprehensive loss attributable to non-controlling interest		-	249
Net loss and comprehensive loss attributable to common shareholders		17,762	87,190
Net loss attributable to common shareholders per share	18		
Basic		$ 0.04	$ 0.21
Diluted		$ 0.04	$ 0.21
Weighted average number of shares outstanding for the purpose of calculating earnings per share	18		
Basic		456,417,074	405,723,720
Diluted		456,417,074	405,723,720

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

AFRICA OIL CORP.

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

	Note	December 31, 2016	December 31, 2015
Share capital:	8(b)		
Balance, beginning of the year		$ 1,290,389	$ 1,014,772
Private placement, net		-	270,071
Exercise of options		-	5,546
Balance, end of the year		1,290,389	1,290,389
Contributed surplus:			
Balance, beginning of the year		$ 46,353	$ 39,947
Equity-based compensation	9	3,324	8,107
Exercise of options	9	-	(1,701)
Balance, end of the year		49,677	46,353
Deficit:			
Balance, beginning of the year		$ (344,863)	$ (257,673)
Net loss and comprehensive loss attributable to common shareholders		(17,762)	(87,190)
Balance, end of the year		(362,625)	(344,863)
Total equity attributable to common shareholders		977,441	991,879
Non-controlling interest:			
Balance, beginning of the year		$ -	$ -
Net loss and comprehensive loss attributable to non-controlling interest		-	(249)
Derecognition of non-controlling interest on loss of control		-	249
Balance, end of the year		-	-
Total equity		$ 977,441	$ 991,879

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)

For the years ended		December 31, 2016	December 31, 2015
Cash flows provided by (used in):	**Note**		
Operations:			
Net loss and comprehensive loss for the year		$ (17,762)	$ (87,439)
Items not affecting cash:			
Equity-based compensation	9	3,324	8,107
Depreciation	6	34	20
Gain on loss of control	16	-	(4,155)
Impairment of intangible exploration assets	7	8,470	70,670
Share of loss from equity investment	16	1,312	1,122
Unrealized foreign exchange loss		80	397
Changes in non-cash operating working capital	21	118	255
		(4,424)	(11,023)
Investing:			
Property and equipment expenditures	6	(199)	(2)
Intangible exploration expenditures	7	(48,576)	(219,786)
Farmout proceeds received on closing	7	386,970	-
Restricted cash	5	-	52,500
Deposit for farmout	5	-	(52,500)
Farmout proceeds released from restricted cash	5	52,500	-
Equity investment	16	(2,380)	(2,110)
Reduction of cash from change of control	16	-	(254)
Changes in non-cash investing working capital	21	(26,729)	(96,777)
		361,586	(318,929)
Financing:			
Common shares issued	8(b)	-	273,916
Deposit of cash for bank guarantee	5	-	(1,799)
Release of bank guarantee	5	1,774	1,275
		1,774	273,392
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(80)	(397)
Increase (decrease) in cash and cash equivalents		358,856	(56,957)
Cash and cash equivalents, beginning of the year		$ 104,205	$ 161,162
Cash and cash equivalents, end of the year		$ 463,061	$ 104,205
Supplementary information:			
Interest paid		Nil	Nil
Income taxes paid		Nil	Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at February 27, 2017, the date the Board of Directors approved the statements.

b) Basis of measurement:

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

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

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

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

i) Exploration and evaluation costs:

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

ii) Share purchase options:

Charges for share purchase options are based on the fair value at the date of the award. Share purchase options are valued using the Black-Scholes model, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding (see note 9).

iii) Consolidation of entities:

When assessing control over a subsidiary, the Company is required to consider the nature of its relationship with the subsidiary, and whether strategic and operating decisions made by the subsidiary are made independently without the significant influence or control of the Company. Factors considered when assessing for control include share ownership, board composition and management involvement in the business. The determination of whether strategic and operating decisions made by the Company's subsidiaries are made independently without the significant influence or control of the Company requires judgment (see note 16 and 17).

3) Significant accounting policies:

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

a) Basis of consolidation:

i) Subsidiaries:

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

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

ii) Jointly controlled operations and jointly controlled assets:

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

iii) Transactions eliminated on consolidation:

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

b) Foreign currency:

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

c) Property and equipment and Intangible exploration assets:

i) Pre-exploration expenditures:

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

ii) Exploration expenditures:

Exploration expenditures include costs associated with the acquisition of a license interest, directly attributable general and administrative costs, expenditures incurred in the process of determining oil and gas exploration targets, and exploration drilling costs. All exploration expenditures with common geological structures and shared infrastructure are accumulated together within intangible exploration assets. The Company does not aggregate exploration expenditures above the segment level for the purpose of impairment testing. Costs are not depleted until such time as the exploration phases on the license area are complete, the license area is relinquished, or commercially viable reserves have been discovered and extraction of those reserves is determined to be technically feasible.

If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into a cash-generating unit within "oil and gas interests" subsequent to determining that the assets are not impaired (see "Impairment" below).

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of net loss and comprehensive loss.

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

iii) Development and production costs:

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

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

d) Depletion and depreciation:

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

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

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

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

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

e) Impairment:

i) Financial assets carried at amortized cost:

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

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

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

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

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

ii) Non-financial assets:

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

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

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

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

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

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

f) Share purchase options:

The Company has a stock option plan as described in note 9. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing share purchase options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period, commencing from the date of employee service, as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the share purchase options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Performance share units ("PSUs")

The Company has a long term incentive plan as described in note 9. Eligible plan participants may be granted PSUs. PSUs are accounted for as equity based awards. The estimated fair value of the awards is calculated based on non-market performance conditions set by the Company which are initially determined at the time of grant. The Company assesses the progress of reaching the individual performance conditions during each reporting period. PSUs cliff vest three years from the date of grant and the estimated fair value of the grant will be expensed evenly throughout the remaining vesting period.

h) Restricted share units ("RSUs")

The Company has a long term incentive plan as described in note 9. Eligible plan participants may be granted RSUs. RSUs are accounted for as equity based awards. The estimated fair value of the awards is determined at the time of grant. RSUs granted to Non-Executive Directors cliff vest three years from the date of grant. RSUs granted to all other eligible plan participants vest over three years (1/3 on the first, second and third anniversary of grant). The RSUs will be expensed evenly throughout the remaining vesting period.

i) Finance income and expenses:

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

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

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

j) Income tax:

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

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

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

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

k) Earnings per share:

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

l) Financial instruments:

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

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

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

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

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

ii) Available-for-sale investments:

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

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

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

iii) Loans and receivables:

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

iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payables and are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

v) Derivative financial instruments:

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

m) Provisions:

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

Decommissioning obligations:

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

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

n) Equity method:

Investments in associates are accounted for using the equity method. Investments of this nature are recorded at original cost. Investments in associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Distributions received reduce the carrying amount of the investment.

The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. If such impairment indicators exist, the carrying amount of the investment is compared to its recoverable amount. The recoverable amount is the higher of the investment's fair value less costs to sell and its value in use. The investment is written down to its recoverable amount when its carrying amount exceeds the recoverable amount.

4) New accounting standards:

There are no new standards or amendments to existing standards effective January 1, 2016.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements.

IFRS 9: Financial instruments

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

IFRS 15: Revenue from contracts with customers

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

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

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

5) Restricted cash:

		December 31, 2016		December 31, 2015
Bank guarantee	$	-	$	1,774
Deposit for farmout		-		52,500
	$	-	$	54,274

At December 31, 2016, the Company had a restricted cash balance of $ nil (December 31, 2015 - $54.3 million). Upon completion of the farmout agreement with Maersk (see note 7), the restricted cash balance of $52.5 million recorded at December 31, 2015, relating to a deposit paid by Maersk, was released. The Company currently does not have any bank guarantees/

Block	In favor of		December 31, 2016		December 31, 2015
Rift Basin	Republic of Ethiopia	$	-	$	1,250
12A	Republic of Kenya		-		524
		$	-	$	1,774

6) Property and equipment:

		December 31, 2016		December 31, 2015
Cost, beginning of the year	$	398	$	396
Additions		199		2
Cost, end of the year		597		398
Accumulated depreciation, beginning of the year		(366)		(346)
Depreciation		(34)		(20)
Accumulated depreciation, end of the year		(400)		(366)
Net carrying amount, beginning of the year	$	32	$	50
Net carrying amount, end of the year	$	197	$	32

As at December 31, 2016, the Company has recorded $0.2 million of property and equipment (December 31, 2015 - $0.03 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).

7) Intangible exploration assets:

		December 31, 2016		December 31, 2015
Net carrying amount, beginning of the year	$	934,293	$	785,177
Intangible exploration expenditures		48,576		219,786
Impairment of intangible exploration assets		(8,470)		(70,670)
Farmout proceeds		(439,470)		-
Net carrying amount, end of the year	$	534,929	$	934,293

As at December 31, 2016, $534.9 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2015 - $934.3 million). These expenditures relate to the Company’s share of exploration and appraisal stage projects which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: geological and geophysical studies, exploratory and appraisal drilling, well testing, development studies and related general and administrative costs incurred in relation to the Company’s Production Sharing Agreements with the respective host governments. At December 31, 2016, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

On February 4, 2016, the Company completed the Kenyan portion of the farmout with Maersk whereby Maersk acquired 50% of the Company's interests in Blocks 10BB, 13T and 10BA in Kenya. At completion, AOC received $426.6 million (inclusive of the deposit of $52.5 million previously received) from Maersk. This amount represents $343.6 million of reimbursed past costs incurred by AOC prior to the agreed March 31, 2015 effective date of the farmout and $83.0 million representing Maersk's share of costs incurred between the effective date and December 31, 2015, including a carry reimbursement of $15.0 million of exploration expenditures. An additional $75.0 million development carry may be available to AOC upon confirmation of existing resources. Upon Final Investment Decision ("FID"), Maersk may be obligated to carry AOC for an additional amount of up to $405.0 million dependent upon meeting certain thresholds of resource growth and timing of first oil.

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

During the year ended December 31, 2016, the Company capitalized $16.0 million of general and administrative expenses related to intangible exploration assets (December 31, 2015 – $20.3 million).

During the fourth quarter of 2015, as a result of exploration results to date and oil industry conditions, the Company wrote off $70.7 million of capitalized intangible exploration assets relating to Ethiopia.

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

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

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

8) Share capital:

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

b) Issued:

		December 31, 2016			December 31, 2015		
	Note	Shares		Amount	Shares		Amount
Balance, beginning of the year		456,417,074	$	1,290,389	312,333,279	$	1,014,772
Private placements, net of issue costs	(i)	-		-	140,812,695		270,071
Exercise of options	9	-		-	3,271,100		5,546
Balance, end of the year		456,417,074	$	1,290,389	456,417,074	$	1,290,389

i) During February 2015, the Company completed a brokered private placement issuing an aggregate of 57,020,270 common shares at a price of SEK 18.50 per share for gross proceeds of SEK 1,055 million or $125.0 million. A cash commission was paid in the amount of $4.7 million.

During May 2015, the Company completed a non-brokered private placement issuing an aggregate of 52,623,377 common shares, at a price of CAD $2.31 per share for gross proceeds of CAD $121.6 million or $100.0 million. Total costs related to the share issuance amount to $0.1 million.

During August 2015, the Company completed a non-brokered private placement issuing an aggregate of 31,169,048 common shares at a price of CAD $2.10 per shares for gross proceeds of CAD $65.5 million or $50.0 million. Total costs related to the share issuance amount to $0.1 million.

9) Equity-based compensation:

a) Share purchase options

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

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

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Outstanding, beginning of the year	18,452,500	5.20	15,893,767	6.19
Granted	1,610,500	2.12	7,773,000	2.30
Expired	(5,314,500)	5.97	(1,943,167)	7.94
Exercised	-	-	(3,271,100)	1.49
Balance, end of the year	14,748,500	4.58	18,452,500	5.20

No share purchase options were exercised during the year ended December 31, 2016. During the year ended December 31, 2015, 3.3 million options were exercised in which $1.7 million in contributed surplus was transferred to share capital. The weighted average closing share price on the day options were exercised during twelve months ended December 31, 2015 was CAD$2.07.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model and the fair value of the options granted is expensed over the vesting period of the options. The fair value of each option granted by the Company during the year ended December 31, 2016 and the year ended December 31, 2015 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2016	2015
Number of options granted	1,610,500	7,773,000
Fair value of options granted (CAD$ per option)	0.75	0.94
Risk-free interest rate (%)	0.69	0.83
Expected life (years)	3.00	3.00
Expected volatility (%)	52	61
Expected dividend yield	-	-

The following table summarizes information regarding the Company's share purchase options outstanding at December 31, 2016:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
8.44	5,434,000	0.12
7.30	120,000	0.48
2.48	4,410,000	3.06
2.25	600,000	3.20
2.12	1,610,500	4.96
1.99	2,424,000	3.98
1.98	150,000	3.88
4.58	14,748,500	2.33

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. During the year ended December 31, 2016, the Company recognized $1.9 million in equity-based compensation (December 31, 2015 - $8.1 million).

b) Performance share units ("PSUs")

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

The non-market performance conditions include:

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

During the first quarter of 2016, 1,024,000 PSUs were granted to certain senior officers of the Company. The Company accounts for PSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. During the year ended December 31, 2016, the Company recognized $0.5 million in equity-based compensation.

c) Restricted share units ("RSUs")

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

During the first quarter of 2016, 246,000 RSUs were granted to Non-Executive Directors and 1,024,000 RSUs were granted to other plan participants. The Company accounts for RSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. During the year ended December 31, 2016, the Company recognized $0.9 million in equity-based compensation relating to the RSUs.

Expensing of the LTIP commenced on March 16, 2016, the date of grant.

During the year ended December 31, 2016, the Company recognized a total of $3.3 million in equity-based compensation relating to the LTIP and Stock Option Plan (December 31, 2015 - $8.1 million).

10) Financial risk management:

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

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

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

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. As at December 31, 2016, the Company held $11.4 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

b) Liquidity risk:

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

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

c) Market risk:

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

i) Foreign currency exchange rate risk:

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars.

For the year ended December 31, 2016, a 5% increase or decrease on an annualized basis in the value of the Canadian dollar in relation to the US dollar, which is the Company's functional currency, would have resulted in an approximately $0.07million (2015 - $0.1 million) increase or decrease in net income, respectively.

At December 31, 2016, the Company had $0.9 million Canadian dollars (2015 - $2.2 million Canadian dollars) in cash and cash equivalents.

ii) Interest rate risk:

As at December 31, 2016, the Company's has no outstanding debt. The Company further has not entered into any derivative instruments or borrowing arrangements in which exposure to fluctuations in interest rates exists.

iii) Commodity price risk:

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

11) Capital management:

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

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

12) Segment information:

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

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

At December 31, 2015	Kenya	Ethiopia	Corporate	**Total**
Total assets	$ 927,656	$ 21,991	$ 151,044	**$ 1,100,691**
Intangible exploration assets	915,924	18,369	-	**934,293**
Property and equipment	-	-	32	**32**

Year ended December 31, 2016	Kenya	Ethiopia	Corporate	**Total**
Capital expenditures				
Intangible exploration assets	$ 46,649	$ 1,927	$ -	**$ 48,576**
Property and equipment	-	-	199	**199**
	$ 46,649	$ 1,927	$ 199	**$ 48,775**
Statement of operations				
Expenses	$ 2,043	$ 6,491	$ 12,051	**$ 20,585**
Finance income	-	-	(2,940)	**(2,940)**
Finance expense	-	-	117	**117**
Segmented loss	$ 2,043	$ 6,491	$ 9,228	**$ 17,762**

Year ended December 31, 2015	Kenya	Ethiopia	Corporate	Total
Capital expenditures				
Intangible exploration assets	$ 218,999	$ 787	$ -	**$ 219,786**
Property and equipment	-	-	2	**2**
	$ 218,999	$ 787	$ 2	**$ 219,788**
Statement of operations				
Expenses	$ 64	$ 70,685	$ 16,627	**$ 87,375**
Finance income	-	-	(415)	**(415)**
Finance expense	-	-	479	**479**
Segmented loss	$ 64	$ 70,685	$ 16,691	**$ 87,439**

13) Commitments and contingencies:

a) Contractual obligations

i) Kenya:

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At December 31, 2016, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in September 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At December 31, 2016, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 9 PSC, the Company and its partner entered into the second additional exploration period in Kenya which was to expire on December 31, 2015. During May 2015, the Company received approval for an eighteen-month extension to the second additional exploration period which will expire on June 30, 2017. Under the terms of the PSC, AOC and its partner were required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. At December 31, 2016, the Company's working interest in Block 9 was effectively100%.

Under the terms of the Block 10BA PSC, the Company and its partners entered into the first additional exploration period in Kenya which was set to expire in April 2016. During March 2016, the Company received approval for an eighteen-month extension to the first additional exploration period which expires in October 2017. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is $17.0 million. At December 31, 2016, the Company's working interest in Block 10BA was 25%.

Under the terms of the Block 12A PSC, the Company and its partners entered into the first additional exploration period in Block 12A which was scheduled to expire in September 2016. During July 2016, the Company received approval for a fifteen-month extension to the first additional exploration period which expires in December 2017. All work and financial obligations to the end of the first additional exploration period have been satisfied. During February 2017, the Company notified its Partners of its decision to withdraw from Block 12A. At December 31, 2016, the Company's working interest in Block 12A was 20%.

ii) Ethiopia:

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

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2017, the Company and its partners are obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. At December 31, 2016, the Company's working interest in the Rift Basin Area Block was effectively 100%.

b) Office Lease Costs:

The Company has committed to future minimum payments at December 31, 2016 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2017	378
2018	129
2019	4
2020	2
Total minimum payments	513

c) Title disputes:

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

14) Finance income and expense:

Finance income and expense for the years ended December 31, 2016 and 2015 is comprised of the following:

For the years ended	December 31, 2016	December 31, 2015
Interest and other income	2,940	415
Bank charges	(37)	(82)
Foreign exchange loss	(80)	(397)
Finance income	$ 2,940	$ 415
Finance expense	$ (117)	$ (479)

15) Related party transactions:

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

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

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy $0.1 million during 2016 (2015 – $0.4 million). At December 31, 2016, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2015 – $ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

During 2016, the Company invoiced Africa Energy $0.1 million for reimbursable expenses paid by the Company on behalf of Africa Energy (2015 - $0.1 million). At December 31, 2016, the outstanding balance receivable from Africa Energy was $0.06 million (at December 31, 2015 – $0.09 million).

b) Remuneration of Directors and Senior Management

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

Directors' fees include Board and Committee Chair retainers. Management's short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Equity-based compensation includes expenses related to the Company's share purchase option plan as well as the Long Term Incentive Plan.

For the years ended December 31, (thousands)	**2016**	**2015**
Directors' fees	$ 247	$ 90
Directors' equity-based compensation	226	722
Management's short-term wages, bonuses and benefits	2,194	3,298
Management's equity-based compensation	1,864	4,428
	$ 4,531	$ 8,538

For the year ended December 31, 2016, $0.4 million of management remuneration was capitalized to intangible exploration assets (2015 - $1.3 million).

16) Equity investment:

During March 2015, the Company's investment in Africa Energy changed from a position of control to a position of significant influence due to the changes to the composition of Africa Energy's board of directors and the Company's ownership interest being reduced as a result of private placements. As a result of the change, the Company's investment in Africa Energy is recorded as an equity investment. Under equity accounting, the Company is required to recognize its investment in its former subsidiary at fair market value on the date control ceases. The fair value of Africa Energy at the date control ceased was $5.3 million. On loss of control, the Company derecognized $1.1 million of net assets in Africa Energy, resulting in the recognition of a gain of $4.2 million for accounting purposes on the loss of control. During March and December 2015, Africa Energy completed private placements in which the Company invested $1.0 million and $1.1 million, respectively. On November 16, 2016, Africa Energy announced a non-brokered private placement, in which the Company participated, investing $2.4 million, diluting the Company's ownership interest in Africa Energy to 28.5%.

	December 31, 2016	**December 31, 2015**
Balance, beginning of the period	$ 6,262	$ -
Fair value of investment in Africa Energy upon loss of control	-	5,273
Share of loss from equity investment	(1,312)	(1,122)
Additional investment through private placements	2,380	2,110
Balance, end of the period	7,330	6,262

During the year ended December 31, 2016, the Company recognized losses of $1.3 million related to its investment in Africa Energy (December 31, 2015 - $1.1 million).

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

17) 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).

18) Net loss per share:

For the year ended	December 31, 2016			December 31, 2015		
		Weighted Average			Weighted Average	
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ 17,762	456,417,074	$ 0.04	$ 87,190	405,723,720	$ 0.21
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ 17,762	456,417,074	$ 0.04	$ 87,190	405,723,720	$ 0.21

During the year ended December 31, 2016, the Company used an average market price of CAD$1.97 per share (December 31, 2015 - CAD$2.16 per share) to calculate the dilutive effect of share purchase options. For the year ended December 31, 2016, 14,748,500 options, 1,024,000 PSUs and 1,270,000 RSUs were anti-dilutive and were not included in the calculation of dilutive loss per share (December 31, 2015 – 16,023,500 share purchase options).

19) Financial instruments:

Assets and liabilities at December 31, 2016 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's cash and cash equivalents, accounts receivable, restricted cash, due from related party and accounts payable and accrued liabilities are assessed on the fair value hierarchy described above. The Company's cash and cash equivalents, accounts receivable and accounts payable and accrued liabilites are classified as Level 2. The fair value of the investment in Africa Energy at the time of loss of control was determined by a quoted stock price and is classified as Level 1. The investment in Africa Energy does not require any revaluation after the time of loss of control. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period.

20) Income Taxes:

Substantially all of the differences between actual income tax expense (recovery) of nil and the expected federal, AB and BC statutory corporate income tax recovery related to losses not recognized and share issue costs. The Company has estimated non-capital losses carry forward of $65.7 million which expire from 2016 through 2035.

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

For the years ended December 31,	2016	2015
Net loss and comprehensive loss	17,762	87,439
Combined federal and provincial statutory income tax rate	27.0%	26.0%
Expected tax recovery	4,796	22,734
Equity-based compensation	(897)	(2,108)
Non-taxable expense items	(4,663)	(18,540)
Unrecognized tax losses	764	(2,086)
Tax recovery	-	-

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

At December 31,	2016	2015
Unbooked deductible temporary differences		
Capital assets	$ 367	$ 416
Share issuance costs	350	2,864
Capital losses carried forward	12,872	12,872
Non-capital losses carried forward	65,692	61,285
Charitable donations	10,038	8,738
	$ 89,319	$ 86,175

21) Supplementary information:

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

		December 31, 2016		December 31, 2015
Changes in non-cash w orking capital				
Accounts receivable	$	180	$	1,240
Prepaid expenses		(10)		130
Accounts payable and accrued liabilities		(26,811)		(97,190)
		(26,641)		(95,820)
Non-cash w orking capital derecognized upon loss of control		-		(724)
		(26,641)		(96,544)
Relating to:				
Operating activities	$	118	$	233
Investing activities	$	(26,729)	$	(96,777)
Changes in non-cash w orking capital	$	(26,611)	$	(96,544)

22) Donation:

During the year ended December 31, 2016, as part of the Company's Community Social Responsibility commitment, the Company made a $1.3 million donation to the Lundin Foundation (December 31, 2015 - $2.3 million). 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.