AFRICA OIL CORP.

Report to Shareholders

December 31, 2014

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the years ended December 31, 2014 and 2013

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, 2014 and 2013 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 26, 2015.

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, Ethiopia, and Puntland (Somalia).

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

The Company has acquired and commenced exploration activities on multiple exploration blocks in East Africa (refer to table below). The Company has encountered oil in multiple wells drilled in the Tertiary Rift trend. The East African Rift Basin system is one of the last great rift basins to be explored. The Company acquired its interests in East Africa as several multi-billion barrel oil fields had been discovered in multiple analogous oil fields on all sides of the Company's underexplored land position including the major Tullow Oil plc ("Tullow") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions 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 holds extensive exploration acreage in this exciting new world-class exploration play fairway. The Company has completed significant seismic and drilling programs on the majority of the Company's blocks over the past two years. The Company plans to further improve resource certainty in respect of its existing discoveries while continuing to fully explore its extensive exploration acreage. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their oil and gas portfolios.

WORKING INTERESTS

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

Country	Block/Area	Operator	December 31, 2013 Net Working Interest % (1)	December 31, 2014 Net Working Interest % (1)
Kenya	Block 9	AOC	50%	50%
Kenya	Block 10BB	Tullow	50%	50%
Kenya	Block 12A	Tullow	20%	20%
Kenya	Block 13T	Tullow	50%	50%
Kenya	Block 10BA	Tullow	50%	50%
Ethiopia (5)	Blocks 7/8	New Age	30%	30%
Ethiopia (4)	Adigala	New Age	50%	10%
Ethiopia	South Omo	Tullow	30%	30%
Ethiopia (3)	Rift Basin Area	AOC	100%	50%
Puntland, Somalia	Dharoor Valley	Horn	27% (2)	27% (2)
Puntland, Somalia	Nugaal Valley	Horn	27% (2)	27% (2)

Footnotes:
1 Net Working Interests are subject to back-in rights or carried working interests, if any, of the respective governments or national oil companies of the host governments.
2 Represents AOC's Net Working Interest subsequent to the formation of Horn Petroleum Corp. ("Horn"). AOC owns approximately 44.6% of Horn. This figure represents the Company's Net Working Interest in the production sharing agreements, net of the 55.4% minority interest in Horn.
3 Under Recent Developments, see the update on the Rift Basin Area in Ethiopia. During the first quarter of 2014, the Company completed a farmout of 50% participating interest to Marathon Oil Corporation ("Marathon").
4 Under Recent Developments, see update on the Adigala Block in Ethiopia. During the first quarter of 2014, the Company completed a farmout of 40% participating interest to New Age (Africa Global Energy) Limited ("New Age"). Under Operations Update, see update on the Adigala Block in Ethiopia. Early in 2015, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala block.
5 Under Operations Update, see update on Blocks 7/8 in Ethiopia. During the third quarter of 2014, the Company notified the Ethiopian Government and its partners that it intends to withdraw from Blocks 7 and 8.

UPDATED ASSESSMENT OF CONTINGENT RESOURCES

In September 2014, the Company announced details of an updated independent assessment of the Company's contingent resources for the discovered basin in Northern Kenya in Blocks 10BB and 13T. The effective date of this assessment was July 31, 2014, and it was carried out in accordance with the standards established by the Canadian Securities Administrators in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The assessment confirmed that the discovered basin in Northern Kenya contains gross 2C contingent resources of 616 million barrels of oil, an increase of 67% over the assessment conducted in September 2013 and gross 3C contingent resources of 1.29 billion barrels of oil an increase of 52% over the prior assessment. Please refer to the Company's press release dated September 16, 2014 for details of the contingent resources by field.

OPERATIONS UPDATE

On the back of the successful exploration activities in Kenya during 2012 and 2013, the Company and its partners ramped up its exploration program in Kenya and Ethiopia. Entering 2014, the Company and its partners had seven drilling rigs operating in the region. Four Tullow-Africa Oil joint venture rigs were operating through 2014 in Northern Kenya in Blocks 10BB, 10BA and 13T, one of which was a testing and completions unit. Three additional drilling rigs completed drilling operations during 2014 in Block 9 (Kenya), South Omo Block (Ethiopia) and Blocks 7/8 (Ethiopia) and were released. The Company entered 2015 with four drilling rigs operating in Kenya. Due to the changing focus of the 2015 work program to appraisal and development of the discovered basin in Northern Kenya, the Africa Oil – Tullow partnership has released one of its four rigs operating in Kenya and plans to release two additional rigs by the end of the second quarter of 2015.

The focus of the work program in 2014 was drilling out the remaining prospect inventory in the discovered basin in Northern Kenya, appraising existing discoveries, drilling new basin opening wells and progressing the development studies towards project sanction for the discovered basin in Northern Kenya. During 2014, the Company participated in 23 wells of which 17 wells were exploration and appraisal wells in the discovered basin in Northern Kenya, 1 was an appraisal well in the Cretaceous Anza rift, and 5 were exploring new basins in Kenya and Ethiopia.

In light of the current and forecast short term oil price environment, the Company has worked closely with Tullow to focus the 2015 work program and budget on advancing the discovered basin development in Blocks 10BB and 13T (Kenya) by undertaking activities aimed at increasing resource certainty and progressing development studies with the intent of submitting a Field Development Plan ("FDP") around the end of 2015. The 2015 work program will include multiple appraisal and exploration wells in the discovered basin, Extended Well Tests ("EWT's") in the Amosing and Ngamia fields and reservoir and engineering studies (including extensive core analysis). In addition, the Africa Oil – Tullow joint venture will continue to work closely with the Government of Kenya and the Uganda Upstream partners to advance the regional oil export pipeline.

Outside of the discovered basin in Northern Kenya, the Africa Oil – Tullow joint venture new basin opening exploration program includes the Engomo-1 well in Block 10BA (Kenya) currently drilling and potentially the Cheptuket well in Block 12A (Kenya), a PSC commitment well that needs to be drilled before September 2016. Outside of the Africa Oil – Tullow joint venture blocks, the 2015 work program is focused on the Rift Basin Area Block in Ethiopia where a 2D seismic program of a minimum 400 kilometer land and lake survey has just commenced acquisition.

Tertiary Rift – Kenya

In January 2014, the Company announced further drilling success with its sixth and seventh consecutive discoveries in the discovered basin in Northern Kenya at Amosing-1 and Ewoi-1. Amosing-1 is located 7 kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicated 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. Ewoi-1 is located 4 kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the discovered basin in Northern Kenya also in Block 10BB. Logs indicated potential net pay of 20 to 80 meters. The main zone of interest tested approximately 50 barrels of oil per day ("bopd") from the lower Lokhone sands, which were relatively thin and of moderate quality. Data from the well indicated that the wellbore may have been located in a downdip position and the potential to drill updip on the structure is being assessed.

In February 2014, the Company announced the results of five well tests conducted on five Lokhone pay intervals at Etuko-1 located on the Basin Flank Play in Block 10BB. Light 36 degree API waxy crude oil was successfully flowed from three zones at a combined average rate of over 550 barrels of oil equivalent per day ("boepd"). In March 2014, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the previously announced Etuko discovery. Etuko-2 penetrated a potential significant oil column identified from formation pressure data and oil shows while drilling and in core, with good quality reservoir, however the well flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.

In March 2014, the Company announced the results of the Emong-1 well located in Block 13T (Kenya), 4 kilometers northwest of the Ngamia-1 field discovery. The well encountered oil and gas shows while drilling, however the Auwerwer sandstones that are the primary reservoirs in the Ngamia field were thin and poorly developed in Emong-1 and the well was plugged and abandoned. It is believed that the reservoir was poorly developed due to its proximity to the basin bounding fault and its location within what appears to be a local isolated slumped fault margin. This well, which was aimed at establishing an additional play, has no impact on the potential of the Ngamia oil accumulation.

Also in March 2014, the Company announced the results of a well test on the Ekales-1 discovery drilled in 2013 and located on the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Testing operations on the Ekales-1 well confirmed this significant oil discovery. Two drill stem tests were completed and flowed at a combined rate of over 1,000 bopd from a combined 41 meter net pay interval. The upper zone had a very high productivity index of 4.3 stb/d/psi.

In May 2014, the Company drilled a new prospect in the discovered basin in Northern Kenya, the Ekunyuk-1 well, located on the Basin Flank Play on trend with the Etuko and Ewoi discoveries. The well encountered 5 meters of net oil pay and found 150 meters of good quality Lokhone sands, although there was a lack of trap at this level within the well. The quality of Lokhone sands indicates that there is further exploration potential in this area of the basin.

Also in May 2014, the Company announced the results of the Twiga-2 appraisal well where the initial wellbore was drilled near the basin bounding fault and encountered some 18 meters of net oil pay within alluvial fan facies, with limited reservoir quality. A decision was made to sidetrack the well away from the fault to explore north of Twiga-1 and some 62 meters of vertical net oil pay was discovered in the Auwerwer formation at Twiga-2A, similar in quality to the initial Twiga-1 discovery. Four flow tests were completed on the Twiga-2A well, achieving production rates between 150 and 3,270 bopd under natural flow with no depletion, the highest oil production rate seen to date in Kenya. With optimized equipment, the maximum flow potential from the best zone could have increased to around 10,000 bopd demonstrating excellent reservoir deliverability.

In June 2014, the Company announced the results of the Ngamia-2 appraisal well, which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the field. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appeared to have identified a new fault trap, north of the main Ngamia accumulation.

Also in June 2014, the Company drilled the Agete-2 exploratory appraisal well drilled some 2.2 kilometers southeast of Agete-1. The well intersected water bearing reservoirs at this down-dip location and further appraisal drilling is planned. Additionally in June, the Agete-1 well was tested at 500 bopd.

In August 2014, the Company announced the results of the Etom-1 exploration well located in Block 13T, 7 kilometers north of the Agete oil discovery on the Basin Bounding Fault Play. The well encountered between 5 and 20 meters of potential net oil pay sands based on wireline logs in the Auwerwer and Upper Lokhone Formations. Oil was recovered in MDT sample chambers, which appears to be of similar quality as the other discoveries in the basin. There is an additional 400 meters of porous sands in the Auwerwer and Lokhone Formations, which also confirms the extension of thick reservoir sections into the northern portion of the basin. Oil and gas shows were noted throughout drilling of the well confirming the extension of the petroleum system to the northern portion of the discovered basin in Northern Kenya. Based on these positive results, the original 3D seismic survey was extended to cover the northern portion of this basin where several additional large prospects have been identified by 2D seismic.

Also in August 2014, the Company drilled the Ngamia-3 and Amosing-2/2A appraisal wells in the discovered basin in Northern Kenya in Block 10BB. The results of these wells appear to confirm the thickness and lateral extent of the Auwerwer sands at both locations and also has extended the known oil column significantly downdip which will extend the proven field areas. The range of thickness of the Auwerwer reservoir quality sands in all six penetrations of these two structures is between 146 and 200 meters, and the sands appear to be consistent over the field areas. The upcoming EWT's on both of these fields will be designed to evaluate reservoir connectivity and help constrain estimates of flow rates and recovery factors for field development planning purposes.

In October 2014, the Company announced the results of the Kodos-1 basin opening exploration well drilled in the Kerio Basin in Block 10BB. The well encountered hydrocarbon shows, which indicated the presence of an active petroleum system. This is the first well in the Kerio basin, northeast of the discovered basin in Kenya, and it appears to have been drilled in an area of unfavorable reservoir development, near the basin bounding fault.

Also in October 2014, the Company announced the results of the Ekosowan-1 exploration well located in Block 10BB, 12 kilometers southeast and updip of the Amosing oil discovery. The well encountered a 900 meter column of near continuous oil shows throughout an interval of tight sands which also appear to be as a result of drilling too close to the basin bounding fault. A downdip appraisal well between the Amosing field and this potential updip sealing location is being considered.

Also in October 2014, the Company drilled the Ngamia-4 appraisal well located 1.1 kilometers west of the Ngamia-1 discovery. The well encountered up to 120 meters of hydrocarbon pay, of which up to 80 meters was oil.

In November 2014, the Company drilled the Ngamia-5 appraisal well located 500 meters northeast of the Ngamia-1 discovery well in a different fault compartment and encountered 160 to 200 meters net oil pay.

In December 2014, the Company drilled the Ngamia-6 appraisal well located 800 meters north of Ngamia-1 and in the same fault compartment as Ngamia-5 and encountered up to 135 meters net oil pay. Pressure data from the Ngamia-1, 3, 5 and 6 wells demonstrates connectivity between the wells at multiple reservoir horizons, which will be further tested with the Ngamia EWT.

Also in December 2014, the Company announced the results of the Epir-1 basin opening exploration well drilled in the North Kerio Basin in Block 10BB. The well encountered a 100 meter interval of wet hydrocarbon gas shows with florescence indicating the presence of an active petroleum system. The hydrocarbon shows were encountered primarily in rocks not of reservoir quality. Technical work in the basin will now focus on identifying a prospect in the basin where there is a high chance of trapping hydrocarbons in reservoir quality rock.

In January 2015, the Company drilled the Amosing-3 appraisal well located 1 kilometer northwest of the Amosing-1 discovery well. The well encountered up to 140 meters net oil pay and proved an extension of the field. Pressure data from Amosing-3 indicated connectivity in some reservoir horizons encountered in the Amosing-1, 2 and 2A wells. Multi-zone completions were installed in December 2014 and January 2015 in the Amosing-1 and 2A wells and EWT operations on the field have commenced.

Two rigs are currently operating in the discovered basin in Northern Kenya. The Ngamia-7 appraisal well is currently drilling, which is testing a large potential eastern extension of the field identified from the new 3D seismic survey. And the Ekales-2 well is testing a possible eastern extension of the field in the Auwerwer formation and will also test a deeper objective in the Lokhone interval. One additional rig is currently drilling outside of the discovered basin in Northern Kenya. The Engomo-1 basin opening exploration well is currently drilling, the first test of the North Turkana Basin in Block 10BA. This prospect is located to the west of Lake Turkana where numerous naturally occurring oil slicks and seeps have been observed.

During 2014, the Company and its partners continued to actively acquire and process seismic data in Blocks 12A, 10BA, 10BB and 13T in Kenya. In Block 12A, a 674 kilometer 2D seismic program was completed in the first quarter 2014. In Block 10BB, a 750 kilometer North Kerio Basin 2D seismic program was completed in the first quarter 2014. In Blocks 10BA, 10BB and 13T a 600 kilometer 2D seismic program over the North Lokichar and Turkwell basins was completed in the fourth quarter 2014. In Blocks 10BB and 13T, the acquisition of a 951 square kilometer 3D seismic survey over the series of significant discoveries along the western basin bounding fault in the discovered basin in Northern Kenya completed in the fourth quarter 2014 and the full fast track processed data set is available. Initial evaluation of the 3D seismic indicates significantly improved structural and stratigraphic definition and additional prospectivity not evident on the 2D seismic.

Due to the delays in acquiring the 3D seismic survey in Blocks 10BB and 13T, the Government of Kenya has approved a one year extension to the PSC exploration terms for both blocks, and as a result, the final exploration periods will expire in July 2017 and September 2017, respectively.

Additionally, the Africa Oil – Tullow partnership has acquired over 1,100 meters of whole core from the discovered basin wells and an extensive program of detailed core analysis is ongoing that will provide results from the first quarter of 2015 onwards.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the discovered basin in Northern Kenya, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development and ESIA studies for the upstream facilities. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The governments of Kenya, Uganda and Rwanda have signed a Memorandum of Understanding (MoU) and formed a Steering Committee to progress a regional crude oil export pipeline from Uganda through Kenya and have appointed a Technical Advisor to advise on the development of the pipeline project. The Kenya upstream partners have also signed a cooperation agreement with the Uganda upstream partners in support of the same objective. The current intent of the Africa Oil – Tullow joint venture is to submit a FDP around end of 2015 and are targeting Final Investment Decision ("FID") for development, including an export pipeline, around end 2016.

Cretaceous Anza Rift – Kenya

In May 2014, the Company announced the results of the Sala-1 exploration well (Block 9, Kenya) which tested a large prospect on the northeastern flank of the Cretaceous Anza rift and is up-dip of two wells that had significant hydrocarbon shows. An upper gas bearing interval tested dry gas at a maximum rate of 6 mmcf/d from a 25 meter net pay interval. The interval had net sand of over 125 meters and encountered a gas-water contact, inferring an updip extension. A lower interval tested low rates of dry gas from a 50 meter net pay interval which can also be accessed at the up-dip location. Significant oil shows were also encountered while drilling.

In October 2014, the Company announced the results of the Sala-2 appraisal well, which was drilled updip from the Sala-1 well. Sala-2 failed to find significant hydrocarbons as there appears to be a stratigraphic or structural separation between the two wells. The Company is reviewing additional potential appraisal targets as well as on trend prospects in the block which has proven oil and gas generation.

Tertiary Rift – Ethiopia

At the South Omo Block in Ethiopia, the Company completed drilling of the Shimela-1 exploration well in May 2014 to test a new basin in the Tertiary trend, the Chew Bahir Basin, located on the eastern side of the block. The Shilmela-1 exploration well encountered water bearing reservoirs and volcanics with trace gas shows. In July 2014, the Company completed drilling of the Gardim-1 exploration well on the eastern flank of the Chew Bahir Basin. The Gardim-1 well intersected lacustrine and volcanic formations, similar to those found in the Shimela-1 well, again minor intervals encountered gas shows. Drilling operations have been demobilized. Seismic interpretation continues on independent prospectivity elsewhere in the South Omo Block and the next phase of the Ethiopia exploration campaign are expected to target these prospects.

The Company, as operator, and its partner are have recently commenced acquiring a minimum 400 kilometer 2D seismic program over the Rift Basin Area. The Rift Basin Area is located north of the South

Omo Block and is on trend with highly prospective blocks in the Tertiary rift valley including the South Omo Block in Ethiopia, and Kenyan Blocks 10BA, 10BB, 13T, and 12A. The Company completed the acquisition of a 36,500 line kilometer Full Tensor Gradiometry ("FTG") survey in October 2013. The Company has completed an exhaustive environmental and social impact assessment over the block in preparation for the 2D seismic program.

Ogaden Blocks 7/8 – Ethiopia

In Ethiopia Block 7/8, the Company and its partners completed the drilling of the El Kuran-3 appraisal well on Block 8 in the first half of the year. Although the El Kuran-3 well demonstrated some oil and gas potential, the Company did not consider it warranted further evaluation due to concerns over reservoir quality and commerciality. Consequently, the Company notified the Ethiopian Government and its partners that it intends to withdraw from Blocks 7&8.

Adigala Block - Ethiopia

During 2014, the Company and its partners have completed a 1,000 kilometer 2D seismic program in the block in which Africa Oil holds a 10% interest. Having assessed the results of the seismic, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala Block.

Puntland (Somalia)

The Company has informed the Government of Puntland (Somalia) that the Company will be significantly reducing its presence in Bosaso, Puntland and will refrain from any operational activity and associated expenditures pending a resolution of the political situation between the Regional Government of Puntland and the Federal Government of Somalia regarding the legitimacy of oil concession contracts. Given the considerable efforts taken by the Company to date in Puntland (Somalia), the Company has requested a two year extension to the current exploration period from the Government of Puntland to allow time for these political challenges to be resolved. Accordingly, the Company has elected during the fourth quarter of 2014 to record a $90.6 million non-cash impairment charge related to its assets in Puntland. As at December, 2014, intangible exploration assets related to these properties was nil.

Horn is actively pursuing new venture opportunities across the African continent.

RECENT DEVELOPMENTS

Africa Oil Private Placement

Subsequent to year end, 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 1,054,874,995 (approximately $125 million equivalent on the date the private placement was announced). An agent's fee of 4% of gross proceeds was paid to the bookrunners.

Commenced Trading on the TSX and Nasdaq Stockholm

On Tuesday, May 6, 2014, the Company's common shares commenced trading on the TSX. The common shares were concurrently delisted from the TSX Venture Exchange. On Tuesday, July 1, 2014, the Company's common shares commenced trading on Nasdaq Stockholm. The common shares were concurrently delisted from Nasdaq First North.

Completed Production Sharing Agreements and Farmout Transactions

Rift Basin Area - Marathon

In March 2014, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company $3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of $15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company $3.0 million in consideration of past exploration expenditures. Subsequent to the quarter end, Marathon paid the Company $10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.

Adigala Block – New Age

In March 2014, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 40% interest in the Company's Adigala Block leaving AOC with 10% working interest. In accordance with the farmout agreement, New Age is obligated to fund the Company's 10% working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of $10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures.

Court Proceedings

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

The Company has initiated its own court proceedings against IPL and certain related parties, including various applications for costs and Winding-Up Cause No. 1 of 2012. The Winding-Up proceeding is an application to cause IPL to be wound-up or "dissolved", which would terminate any further action in respect of the judicial review proceedings commenced by IPL.

Since 2012, IPL and certain of the related parties have also commenced numerous court applications and appeals in respect of these proceedings, including applications to appeal recent High Court decisions to the Kenyan Court of Appeal. These applications and appeals have either been struck by court order, or are the subject of further appeals and applications for stays of proceedings filed on behalf of the Company. Most recently, in December 2014, the Company filed its record of appeal in respect of a High Court decision in Judicial Review Number 1 of 2012 allowing the Applicants to institute certain proceedings which the Company maintains have previously been adjudicated and settled.

All of these proceedings are working their way through the Kenyan judicial system. The Company will continue to pursue its remedies through the courts. In the interim, it will vigorously defend any application or appeal brought by the Applicants in any of these proceedings.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share	**31-Dec 2014**	**30-Sep 2014**	**30-Jun 2014**	**31-Mar 2014**	**31-Dec 2013**	**30-Sep 2013**	**30-Jun 2013**	**31-Mar 2013**
Operating expenses ($)	102,436	6,008	36,578	11,654	31,099	4,577	8,533	2,160
Interest income ($)	157	287	387	436	184	161	309	372
Foreign exchange gain (loss) ($)	(7)	(207)	41	(116)	(7,660)	867	(1,349)	(1,043)
Fair market value gain (loss) - warrants ($)	-	-	5	(4)	28	205	155	2,727
Net income (loss) attributable to non-controlling interest ($)	(48,028)	(245)	(294)	(206)	(282)	(98)	(160)	1,762
Net loss attributable to common shareholders ($)	(54,257)	(5,686)	(35,856)	(11,138)	(38,272)	(3,251)	(9,263)	(1,874)
Weighted average shares - Basic	312,333	312,290	310,528	309,967	291,366	252,960	252,735	252,166
Weighted average shares - Diluted	312,333	312,290	310,528	309,967	291,366	252,960	252,735	252,166
Basic loss per share ($)	(0.17)	(0.02)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)	(0.01)
Diluted loss per share ($)	(0.17)	(0.02)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)	(0.01)
Oil and gas expenditures ($)	135,916	95,527	114,007	92,426	71,985	62,898	55,304	39,266

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

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

Operating expenses
The $6.3 million increase in operating expenses from the first quarter to the second quarter of 2013 can be primarily attributed to increased stock-based compensation costs in the second quarter of 2013. The Company issued 5,673,500 options of AOC to directors, officers and employees in the second quarter of 2013 of which one-third vested immediately. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel. The $4.0 million decrease in operating expenses from the second quarter to the third quarter of 2013 can be mainly attributed to a decreased in stock-based compensation costs as a result of the stock option grant in the second quarter of 2013. The $26.5 million increase in operating expenses from the third quarter to the fourth quarter of 2013 can be mainly attributed to a $22.9 million impairment of previously capitalized Block 10A exploration expenditures following the decision to relinquish the Block, increased compensation related costs associated with annual bonus incentives, and a $1.0 million donation to the Lundin Foundation. 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. The $19.4 million decrease in operating expenses from the fourth quarter of 2013 to the first quarter of 2014 can be mainly attributed to annual bonus incentives and the impairment charge on Block 10A incurred in the fourth quarter of 2013, offset partially by a $7.4 million increase in stock-based compensation. The Company issued 5,958,500 stock options of AOC to directors, officers and employees in the first quarter of 2014 of which one-third vested immediately. The $24.9 million increase in operating expenses from the first to the second quarter of 2014 can be mainly attributed to a $30.8 million impairment of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia and a $0.7 million increase in stock exchange and filing fees as a result of costs associated with the graduation to the TSX in Canada and Nasdaq Stockholm, offset partially by a $6.6 million decrease in stock-based compensation. Upon evaluating the results of El Kuran-3 further, the Company has written off previously capitalized intangible exploration assets related to Blocks 7&8. The decrease in stock-based compensation can be attributed to the options granted in the first quarter of 2014, of which one-third vested immediately. The $30.6 million decrease in operating expenses from the second quarter to the third quarter of 2014 can be mainly attributable to the impairment of intangible exploration assets relating to Blocks 7/8 and costs associated with graduation to the TSX in Canada and Nasdaq Stockholm, both which occurred in the second quarter of 2014. The $96.4 million increase in operating expenses from the third quarter to the fourth

quarter of 2014 can be mainly attributable to a $90.6 million impairment of intangible exploration assets in the Dharoor and Nugaal exploration blocks in Puntand (Somalia) and a $5.8 million impairment of intangible exploration assets in the Adigala Block in Ethiopia. Ongoing political challenges in Puntland (Somalia) persist unresolved, including challenges regarding the legitimacy of oil concession contracts issued by the former and current central Somali governments and regional states (Puntland and Somaliland), many of which cover overlapping territory and border disputes between Somalia (including Puntland) and Somaliland. The Company has significantly reduced its presence in Bosaso, Puntland and ceased operational activities and associated expenditures until the political issues are resolved. Subsequent to the year-end, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala Block. An increase in salary costs associated with annual bonus incentives was offset by a reduction in stock-based compensation and donations. The decrease in stock-based compensation can attributed to unvested options that were cancelled in the fourth quarter of 2014. A $0.5 million donation was made to the Lundin Foundation in the third quarter of 2014 versus nil in the fourth quarter of 2014.

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 decreased from the first quarter to the third quarter of 2013 due to a reduction in cash held as the Company continued its active exploration activities. Interest income increased in the fourth quarter of 2013 and again in the first quarter of 2014 due to an increase in cash as a result of the brokered private placement in October of 2013. Interest income decreased from the first quarter to the fourth quarter of 2014 due to a reduction in cash held as the Company continued its active exploration activities.

Foreign exchange gains and losses

During October of 2013, the Company entered into an economic hedge in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate between the date a private placement was announced and the date the private placement closed, in which the Company issued shares for Swedish Krona. As a result, the Company incurred foreign exchange losses on the foreign currency instrument of $7.4 million in the fourth quarter of 2013. The remaining foreign exchange gains and losses are primarily related to changes in the value of the Canadian dollar in comparison to the US dollar.

Fair market value adjustments – warrants

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

At December 31, 2014, nil warrants were outstanding in AOC and Horn. In June 2014, all of the remaining 9,546,248 Horn warrants expired unexercised. The Company recorded a $0.001 million gain on the revaluation of warrants for the year ended December 31, 2014 as the Horn warrants expired unexercised.

Net loss attributable to non-controlling interest

The net loss attributable to non-controlling interest represents the Company's non-ownership percentage of Horn's net loss. The significant increase in the fourth quarter of 2014 is due mainly to the Company's non-ownership share of the $90.6 million impairment of intangible exploration assets in the Dharoor and Nugaal exploration blocks in Puntand (Somalia).

Net loss attributable to common shareholders

The net loss attributable to common shareholders represents the Company's net loss, including its ownership percentage of Horn's net loss.

RESULTS OF OPERATIONS

(thousands)	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and benefits	$ 1,625	$ 3,528	$ 3,005	$ 5,040
Stock-based compensation	2,398	2,114	17,951	12,746
Travel	379	420	1,623	1,588
Office and general	646	325	1,396	1,160
Donation	-	1,051	2,035	1,151
Depreciation	17	15	67	55
Professional fees	306	462	835	786
Stock exchange and filing fees	187	310	1,584	969
Impairment of intangible exploration assets	96,878	22,874	128,180	22,874
Operating expenses	$ 102,436	$ 31,099	$ 156,676	$ 46,369

Operating expenses increased $71.3 million for the three months ended December 31, 2014 compared to the same period in the prior year. During the fourth quarter of 2014, the Company recorded a $90.6 million impairment of intangible exploration assets in the Dharoor and Nugaal exploration blocks in Puntand (Somalia) and a $5.8 million impairment of intangible exploration assets in the Adigala Block in Ethiopia. During the fourth quarter of 2013, the Company recorded to a $22.9 million impairment of intangible exploration assets in Block 10A in Kenya. The decrease in salary related costs is the result of a decrease in annual bonus incentives granted to officers, employees and consultants of the Company in 2014 compared to 2013. A $1.0 million donation was made to the Lundin Foundation in the fourth quarter of 2013 versus nil in the fourth quarter of 2014. Office and general costs increased in the fourth quarter of 2014 compared to the same period in 2013 due to increased conference costs and advisory fees.

Operating expenses increased $110.3 million for the year ended December 31, 2014 compared to the same period in the prior year. During 2014, the Company recorded a $90.6 million impairment of intangible exploration assets in the Dharoor and Nugaal exploration blocks in Puntand (Somalia), a $5.8 million impairment of intangible exploration assets in the Adigala Block in Ethiopia, and a $31.3 million impairment of intangible exploration assets in Blocks 7/8 in Ethiopia. During 2013, the Company recorded to a $22.9 million impairment of intangible exploration assets in Block 10A in Kenya. The $5.2 million increase in stock-based compensation is mainly the result of an increase in the fair value of each stock option granted in 2014 compared to those granted in 2013. The increase in the fair market value is primarily attributable to the exercise price being higher for the options granted in the 2014 compared to those granted in 2013, which under the Black-Scholes option pricing model results in an increase in the cost of each option granted. The decrease in salary related costs is the result of a decrease in annual bonus incentives granted to officers, employees and consultants of the Company in 2014 compared to 2013. The Company made $2.0 million and $1.1 million of donations to the Lundin Foundation in 2014 and 2013, respectively, resulting in a $0.9 million increase in operating expenses. Stock exchange and filing fees increased $0.6 million as a result of costs associated with the graduation to the TSX in Canada and Nasdaq Stockholm.

SELECTED ANNUAL INFORMATION

For the years ended December 31, (thousands, except per share amounts)	**2014**	**2013**	**2012**
Statement of Operations Data			
Interest income	$ 1,267	$ 1,026	$ 326
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	(48,773)	1,222	2,676
Net loss and comprehensive loss attributable to common shareholders	(106,937)	(52,660)	(22,793)
Data per Common Share			
Basic loss per share ($/share)	(0.34)	(0.20)	(0.10)
Diluted loss per share ($/share)	(0.34)	(0.20)	(0.10)
Balance Sheet Data			
Net w orking capital	10,569	439,806	237,671
Total assets	950,548	987,824	559,457
Long term liabilities	$ -	$ -	$ 828

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

Interest income increased in 2014 compared to 2013 due to a significant increase in cash in the fourth quarter of 2013 as a result of cash received from the brokered private placement in October of 2013. Interest income increased in 2013 compared to 2012 due to a significant increase in cash late in the fourth quarter of 2012 as a result of cash received from the non-brokered private placement in December of 2012.

The net income (loss) attributable to non-controlling interest represents the Company's non-ownership percentage of Horn's net income (loss). 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 Horn.

The net loss attributable to common shareholders increased $54.3 million to $106.9 million in 2014 from $52.7 million in 2013, mainly as a result of a $110.3 million increase in operating expenses, as described above, net of the Company's non-ownership percent of Horn's increase in operating expense. Further, the Company recorded a $9.2 million foreign exchange loss in 2013, compared to a foreign exchange loss of $0.3 million in 2014. Of foreign exchange loss in 2013, $7.4 million related to a derivative instrument entered into by the Company in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013. The remainder of the foreign exchange loss resulted from a weakening of the Canadian dollar versus the US dollar exchange rate, impacting the Company's Canadian dollar cash held on deposit. The Company recorded a $3.1 million gain on the revaluation of the warrant liability, compared to almost nil in 2014. The decrease in the gain from 2013 to 2014 is due to a reduction in the number of Horn warrants outstanding to nil in 2014.

The net loss attributable to common shareholders increased $29.9 million to $52.7 million in 2013 from $22.8 million in 2012, mainly as a result of a $24.7 million increase in operating expenses and an increase in foreign exchange losses, offset partially by an increase in the gain on the revaluation of the warrant liability. The Company recorded a $9.2 million foreign exchange loss in 2013, compared to a foreign exchange gain of $0.6 million in 2012. Of foreign exchange loss in 2013, $7.4 million related to a derivative instrument entered into by the Company in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013. The remainder of the foreign exchange loss resulted from a weakening of the Canadian dollar versus the US dollar exchange rate, impacting the Company's Canadian dollar cash held on deposit. The Company recorded a $3.1 million gain on the revaluation of the warrant liability, compared to a $0.8 million gain in 2012. The increase in the gain from 2012 to 2013 is due to a reduction in the number of Horn warrants outstanding, a reduction of the remaining life of the Horn warrants that remain outstanding, and a reduction in the volatility of the Horn's share price.

The significant reduction in working capital from 2013 to 2014 is due to cash-based operating expenditures and intangible exploration expenditures during 2014. Subsequent to the end of the year, the Company completed a brokered private placement which will improve the Company's December 31, 2014 working capital position by approximately $120 million. The improvement in working capital from 2012 to 2013 is due to the brokered private placement in October 2013 which raised $447.4 million in cash, offset partially by intangible exploration expenditures and cash-based operating expenditures during 2013.

The decrease total assets from 2013 to 2014 is due to impairment of intangible assets, offset partially by non-cash based intangible exploration expenditures. The increase in total assets from 2012 to 2013 is due to the brokered private placement in October 2013 which raised $447.4 million.

The significant in long-term liabilities from 2012 to 2013 is the result of all warrants outstanding being current as at December 31, 2013.

INTANGIBLE EXPLORATION ASSETS

(thousands)	December 31, 2014	December 31, 2013
Intangible exploration assets	$785,177	$488,688

During the year ended December 31, 2014, intangible exploration assets increased by $296.5 million; $437.9 million intangible exploration expenditures were partially offset by a reduction of $13.2 million resulting from a farmout of the Rift Basin Area in Ethiopia and impairment charges of $128.2 million following the decision to write off previously capitalized intangible exploration assets of Blocks 7/8 and Adigala in Ethiopia and the Dharoor and Nugaal Blocks in Puntland (Somalia).

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

For the years ended	December 31, 2014				December 31, 2013			
(thousands)	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	$269,806	$41,533	$ 79	**$311,418**	$115,603	$43,604	$ 374	**$159,581**
Development studies	51,756	-	-	**51,756**	5,580	-	-	**5,580**
Exploration surveys and studies	44,249	1,382	36	**45,667**	25,754	10,094	28	**35,876**
PSA and G&A related	22,251	5,697	1,087	**29,035**	21,377	5,375	1,664	**28,416**
Total	$388,062	$48,612	$ 1,202	**$437,876**	$168,314	$59,073	$ 2,066	**$229,453**

AOC incurred $388.1 million of intangible exploration expenditures in Kenya for the year ended December 31, 2014. The majority of drilling expenditures related to the Company's portion of drilling costs on the Etuko-1 well test and Etuko-2 well (Block 10BB), the Amosing-1 well (Block 10BB), the Ewoi-1 well and test (Block 10BB), the Agete-1 well and test (Block 13T), the Twiga-2 well and test (Block 13T), the Ekales-1 well test (Block 13T), the Emong-1 well (Block 13T), the Ekunyuk-1 well (Block 10BB), the Agete-2 well (Block 13T), the Amosing-2 well (Block 10BB), the Ngamia-2 well (Block 10BB), the Ngamia-3 well (Block 10BB), the Ngamia-4 well (Block 10BB), the Kodos-1 well (Block 10BB), the Etom-1 well (Block 13T), the Ekosowan-1 well (Block 10BB), the Sala-1 well and test (Block 9), the Sala-2 well (Block 9), the Amosing-2A well (Block 10BB), the Epir-1 well (Block 10BB), the Ngamia-5 well (Block 10BB), the Ngamia-6 well (Block 10BB), the Amosing-3 well (Block 10BB), and the Engomo-1 well (Block 10BA). The majority of development study spend relates to progressing towards project sanction for the discovered basin in

Northern Kenya. The majority of exploration surveys and studies related to 3D seismic acquisition costs on Blocks 10BB and 13T, and 2D seismic acquisition costs on Blocks 10BB, 13T, 10BA and 12A.

AOC incurred $48.6 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2014. The majority of drilling expenditures related to the Company's portion of drilling costs at El Kuran-3 in Blocks 7/8 and Shimela-1 and Gardim-1 in the South Omo block. The majority of exploration surveys and studies related to 2D seismic acquisition preparation costs in the Rift Basin Area.

AOC incurred $1.2 million of intangible exploration expenditures in Puntland for the year ended December 31, 2014. The majority of expenditures related to PSA related expenditures, capitalized general and administrative costs ("G&A"), and costs related to an operational assessment undertaken in the first half of the year.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company had cash of $161.2 million and working capital of $10.6 million as compared to cash of $493.2 million and working capital of $439.8 million at December 31, 2013. Of the $161.2 million in cash at December 31, 2014, $1.6 million is cash held by Horn. The Company's liquidity and capital resource position has decreased since the end of 2013 due to cash-based operating expenses and intangible exploration expenditures. Subsequent to year end, 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 1,054,874,995 (approximately $125 million equivalent on the date the private placement was announced). An agent's fee of 4% of gross proceeds was paid to the bookrunners.

In December 2012, the Company closed the first and second tranches of its private placement, issuing 30,000,000 common shares at CAD$7.75 per common share for net proceeds of $226.4 million. In October 2013, the Company closed an additional private placement, issuing 56,505,217 shares at a price of SEK 51.75 per share for net proceeds of $440 million net of issuance costs and related foreign exchange. Net proceeds of the private placements were expected to be used towards the Company's ongoing work program in East Africa as well as for general working capital purposes.

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

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

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. 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 years to five years after the grant date. Stock-based compensation for the year ended December 31, 2014 was $18.0 million as compared to $12.7 million during the same period in 2013. The increase in stock-based compensation is mainly the result of an increase in the fair value of each stock option granted in 2014 compared to those granted in 2013. The increase in the fair market value is primarily attributable to the exercise price being higher for the options granted in 2014 compared to those granted in 2013. One-third of stock options granted vested immediately. Of the $18.0 million stock-based compensation expense recognized in the year ended December 31, 2014, $0.3 million relates to stock-based compensation expense of Horn. The Company continues to utilize its stock option plan as a method of recruiting, retaining and motivating personnel.

RELATED PARTY TRANSACTIONS

Transactions with Horn Petroleum Corp. ("Horn")

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At December 31, 2014, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn $0.8 million during 2014 (2013 – $0.9 million). At December 31, 2014, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (2013 – $ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.06 million during 2014 (2013 - $0.03 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2014, $0.03 million was outstanding and recorded in due from related party (2013 – $0.01 million).

During 2014, AOC invoiced Horn $0.1 million for reimbursable expenses paid by AOC on behalf of Horn (2013 - $0.1 million). As at December 31, 2014, $0.07 million was outstanding and recorded in due from related party (2013 – $0.1 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, Vice President of Business Development, Vice President of External Affairs, as well as the President, Chief Operating Officer and Chief Financial Officer of Horn. Directors include both the Company's and Horn's Directors.

Directors' fees include Board and Committee Chair retainers and meeting fees. Management's short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31, (thousands)		2014		2013
Directors' fees	$	206	$	221
Directors' share-based compensation		2,356		1,159
Management's short-term w ages, bonuses and benefits		4,084		5,473
Management's share-based compensation		11,471		8,532
	$	18,117	$	15,385

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 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expired in January 2014, AOC and its partners were obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of $7.8 million. Additionally, AOC and its partners were obligated to drill one exploration well with a minimum expenditure of $8.5 million. The Company at its partners have fulfilled the minimum work and financial obligations under the PSA for the initial exploration period, and in December of 2013 notified the Ministry of Energy in Kenya that they were electing not to enter the next exploration period.

Under the terms of the Block 10BB PSC, during the first additional exploration period which was extended by the Ministry of Energy and Petroleum for the Republic of Kenya and expires in July 2015, the Company and its partner are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of $7.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $6.0 million. The Company's working interest in Block 10BB is currently 50%.

Under the terms of the Block 9 PSC, with the drilling of the Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $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. The Company's working interest in Block 9 is currently 50%.

Under the terms of the Block 12A PSC, the Company and its partners notified the Ministry of Energy and Petroleum for the Republic of Kenya of their intention to enter into the first additional exploration period in Block12A which expires in September 2016. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including 200 square kilometers of 3D seismic with a total minimum gross expenditure of $6.0 million. Additionally, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. The Company's working interest in Blocks 12A is currently 20%.

Under the terms of the Block 13T PSC, during the first additional exploration period which was extended by the Ministry of Energy and Petroleum for the Republic of Kenya and expires in September 2015, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $15.0 million. The Company's working interest in Block 13T is currently 50%.

Under the terms of the Block 10BA PSC, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in April 2014. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's and its partners' entry into the first additional exploration period which expires in April 2016. During the first additional exploration period, the Company and its partner 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 partner 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. The Company's working interest in Block 10BA is currently 50%.

Ethiopia:

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

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

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. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the second additional exploration period which expires in January 2017. During the second additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. The Company's working interest in the South Omo Block is currently 30%.

Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company and its partner 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. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of $1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of $1,250,000. The Company's working interest in the Rift Basin Area Block is currently 50%.

Puntland (Somalia):

With the completion of drilling Shabeel-1 and Shabeel North-1 in 2012, the Company and its partners have fulfilled the minimum work obligations of the initial exploration period under both of the Dharoor Valley and Nugaal Valley PSAs and have entered the second exploration period in each PSA which expire in October 2015. The minimum work obligations during the second exploration period include an exploration well in each block with minimum exploration expenditures of $5.0 million (gross) in each block. The Company has requested a two year extension to the current exploration period from the Puntland Government to allow time for the ongoing political challenges to be resolved.

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to fund its 20% participating interest share of ongoing exploration costs related to each block. Upon commencement of commercial production, $3.5 million will be payable to Range. The Company's current working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks is 60%.

OUTSTANDING SHARE DATA

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

Common shares outstanding	369,954,649
Outstanding share purchase options	19,566,667
Full dilution impact on common share outstanding	389,521,316

Subsequent to the end of the year, the Company issued 57,020,270 in regards to the brokered private placement and 601,100 common shares resulting from the exercise of as many stock options. The Company also granted 4,594,000 stock options at an option price of CAD$2.48 and cancelled 320,000 stock options, all of which have been factored into the table above.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company' significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2014.

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.

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

Warrants
An obligation to issue shares for a price that is not fixed in the company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The warrants which were

fully exercised in the quarter entitled the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. The Company used the fair value method, utilizing the Black-Scholes option pricing model, for valuing the warrants. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

Income Tax

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

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

The following new standards and amendments to standards and interpretations have been implemented effective January 1, 2014.

IAS 32: Financial Instruments: Presentation

In 2011, the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

IAS 36: Impairment of Assets

In 2013, the IASB issued amendments to IAS 36 that requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

IFRIC 21, 'Levies'

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the current period. These amendments had no material impact on the consolidated financial statements.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, 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 2017 and earlier application is permitted. The Company has not fully assessed the impact of IFRS 9.

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, 2014, 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, 2014, 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 Puntland (Somalia), 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.

International Boundary Disputes

Due to ongoing political disputes, the geographic boundaries separating Somalia from its neighbors and dividing the various semiautonomous regions of Somalia (including Puntland) are not universally agreed within Somalia or by the international community.

Somaliland has disputed its border with the Republic of Somalia (including the Regional State of Puntland) since May 1991 when Somaliland unilaterally declared its independence. Its claim is based on the fact that it is the successor state to the British Somaliland protectorate that united with the Republic of Somalia in July 1960. However neither the Republic of Somalia, nor the wider international community, have recognized their claim to independence nor the associated depiction of their borders.

Despite this position, the Somaliland government has written on a number of occasions (including September 2007 and February 2012) to formally inform the Company of its claim of sovereignty. Elements of this territorial claim overlap oil concessions granted to the Company by the Puntland government in the Nugaal Valley basin.

An added complication developed in 2012 when the Sool, Sanaag and Cayn (SSC) region of Somalia established the Khatumo State administration. SSC leaders declared this an autonomous state that exists in the aforementioned disputed zone between Somalia/Puntland and Somaliland. The SSC rejects all Somaliland claims to the area and see themselves as the legitimate representatives of the local communities within a Federal State of Somalia.

Political Instability

Through Horn, the Company is highly exposed to significant political risk in Somalia and the Puntland Regional State. Whilst the political and security situation in Somalia has seen some major advancement over the last two years, the country as a whole is still characterized by strong internal political tension that can easily escalate into violence.

The election of an internationally recognized Federal Government of Somalia in August 2012 (the first permanent central government in the country since the start of the civil war in 1991) was a noticeable achievement. This has led to a range of additional political improvements including recognition by the UN and other key international governments. However the structures and systems of government are still fragile and emerging.

In January 2014, the Regional State of Puntland underwent its own Presidential election that led to the relatively peaceful transition of power to a new President. This democratic step was again hailed by the international community as a sign of the progress taking place in the country.

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. In light of the boundary disputes and the dynamic political environment at both the federal and regional levels within Somalia, the constitutional and legal basis surrounding mineral and oil and gas rights is often disputed between the various levels of government and semi-autonomous states. The Federal Government of Somalia, elected in 2012, and the various regional governments have yet to mutually agree on a legislative framework surrounding the granting of exploration rights and administering exploration activities.

Competing Claims From ConocoPhillips
By a letter dated November 16, 2007, AOC was advised by ConocoPhillips, which entity had previously engaged in oil and gas exploration in Somalia, that it was claiming a continued interest in certain parts of the concessions that comprise the blocks in which Canmex II holds its interest. ConocoPhillips stated that it had acquired its interest from the Somali Democratic Republic (a name given to Somalia in 1969 by the communist regime of President Barre), that its interests have not been terminated by the Somali Democratic Republic, and that they have not been relinquished by ConocoPhillips. The letter stated ConocoPhillips disagreement with any suggestion that its interests had lapsed. No further correspondence has been received by either the Company or AOC since 2007.

The Company does not recognize the interest of ConocoPhillips and disputes ConocoPhillip's position in respect of this matter. However, if ConocoPhillips chooses to pursue its claims, the outcome of a dispute or lawsuit cannot be predicted with any certainty.

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.

In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013, in which the Company issued shares for Swedish Krona. As a result, the Company incurred losses on foreign currency instrument of $7.4 million.

For the year ended December 31, 2014, 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 $0.2 million (2013 - $2.2 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2014, the Company had $3.0 million Canadian dollars (2013 - $3.0 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. As at December 31, 2013, the Company held $6.1 million of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

OUTLOOK

In light of the current and forecast short term oil price environment, the Company has worked closely with Tullow to focus the 2015 work program and budget on advancing the discovered basin development in Blocks 10BB and 13T (Kenya) by undertaking activities aimed at increasing resource certainty and progressing development studies with the intent of submitting a FDP around the end of 2015. The 2015 work program will include multiple appraisal and exploration wells in the discovered basin, EWT's in the Amosing and Ngamia fields and reservoir and engineering studies (including extensive core analysis). In addition, the Africa Oil – Tullow joint venture will continue to work closely with the Government of Kenya and the Uganda Upstream partners to advance the regional oil export pipeline.

Outside of the discovered basin in Northern Kenya, the Africa Oil – Tullow joint venture new basin opening exploration program includes the Engomo-1 well in Block 10BA (Kenya) currently drilling and potentially the Cheptuket well in Block 12A (Kenya), a PSC commitment well that needs to be drilled before September 2016. Outside of the Africa Oil – Tullow joint venture blocks, the 2015 work program is focused on the Rift Basin Area Block in Ethiopia where a 2D seismic program of a minimum 400 kilometer land and lake survey has just commenced acquisition.

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

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

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;

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

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

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

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

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

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

AFRICA OIL CORP.

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

	Note		December 31, 2014		December 31, 2013
ASSETS					
Current assets					
Cash and cash equivalents		$	161,162	$	493,209
Accounts receivable			1,633		3,195
Prepaid expenses			1,276		1,379
			164,071		497,783
Long-term assets					
Restricted cash	5		1,250		1,250
Property and equipment	6		50		103
Intangible exploration assets	7		785,177		488,688
			786,477		490,041
Total assets		$	950,548	$	987,824
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	153,502	$	57,976
Current portion of warrants	9		-		1
			153,502		57,977
Total liabilities			153,502		57,977
Equity attributable to common shareholders					
Share capital	8(b)		1,014,772		1,007,414
Contributed surplus			39,947		24,396
Deficit			(257,673)		(150,736)
			797,046		881,074
Non-controlling interest			-		48,773
Total equity			797,046		929,847
Total liabilities and equity		$	950,548	$	987,824

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

Approved on behalf of the Board:

"CAMERON BAILEY" *"KEITH HILL"*

CAMERON BAILEY, DIRECTOR **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, 2014	December 31, 2013
Operating expenses			
Salaries and benefits		$ 3,005	$ 5,040
Stock-based compensation	10	17,951	12,746
Travel		1,623	1,588
Office and general		1,396	1,160
Donation	22	2,035	1,151
Depreciation	6	67	55
Professional fees		835	786
Stock exchange and filing fees		1,584	969
Impairment of intangible exploration assets	7	128,180	22,874
		156,676	46,369
Finance income	16	(1,268)	(4,141)
Finance expense	16	302	9,210
Net loss and comprehensive loss		155,710	51,438
Net (income) loss and comprehensive (income) loss attributable to non-controlling interest		48,773	(1,222)
Net loss and comprehensive loss attributable to common shareholders		106,937	52,660
Net loss attributable to common shareholders per share	19		
Basic		$ 0.34	$ 0.20
Diluted		$ 0.34	$ 0.20
Weighted average number of shares outstanding for the purpose of calculating earnings per share	19		
Basic		311,285,732	263,081,763
Diluted		311,285,732	263,081,763

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, 2014	December 31, 2013
Share capital:	8(b)		
Balance, beginning of year		$ 1,007,414	$ 558,555
Private placement, net		-	447,355
Exercise of options		7,358	1,504
Balance, end of year		1,014,772	1,007,414
Contributed surplus:			
Balance, beginning of year		$ 24,396	$ 12,123
Stock based compensation	10	17,951	12,746
Exercise of options	10	(2,400)	(473)
Balance, end of year		39,947	24,396
Deficit:			
Balance, beginning of year		$ (150,736)	$ (98,076)
Net loss and comprehensive loss attributable to common shareholders		(106,937)	(52,660)
Balance, end of year		(257,673)	(150,736)
Total equity attributable to common shareholders		$ 797,046	881,074
Non-controlling interest:			
Balance, beginning of year		$ 48,773	$ 47,551
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest		(48,773)	1,222
Balance, end of year		-	48,773
Total equity		$ 797,046	$ 929,847

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)

	Note		December 31, 2014		December 31, 2013
Cash flows provided by (used in):					
Operations:					
Net loss and comprehensive loss for the year		$	(155,710)	$	(51,438)
Items not affecting cash:					
Stock-based compensation	10		17,951		12,746
Depreciation	6		67		55
Impairment of intangible exploration assets	7		128,180		22,874
Fair value adjustment - warrants	16		(1)		(3,115)
Foreign exchange loss related to financing	16		-		7,396
Unrealized foreign exchange loss			289		25
Changes in non-cash operating working capital	23		(636)		(756)
			(9,860)		(12,213)
Investing:					
Property and equipment expenditures	6		(14)		(76)
Intangible exploration expenditures	7		(437,876)		(229,453)
Farmout proceeds	7		13,207		-
Changes in non-cash investing working capital	23		97,827		21,942
			(326,856)		(207,587)
Financing:					
Common shares issued	8(b)		4,958		448,386
Foreign exchange loss related to financing	16		-		(7,396)
Deposit of cash for bank guarantee	5		(450)		(1,250)
Release of bank guarantee	5		450		1,119
			4,958		440,859
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency			(289)		(25)
Increase (decrease) in cash and cash equivalents			(332,047)		221,034
Cash and cash equivalents, beginning of year		$	493,209	$	272,175
Cash and cash equivalents, end of year		$	161,162	$	493,209
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, Ethiopia, and Puntland (Somalia). The Company's registered address is Suite 2600, 1066 West Hastings Street Vancouver, BC, V6E 3X1.

AOC is an exploration stage enterprise that participates in oil and gas projects located in emerging markets, in east Africa. To date, AOC has not found proved reserves and is considered to be in the exploration stage. Oil and gas exploration, development and production activities, in these emerging markets, are subject to significant uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, 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 of February 26, 2015, the date the Board of Directors approved the statements.

b) Basis of measurement:

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

Charges for share-based payments are based on the fair value at the date of the award. Stock 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 10).

iii) Derivative financial instruments:

Warrants are treated as derivative financial liabilities. The estimated fair value, based on the Black-Scholes model, of each is adjusted on a quarterly basis with gains or losses recognized in the statement of net loss and comprehensive loss. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term (see note 9).

iv) 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. 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.

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 held un-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) Stock-based compensation:

The Company has a stock option plan as described in note 10. The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as stock-based compensation expense and an increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When the stock options are exercised, the proceeds received and the applicable amounts recorded in contributed surplus are credited to share capital.

g) Finance income and expenses:

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the statement of net 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.

h) 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.

i) 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.

j) Financial instruments:

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

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

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

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. The Company has acquired marketable securities in the Lion Energy Corp. acquisition that management intends to sell 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.

(1) Warrants

The warrants entitled the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of net loss and comprehensive loss as they arise. The Company has recorded these changes as financing income and expenses (see note 9).

k) Provisions:

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

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.

4) New accounting standards:

As of January 1, 2014, the following standards and amendments issued by the IASB became effective:

IAS 32: Financial Instruments: Presentation

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the year ending December 31, 2014. These amendments had no material impact on the consolidated financial statements.

IAS 36: Impairment of Assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. This amendment is effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the year ending December 31, 2014. These amendments had no material impact on the consolidated financial statements.

IAS 39: Financial instruments: Recognition and measurement

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. These amendments are effective for annual periods beginning on or after January 1, 2014; accordingly, the Company has adopted these amendments for the year ending December 31, 2014. These amendments had no material impact on the consolidated financial statements.

IFRIC 21, 'Levies'

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company is not currently subject to significant levies as such the impact on the Company is not material.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, 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

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

11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company has not fully assessed the impact of IFRS 9.

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:

At December 31, 2014, the Company has a restricted cash balance of $1.25 million, (December 31, 2013 - $1.25 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	December 31, 2014	December 31, 2013
Rift Basin	Republic of Ethiopia	$ 1,250	$ 1,250
		$ 1,250	$ 1,250

During 2014, the Company placed an outstanding letter of credit in favor of the Kenyan Government which was collateralized by a $0.45 million bank deposit. Upon the Company fulfilling its financial and work obligations, the outstanding letter of credit was released, also in 2014.

6) Property and equipment:

	December 31, 2014	December 31, 2013
Cost, beginning of year	$ 382	$ 306
Additions	14	76
Cost, end of year	396	382
Accumulated depreciation, beginning of year	(279)	(224)
Depreciation	(67)	(55)
Accumulated depreciation, end of year	(346)	(279)
Net carrying amount, beginning of year	$ 103	$ 82
Net carrying amount, end of year	$ 50	$ 103

As at December 31, 2014, the Company has recorded $0.1 million of property and equipment (December 31, 2013 - $0.1 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years). The Company has reviewed property and equipment and determined that there is no indication of impairment.

7) Intangible exploration assets:

	December 31, 2014	December 31, 2013
Net carrying amount, beginning of year	$ 488,688	$ 282,109
Intangible exploration expenditures	437,876	229,453
Impairment of intangible exploration assets	(128,180)	(22,874)
Farmout proceeds	(13,207)	-
Net carrying amount, end of year	$ 785,177	$ 488,688

As at December 31, 2014, $785.2 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2013 - $488.7 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At December 31, 2014, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

During the year ended December 31, 2014, the Company capitalized, within intangible exploration, $21.2 million of exploration inventory related items which are available for use in the 2015 exploration program (December 31, 2013 – $11.1 million).

During the year ended December 31, 2014, the Company capitalized $20.3 million of general and administrative expenses related to intangible exploration assets (December 31, 2013 – $12.7 million).

Subsequent to the year-end, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala Block. Accordingly, the Company wrote off $5.8 million of capitalized intangible exploration assets related to the Adigala Block in the fourth quarter of 2014. The remaining carrying value of the Adigala Block intangible exploration assets is $ nil.

Ongoing political challenges in Puntland (Somalia) persist unresolved, including challenges regarding the legitimacy of oil concession contracts issued by the former and current central Somali governments and regional states (Puntland and Somaliland), many of which cover overlapping territory and border disputes between Somalia (including Puntland) and Somaliland. The Company has significantly reduced its presence in Bosaso, Puntland and ceased operational activities and associated expenditures until the political issues are resolved. As a result, the Company has fully impaired $90.6 million of previously capitalized intangible exploration assets during the fourth quarter of 2014 relating to the Dharoor Valley and Nugaal Valley PSAs. The remaining carrying amount of intangible exploration assets is $ nil.

During August 2014, the Company notified the Ethiopian Government and its partners that it intends to withdraw from Blocks 7&8. Accordingly, the Company wrote off $31.8 million of capitalized intangible exploration assets related to Blocks 7&8. The remaining carrying value of the Blocks 7&8 intangible exploration assets is $ nil

In March 2014, the Company completed a farmout transaction with Marathon Oil Corporation ("Marathon") whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company $3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of $15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company $3.0 million in consideration of past exploration expenditures and $10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.

During December 2013, the Company and its partners notified the Ministry of Energy in Kenya of their decision not to enter into the next additional exploration period in Block 10A. Accordingly, the Company wrote off in 2013

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

$22.9 million of capitalized intangible exploration assets related to Block 10A. The remaining carrying value of the Block 10A intangible exploration assets is $ nil.

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

8) Share capital:

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

b) Issued:

		December 31, 2014		December 31, 2013	
	Note	Shares	Amount	Shares	Amount
Balance, beginning of year		309,470,323	$ 1,007,414	252,165,938	$ 558,555
Private placements, net of issue costs	(i)	-	-	56,505,217	447,355
Exercise of options	10	2,862,956	7,358	799,168	1,504
Balance, end of year		312,333,279	$ 1,014,772	309,470,323	$ 1,007,414

i) During October 2013, the Company completed a brokered private placement issuing an aggregate of 56,505,217 shares at a price of SEK 51.75 per share (CAD $8.25 equivalent based on the foreign exchange rate on the date the private placement was announced) for gross proceeds of SEK 2,924,144,980 or $461.4 million. A cash commission was paid in the amount of $13.8 million.

9) Warrants:

In June 2014, all of the remaining 9,546,248 Horn Petroleum Corporation ("Horn") warrants expired unexercised. At December 31, 2014, the Company recorded $ nil (December 31, 2013 - $0.001 million) in current warrant liability on consolidation of its 44.6% owned subsidiary Horn. During the year ended December 31, 2014, the Company recognized a $0.001 million gain on the revaluation of Horn's warrant liability (December 31, 2013 – $3.1 million).

10) Share purchase options:

At the 2013 Annual General Meeting, held on June 3, 2014, the Company approved the stock option plan ("the Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive stock options shall not exceed 10% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

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

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

	December 31, 2014		December 31, 2013	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	13,395,222	4.35	8,277,056	1.54
Granted	6,078,500	8.42	6,081,000	6.07
Expired or cancelled	(716,999)	7.91	(163,666)	8.62
Exercised	(2,862,956)	1.89	(799,168)	1.31
Balance, end of year	15,893,767	6.19	13,395,222	4.35

The weighted average closing share price on the day options were exercised during the year ended December 31, 2014 was CAD$8.02 (December 31, 2013 - CAD$6.06).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the years ended December 31, 2014 and 2013, was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2014	2013
Number of options granted during the year	6,078,500	6,081,000
Fair value of options granted (CAD$ per option)	3.33	2.82
Risk-free interest rate (%)	1.01	1.01
Expected life (years)	2.25	2.25
Expected volatility (%)	67	72
Expected dividend yield	-	-

The following table summarizes information regarding the Company's stock options outstanding at December 31, 2014:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
1.49	3,271,100	-
2.09	5,166	0.17
5.94	5,569,334	1.29
7.30	120,000	2.48
7.86	100,000	1.59
8.32	315,000	0.51
8.44	5,763,167	2.12
9.90	750,000	0.69
6.19	15,893,767	1.29

All options granted vest annually over a two-year period, of which one-third vest immediately, and expire three years after the grant date**.** During the year ended December 31, 2014, the Company recognized $17.6 million and $0.3 million in stock-based compensation expense related to stock options of AOC and Horn, respectively (2013 - $12.3 million and $0.5 million, respectively). The Company recognizes Horn's stock-based compensation expense on the consolidation of Horn's financial results.

11) Financial risk management:

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

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

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

a) Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. As at December 31, 2014, the Company held $6.1 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 activities to manage its liquidity position. See subsequent event note 24(ii).

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.

In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in

October 2013, in which the Company issued shares for Swedish Krona. As a result, the Company incurred losses on foreign currency instrument of $7.4 million.

For the year ended December 31, 2014, 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 $0.2 million (2013 - $2.2 million) increase or decrease in foreign exchange gains, respectively.

At December 31, 2014, the Company had $3.0 million Canadian dollars (2013 - $3.0 million Canadian dollars) in cash and cash equivalents.

ii) Interest rate risk:

As at December 31, 2014, the Company's has no outstanding convertible debenture. The convertible debenture was repaid in full during 2011. 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.

12) Capital management:

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

The Company manages its capital structure and makes adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure 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 does not have externally imposed capital requirements.

13) Segment information:

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

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

Corporate operating expenses consist of mainly compensation, travel and office related costs associated with the Company's corporate offices in Canada.

At December 31, 2014	Kenya	Ethiopia	Puntland	Corporate	**Total**
Total assets	$ 700,070	$ 90,788	$ 279	$ 159,411	**$ 950,548**
Intangible exploration assets	696,925	88,252	-	-	**785,177**
Property and equipment	-	-	-	50	**50**

At December 31, 2013	Kenya	Ethiopia	Puntland	Corporate	**Total**
Total assets	$ 311,612	$ 101,255	$ 90,454	$ 484,503	**$ 987,824**
Intangible exploration assets	308,863	90,457	89,368	-	**488,688**
Property and equipment	-	-	-	103	**103**

Year ended December 31, 2014	Kenya	Ethiopia	Puntland	Corporate	**Total**
Capital expenditures					
Intangible exploration assets	$ 388,062	$ 48,612	$ 1,202	$ -	**$ 437,876**
Property and equipment	-	-	-	14	**14**
	$ 388,062	$ 48,612	$ 1,202	$ 14	**$ 437,890**
Statement of operations					
Expenses	$ 42	$ 37,634	$ 90,592	$ 28,408	**$ 156,676**
Finance income	-	-	-	(1,268)	**(1,268)**
Finance expense	-	-	-	302	**302**
Segmented loss	$ 42	$ 37,634	$ 90,592	$27,442	**$ 155,710**

Year ended December 31, 2013	Kenya	Ethiopia	Puntland	Corporate	**Total**
Capital expenditures					
Intangible exploration assets	$ 168,314	$ 59,073	$ 2,066	$ -	**$ 229,453**
Property and equipment	-	-	-	76	**76**
	$ 168,314	$ 59,073	$ 2,066	$ 76	**$ 229,529**
Statement of operations					
Expenses	$ 22,919	$ 26	$ 21	$ 23,403	**$ 46,369**
Finance income	-	-	-	(4,141)	**(4,141)**
Finance expense	-	-	-	9,210	**9,210**
Segmented loss	$ 22,919	$ 26	$ 21	$28,472	**$ 51,438**

14) Commitments and contingencies:

a) Contractual obligations

i) Kenya:

Under the terms of the Block 10A PSC, during the initial exploration period which was extended by the Ministry of Energy for the Republic of Kenya and expired in January 2014, AOC and its partners were obligated to complete G&G operations (including acquisition of 750 kilometers of 2D seismic) with a minimum gross expenditure of $7.8 million. Additionally, AOC and its partners were obligated to drill one exploration well with a minimum expenditure of $8.5 million. The Company and its partners have fulfilled the minimum work and financial obligations under the PSA for the initial exploration period, and in December of 2013 notified the Ministry of Energy in Kenya that they were electing not to enter the next exploration period.

Under the terms of the Block 10BB PSC, during the first additional exploration period which was extended by the Ministry of Energy and Petroleum for the Republic of Kenya and expires in July 2015, the Company and its partner are obligated to complete G&G operations (including acquisition of 300 square kilometers of 3D seismic) with a minimum gross expenditure of $7.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $6.0 million. At December 31, 2014, the Company's working interest in Block 10BB was 50%.

Under the terms of the Block 9 PSC, with the drilling of the Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $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, 2014, the Company's working interest in Block 9 was 50%.

Under the terms of the Block 12A PSC, the Company and its partners notified the Ministry of Energy and Petroleum for the Republic of Kenya of their intention to enter into the first additional exploration period in Block12A which expires in September 2016. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including 200 square kilometers of 3D seismic with a total minimum gross expenditure of $6.0 million. Additionally, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At December 31, 2014, the Company's working interest in Blocks 12A was 20%.

Under the terms of the Block 13T PSC, during the first additional exploration period which was extended by the Ministry of Energy and Petroleum for the Republic of Kenya and expires in September 2015, the Company and its partner are obligated to complete G&G operations (including acquisition of 200 square kilometers of 3D seismic) with a minimum gross expenditure of $6.0 million. Additionally, AOC and its partner are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At December 31, 2014, the Company's working interest in Block 13T was 50%.

Under the terms of the Block 10BA PSC, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in April 2014. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's and its partners' entry into the first additional exploration period which expires in April 2016. During the first additional exploration period, the Company and its partner 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 partner 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, 2014, the Company's working interest in Block 10BA was 50%.

ii) Ethiopia:

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

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

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. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the second additional exploration period which expires in January 2017. During the second additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. At December 31, 2014, the Company's working interest in the South Omo Block was 30%.

Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company and its partner 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. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of $1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of $1,250,000 (see note 5). At December 31, 2014, the Company's working interest in the Rift Basin Area Block was 50%.

iii) Puntland (Somalia):

With the completion of drilling Shabeel-1 and Shabeel North-1 in 2012, the Company and its partners have fulfilled the minimum work obligations of the initial exploration period under both of the Dharoor Valley and Nugaal Valley PSAs and have entered the second exploration period in each PSA which expire in October 2015. The minimum work obligations during the second exploration period include an exploration well in each block with minimum exploration expenditures of $5.0 million in each block. The Company has requested a two year extension to the current exploration period from the Puntland Government to allow time for the ongoing political challenges to be resolved.

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

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to pay its 20% participating interest share of ongoing exploration costs related to each block. Upon commencement of commercial production, $3.5 million will be payable to Range. At December 31, 2014, the Company's working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks was 60%.

b) Office Lease Costs:

The Company has committed to future minimum payments at December 31, 2014 under a Canadian operating lease that includes the rental of office space and proportionate share of operating costs and office equipment as follows:

2015	432
2016	430
2017	430
2018	430
2019	430
Total minimum payments	2,152

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.

15) Farmout agreements:

During 2014, the Company has entered into the following farmout agreements reducing the Company's working interest and net commitments under the respective PSCs.

a) Marathon Oil Corporation ("Marathon"):

In March 2014, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50% interest in the Rift Basin Area leaving the Company with a 50% working interest. In accordance with the farmout agreement, Marathon was obligated to pay the Company $3.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures to a maximum of $15.0 million with an effective date of June 30, 2012. Upon closing of the farmout, Marathon paid the Company $3.0 million in consideration of past exploration expenditures. Subsequent to the quarter end, Marathon paid the Company $10.2 million being Marathon's and the Company's share of exploration expenditures from the effective date to the closing date of the farmout.

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

b) New Age (Africa Global Energy) Limited ("New Age"):

In March 2014, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 40% interest in the Company's Adigala Block leaving the Company with 10% working interest. In accordance with the farmout agreement, New Age was obligated to fund the Company's 10% working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of $10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures

16) Finance income and expense:

Finance income and expense for the years ended December 31, 2014 and 2013 is comprised of the following:

For the years ended	December 31, 2014	December 31, 2013
Fair value adjustment - warrants	$ 1	$ 3,115
Interest and other income	1,267	1,026
Bank charges	(13)	(24)
Foreign exchange loss	(289)	(9,186)
Finance income	$ 1,268	$ 4,141
Finance expense	$ (302)	$ (9,210)

In October 2013, the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the US dollar versus the Swedish Krona exchange rate on the private placement in October 2013, in which the Company issued shares for Swedish Krona. Of the $9.2 million of foreign exchange losses, $7.4 million relates to a loss recorded on the derivative instrument entered into by the Company.

17) Related party transactions:

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

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4% of the outstanding shares of Horn. In June 2012, Horn completed a non-brokered private placement further reducing the Company's ownership interest in Horn. At December 31, 2014, the Company owned 44.6% of Horn. The following transactions and resulting intercompany balances outstanding between the Company and Horn have been eliminated as the Company fully consolidates the financial statements of Horn.

Under the terms of a General Management and Service Agreement between Horn and the Company for the provision of management and administrative services, the Company invoiced Horn $0.8 million during 2014 (2013 – $0.9 million). At December 31, 2014, the outstanding balance receivable from Horn, recorded as a due from related party, was $ nil (2013 – $ nil). The management fee charged to Horn by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Horn.

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Under the terms of a Services Agreement between the Company and Horn, AOC invoiced Horn $0.06 million during 2014 (2013 - $0.03 million) for services provided by geologists and geophysicists employed by AOC. As at December 31, 2014, $0.03 million was outstanding and recorded in due from related party (2013 – $0.01 million).

During 2014, AOC invoiced Horn $0.1 million for reimbursable expenses paid by AOC on behalf of Horn (2013 - $0.1 million). As at December 31, 2014, $0.07 million was outstanding and recorded in due from related party (2013 – $0.1 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, Vice President of Business Development, Vice President of External Affairs, as well as the President, Chief Operating Officer and Chief Financial Officer of Horn. Directors include both the Company's and Horn's Directors.

Directors' fees include Board and Committee Chair retainers and meeting fees. Management's short-term wages, bonuses and benefits include salary, benefits, bonuses and any other compensation earned or awarded during the year. Share-based compensation includes expenses related to the Company's stock option plan.

For the years ended December 31, (thousands)		**2014**		**2013**
Directors' fees	$	206	$	221
Directors' share-based compensation		2,356		1,159
Management's short-term wages, bonuses and benefits		4,084		5,473
Management's share-based compensation		11,471		8,532
	$	18,117	$	15,385

For the year ended December 31, 2014, $2.3 million of management remuneration was capitalized to intangible exploration assets (2013 - $2.6 million).

18) Subsidiaries:

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

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

19) Earnings per share:

For the years ended	December 31, 2014			December 31, 2013		
		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	$ 106,937	311,285,732	$ 0.34	$ 52,660	263,081,763	$ 0.20
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ 106,937	311,285,732	$ 0.34	$ 52,660	263,081,763	$ 0.20

20) Financial Instruments:

Assets and liabilities at December 31, 2014 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 receivables and warrants are assessed on the fair value hierarchy described above. The Company's warrants are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period

21) 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 $51.6 million which expire from 2015 through 2034.

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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,	2014	2013
Net loss and comprehensive loss	$ 155,710	$ 51,438
Combined federal and provincial statutory income tax rate	25%	25%
Expected tax recovery	38,928	12,860
Stock-based compensation	(4,488)	(3,186)
Non-taxable expenses	(32,232)	(4,981)
Unrecognized tax losses	(2,208)	(4,693)
Tax recovery	-	-

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

At December 31,	2014	2013
Unbooked deductible temporary differences		
Capital assets	$ 302	$ 236
Share issuance costs	5,670	8,691
Capital losses carried forward	12,872	3,823
Non-capital losses carried forward	51,552	50,021
Charitable donations	6,473	4,438
	$ 76,869	$ 67,209

22) Donation:

During the year-ended December 31, 2014, as part of the Company's Community Social Responsibility commitment, the Company made a $2.0 million donation to the Lundin Foundation (2013 - $1.1 million), a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

23) Supplementary information:

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

	December 31, 2014	December 31, 2013
Changes in non-cash working capital		
Accounts receivable	$ 1,562	$ (347)
Prepaid expenses	103	(255)
Accounts payable and accrued liabilities	95,526	21,788
	97,191	21,186
Relating to:		
Operating activities	$ (636)	$ (756)
Investing activities	$ 97,827	$ 21,942
Changes in non-cash working capital	$ 97,191	$ 21,186

24) Subsequent events:

i) Stock options

Subsequent to the end of the year, the Company granted an aggregate of 4,594,000 incentive stock options to certain officers, directors and other eligible persons of the Company. The options were granted at a price of $2.48 CAD, vest annually over a two-year period, of which one-third vest immediately, and expire five years after the grant date.

ii) Brokered Private Placement

Subsequent to the end of the year, the Company completed a brokered private placement issuing 57,020,270 common shares at a price of SEK 18.50 per share for gross proceeds of SEK 1,054.9 million, or approximately $125 million equivalent. An agent's fee of 4% of gross proceeds was paid to the bookrunners.