



## **AFRICA OIL CORP.**

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Secondary Listing on NASDAQ OMX Stockholm

 Pareto Securities

# IMPORTANT INFORMATION

This prospectus has been prepared in conjunction with the contemplated secondary listing (the “**Listing**”) of common shares in Africa Oil Corp. (the “**Shares**”) on NASDAQ OMX Stockholm AB (“**NASDAQ OMX Stockholm**”). Prior to the Listing, the Shares were traded on a multi-lateral trading facility, NASDAQ OMX First North, in Sweden. The “**Company**” or “**Africa Oil**” means Africa Oil Corp. (incorporation number BC0443700) and/or one or more or all of its subsidiaries, as it may apply. Reference to “**CAD**” means Canadian dollars, “**SEK**” means Swedish kronor and “**USD**” means US dollars. Reference to “**GAAP**” means Canadian generally accepted accounting principles, and reference to “**IFRS**” means International Financial Reporting Standards.

This prospectus has been prepared in compliance with the standards and requirements of the Swedish Financial Instruments Trading Act (1991:980) and European Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council. The prospectus has been approved and registered by the Swedish Financial Supervisory Authority in accordance with the provisions of Chapter 2, Sections 25 and 26 of the Swedish Financial Instruments Trading Act (1991:980). Approval and registration of the prospectus does not imply a guarantee by the Swedish Financial Supervisory Authority that the facts presented in the prospectus are correct or complete.

This prospectus does not comprise any offer to purchase, subscribe for or acquire Shares or other financial instruments issued by Africa Oil. This prospectus has been prepared only in conjunction with an application for admission to trading of the Company’s Shares on NASDAQ OMX Stockholm. The prospectus may not be distributed, directly or indirectly, in any other country where such distribution requires additional registration or other measures than those provided for under Swedish law or that contravene applicable regulations in such country. The Company’s Shares have not been and will not be registered under the 1933 United States Securities Act (“**Securities Act**”), as amended, or under any equivalent statute in any individual state or province of the USA.

Certain amounts and numbers expressed in per cent in this prospectus have been rounded off and may therefore not add up correctly. Other than what is expressly stated, no information in this prospectus has been examined or audited by the Company’s auditors.

No person has been authorized to give any information or to make any representation not contained in this prospectus and, if given or made, such information or representation not contained herein must not be relied upon as having been authorized by the Company. In the event of any material changes to the prospectus during the period from the date of the announcement to the first day of trading, such changes will be announced pursuant to the rules in the Swedish Financial Instruments Trading Act (1991:980), which governs the publication of the prospectus supplements.

Any dispute concerning or relating to this prospectus shall be resolved in accordance with Swedish law and exclusively by a Swedish court of law. The prospectus is available in paper form at Africa Oil’s head office and in electronic form on Africa Oil’s website, [www.africaoilcorp.com](http://www.africaoilcorp.com), as well as on the website of the Swedish Financial Supervisory Authority, [www.fi.se](http://www.fi.se). Pareto Securities AB (“**Pareto**”) has acted as adviser for the Company in connection with the Company’s application for listing on NASDAQ OMX Stockholm and in connection with the preparation of this listing prospectus.

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which reflect the Company’s board of directors’ (the “**Board**”) current view of future events and the Company’s operational and financial performance. Although the Board believes the expectations reflected in forward-looking statements are reasonable, there can be no guarantees that these expectations will prove to be correct. Forward-looking statements only express the Board’s assessments and assumptions at the time of the prospectus. The Board makes no commitment to publish updates or revisions of forward-looking statements as a result of new information, future events or similar circumstances. Prospective investors are encouraged to study the overall information contained in this prospectus and take into consideration that the Company’s future results, performance or success may differ materially from the Board’s expectations. The Section “*Risk factors*” contains a description, which should not be regarded as exhaustive, of factors that may cause actual results or presentations to differ materially from forward-looking statements.

## INDUSTRY DATA AND INFORMATION FROM THIRD PARTIES

This prospectus contains historical market data and industry forecasts relating to the market in which the Company operates. The Company has obtained this information from several sources, including industry publications and market surveys from third parties as well as publicly available information. Although the industry publications state that they are based on information obtained from several different sources and using various methods that may be deemed reliable, there can be no guarantee that the information is correct and complete. Industry forecasts are by their nature subject to considerable uncertainty, and there can be no guarantee that such forecasts will prove correct. Information from third parties has been correctly reproduced and, as far as the Board is aware and is able to warrant through comparisons with other information published by the third party concerned, no information has been omitted in a way that would make the reproduced information incorrect or misleading.

# TABLE OF CONTENTS

Summary .....	3
Sammanfattning.....	14
Risk factors .....	24
Background and conditions.....	32
Industry overview .....	34
Operations of Africa Oil.....	43
Other information about Africa Oil .....	61
Selected financial information .....	79
Comments to the financial statements.....	83
Capital structure, indebtedness and related information .....	89
Board of directors, executive officers and auditor .....	92
Corporate governance .....	105
Share capital and related issues.....	109
Legal and supplementary information .....	114
Tax matters .....	135
Summary of shareholder rights.....	138
Definitions and terms.....	151
Documents incorporated by reference.....	158
Addresses .....	159
Certificate of incorporation and articles .....	160

Please note that the Section “*Definitions and terms*” is placed in the back in the prospectus.

# SUMMARY

Summaries are made up of disclosure requirements (hereinafter referred to as “**Elements**”). The Elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for these types of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the reference of “not applicable”.

## Section A – Introduction and warnings

A.1	<i>Introduction and warnings</i>	<p><b>This summary should be read as introduction to the prospectus.</b></p> <p><b>Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Please note that this is not an offer to acquire securities.</b></p> <p><b>Where a claim relating to the information contained in the prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Union, have to bear the costs of translating the prospectus before the legal proceedings are initiated.</b></p> <p><b>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.</b></p>
A.2	<i>Financial intermediaries</i>	Not applicable; the secondary listing does not include any financial intermediaries.

## Section B – Issuer

B.1	<i>Legal and commercial name</i>	The legal and commercial name of the Company is Africa Oil Corp.
B.2	<i>Legal context</i>	The Company is registered and incorporated in Canada as a public company under the BCBCA. The incorporation number of the Company is BC0443700.
B.3	<i>Operations</i>	Africa Oil is an independent international upstream oil and gas exploration company with oil and gas interests in Ethiopia, Kenya and, through Horn Petroleum, in Puntland

		<p>(Somalia). The Company holds interests in over 215,000 square kilometers (gross) of exploration property throughout several African rift basins, focusing primarily on East Africa. The Company's head office is located in Canada.</p> <p>The Company'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 which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. The Company'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.</p>																		
<b>B.4a</b>	<i>Tendencies</i>	<p>On the back of successful exploration activities in Kenya during 2012 and 2013, the Company, together with its partners, ramped up its exploration program in Kenya. The Company currently has five drilling rigs and one testing and completion rig operating in Kenya and Ethiopia, and the current plan is to maintain this rig count throughout the rest of 2014.</p> <p>Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015 or early 2016. Costs with respect to these development activities began to ramp up during 2014.</p>																		
<b>B.5</b>	<i>Group</i>	Africa Oil Corp. is the Canadian parent company in a group of companies, consisting of 13 subsidiaries incorporated in Canada (British Columbia), The Netherlands, Barbados, Bermuda and Kenya.																		
<b>B.6</b>	<i>Largest shareholders</i>	<p>To the knowledge of the directors and officers of the Company, the Company's largest registered shareholders as of May 30, 2014 are:</p> <table border="1"> <thead> <tr> <th>Shareholder</th> <th>Common shares held</th> <th>Percentage of common shares and votes</th> </tr> </thead> <tbody> <tr> <td>NORDEA ALLEMANSFOND ALFA FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION</td> <td>13,472,467</td> <td>4.3 %</td> </tr> <tr> <td>ROYTOR &amp; Co.</td> <td>10,147,908</td> <td>3.3 %</td> </tr> <tr> <td>CBLDN-STANDARD LIFE ASSURANCE LTD.</td> <td>6,280,000</td> <td>2.0 %</td> </tr> <tr> <td>ROBUR FÖRSÄKRING</td> <td>6,080,990</td> <td>2.0 %</td> </tr> <tr> <td></td> <td>5,453,422</td> <td>1.8 %</td> </tr> </tbody> </table> <p>The Company is not aware of any individual registered shareholders owning greater than 10 per cent of the Company's issued and outstanding common Shares.</p>	Shareholder	Common shares held	Percentage of common shares and votes	NORDEA ALLEMANSFOND ALFA FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	13,472,467	4.3 %	ROYTOR & Co.	10,147,908	3.3 %	CBLDN-STANDARD LIFE ASSURANCE LTD.	6,280,000	2.0 %	ROBUR FÖRSÄKRING	6,080,990	2.0 %		5,453,422	1.8 %
Shareholder	Common shares held	Percentage of common shares and votes																		
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B.7 Financial summary

**Income statements**

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
<b>Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Salaries and benefits	458	563	5,040	3,665	1,696
Stock-based compensation	9,552	697	12,746	4,943	4,348
Travel	309	281	1,588	1,469	1,133
Office and general	184	203	1,160	1,012	1,753
Donation	750	100	1,151	2,313	-
Depreciation	17	13	55	48	48
Professional fees	195	103	786	4,187	1,476
Stock exchange and filing fees	189	200	969	916	547
Impairment of intangible exploration assets	-	-	22,874	3,127	6,969
<b>Operating expenses</b>	<b>11,654</b>	<b>2,160</b>	<b>46,369</b>	<b>21,680</b>	<b>17,970</b>
Gain on acquisition of Lion Energy	-	-	-	-	(4,143)
Dilution loss on sale of subsidiary	-	-	-	-	4,579
Finance income	(436)	(3,099)	(4,141)	(1,727)	(12,079)
Finance expense	126	1,051	9,210	164	2,626
<b>Net loss and comprehensive loss</b>	<b>11,344</b>	<b>112</b>	<b>51,438</b>	<b>20,117</b>	<b>8,953</b>
<i>Net income and comprehensive income attributable to non-controlling interest</i>	206	(1,762)	(1,222)	(2,676)	(1,691)
<i>Net loss and comprehensive loss attributable to common shareholders</i>	11,138	1,874	52,660	22,793	10,644

**Balance sheets**

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
<b>ASSETS</b>					
Cash and cash equivalents	434,333	237,144	493,209	272,175	109,558
Marketable securities	-	-	-	-	2,606
Accounts receivable	11,926	2,584	3,195	2,848	2,717
Prepaid expenses	1,332	1,080	1,379	1,124	600
<b>Current assets</b>	<b>447,591</b>	<b>240,808</b>	<b>497,783</b>	<b>276,147</b>	<b>115,481</b>
Restricted cash	1,700	825	1,250	1,119	2,919
Property and equipment	94	83	103	82	39
Intangible exploration assets	567,907	321,375	488,688	282,109	185,672
<b>Long-term assets</b>	<b>569,701</b>	<b>322,283</b>	<b>490,041</b>	<b>283,310</b>	<b>188,630</b>
<b>TOTAL ASSETS</b>	<b>1,017,292</b>	<b>563,091</b>	<b>987,824</b>	<b>559,457</b>	<b>304,111</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>Total equity</b>	<b>929,805</b>	<b>520,738</b>	<b>929,847</b>	<b>520,153</b>	<b>275,948</b>
Accounts payable and accrued liabilities	87,482	41,964	57,976	36,188	23,768
Current portion of warrants	5	8	1	2,288	1,513
<b>Current liabilities</b>	<b>87,487</b>	<b>41,972</b>	<b>57,977</b>	<b>38,476</b>	<b>25,281</b>
Warrants	-	381	-	828	2,882
<b>Long term liabilities</b>	<b>-</b>	<b>381</b>	<b>-</b>	<b>828</b>	<b>2,882</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,017,292</b>	<b>563,091</b>	<b>987,824</b>	<b>559,457</b>	<b>304,111</b>
<i>Equity attributable to common shareholders</i>					
<i>share capital</i>	1,009,953	558,555	1,007,414	558,555	306,510
<i>contributed surplus</i>	33,159	12,820	24,396	12,123	8,425
<i>deficit</i>	(161,874)	(99,950)	(150,736)	(98,076)	(75,283)
	881,238	471,425	881,074	472,602	239,652
<i>non-controlling interest</i>	48,567	49,313	48,773	47,551	36,296

## Cash flow statements

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
Cash flows provided by (used in)					
Operations					
Net loss and comprehensive loss for the year	(11,344)	(112)	(51,438)	(20,117)	(8,953)
Items not affecting cash					
Stock-based compensation	9,552	697	12,746	4,943	4,348
Share-based expense	-	-	-	3,763	-
Depreciation	17	13	55	48	48
Loss (gain) on marketable securities	-	-	-	124	(236)
Gain on acquisition of Lion Energy	-	-	-	-	(4,143)
Impairment of intangible exploration assets	-	-	22,874	3,127	6,969
Dilution loss on sale of subsidiary	-	-	-	-	4,579
Fair value adjustment – warrants	4	(2,727)	(3,115)	(832)	(8,845)
Fair value adjustment – convertible debt	-	-	-	-	(2,032)
Foreign exchange loss related to financing	-	-	7,396	-	-
Unrealized foreign exchange loss	117	1,119	25	1,055	1,901
Changes in non-cash operating working capital	(731)	(750)	(756)	(657)	(622)
	(2,385)	(1,760)	(12,213)	(8,546)	(6,986)
Investing					
Property and equipment expenditures	(8)	(14)	(76)	(91)	(39)
Intangible exploration expenditures	(92,426)	(39,266)	(229,453)	(133,823)	(41,285)
Farmout proceeds	13,207	-	-	34,259	14,901
Cash received on business acquisitions, net cash issued	-	-	-	-	18,637
Proceeds on disposal of Canmex, net of investment in Horn	-	-	-	-	29,923
Proceeds from sale of marketable securities	-	-	-	2,442	-
Changes in non-cash working capital	21,553	6,834	21,942	12,373	16,611
	(57,674)	(32,446)	(207,587)	(84,840)	38,748
Financing					
Common shares issued	1,750	-	448,386	255,169	3,020
Foreign exchange loss related to financing	-	-	(7,396)	-	(411)
Deposit of cash for bank guarantee	(450)	-	(1,250)	(375)	(2,175)
Release of bank guarantee	-	294	1,119	2,175	2,888
Changes in non-cash financing working capital	-	-	-	-	169
	1,300	294	440,859	256,969	3,491
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency	(117)	(1,119)	(25)	(966)	(1,821)
Cash and cash equivalents, beginning of period	493,209	272,175	272,175	109,558	76,126
Cash and cash equivalents, end of period	434,333	237,144	493,209	272,175	109,558
<b>Increase in cash and cash equivalents</b>	<b>(58,876)</b>	<b>(35,031)</b>	<b>221,034</b>	<b>162,617</b>	<b>33,432</b>
<i>Supplementary information</i>					
<i>interest paid</i>	0	0	0	0	411
<i>income taxes paid</i>	0	0	0	0	0

		<b>Key ratios</b>				
		USD thousands				
		Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
	Net loss attributable to common shareholders per share, basic	0.04	0.01	0.20	0.10	0.06
	Net loss attributable to common shareholders per share, diluted	0.04	0.01	0.20	0.10	0.08
	Equity ratio end of period <sup>(1)</sup>	91%	92%	94%	93%	91%
	Weighted average number of shares outstanding for the purpose of calculation earnings per share, basic	309,967,060	252,165,938	263,081,763	220,664,278	193,471,492
	Weighted average number of shares outstanding for the purpose of calculation earnings per share, diluted	309,967,060	252,165,938	263,081,763	220,664,278	194,030,846
	Dividend paid per share	0	0	0	0	0
		<sup>(1)</sup> "Total equity end of period" divided by "total assets end of period"				
<b>B.8</b>	<i>Selected pro forma financial information</i>	Not applicable; the prospectus does not include any <i>pro forma</i> financial information.				
<b>B.9</b>	<i>Financial forecast</i>	Not applicable; the prospectus does not include any financial forecast or calculation of expected profit.				
<b>B.10</b>	<i>Auditor's remarks</i>	Not applicable; there are no auditor's remarks.				
<b>B.11</b>	<i>Working capital of the issuer</i>	The Company's current funds and expected cash flow are deemed to be sufficient for the Company's working capital requirements for the coming twelve month period as of the date of this prospectus.				

## Section C – Securities

<b>C.1</b>	<i>Securities being offered</i>	There is no offering to purchase, subscribe for or sell Shares representing Africa Oil. It is intended that the Shares will be listed on NASDAQ OMX Stockholm Main Market, with ISIN code CA00829Q1019. All Shares which will be traded on NASDAQ OMX Stockholm Main Market will be affiliated to Euroclear and no physical share certificates will be issued.
<b>C.2</b>	<i>Denomination</i>	The Shares are denominated in CAD.
<b>C.3</b>	<i>Total number of shares in the Company</i>	The authorized share capital is an unlimited number of Shares without par value. As of March 31, 2014 the Company had an aggregate of 310,524,989 Shares issued and outstanding.
<b>C.4</b>	<i>Rights pertaining to the shares</i>	The Company's Shares entitle the holders thereof to receive notice of and to attend at all meetings of shareholders, with each Share entitling the holder to one vote on any resolution to be passed at such shareholders' meeting. The holders of Shares are also entitled to dividends, if as and when, declared by the Board of Directors of the Company. Upon the liquidation, dissolution or winding up of the Company, the holders of the Shares

		are entitled to receive the remaining assets of the Company available for distribution to the shareholders.
C.5	<i>Limitations to the free transferability</i>	The Shares are not subject to any restrictions on their transferability.
C.6	<i>Trading in the shares</i>	The Shares are currently traded under the symbol “AOI” on the TSX and NASDAQ OMX First North. The Shares will henceforth be traded on the TSX and the NASDAQ OMX Stockholm Main Market.
C.7	<i>Dividend policy</i>	There are no restrictions which prevent Africa Oil from paying dividends. The Company has not paid dividends on its Shares and it has no present intentions of paying any dividends on its Shares, as it anticipates that all available funds will be invested to finance the growth of its business. The directors will determine if and when dividends should be declared and paid in the future, based on Africa Oil’s financial position at the relevant time.

## Section D – Risks

D.1	<i>Risks related to the issuer</i>	<p><b>RISKS RELATING TO THE BUSINESS</b></p> <p><b><i>International operations</i></b> – Africa Oil 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 Africa Oil’s operations.</p> <p><b><i>International boundary disputes</i></b> – 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. The aforementioned international boundaries’ disputes may have a material negative effect on the Company’s oil concessions and may therefore have a material negative effect on the Company’s financial situation.</p> <p><b><i>Political instability</i></b> – Through Horn, the Company is highly exposed to significant political risk in Somalia and the Puntland Regional State which may have a negative effect on the Company’s financial position.</p> <p><b><i>Different legal system and litigation</i></b> – Africa Oil’s oil exploration and appraisal activities are located in countries with legal systems that in various degrees differ from that of Canada. If Africa Oil 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. Moreover, even if Africa Oil would prevail in such dispute or litigation, it may still have a substantially negative effect on Africa Oil and its operations.</p>
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**Financial statements prepared on a going concern basis** – Africa Oil’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. 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 Africa Oil be unable to continue as a going concern.

**Shared ownership and dependency on partners** – Africa Oil’s operations are, to a significant degree, conducted together with one or more partners through contractual arrangements. In such instances, Africa Oil may be dependent on, or negatively affected by, the performance of its partners.

**Uncertainty of title** – The Company conducts title reviews, there is however a risk that an unforeseen defect in the chain of title will not arise that may call into question the Company’s interest in the concession.

**Competing claims from ConocoPhillips** – By a letter dated November 16, 2007 Africa Oil 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 the Company holds its interest. The Company does not recognize the interest of ConocoPhillips and disputes ConocoPhillips’ 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** – Africa Oil’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 Africa Oil. If Africa Oil or any of its partners were deemed not to have complied with their duties or obligations under a concession, license or contract, Africa Oil’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 the acquiring or gaining access to necessary drilling and other equipment and supplies. If the Company is not successfully competing with its competitors, it could have a material adverse effect on Africa Oil’s business, prospects and results of operations.

**Capital requirements** – To finance its future acquisition, exploration, development and operating costs, the Company may require financing from external sources, including from the issuance of new Shares, issuance of debt or execution of working interest farmout agreements. Such financing may not always be available to the Company or, if available, it may not be so on terms acceptable to the Company.

**Risks inherent in oil and gas exploration and development** – The Company’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 these risks and hazards 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, which would have a material adverse effect on Africa Oil's business, prospects and results of operations if realized.

**Environmental regulation** – Drilling for, production, handling, transporting and disposing of oil and gas and petroleum by-products are subject to extensive regulation under national and local environmental laws, including those of the countries in which Africa Oil currently operates. Any penalties or other sanctions imposed on Africa Oil for non-compliance with environmental regulations could have a material adverse effect on Africa Oil's business, prospects and results of operations.

**Availability of equipment and staff** – Africa Oil's oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. Shortages of such equipment or staff may affect the availability of such equipment to Africa Oil and may delay Africa Oil's exploration and development activities and result in lower production.

**Reliance on key employees** – The loss of the services of key personnel could have a material adverse effect on Africa Oil's business, prospects and results of operations. Africa Oil has not obtained key person insurance in respect of the lives of any key personnel.

#### **RISKS RELATING TO THE INDUSTRY**

**Prices, markets and marketing of crude oil and natural gas** – Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Africa Oil, which could have a material adverse effect on Africa Oil's business, prospects and results of operations.

**Early stage of development** – Africa Oil has conducted oil and gas exploration and development activities for a relatively short period. There is limited financial, operational and other information available with which to evaluate the prospects of Africa Oil. Africa Oil's operations may not always be profitable in the future or generate sufficient cash flow to satisfy its working capital requirements.

**Risks relating to infrastructure** – Africa Oil is dependent on available and functioning infrastructure relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or do not meet the requirements of Africa Oil, Africa Oil's operations may be

significantly hampered.

***Current global financial conditions*** – Global financial conditions have always been subject to volatility. Access to public financing has been negatively impacted by sovereign debt concerns in Europe and the United States, as well as concerns over global growth rates and conditions. Increased levels of volatility and market turmoil can adversely impact the Company’s operations and the value and the price of the Shares could be adversely affected.

***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 may suffer losses as a result of this risk.

***Liquidity risk*** – 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 that the Company has sufficient available funds to meet current and foreseeable financial requirements.

***Credit risk*** – There is a credit risk relating to Africa Oil’s credit exposure towards its joint venture partners, which could have a material adverse effect on Africa Oil’s business, prospects and results of operations.

***Conflict of interests*** – Certain directors of Africa Oil are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of Africa Oil.

***Limitation of legal remedies*** – Securities legislation in certain of the provinces and territories of Canada provides purchasers with various rights and remedies when a reporting issuer’s continuous disclosure contains a misrepresentation and ongoing rights to bring actions for civil liability for secondary market disclosure. It may be difficult for investors to collect from the directors resident outside Canada on judgments obtained in courts in Canada predicated on the purchaser’s statutory rights and on other civil liability provisions of Canadian securities legislation.

***Selling off of Shares*** – To the extent that any issued and outstanding Company Shares are sold into the market, there may be an oversupply of Shares and an undersupply of purchasers.

***Industry regulatory*** – Existing regulations in the oil industry, and changes to such regulations, may present regulatory and economic barriers to the purchase and use of certain products, which may significantly reduce the Company’s revenues.

***Environmental policies*** – The Company’s oil and gas operations are located in regions

		<p>where there are numerous environmental regulations including restrictions on where and when oil and gas operations can occur, regulations on the release of substances into groundwater, atmosphere and surface land and the potential routing of pipelines or location of production facilities.</p>
D.3	<i>Risks related to the shares</i>	<p><b>Risks related to the stock market</b> – A prospective investor should be aware that an investment in the Company’s Shares is associated with a high degree of risk, and that there are no guarantees that the price of the Shares develops favorably. The share prices of publicly-traded companies can be highly volatile.</p> <p><b>Risks related to illiquid trading and the listing</b> – It is not possible to anticipate the degree to which investors’ interest in Africa Oil will lead to active trading in its Shares or how the trading of the Shares will function in the future.</p> <p><b>Risks related to dividends</b> – Africa Oil has never paid dividends. The industry in which Africa Oil operates is capital intensive and the Company’s profits may need to be accumulated and used to reinvest in the Company’s operations. Hence, there can be no assurance that the Company will pay any dividends to its shareholders or holders of Shares in the future.</p> <p><b>Exchange rate fluctuations</b> – If Africa Oil would, in the future, pay dividends in respect of the Shares, such dividends will be paid in CAD. However, holders of Shares registered with Euroclear will receive dividend distributions in SEK. Any depreciation of CAD in relation to SEK could reduce the value of the investment or of any dividends, and any appreciation of CAD could increase the value in any such investment or dividends. Furthermore, the holding of Shares registered with Euroclear by an investor whose principal currency is not SEK would expose the investor to additional foreign currency exchange rate risk.</p> <p><b>Future offerings of debt or equity securities</b> – Africa Oil may require additional funds to finance further exploration, development and production activities, or to take advantage of unanticipated opportunities. If Africa Oil raises additional funds by issuing additional equity securities, such financing would dilute the economic and voting rights of the Company’s shareholders and holders of Shares.</p>

## Section E – Offer

E.1	<i>Rights issue amount and costs</i>	Not applicable; this prospectus is being issued in conjunction with a secondary listing on NASDAQ OMX Stockholm and there is no offer by Africa Oil to acquire Shares.
E.2a	<i>Reasons for the offer and use of proceeds</i>	Not applicable; this prospectus is being issued in conjunction with a secondary listing on NASDAQ OMX Stockholm and there is no offer by Africa Oil to acquire Shares.
E.3	<i>Background and terms and conditions</i>	Not applicable; this prospectus is being issued in conjunction with a secondary listing on NASDAQ OMX Stockholm and there is no offer by Africa Oil to acquire Shares.

E.4	<i>Conflicts of interest etc.</i>	Not applicable; no conflicts of interests or similar exist.
E.5	<i>Lock-up agreement</i>	Not applicable; no lock-up agreement is in place.
E.6	<i>Dilution</i>	Not applicable; the Shares are being listed on NASDAQ OMX Stockholm Main Market and there is no offer for Shares.
E.7	<i>Costs for the investor</i>	Not applicable; the Company does not impose any costs on the investors.

# SAMMANFATTNING

N.b. nedanstående text är en översättning av den engelska originaltexten ovan.

Denna sammanfattning omfattar information som måste offentliggöras (s.k. "Moduler"). Modulerna är numrerade i avsnitt A – E (A.1 – E.7) nedan.

Denna sammanfattning inkluderar alla Moduler som krävs i en sammanfattning för denna typ av värdepapper och emittent. Eftersom inte samtliga Moduler behöver vara inkluderade kan det vara luckor i numreringen av Modulerna.

Även om en Modul måste vara inkluderad på grund av typen av värdepapper och emittent, är det möjligt att ingen relevant information finns att ge rörande Modulen. Vid dessa fall inkluderas en kort beskrivning av Modulen i sammanfattningen samt en hänvisning till att Modulen inte är tillämplig ("N/A").

## Avsnitt A – Introduktion och varningar

A.1	<i>Introduktion och varningar</i>	<p>Denna sammanfattning bör betraktas som en introduktion till prospektet.</p> <p>Varje beslut om att investera i värdepapperen ska baseras på en bedömning av prospektet i dess helhet från investerarens sida. Vänligen notera att detta inte är ett erbjudande att förvärva värdepapper.</p> <p>Om yrkande avseende uppgifterna i prospektet anförts vid domstol, kan den investerare som är kärande i enlighet med medlemsstaterna i den europeiska unionens nationella lagstiftning bli tvungen att svara för kostnaderna för översättning av prospektet innan de rättsliga förfarandena inleds.</p> <p>Civilrättsligt ansvar kan endast åläggas de personer som sammanställt sammanfattningen, inklusive översättningar därav, men endast om sammanfattningen är vilseledande, felaktig eller oförenlig med de andra delarna av prospektet eller om den inte, tillsammans med de andra delarna av prospektet, ger nyckelinformation för att hjälpa investerare när de överväger att investera i sådana värdepapper.</p>
A.2	<i>Finansiella mellanhänder</i>	N/A; Noteringen omfattas inte av finansiella mellanhänder.

## Avsnitt B – Emittent

B.1	<i>Registrerad firma och handelsbeteckning</i>	Bolagets firma och handelsbeteckning är Africa Oil Corp. ("Bolaget").
B.2	<i>Säte, bolagsform etc.</i>	Bolaget är registrerat i British Columbia, Kanada, under BCBCA. Bolagets organisationsnummer är BC0443700.
B.3	<i>Huvudsaklig verksamhet</i>	Africa Oil är ett fristående internationellt uppströms olje- och gasprospekteringsbolag, vars huvudkontor ligger i Kanada. Bolagets intressen i olje- och gasfyndigheter är lokaliserade i

		<p>Etiopien, Kenya, och genom Horn Petroleum, i Puntland (Somalia). Bolagets olje- och gasintressen är utspridda över om yta av 215 000 kvadratkilometer, primärt i östra Afrika.</p> <p>Bolagets långsiktiga plan är att skapa värde för sina aktieägare genom att förvärva och prospektera olje- och gasintressen som är lokaliserade i underprospekterade geografiska områden och som är i tidiga utvecklingsfaser i en uppströms olje- och gascykel. Bolaget fokuserar på storskaliga prospekteringsmöjligheter, vilket ger dess aktieägare exponering gentemot flertalet identifierade möjligheter som är geografiskt och geologiskt diversifierade över flera länder och fyra underprospekterade oljesystem. Bolagets mål är att minska risken i dessa tillgångar, och samtidigt skapa ytterligare möjligheter genom fortlöpande olje- och gasprospekteringsaktiviteter.</p>																		
<b>B.4a</b>	<i>Trender</i>	<p>Som ett resultat av bolagets framgångsrikt genomförda prospektering i Kenya under 2012 och 2013 så utökade bolaget och dess partners sina aktiviteter i Kenya. Bolaget har för närvarande fem borrhingsriggar i Kenya och Etiopien, samt en som genomgår slutliga tester. Planen är för närvarande att bibehålla detta antal riggar under resten av 2014.</p> <p>Givet de omfattande volymerna som har upptäckts i Kenya, och det omfattande prospekteringsprogrammet som är planerat som ett led i att fullt kunna bedöma potentialen i fyndigheten, så har samriskprojektet Tullow-Africa Oil överenskommit med Kenyas regering om att påbörja utvecklingsstudier. Vidare är Tullow-Africa Oil-samarbetet involverat i en omfattande s.k. pre-FEED studie av en pipeline för export. Kenyas regering har tillsammans med Tullow-Africa Oil-samarbetet ambitionen att få projektet sanktionerat för utveckling vilket inkluderar en pipeline för export, i slutet av 2015 eller början av 2016. Kostnader relaterade till denna utveckling började ackumuleras under 2014.</p>																		
<b>B.5</b>	<i>Koncern</i>	<p>Africa Oil Corp. är det kanadensiska moderbolaget i en koncern bestående av 13 dotterbolag som är inkorporerade i Kanada (British Columbia), Nederländerna, Barbados, Bermuda och Kenya.</p>																		
<b>B.6</b>	<i>Större aktieägare</i>	<p>Enligt Bolagets styrelseledamöters och lednings vetskaper är Bolagets största aktieägare per 30 maj 2014:</p> <table border="1"> <thead> <tr> <th>Aktieägare</th> <th>Antal aktier</th> <th>Procent av totalt antal aktier och röster</th> </tr> </thead> <tbody> <tr> <td>NORDEA ALLEMANSFOND ALFA</td> <td>13 472 467</td> <td>4,3 %</td> </tr> <tr> <td>FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION</td> <td>10 147 908</td> <td>3,3 %</td> </tr> <tr> <td>ROYTOR &amp; CO.</td> <td>6 280 000</td> <td>2,0 %</td> </tr> <tr> <td>CBLDN-STANDARD LIFE ASSURANCE LTD.</td> <td>6 080 990</td> <td>2,0 %</td> </tr> <tr> <td>ROBUR FÖRSÄKRING</td> <td>5 453 422</td> <td>1,8 %</td> </tr> </tbody> </table> <p>Bolaget känner inte till någon enskild registrerad aktieägare vars innehav överstiger 10 procent eller mer av Bolagets utestående aktier.</p>	Aktieägare	Antal aktier	Procent av totalt antal aktier och röster	NORDEA ALLEMANSFOND ALFA	13 472 467	4,3 %	FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	10 147 908	3,3 %	ROYTOR & CO.	6 280 000	2,0 %	CBLDN-STANDARD LIFE ASSURANCE LTD.	6 080 990	2,0 %	ROBUR FÖRSÄKRING	5 453 422	1,8 %
Aktieägare	Antal aktier	Procent av totalt antal aktier och röster																		
NORDEA ALLEMANSFOND ALFA	13 472 467	4,3 %																		
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CBLDN-STANDARD LIFE ASSURANCE LTD.	6 080 990	2,0 %																		
ROBUR FÖRSÄKRING	5 453 422	1,8 %																		

## B.7

## Utvald historisk information

## Resultaträkning i sammandrag

Tusen USD	Oreviderat	Oreviderat	Reviderat	Reviderat	Reviderat
	31 Mars, 2014	31 Mars, 2013	31 Dec, 2013	31 Dec, 2012	31 Dec, 2011
<b>Intäkter</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Löner och förmåner	458	563	5 040	3 665	1 696
Aktiebaserad kompensation	9 552	697	12 746	4 943	4 348
Resekostnader	309	281	1 588	1 469	1 133
Kontor och övrigt	184	203	1 160	1 012	1 753
Donationer	750	100	1 151	2 313	-
Nedskrivningar	17	13	55	48	48
Ersättning till nyckelpersoner	195	103	786	4 187	1 476
Avgifter relaterade till börs och ansökning	189	200	969	916	547
Nedskrivning av immateriella prospekteringsstillgångar	-	-	22 874	3 127	6 969
<b>Kostnader relaterade till verksamheten</b>	<b>11 654</b>	<b>2 160</b>	<b>46 369</b>	<b>21 680</b>	<b>17 970</b>
Vinst på förvärv av Lion Energy	-	-	-	-	(4 143)
Utspädningsförlust vid försäljning av dotterbolag	-	-	-	-	4 579
Finansiella intäkter	(436)	(3 099)	(4 141)	(1 727)	(12 079)
Finansiella kostnader	126	1 051	9 210	164	2 626
<b>Netto- och totalförlust</b>	<b>11 344</b>	<b>112</b>	<b>51 438</b>	<b>20 117</b>	<b>8 953</b>
<i>Netto- och totalförlust hänförlig till moderbolagets aktieägare</i>	<i>206</i>	<i>(1 762)</i>	<i>(1 222)</i>	<i>(2 676)</i>	<i>(1 691)</i>
<i>Netto- och totalförlust hänförlig till minoritetsintressen</i>	<i>11 138</i>	<i>1 874</i>	<i>52 660</i>	<i>22 793</i>	<i>10 644</i>

## Balansräkning i sammandrag

Tusen USD	Oreviderat	Oreviderat	Reviderat	Reviderat	Reviderat
	31 Mars, 2014	31 Mars, 2013	31 Dec, 2013	31 Dec, 2012	31 Dec, 2011
<b>TILLGÅNGAR</b>					
Likvida medel	434 333	237 144	493 209	272 175	109 558
Marknadsnoterade värdepapper	-	-	-	-	2 606
Kundfordringar	11 926	2 584	3 195	2 848	2 717
Förutbetalda kostnader	1 332	1 080	1 379	1 124	600
<b>Omsättningstillgångar</b>	<b>447 591</b>	<b>240 808</b>	<b>497 783</b>	<b>276 147</b>	<b>115 481</b>
Begränsad kassa	1 700	825	1 250	1 119	2 919
Anläggningstillgångar	94	83	103	82	39
Immateriella prospekteringsstillgångar	567 907	321 375	488 688	282 109	185 672
<b>Anläggningstillgångar</b>	<b>569 701</b>	<b>322 283</b>	<b>490 041</b>	<b>283 310</b>	<b>188 630</b>
<b>TOTALA TILLGÅNGAR</b>	<b>1 017 292</b>	<b>563 091</b>	<b>987 824</b>	<b>559 457</b>	<b>304 111</b>
<b>EGET KAPITAL OCH SKULDER</b>					
<b>Totalt eget kapital</b>	<b>929 805</b>	<b>520 738</b>	<b>929 847</b>	<b>520 153</b>	<b>275 948</b>
Leverantörsskulder och upplupna kostnader	87 482	41 964	57 976	36 188	23 768
Nuvarande andel optioner	5	8	1	2 288	1 513
<b>Kortfristiga skulder</b>	<b>87 487</b>	<b>41 972</b>	<b>57 977</b>	<b>38 476</b>	<b>25 281</b>
Optioner	-	381	-	828	2 882
<b>Långfristiga skulder</b>	<b>-</b>	<b>381</b>	<b>-</b>	<b>828</b>	<b>2 882</b>
<b>TOTALT EGET KAPITAL &amp; SKULDER</b>	<b>1 017 292</b>	<b>563 091</b>	<b>987 824</b>	<b>559 457</b>	<b>304 111</b>
<i>Eget kapital hänförligt till aktieägare</i>					
<i>aktiekapital</i>	<i>1 009 953</i>	<i>558 555</i>	<i>1 007 414</i>	<i>558 555</i>	<i>306 510</i>
<i>bidraget överskott</i>	<i>33 159</i>	<i>12 820</i>	<i>24 396</i>	<i>12 123</i>	<i>8 425</i>
<i>underskott</i>	<i>(161 874)</i>	<i>(99 950)</i>	<i>(150 736)</i>	<i>(98 076)</i>	<i>(75 283)</i>
	<i>881 238</i>	<i>471 425</i>	<i>881 074</i>	<i>472 602</i>	<i>239 652</i>
<i>utan bestämmande inflytande</i>	<i>48 567</i>	<i>49 313</i>	<i>48 773</i>	<i>47 551</i>	<i>36 296</i>

## Kassaflödesanalyser

Tusen USD	Oreviderat 31 Mars, 2014	Oreviderat 31 Mars, 2013	Reviderat 31 Dec, 2013	Reviderat 31 Dec, 2012	Reviderat 31 Dec, 2011
Kassaflöden från (använt i)					
Verksamheten					
Netto- och totalförlust för året	(11 344)	(112)	(51 438)	(20 117)	(8 953)
Poster som inte påverkar likvida medel					
Aktiebaserad kompensation	9 552	697	12 746	4 943	4 348
Aktiebaserade utgifter	-	-	-	3 763	-
Värdeminskning	17	13	55	48	48
Förlust (vinst) på marknadsnoterade värdepapper	-	-	-	124	(236)
Vinst på förvärvet av Lion Energy	-	-	-	-	(4 143)
Nedskrivning av immateriella prospekteringsstillgångar	-	-	22 874	3 127	6 969
Utspänningsförlust vid försäljning av dotterbolag	-	-	-	-	4 579
Värdejustering – optioner	4	(2 727)	(3 115)	(832)	(8 845)
Värdejustering – konvertibler	-	-	-	-	(2 032)
Valutakursförluster relaterade till finansieringsverksamhet	-	-	7 396	-	-
Orealiserade valutakursförluster	117	1 119	25	1 055	1 901
Förändringar i icke-kassapåverkande rörelsekapital	(731)	(750)	(756)	(657)	(622)
	(2 385)	(1 760)	(12 213)	(8 546)	(6 986)
Investeringsverksamhet					
Utgifter relaterade till anläggningstillgångar	(8)	(14)	(76)	(91)	(39)
Utgifter relaterade till immat. prospekteringsstillgångar	(92 426)	(39 266)	(229 453)	(133 823)	(41 285)
Intäkter relaterade till farmouts	13 207	-	-	34 259	14 901
Likvida medel härrörande från verksamhetsförvärv, utgivna nettotillgångar	-	-	-	-	18 637
Intäkter vid avyttring av Canmex, netto efter investering i Horn	-	-	-	-	29 923
Intäkter från försäljningen av marknadsnoterade värdepapper	-	-	-	2 442	-
Förändringar i icke-kassapåverkande poster	21 553	6 834	21 942	12 373	16 611
	(57 674)	(32 446)	(207 587)	(84 840)	38 748
Finansiering					
Utgivna stamaktier	1 750	-	448 386	255 169	3 020
Valutakursförluster härförliga till finansiering	-	-	(7 396)	-	(411)
Deposition av likvida medel för bankgaranti	(450)	-	(1 250)	(375)	(2 175)
Friställande av bankgaranti	-	294	1 119	2 175	2 888
Förändringar i icke-kassapåverkande finansiellt rörelsekapital	-	-	-	-	169
	1 300	294	440 859	256 969	3 491
Effekt av valutakursförändringar på likvida medel, denominerat i utländsk valuta	(117)	(1 119)	(25)	(966)	(1 821)
Likvida medel, början av perioden	493 209	272 175	272 175	109 558	76 126
Likvida medel, slutet av perioden	434 333	237 144	493 209	272 175	109 558
<b>Ökning av likvida medel</b>	<b>(58 876)</b>	<b>(35 031)</b>	<b>221 034</b>	<b>162 617</b>	<b>33 432</b>
<i>Övrig information</i>					
<i>Betald ränta</i>	0	0	0	0	411
<i>Betald inkomstskatt</i>	0	0	0	0	0

## Nyckeltal

Tusen USD	Oreviderat 31 Mars, 2014	Oreviderat 31 Mars, 2013	Reviderat 31 Dec, 2013	Reviderat 31 Dec, 2012	Reviderat 31 Dec, 2011
Nettoförlust hänförlig till innehavare av stamaktier, per aktie (ej utspätt)	0,04	0,01	0,20	0,10	0,06
Nettoförlust hänförlig till innehavare av stamaktier, per aktie (utspätt)	0,04	0,01	0,20	0,10	0,08
Equity ratio i slutet av perioden <sup>(1)</sup>	91%	92%	94%	93%	91%
Viktat genomsnittligt antal aktier för syftet att räkna ut vinst per aktie (ej utspätt)	309 967 060	252 165 938	263 081 763	220 664 278	193 471 492
Viktat genomsnittligt antal aktier för syftet att räkna ut vinst per aktie (utspätt)	309 967 060	252 165 938	263 081 763	220 664 278	194 030 846
Utdelning per aktie	0	0	0	0	0

<sup>(1)</sup> "Totalt eget kapital slutet av perioden" dividerat med "totala tillgångar slutet av perioden"

B.8	Utvald proforma-redovisning	N/A; prospektet innehåller ingen proformaredovisning.
B.9	Resultatprognos	N/A, prospektet innehåller ingen resultatprognos.
B.10	Revisors anmärkningar	N/A; det finns inga revisorsanmärkningar.
B.11	Rörelsekapital	Africa Oils nuvarande medel och förväntade kassaflöde bedöms vara tillräckliga för Bolagets rörelsekapitalsbehov för den kommande tolv månadersperioden från dagen för detta prospekt.

## Avsnitt C – Värdepapper

C.1	Värdepapperna som erbjuds	Det finns inget erbjudande att köpa, teckna, eller sälja Africa Oils aktier. Avsikten är att aktierna ska noteras på NASDAQ OMX Stockholms huvudlista med ISIN-nummer CA00829Q1019. Alla aktier som handlas på NASDAQ OMX Stockholms huvudlista kommer att vara anslutna till Euroclear och inga aktiebrev kommer att ges ut.
C.2	Denominering	Aktierna är denominerade i CAD.
C.3	Antal aktier	Africa Oils auktoriserade aktiekapital består av ett obegränsat antal stamaktier utan kvotvärde. Vid dagen för detta prospekt är 310 524 989 aktier emitterade och utestående.
C.4	Rättigheter som sammanhänger med aktierna	Bolagets stamaktier berättigar dess innehavare rätt att erhålla kallelse till, samt att delta i, samtliga Bolagets stämmor samt att avge en röst vid sådana möten. Innehavare av stamaktier är också berättigade att ta del av eventuell vinstutdelning om eller när Bolagets styrelse beslutar att sådan ska ske.  Aktieägarna är vidare berättigade till att erhålla den del <i>pro rata</i> som aktieägarens innehav ger upphov till i en fördelning av tillgångar på grund av likvidation, upplösning, konkurs eller likvidation, eller genom annan distribution av Bolagets kvarvarande tillgångar i syfte att avsluta Bolagets verksamhet.
C.5	Inskränkningar i rätten att fritt överlåta aktierna	N/A; det finns inga inskränkningar i rätten att fritt överlåta aktierna.
C.6	Notering av aktierna	Aktierna handlas för närvarande under symbolen "AOI" på TSX och NASDAQ OMX First North. Aktierna kommer hädanefter att handlas på TSX och NASDAQ OMX Stockholms huvudlista.
C.7	Utdelningspolitik	Det finns inga begränsningar i Africa Oils rätt att betala utdelning på sina aktier. Bolaget har dock inte betalat någon utdelning på sina aktier, och har för närvarande inte för avsikt att göra så, då Bolaget förutser att alla tillgängliga medel kommer att återinvesteras i verksamheten för att möjliggöra dess tillväxt. Bolagets styrelse kommer att besluta om och när utdelning kommer att betalas i framtiden, baserat på Africa Oils finansiella ställning vid rådande tidpunkt.

## Avsnitt D – Risker

D.1 Risker  
relaterade till  
emittenten

### RISKER RELATERADE TILL VERKSAMHETEN

**Internationell verksamhet** – Africa Oils olje- och gasprojekt är lokaliserade i utvecklingsländer, innefattandes Puntland (Somalia), Etiopien och Kenya. Olje- och gasprospektering, samt utveckling och produktion av olje- och gastillgångar, bedrivna i utvecklingsländer är föremål för omfattande politiska och ekonomiska osäkerhetsfaktorer som sammantaget kan påverka Africa Oils verksamhet negativt.

**Internationella gränsdragningstvister** – Som en följd av pågående politiska tvister så är de geografiska gränserna som separerar Somalia från dess grannar, och som separerar flera semi-autonoma regioner av Somalia (inklusive Puntland), inte helt överenskomna av varken Somalia eller det internationella samfundet. De nämnda gränsdragningstvisterna kan ha en väsentlig negativ effekt på Bolagets oljekoncessioner och kan därigenom ha en väsentlig negativ effekt på Bolagets finansiella position.

**Politisk instabilitet** – Bolaget är genom Horn exponerat gentemot omfattande politisk risk i Somalia och regionen Puntland vilken skulle kunna ha en negativ effekt på Bolagets finansiella situation.

**Annorlunda rättsordning och tvistelösningssystem** – Africa Oils prospekteringsverksamheter är lokaliserade i länder vars rättsordningar i varierande grad skiljer sig från Kanadas. Om Africa Oil skulle bli involverat i rättstvister för att försvara eller för att verkställa rättigheter eller skyldigheter i enlighet med sina koncessioner, licenser, avtal eller på något annat sätt, skulle sådana tvister kunna bli kostsamma, utdragna och resultatet av dessa väldigt osäkert. Även om Africa Oil skulle få rätt i sådana tvister, kan det ändå ha en negativ effekt för Africa Oil eller dess verksamhet.

**Finansiella rapporter förbereds på going concern-basis** – Africa Oils finansiella rapporter har förberetts på en going concern-basis vilket innebär att bolaget förväntas kunna realisera sina tillgångar och täcka sina skulder under den löpande verksamhetens gång. I koncernredovisningen framgår inga justeringar avseende redovisade värden och klassificering av tillgångar och skulder som skulle vara nödvändiga om Africa Oil inte skulle kunna fortsätta att redovisa på en going concern-basis.

**Delat ägande och beroende av partners** – Africa Oils verksamhet är till en betydande del utförd tillsammans med en eller flera partners, vilkas samarbete styrs av kontraktuella överenskommelser. I dessa fall kan Africa Oil vara beroende av, eller negativt påverkas av, dessa samarbetspartners prestation.

**Osäkerheter relaterade till äganderätt** – Bolaget genomför äganderättsundersökningar, det finns dock en risk att oförutsedda brister i äganderätten uppstår, vilket kan medföra att bolagets intresse i eventuella fyndigheter kan ifrågasättas.

**Konkurrerande krav från ConocoPhillips** – Genom ett brev daterat 16 november 2007 uppmärksammades Africa Oil av ConocoPhillips, ett bolag som tidigare var engagerat i olje- och gasprospektering i Somalia, att det ställdes krav på Africa Oil relaterade till vissa delar av Bolagets koncessioner. Bolaget har inte medgivit några av dessa krav. Om ConocoPhillips skulle välja att driva sina krav vidare, är utfallet av en tvist eller en stämning omöjligt att förutsäga med någon säkerhet och kan därför komma att påverka Bolaget

negativt.

**Risker relaterade till koncessioner, licenser och kontrakt** – Africa Oils verksamhet bygger på ett relativt begränsat antal koncessionsavtal, licenser och kontrakt. Rättigheterna och skyldigheterna under sådana koncessioner, licenser och kontrakt kan vara föremål för tolkning och kan påverkas av omständigheter utanför Africa Oils kontroll. För det fall Africa Oil eller någon av dess samarbetspartners skulle anses inte ha uppfyllt dess skyldigheter eller förpliktelser enligt en koncession, en licens eller ett kontrakt, kan Africa Oils rättigheter enligt sådana koncessioner, licenser eller kontrakt bli upphävda, delvis eller i sin helhet.

**Konkurrens** – Oljeindustrin är kraftigt konkurrensutsatt och denna konkurrens innefattar förvärv av olje- och gasintressen, försäljningen av olja och naturgas, samt förvärv och tillgänglighet av nödvändig borrhutrustning och därmed jämförlig utrustning. Om Bolaget inte lyckas att konkurrera framgångsrikt, kan det väsentligen negativt påverka Africa Oils verksamhet, framtidsutsikter eller resultat från verksamheten.

**Kapitalkrav** – För att finansiera framtida kostnader relaterade till förvärv, prospektering, utveckling och verksamhet kan bolaget komma att kräva finansiering från externa parter, vilket kan inkludera emitteringen av nya aktier eller skuldinstrument, eller ingående av samarbetsavtal med andra parter. Det finns en risk att sådan finansiering som nämns ovan inte alltid kommer att vara tillgänglig för Bolaget, eller om den är tillgänglig, att detta inte är i enlighet med villkor som är acceptabla för Bolaget.

**Risker förknippade med olje- och gasprospektering och utveckling** – Bolagets verksamhet är föremål för alla de risker som är naturliga för verksamhet som innefattar prospektering, köp, utveckling, produktion och marknadsföring av olja och naturgas. Många av dessa risker kan inte ens hanteras genom en kombination av erfarenhet, kunskap och noggrann utvärdering. De risker som vanligtvis förknippas med olje- och gasverksamhet innefattar: eld, explosioner, utblåsning, sur gasutsläpp, bristningar i rör och oljeutsläpp, som var och en som skulle kunna innebära betydande skador på olje- och naturgasbrunnar, produktionsanläggningar, annan egendom, miljön eller personskador, som, om de skulle inträffa, skulle innebära en betydande negativ effekt på Africa Oils verksamhet och framtidsutsikter.

**Regelverk kring miljöskydd** – Olje- och gasprospektering, samt övrig verksamhet relaterad till produktion, hantering, transporter och avyttring av olja och gas, är i de länder där Africa Oil bedriver verksamhet föremål för omfattande regleringar under såväl nationell som lokal miljöskyddslagstiftning. Eventuella straff eller andra sanktioner för Africa Oil rörande bristande efterlevnad av miljöbestämmelser kan ha en väsentlig negativ effekt på Africa Oils verksamhet, framtidsutsikter och resultat.

**Tillgänglighet av utrustning och personal** – Africa Oils olje- och gasprospekteringsverksamhet är beroende av tillgängligheten av borrh- och övrig utrustning, samt kvalificerad personal inom områden där sådan verksamhet bedrivs. Bristen på sådan utrustning eller personal kan påverka tillgången på sådan utrustning till Africa Oil och kan fördröja Africa Oils prospekterings- och utvecklingsaktiviteter och leda till lägre produktion.

**Beroende av nyckelpersonal** – Förlusten av nyckelpersonal skulle kunna ha en väsentlig negativ effekt på Africa Oils verksamhet, möjligheter och resultat. Africa Oil har inte skaffat någon livförsäkring för någon nyckelpersonal.

## RISKER RELATERADE TILL INDUSTRIEN

**Priser, marknader och försäljning av råolja och naturgas** – Olja och naturgas är naturresurser vilkas pris betingas av tillgång och efterfrågan, samt andra faktorer, vilka alla ligger utanför Africa Oils kontroll som kan ha en väsentlig negativ effekt på Africa Oils verksamhet, framtidsutsikter och resultat.

**Tidiga utvecklingskedan** – Africa Oil har bedrivit olje- och gasprospektering under en relativt kort period och det finns begränsad finansiell, operationell och övrig information med vilken man kan utvärdera Africa Oils framtida möjligheter. Africa Oils verksamhet kanske inte kommer att vara lönsam i framtiden eller generera tillräckliga kassaflöden för att uppfylla sina rörelsekapitalsbehov.

**Risker relaterade till infrastruktur** – Africa Oil är beroende av tillgänglig och fungerande infrastruktur kring de områden där verksamhet bedrivs, såsom vägar, el- och vattentillförsel, rörledningar och insamlingsystem. För det fall att någon infrastruktur eller andra system fallerar eller inte uppfyller de krav som ställs av Africa Oil så kan dess verksamhet påtagligt hämmas.

**Nuvarande global finansiell situation** – Den globala finansiella situationen har alltid varit föremål för volatilitet. Kapitalanskaffning på marknaden har varit negativt påverkad av höga statsskulder i Europa och USA, samt oro över den globala tillväxten. Ökade nivåer av volatilitet och oro kan negativt påverka Bolagets verksamhet och värdet och priset på aktier kan påverkas negativt.

**Valutakursrisk** – Bolaget är utsatt för förändringar i utländska valutakurser då kostnader i internationella dotterbolag, samt kostnader relaterade till olje- och gasprospektering eller finansiella instrument, kan fluktuera på grund av kursändringar, Bolaget kan lida förluster på grund av denna risk.

**Likviditetsrisk** – Bolag som verkar i uppströms olje- och gasindustri kräver under prospekteringsfasen tillräckligt med kapital för att kunna genomföra sina åtaganden i enlighet med kontraktuella skyldigheter och för att kunna förvärva potentiella strategiska olje- och gastillgångar. Bolaget kommer eventuellt emittera skuld eller eget kapital och ingå utfarmningsavtal med samarbetspartners för att säkerställa att bolaget har tillräckligt med tillgängliga medel för att möta nuvarande och förutsebara finansiella krav.

**Kreditrisk** – Det finns risker relaterade till Africa Oils kreditexponering gentemot dess partners i samriskprojekt vilka kan ha en väsentlig negativ effekt på Africa Oils verksamhet, framtidsutsikter och resultat.

**Intressekonflikter** – Vissa befattningshavare eller styrelseledamöter i Africa Oil är också befattningshavare eller styrelseledamöter i andra bolag, även olje- och gasbolag, vilkas intressen under vissa omständigheter kan komma i konflikt med Africa Oils.

**Begränsning av rättsmedel** – Värdepapperslagstiftning i vissa delar av Kanada ger förvärvare vissa rättigheter för det fall att en rapportering emittents fortlöpande informationsgivning innehåller felaktigheter. Fortlöpande rättigheter ges även förvärvare i fråga om att civilrättslig talan kan föras för brister i informationsgivning på sekundärmarknaden. Det kan vara svårt för investerare att få ersättning från styrelseledamöter eller ledningen om de är bosatta utanför Kanada baserat på domar som erhållits i domstol i Kanada som bygger på köparens lagstadgade rättigheter eller som

		<p>bygger på andra civilrättsliga bestämmelser i kanadensisk värdepapperslagstiftning.</p> <p><b>Försäljning av aktier</b> – I den mån som Bolagets utestående aktier säljs på marknaden finns det en risk att tillgången på aktier är större än efterfrågan på samma aktier.</p> <p><b>Miljöskyddspolicies</b> – Bolagets olje- och gasverksamhet är lokaliserad i regioner där flertalet miljöskyddspolicies är gällande, inkluderandes regelverk som begränsar var och när olje- och gasverksamhet får bedrivas, begränsningar kring utsläpp av ämnen i grundvattnet, atmosfären och landytan, samt var pipelines får dras eller var produktionsfaciliteter får placeras.</p>
D.3	Risker relaterade till aktierna	<p><b>Risker relaterade till aktiemarknaden</b> – En potentiell investerare bör vara medveten om att investering i Bolagets aktier är förenat med en hög andel risk och att det inte finns några garantier att priset på Bolagets aktier utvecklas positivt. Priset på börsnoterade aktier kan vara väldigt volatilt.</p> <p><b>Risker relaterade till illikvid handel och noteringen</b> – Det är inte möjligt att förutse huruvida investerares intresse i Africa Oil kommer att leda till en likvid handel i dess aktier eller hur handeln i dess aktier kommer att fungera i framtiden.</p> <p><b>Risker relaterade till utdelningar</b> – Africa Oil har aldrig betalat utdelning på sina aktier. Den industri i vilken bolaget är verksam är kapitalintensiv och Bolagets vinster kan komma att behöva ackumuleras och återinvesteras i verksamheten. Således är det inte säkert att Bolaget någonsin kommer att betala vinstutdelning till sina aktieägare i framtiden.</p> <p><b>Förändringar i valutakurser</b> – Om Africa Oil i framtiden skulle betala utdelning på sina aktier skulle sådan utdelning betalas i CAD. Dock skulle aktieägare vars aktier är registrerade i Euroclears system få sina utdelningar i SEK. En minskning av CAD i förhållande till SEK skulle minska värdet på en investering i Bolagets aktier eller av eventuell utdelning, samtidigt som en ökning av CAD skulle kunna öka värdet på investeringen i Bolagets aktier eller av eventuell utdelning. Vidare är aktieägande registrerat via Euroclear av aktier med aktieägare vars huvudsakliga valuta inte är SEK exponerat mot övriga valutakursrisker.</p> <p><b>Framtida erbjudanden av skuldinstrument eller aktier</b> – Africa Oil kan i framtiden komma att kräva ytterligare kapital för att finansiera vidare prospektering, utveckling eller produktion, eller för att dra nytta av oförutsedda möjligheter. Om Africa Oil anskaffar ytterligare kapital genom att emittera aktier så kan sådan finansiering späda ut det ekonomiska värdet av tidigare aktieägares andel eller röstetal i Bolaget.</p>

## Avsnitt E – Erbjudande

E.1	Emissionsbelopp och emissionskostnader	N/A; detta prospekt utfärdas i samband med en sekundärnotering på NASDAQ OMX Stockholms huvudlista och Africa Oil riktar inget erbjudande att förvärva aktier.
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E.2a	<i>Motiv till erbjudandet och användning av medel</i>	N/A; detta prospekt utfärdas i samband med en sekundärnotering på NASDAQ OMX Stockholms huvudlista och Africa Oil riktar inget erbjudande att förvärva aktier.
E.3	<i>Erbjudandets former och villkor</i>	N/A; detta prospekt utfärdas i samband med en sekundärnotering på NASDAQ OMX Stockholms huvudlista och Africa Oil riktar inget erbjudande att förvärva aktier.
E.4	<i>Intressekonflikter etc.</i>	N/A; inga intressekonflikter eller liknande existerar.
E.5	<i>Lock-up-avtal</i>	N/A; det finns inga lock-up-avtal.
E.6	<i>Utspädning</i>	N/A; detta prospekt utfärdas i samband med en sekundärnotering på NASDAQ OMX Stockholms huvudlista och Africa Oil riktar inget erbjudande att förvärva aktier.
E.7	<i>Kostnader för investerare</i>	N/A; Africa Oil ålägger inte några kostnader på investerarna.

# RISK FACTORS

*An investment in securities involves a significant degree of risk. The Company's business, operating results or financial position may be adversely affected by a number of risk factors which are beyond the control of the Company. The Company is exposed to a number of risks inherent in the oil and gas exploration and development industry. Risk factors deemed to be of particular significance to the future prospects of the Company are described below. The risk factors described below are not exhaustive. The Company's business, operating results and financial position may also be materially adversely affected by other risks and uncertainties which are currently unknown to the Company, or which are currently not viewed as material. Further, risks are not ranked according to degree of importance. Nor do they indicate how significant the impact could be on the Company's operations. The risk described herein should also be considered in connection with the other information included in the prospectus and the macroeconomic environment, as well as the cautionary statement regarding forward-looking information set forth in the Section "Important information" above.*

## Risks relating to Africa Oil

The operations of the Company are speculative due to the high risk nature of its business. Material risk factors and uncertainties, which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out below. Any one or more of these risks and others could have a material adverse effect on the Company.

### RISKS RELATING TO THE BUSINESS

#### *International operations*

Africa Oil 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 Africa Oil'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 Africa Oil's control, could have a material adverse effect on Africa Oil's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by Africa Oil, Africa Oil could be subject to the jurisdiction of courts other than those of Canada. Africa Oil'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 Africa Oil acquires an interest. Africa Oil may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. Africa Oil may not 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.

The aforementioned international boundaries disputes may have a material negative effect on the Company's oil concessions and may therefore have a material negative effect on the Company's financial situation.

### ***Political instability***

Through Horn, the Company is highly exposed to significant political risk in Somalia and the Puntland Regional State. Somalia as a whole is characterized by strong internal political tension that can easily escalate into violence.

The election of the 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) led to some 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***

Africa Oil'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 Africa Oil are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that Africa Oil'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.

Africa Oil'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 Africa Oil 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. Moreover, even if Africa Oil would prevail in such dispute or litigation, it may still have a substantially negative effect on Africa Oil and its operations.

### ***Financial statements prepared on a going concern basis***

Africa Oil'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. Africa Oil's operations to date have been primarily financed by equity financing. Africa Oil's future operations are dependent upon the identification and successful completion of additional equity or debt financing or the achievement of profitable operations. Africa Oil may not 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 Africa Oil be unable to continue as a going concern.

### ***Shared ownership and dependency on partners***

Africa Oil's operations are, to a significant degree, conducted together with one or more partners through contractual arrangements. In such instances, Africa Oil may be dependent on, or affected by, the due performance of its partners. If a partner fails to perform, Africa Oil 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. Africa Oil 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 Africa Oil's operations relating to such project.

### ***Uncertainty of title***

The Company conducts title reviews, there is however a risk 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, Africa Oil 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 the Company 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 Africa Oil since 2007.

The Company does not recognize the interest of ConocoPhillips and disputes ConocoPhillips' 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***

Africa Oil'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 Africa Oil. In case of a dispute, it cannot be certain that the view of Africa Oil would prevail or that Africa Oil otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on Africa Oil. Also, if Africa Oil or any of its partners were deemed not to have complied with their duties or obligations under a concession, license or contract, Africa Oil'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. Africa Oil competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. Africa Oil's competitors include oil companies which have greater financial resources, staff and facilities than those of Africa Oil and its partners. Africa Oil'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. Africa Oil'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 Africa Oil'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 Africa Oil depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves, and Africa Oil may not at all times be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Africa Oil may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. Expenditures made on future exploration by Africa Oil may not always result in discoveries of oil or natural gas in commercial quantities, or commercial quantities of oil and natural gas may not at all be discovered or acquired by Africa Oil. 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.

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

### ***Capital requirements***

To finance its future acquisition, exploration, development and operating costs, the Company may require financing from external sources, including from the issuance of new Shares, issuance of debt or execution of working interest farmout agreements. Such financing may not at all times be available to the Company or, if available, offered on terms acceptable to the Company. 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 the Company may be diluted. If unable to secure financing on acceptable terms, the Company 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. Availability of capital will also directly impact the Company's ability to take advantage of acquisition opportunities.

### ***Environmental regulation***

Drilling for and production, handling, transporting and disposing of oil and gas and petroleum by-products are subject to extensive regulation under national and local environmental laws, including those of the countries in which Africa Oil currently operates. Environmental regulations may impose, among other things, restrictions, liabilities and obligations in connection with water and air pollution control, waste management, permitting requirements and restrictions on operations in environmentally sensitive areas. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures, results of operations and competitive position of Africa Oil. However, environmental regulations are expected to become more stringent in the future, and costs associated with compliance are expected to increase. Any penalties or other sanctions imposed on Africa Oil for non-compliance with environmental regulations could have a material adverse effect on Africa Oil's business, prospects and results of operations.

### ***Availability of equipment and staff***

Africa Oil's oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. Africa Oil currently leases all the drilling rigs used for its exploration and development activities. Shortages of such equipment or staff may affect the availability of such equipment to Africa Oil and may delay Africa Oil's exploration and development activities and result in lower production.

### ***Reliance on key employees***

The loss of the services of key personnel could have a material adverse effect on Africa Oil's business, prospects and results of operations. Africa Oil has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is intense and Africa Oil may not be able to attract and retain the skilled personnel necessary for operation and development of its business. Success of Africa Oil is largely dependent upon the performance of its management and key employees.

## **RISKS RELATING TO THE INDUSTRY**

### ***Prices, markets and marketing of crude oil and natural gas***

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Africa Oil. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could have an adverse effect on Africa Oil's business and prospects.

### ***Early stage of development***

Africa Oil has conducted oil and gas exploration and development activities for a relatively short period. There is limited financial, operational and other information available with which to evaluate the prospects of Africa Oil.

Africa Oil's operations may not be profitable in the future or generate sufficient cash flow to satisfy its working capital requirements.

### ***Risks relating to infrastructure***

Africa Oil is dependent on available and functioning infrastructure relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or do not meet the requirements of Africa Oil, Africa Oil's operations may be significantly hampered which could result in delayed, postponed or cancelled petroleum operations, lower production and sales and/or higher costs. In several areas in which Africa Oil operates, very little infrastructure of any sort that is commonly associated with petroleum operations is in existence.

### ***Current global financial conditions***

Global financial conditions have always been subject to volatility. Access to public financing has been negatively impacted by sovereign debt concerns in Europe and the United States, as well as concerns over global growth rates and conditions. These factors may impact the ability of the Company to obtain equity or debt financing in the future, and, if obtained, on terms favorable to the Company. Increased levels of volatility and market turmoil can adversely impact the Company's operations and the value and the price of the Shares could be adversely affected.

### ***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. The Company had no forward exchange contracts in place as at December 31, 2013.

In October 2013 the Company entered into a single derivative instrument in an effort to mitigate exposure to fluctuations in the USD versus the SEK exchange rate on the private placement in October 2013, in which the Company issued Shares in SEK. As a result, the Company incurred losses on foreign currency instruments of USD 7.4 million (2012 USD nil).

### ***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 that the Company has sufficient available funds to meet current and foreseeable financial requirements.

### ***Credit risk***

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of Africa Oil's credit exposure relates to amounts due from joint venture partners. The risk of the Company's 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. A portion of the Company's cash is held by banks in foreign jurisdictions where there could be increased exposure to credit risk.

### ***Conflict of interests***

Certain directors of Africa Oil are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of Africa Oil. If and when a conflict arises with respect to a particular transaction, the affected directors must disclose the conflict and abstain from voting with respect to matters relating to the transaction. All conflicts of interest will be addressed in accordance with the provisions of the BCBCA and other applicable laws.

The BCBCA provides that, in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director must disclose his interest in such contract or agreement and refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA.

### ***Limitation of legal remedies***

Securities legislation in certain of the provinces and territories of Canada provides purchasers with various rights and remedies when a reporting issuer's continuous disclosure contains a misrepresentation and ongoing rights to bring actions for civil liability for secondary market disclosure. Under the legislation, the directors would be liable for a misrepresentation. It may be difficult for investors to collect from the directors resident outside Canada on judgments obtained in courts in Canada predicated on the purchaser's statutory rights and on other civil liability provisions of Canadian securities legislation.

### ***Selling off of shares***

To the extent that any issued and outstanding Company Shares are sold into the market, there may be an oversupply of Shares and an undersupply of purchasers. If this occurs the market price for the Company Shares may decline significantly and investors may be unable to sell their Shares at a profit, or at all.

### ***Industry regulatory***

Existing regulations in the oil industry, and changes to such regulations, may present regulatory and economic barriers to the purchase and use of certain products, which may significantly reduce the Company's revenues.

### ***Environmental policies***

The Company's oil and gas operations are located in regions where there are numerous environmental regulations including restrictions on where and when oil and gas operations can occur, regulations on the release of substances into groundwater, atmosphere and surface land and the potential routing of pipelines or location of production facilities. The Company can potentially be liable for contamination on properties acquired despite of attempts to mitigate the risk of inheriting environmental liabilities when conducting due diligence on these acquisition opportunities. Breach of environmental regulations in any of the regions in which Africa Oil operates could result in restrictions or cessation of operations and the imposition of fines and penalties.

## **Risks related to an investment in the Company's Shares.**

### **RISKS RELATED TO THE STOCK MARKET**

A prospective investor should be aware that an investment in the Company's Shares is associated with a high degree of risk, and that there are no guarantees that the price of the Shares develops favorably. The share prices of publicly-traded companies can be highly volatile. The price at which the Shares may be quoted and the price which investors may realize for their Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect the industry as a whole, or listed companies generally. In addition to

the Company's performance, such factors may include the economic climate, market interest rates, capital flows, political uncertainties and market and behavioral psychology, as well as substantial future sale of Shares. The Company is unable to predict or exercise control over these factors. Thus, a potential investor should be aware of the risk that the trading price of the Shares can decline.

### **RISKS RELATED TO ILLIQUID TRADING AND THE LISTING**

It is not possible to anticipate the degree to which investors' interest in Africa Oil will lead to active trading in its Shares or how trading the Shares will function in the future. Should active and liquid trading not be sustained, holders of Shares may experience difficulties in selling Shares, either momentarily, or completely. If there is not a sufficient number of holders of Shares traded on NASDAQ OMX Stockholm, the Company may not be able to comply with the listing requirements of NASDAQ OMX Stockholm, requiring that there shall be sufficient liquidity in order to facilitate orderly trading and an efficient price formation process. In the event the Board would consider the Listing as inappropriate based on, for example, economical, financial or political terms, the Listing application may be withdrawn by the Company. In such case, Africa Oil intends to maintain its listing on NASDAQ OMX First North.

### **RISKS RELATED TO DIVIDENDS**

Africa Oil has never paid dividends. The industry in which Africa Oil operates is capital intensive and the Company's profits may need to be accumulated and used to reinvest in the Company's operations. Hence, there can be no assurance that the Company will pay any dividends to its shareholders or holders of Shares in the future.

### **EXCHANGE RATE FLUCTUATIONS**

If Africa Oil would, in the future, pay dividends in respect of the Shares, such dividends will be paid in CAD. However, holders of Shares registered with Euroclear will receive dividend distributions in SEK. Any depreciation of CAD in relation to SEK could reduce the value of the investment or of any dividends. Furthermore, the holding of Shares registered with Euroclear by an investor whose principal currency is not SEK would expose the investor to additional foreign currency exchange rate risk.

### **FUTURE OFFERINGS OF DEBT OR EQUITY SECURITIES**

Africa Oil may require additional funds to finance further exploration, development and production activities, or to take advantage of unanticipated opportunities. If Africa Oil raises additional funds by issuing additional equity securities, such financing would dilute the economic and voting rights of the Company's shareholders and holders of Shares. Since the Company's capital needs depend on market conditions and other factors beyond its control, it cannot predict or estimate the amount, timing or nature of any such future offering of securities. Thus, holders of Shares bear the risk of any future offerings reducing the market price of the Shares and diluting their shareholdings in the Company.

# BACKGROUND AND CONDITIONS

## Background and reasons for the Listing

The Company has an unlimited authorized capital of Shares without par value of which, as at March 31, 2014, 310,524,989 Shares were issued and outstanding as fully paid and non-assessable. The Shares have been listed on the TSX since May 6, 2014 (since January 3, 1996 the Shares were traded on the TSX-V). The Company's Shares have been listed on NASDAQ OMX First North since September 30, 2010. The Board intends to improve the availability of the Shares to both current and prospective investors by listing the Company's Shares on NASDAQ OMX Stockholm Main Market.

## Information and conditions of the Listing

This is not an offering to purchase, subscribe for or sell Shares in Africa Oil.

The Shares are traded on the TSX and NASDAQ OMX First North under the symbol "AOI" and the ISIN code CA00829Q1019. The Shares are issued under the BCBCA, and they are traded in CAD on the TSX, and in SEK on NASDAQ OMX First North.

The Company has decided to apply for a secondary listing of the Shares on NASDAQ OMX Stockholm Main Market under the symbol "AOI" and the ISIN code CA00829Q1019. The Shares will be traded in SEK and settled in SEK. Estimated first day of trading on NASDAQ OMX Stockholm is on or about July 1, 2014.

Notice regarding the Listing will be made public through a press release in conjunction with the approval by NASDAQ OMX Stockholm.

## REGISTRATION WITH EUROCLEAR

Only Shares registered in the local central securities depository system with Euroclear will be subject to trade on NASDAQ OMX Stockholm following the Listing. Holders of Shares listed on the TSX are entitled to register those Shares in the depository system at Euroclear in order to trade their securities on NASDAQ OMX Stockholm and vice versa. In order to trade Shares on NASDAQ Stockholm, holders of Shares are advised to contact their nominees or their bank.

## CONDITIONS FOR THE LISTING

The Listing is conditional upon Africa Oil meeting NASDAQ OMX Stockholm's ownership distribution requirements and that no circumstances arise pursuant to which the realization of the Listing would be considered inappropriate by the Board. Such circumstances could for instance be based upon economic, financial or political concerns or due to a determination that there is insufficient regular and liquid trade in the Shares. The intention to complete the Listing can therefore be withdrawn. Notice of such will be made public through a press release if that is the case. In such case, Africa Oil intends to maintain the listing on NASDAQ OMX First North.

## MARKET MAKER

Africa Oil appointed Pareto as market maker in conjunction with the admission to trading of the Shares on NASDAQ OMX First North. This appointment as market maker will continue as such in conjunction with the admission to trading on NASDAQ OMX Stockholm Main Market with the objective to promote a good liquidity in the Shares on this market. Under the agreement, Pareto will place bid and offer prices corresponding to a value of SEK 30,000 on each side. The maximum difference between the bid and the offer price shall be four per cent. The assignment is on an ongoing basis.

## **OTHER**

As far as the members of the Board are aware, no physical or legal persons involved in the Listing have financial or other relevant interests that are of importance to the Listing other than as described herein.

## **Responsibility for the prospectus**

*The board of directors of Africa Oil is responsible for the contents of this prospectus. The board of directors hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.*

The board of directors of Africa Oil Corp.

Vancouver, British Columbia, Canada

June 26, 2014

# INDUSTRY OVERVIEW

*The following industry overview describes the Company's market in terms of size, development and prospects for future growth. The information contained in the Section below originates from Africa Oil, unless expressly stated otherwise.*

*This prospectus contains forward-looking statements which reflect the Company's Board's current view of future events and the Company's operational and financial performance. Although the Board believes the expectations reflected in forward-looking statements are reasonable, there can be no guarantees that these expectations will prove to be correct. Forward-looking statements only express the Board's assessments and assumptions at the time of the prospectus. The Board makes no commitment to publish updates or revisions of forward-looking statements as a result of new information, future events or similar circumstances. Prospective investors are encouraged to study the overall information contained in this prospectus and take into consideration that the Company's future results, performance or success may differ materially from the Board's expectations. The Section "Risk factors" contains a description, which should not be regarded as exhaustive, of factors that may cause actual results or presentations to differ materially from forward-looking statements.*

## The oil and natural gas market

As the Company's business activities are focused on exploration and development of oil and natural gas resources, this section contains an overview of the global crude oil and natural gas markets.

### INTRODUCTION TO CRUDE OIL

Crude oil was formed by geological processes millions of years ago and is typically found in underground reservoirs of different sizes, at varying depths and with varying characteristics. Oil is a finite resource in the earth's crust, and at some future date, world oil production will reach a peak, after which production will decline.<sup>1</sup> Since oil is usually found deep below the surface and since oil reservoirs normally do not have an obvious surface indication, oil has proven difficult to find. Advancing technology has improved the discovery process and reduced exploration failures; nevertheless, oil exploration is still inexact and expensive. Once oil has been discovered via an exploratory well, full-scale production requires many wells across the reservoir to provide multiple paths that facilitate the flow of oil to the surface. This multitude of wells also helps to define the total recoverable oil in a reservoir, its so-called reserves. Reserves are defined as an estimate of the amount of oil in a reservoir that can be extracted at an assumed cost. Thus, a higher oil price outlook indicates that more oil can be produced, but geology places an upper limit on price-dependent reserves growth.<sup>2</sup>

Oil is classified as conventional and unconventional. Conventional oil is typically the highest quality, lightest oil which flows from underground reservoirs with comparative ease. Unconventional oils are heavy, often tar-like or contained in shale reservoirs. They are not readily recovered since production typically requires a great deal of capital investment and supplemental energy in various forms. For that reason, most current world oil production is conventional oil.

Africa Oil is primarily engaged in upstream oil and gas exploration, seeking light sweet crude as its primary exploration focus. Light sweet crude is heavily sought after as other traditional sources of this oil type are beginning to deplete in regions traditionally recognized as the main suppliers of this conventional fuel type. As the race to secure resources increases, exploration companies have to look in areas not already exploited by other competitors

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<sup>1</sup> "Peaking of World Oil Production: Impacts Mitigation & Risk Management", Robert L. Hirsch, February 2005.

<sup>2</sup> "Peaking of World Oil Production: Impacts Mitigation & Risk Management", Robert L. Hirsch, February 2005.

in the industry, forcing exploration into less developed and often politically unstable regions. Northeast Africa is one of the last areas on the globe that has not seen the magnitude of oil and gas exploration as seen in the rest of the world.

## **EXPLORATION ACTIVITIES IN NORTHEAST AFRICA**

Africa is well endowed with energy resources, and the global call for African oil is steadily on the rise. Both Western and Eastern companies are hunting in earnest for oil and gas in the region. East African countries are now entering into a new dawn of exploration interest, experiencing renewed levels of investment. Africa's barriers to exploration and development expansion have been civil strife and political instability, making some of the areas of the region the riskiest environments for local and foreign investment, thereby limiting its own potential. Oil-related social conflict and poor oil revenue management have cast a negative shadow on any major oil exploration until now. Geopolitical factors and other tensions have moved energy security to the top of the global agenda in the region. The key economic challenge to expanding oil and gas access in Africa is how to induce reliable, adequate, socially and environmentally responsible oil and gas supply despite the relatively weak, though gradually improving economic and social conditions in the region.

Over the past few years increased attention on Northeast Africa has been spurred by discoveries made in Uganda by London-based Tullow Oil, Plc, who report 1.7 billion barrels of oil gross discovered resources in the Lake Albert region. Adding further interest to develop the region is Anadarko Petroleum's findings of a significant natural gas reservoir off the coast of Mozambique, providing further evidence to the existence of vast quantities of hydrocarbons in a geologically complex area of the world.

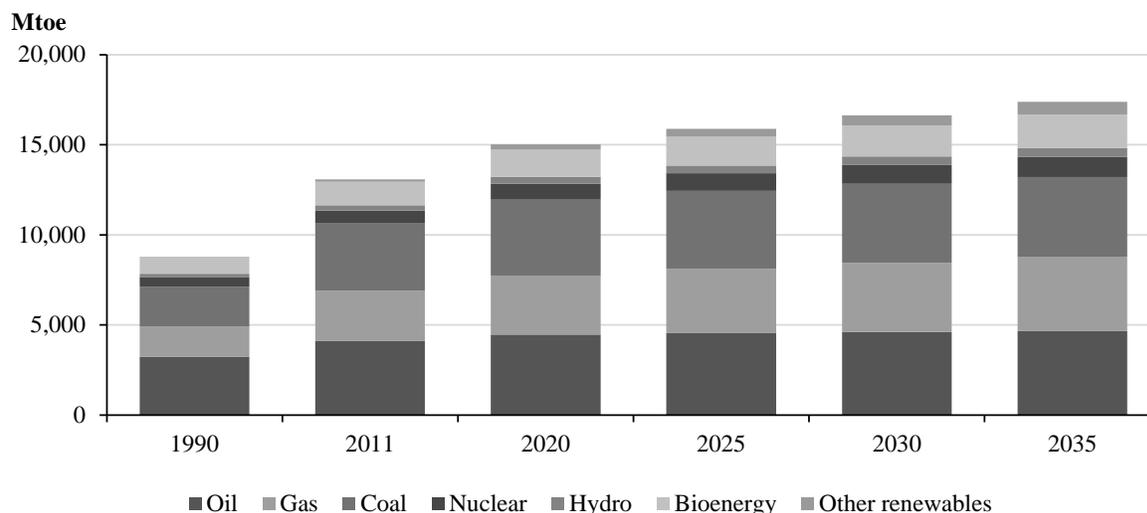
The relative attractiveness of most African crude oil on the world market is associated with its low sulphur content and its quality, which has been steadily driving exploration. The reality and challenge for Africa lies in its downstream mechanisms such as refining, distribution, and the mobilization of financial and human resources which will require immediate and significant capital investment to coincide with projected increases in supply. Without a doubt, Africa faces certain challenges in achieving a sustainable energy future, embodied in the twin objectives of expanded energy access at affordable prices, and oil and gas wealth sustainability. Success will be strongly dependent on the political will of leadership to change the status quo of economic and political marginalization that has characterized the region.

## **THE GLOBAL OIL MARKET**

### ***The global energy market***

Global energy consumption is driven by world population, economic growth and availability of resources. Overall consumption has grown consistently and seen a steady increase throughout modern economic history. Going forward, energy consumption is expected to increase for all forms of energy, primarily as a result of increased consumption in emerging economies as well as a growing global population and expanding economy. According to BP's 2013 Statistical review of World Energy, oil is the most consumed source with an annual consumption of 89.8 million barrels per day in 2012. The world consumption of primary energy, including oil, natural gas, coal, nuclear, hydro power and other renewable energy, increased by 2.1 per cent in 2012. In the same period global oil consumption increased by 1.1 per cent, equivalent to 0.9 million barrels per day.

Figure 6.1: Global Energy Consumption



Source: IEA World Energy outlook 2013

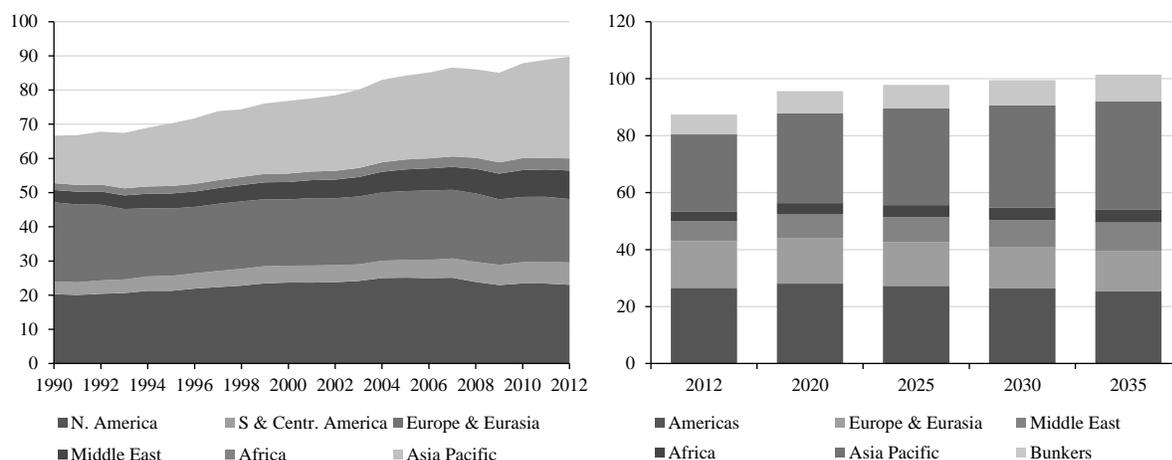
## Overview of the oil market

### Oil consumption

Oil is the world's primary source of energy and in 2012 global oil consumption was approximately 89.9 million barrels per day. Oil consumption has grown consistently over the past decades, and from 2000 to 2012, consumption increased by 17 per cent on a global basis. According to IEA's World Energy Outlook, global oil consumption is expected to continue to increase going forward, growing to 101.4 million barrels per day in 2035. Oil is used for a wide array of purposes including transportation, petrochemical processes for feedstock, power generation and agriculture. Currently, oil used for transportation in the form of among other gasoline, diesel and jet fuel is the main source of oil consumption globally, constituting 53 per cent of global consumption in 2012<sup>3</sup>. Transportation is expected to be a key source of consumption growth going forward, constituting 58 per cent of global oil consumption in 2035. Geographically, the largest consuming countries in 2012 were the United States (18.6 million barrels per day) and China (10.2 million barrels per day). Consumption is today fairly evenly distributed between OECD and non-OECD countries with approximately 50 per cent of consumption from each of the groups. Going forward, as a result of among other increased fuel efficiency and stricter environmental policies, consumption in OECD countries is expected to decrease while global consumption is expected to increase overall due to strong consumption growth in emerging economies. From 2012 to 2035 oil consumption in non-OECD countries is expected to increase by 49 per cent, primarily driven by growing consumption in China, India and the Middle East. Figure 6.2 below shows the historic and expected future development in geographical consumption, as well as current and expected mix of oil consumption going forward.

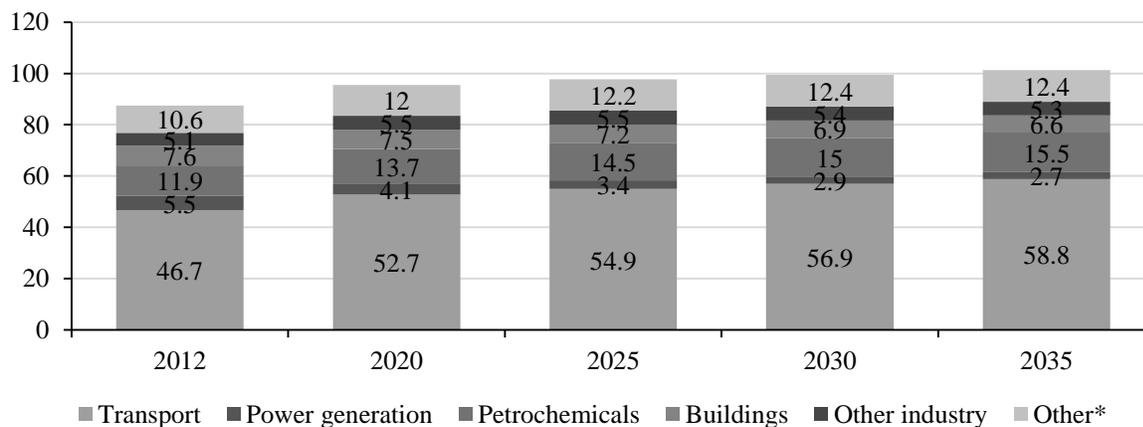
<sup>3</sup> IEA World Energy Outlook 2013.

Figure 6.2: Global Oil Consumption growth and composition (mmbbls/day)



Source: Left chart: BP Statistical Review of World Energy 2013, Right chart: IEA World Energy outlook 2013

Figure 6.3: Global oil demand by sector (mmbbls/day)



Source: IEA World Energy Outlook 2013. \*Other includes agriculture, transformation and other non-energy use (mainly bitumen and lubricants)

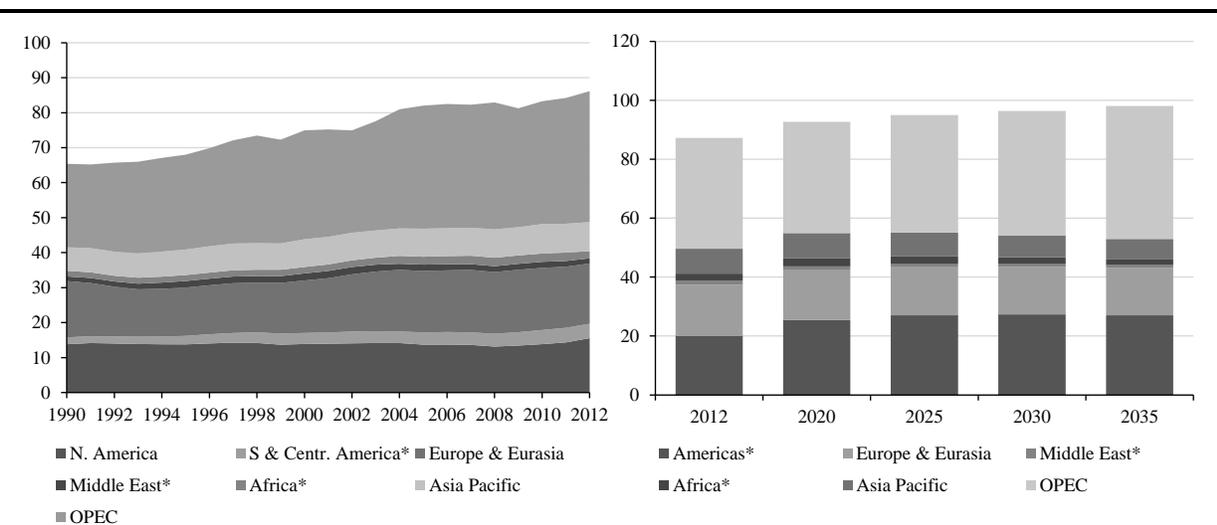
### Oil production and reserves

Oil is found in large quantities on most continents of the world. Crude oil production is active in all major populated continents and in 2012 the global production totaled an estimated 86.2 million barrels per day<sup>4</sup>. The largest producers are Saudi Arabia (11.5 million barrels per day), Russia (10.6 million barrels per day) and the United States (8.9 million barrels per day). From 2000 - 2012, production grew at an annual compounded rate of 1.2 per cent per year, and production grew in all major regions of the world however with varying growth between nations. In the

<sup>4</sup> BP Statistical Review of World Energy 2013.

period, Russia was the largest growing producer, growing its oil production from 6.6 million barrels per day in 2000 to 10.6 million barrels per day in 2012 (62 per cent growth). Other countries with large production growth were Saudi Arabia, the United States, Canada, Qatar, Angola and Kazakhstan, all growing daily production by more than 1 million barrels per day in the period. Simultaneously, production declined significantly in the North Sea in the period, with the United Kingdom and Norway seeing production declining by 1.7 and 1.4 million barrels, respectively. Going forward, oil production growth is expected to be dependent on increased output from the Organization of the Petroleum Exporting Countries (“OPEC”)<sup>5</sup>, as well as increased unconventional oil production, including Canadian oil sands, tight oil and extra heavy oil, while conventional oil production is expected to decline due to natural production decline in existing fields and reduced rate of production from new conventional fields. Production from OPEC countries is expected to be the main source of growth, growing from 37.6 million barrels per day in 2012 to 45.2 million barrels per day in 2035<sup>6</sup>. Within OPEC, increased production from Iraq as a result of an improved security situation, enhanced infrastructure availability and renewed activity in the region drives activity. Further, unconventional extra-heavy oil production from Venezuela is expected to contribute more than 2 million barrels per day in 2035, from around 0.6 million barrels per day in 2012. Chart 6.4 shows the historic development in global oil production per country from 1990 to today<sup>7</sup> and the expected production composition going forward, while chart 6.5 shows the expected product composition of global oil production from 2012 to 2035.

Figure 6.4: Global oil production by region (mmbbls/day)



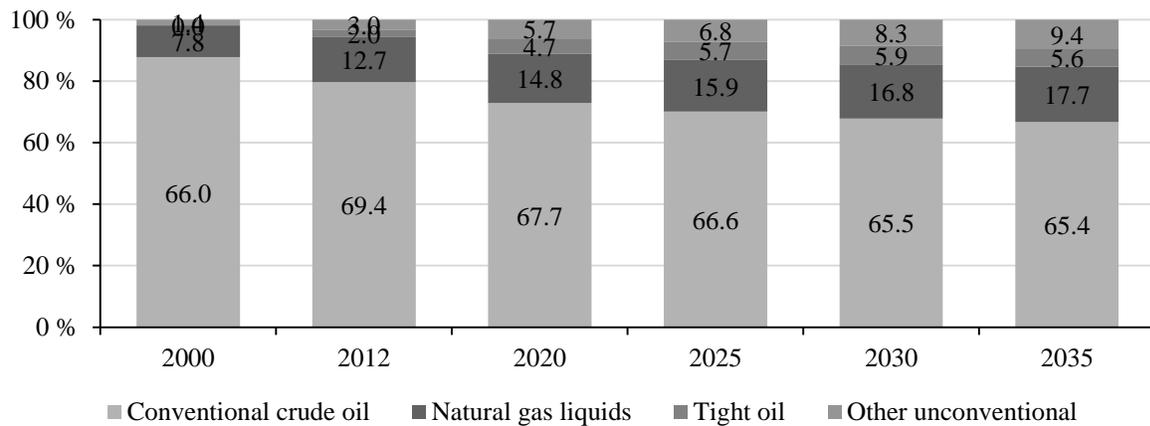
Source: Left chart: BP Statistical Review of World Energy 2013. Right chart: IEA World Energy Outlook 2013.  
\*Non-OPEC

<sup>5</sup> OPEC member countries: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

<sup>6</sup> IEA World Energy Outlook 2013.

<sup>7</sup> BP Statistical Review of World Energy 2013.

Figure 6.5: Global oil production by product (mmbbls/day)

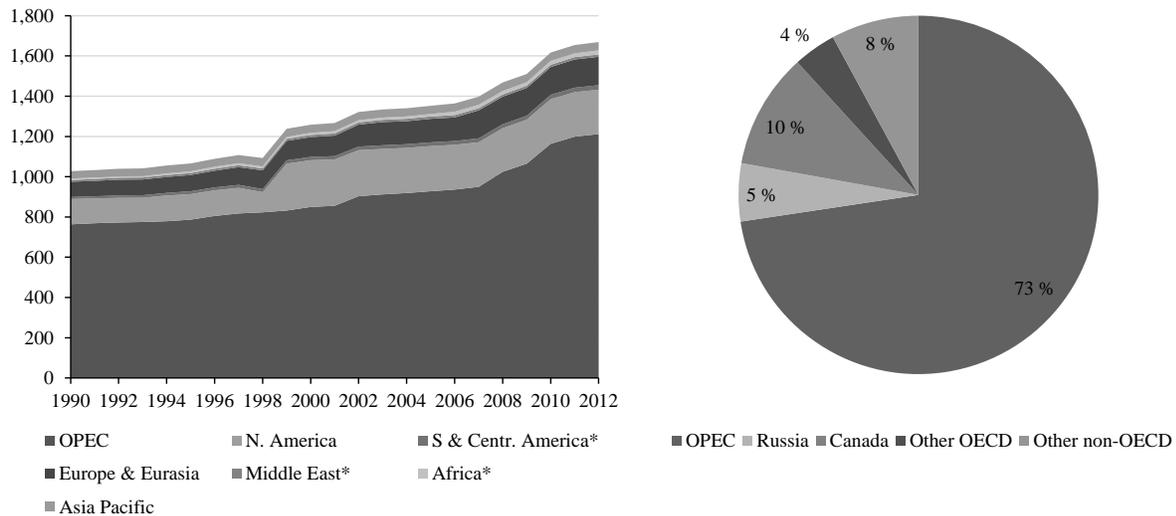


Source: IEA World Energy Outlook 2013.

In terms of reserves, nearly half of the total proved reserves in the world today are located in the Middle East, primarily Saudi Arabia, Iran, Iraq, Kuwait and the United Arab Emirates. In total, 73 per cent of remaining proven reserves are held by the OPEC members. Other large reserve pools are located in unconventional resources in Canada (oil sands) and Venezuela (extra heavy oil), which will require significant investments and technology improvements in order to commercially develop. Of the remaining oil reserves in the world, a large proportion is owned by state owned entities. In 2012, nearly 80 per cent of the world's proven plus probable reserves, including both conventional and unconventional oil, are controlled by national oil companies ("NOCs") or their host governments. In addition, NOCs also hold those reserves with by far the lowest average development and production costs. Remaining reserves are shared between major oil companies (13 per cent) and independents (7 per cent). A large portion of NOCs tend to focus primarily on supplying their national markets, or are subject to political supervision, which may impact rate of production and flow of sales, while activities of privately owned companies including major oil companies, independents and certain NOCs are geared towards shareholders' interests and market signals. Due to the strategic importance of oil as a key source of energy supply in the modern economy, as well as a large portion of the world's remaining reserves are controlled by politically influenced national entities and located in countries that are members of OPEC, future production and supply of oil may be influenced by factors outside the course of normal market functions. This could in the future, as has been demonstrated in the past, have material impact on the trade of oil between countries, as well as the price of oil.

Chart 6.6 below shows the historical development in proven oil reserves, as well as the current composition between OPEC and main non-OPEC countries.

Figure 6.6: Global oil reserves (mmbbls/day)



Source: BP Statistical Review of World Energy 2013

## OIL PRICE DEVELOPMENT

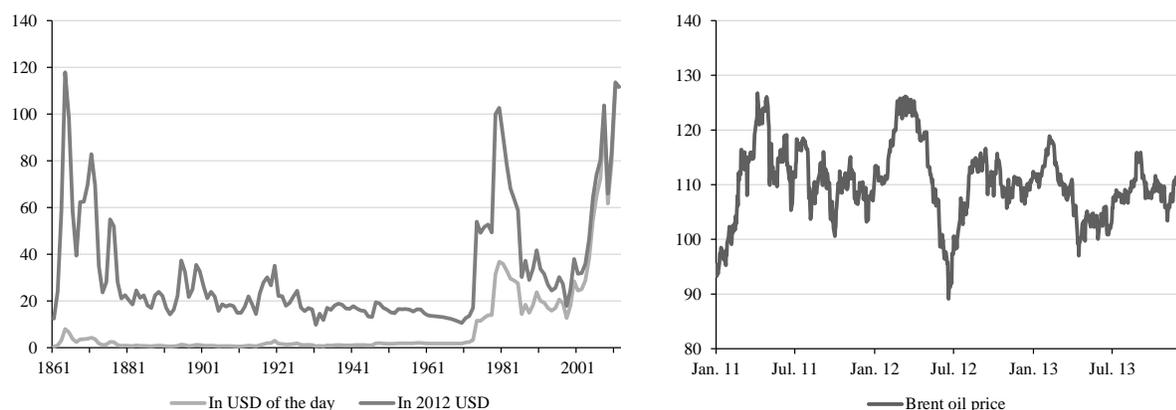
Oil is a commodity with a well-developed world market. The prices are determined on the world's leading commodities exchanges, with NYMEX in New York and the IPE in London as the most important market for the determination of world oil prices. Prices are determined by the weight of the oil, with WTI, the main benchmark for NYMEX, as the lightest of the main benchmarks in oil pricing. Brent Crude, the main benchmark for IPE is slightly heavier. In recent years, Brent price has emerged as the benchmark price of oil sales in global markets, including West Africa.

Oil prices have historically experienced significant fluctuations, but have in recent years stabilized in the region between USD 90-120 per barrel (Brent prices). The oil price is highly dependent on the current and expected future supply and demand of oil, and is as such influenced by global macroeconomic conditions and may experience material fluctuations on the basis of economic indicators, material economic events and geopolitical events. Historically, oil prices have also been heavily influenced by organizational and national policies, most significantly the implementation of OPEC and subsequent production policies announced by the organization. Chart 6.7 below shows the historical development in the price of crude oil from 1861 to 2012<sup>8</sup>, as well as the development in Brent prices from 2011 until today<sup>9</sup>.

<sup>8</sup> Source: BP Statistical Review of World Energy 2013.

<sup>9</sup> Source: InFront Online Trader.

Figure 6.7: Development in crude oil prices

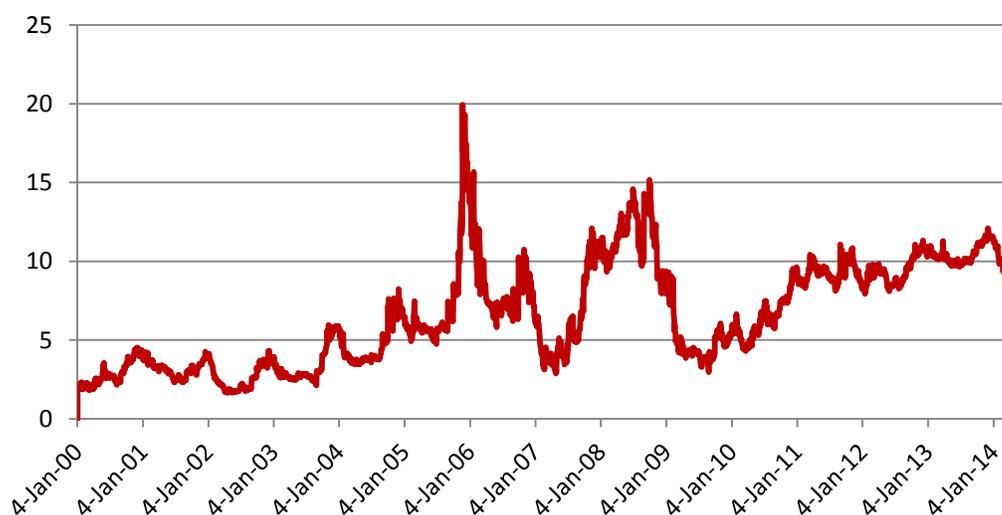


Source: BP Statistical Review of World Energy 2013, InFront Online Trader

## NATURAL GAS PRICE DEVELOPMENT

Natural gas is recognized as a regional commodity owing to the necessity to ship produced gas via pipeline to hubs capable of redirecting and distributing to purchasers; as a result, prices are often responsive to the proximal market space where natural gas is originated. In Africa, prices are expected to remain below market average until sufficient infrastructure and distribution facilities are built to accommodate the abundant supply of natural gas found within much of the African continent. With that said, major power producers are now seeking additional sources of feedstock and Africa may be the next area of focus for these power producers, possibly prompting pricing increases.

*Historical natural gas price development (USD/mmbtu)*



Source: Bloomberg

## OUTLOOK

The primary driving force behind the increased demand for oil and natural gas is, and will continue to be, economic growth. To a great extent the world's energy needs are met by fossil fuels, of which oil is dominant for transportation and other industrial needs; however, natural gas in its abundant supply, may spur increased reliance on the feedstock to meet power production needs. In developing countries, demand for energy is aligned with economic growth, whereas in industrialized countries the growth in demand is more volatile in comparison with economic growth. As developing nations rise to the standard of living enjoyed by much of North America and Europe, the race for energy security is not likely to abate. Emerging economies will have to engage in competitive bidding practices and enter into previously unfavorable geopolitical arenas that will undoubtedly create dramatic shifts in alignment of loyalties as the pursuit of hydrocarbon security carries on.

## Competitors

The petroleum industry is intensely competitive, particularly with respect to the acquisition of prospective acreage on trend with discovered resources. Africa Oil competes globally with numerous other companies, including larger independent oil and gas companies, major and super-major oil and gas companies and national oil companies with greater financial resources, staff and facilities than Africa Oil.

Many oil companies are often competitors at the early stage of acquisition of exploration acreage, but at times, they become partners as farmout agreements are struck to develop larger land holdings and to diversify and mitigate exploration risk. Consequently, the line separating competitors from partners varies. Africa Oil currently participates in a variety of joint venture operations with numerous joint venture partners, including: Tullow Oil plc, Marathon Oil Corporation, Afren plc. and New Age (African Global Energy).

Exploration activity in both onshore and offshore East African Rift Basins continues to dramatically increase. Since 2006, major hydrocarbon discoveries have been announced in several East African countries, including Uganda, Kenya, Tanzania and Mozambique. East Africa has become an area of intense oil and gas industry focus. The list of additional East African oil and gas industry participants is extensive, including ExxonMobil, BG Group plc, Anadarko, Petrobras, Total, CNOOC, ONGC Videsh Ltd., Ophir Energy plc, Statoil ASA and Heritage Oil plc. Africa Oil utilized its first mover advantage to accumulate an acreage position, which is currently in excess of 215,000 square kilometers (gross acreage), prior to the Tertiary Rift discoveries made in Northern Kenya in 2012.

It is expected that the robust growth in Asian economies will continue to create significant pressures to actively source vast pools of both oil and gas, magnifying the intense competition for hydrocarbons to feed Asian economic growth. A recent trend has emerged amongst larger oil and gas industry participants resulting in an increased focus on capital efficiency with a trend toward an increasing focus on lower cost and higher return projects which may create increased focus on material onshore exploration and development projects in comparison to high cost ultra-deep water exploration.

# OPERATIONS OF AFRICA OIL

## Summary

Africa Oil's long range plan is to increase shareholder value through the acquisition and exploration of oil and gas assets, located in under-explored geographic areas, in the early phase of the upstream oil and gas life-cycle. The Company is focused on high-impact exploration opportunities and has secured a portfolio of East African oil and gas assets which provide the shareholders exposure to multiple identified prospects and leads, geographically and geologically diversified across multiple countries and four under-explored petroleum systems. The Company'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 (with reference to the 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 under-explored land position including the major Tullow Oil plc ("**Tullow**") Albert Graben oil discovery in neighboring Uganda. Similar to the Albert Graben play model, the Company's concessions have older wells, a legacy database, and host numerous oil seeps indicating a proven petroleum system. Good quality existing seismic show robust leads and prospects throughout the Company's project areas. The Company now holds exploration acreage of over 215,000 square kilometers (gross) in this exciting new world-class exploration play fairway. The Company aims to have completed significant seismic and drilling programs on the majority of the Company's blocks over the next two years. East Africa is a vastly under-explored region where renewed interest is being shown by a growing number of mid to large sized oil companies wishing to add to their exploration portfolios.

The Board of Africa Oil may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines discussed above based upon the Board's consideration of the qualitative and quantitative aspects of the subject properties, including risk profile, technical upside, resource potential, reserve life and asset quality.

## The Company's joint venture partners

### TULLOW OIL PLC

Tullow is a leading independent oil and gas, exploration and production group. The company's focus is on finding oil in Africa and the Atlantic Margins, combined with selective development and high-margin production to fund its exploration-led strategy. Tullow is one of the largest independent oil and gas exploration and production companies in Europe with a focused portfolio of assets.

### MARATHON OIL CORPORATION

Marathon Oil Corporation is an independent international energy company. Based in Houston, Texas, the Company has activity in North America, Europe and Africa.

### AFREN PLC

Afren Plc is an independent oil & gas company listed on the Main Market of the London Stock Exchange, with a diversified portfolio of production, development and exploration assets.

## NEW AGE (AFRICA GLOBAL ENERGY) LIMITED

New Age is a UK Listed private company with exploration, development and production of oil and gas primarily in Africa and Kurdistan.

### Projects

The Company's oil and gas properties are all located onshore in Kenya, Ethiopia and Puntland (Somalia). The Company has accumulated one of the largest holdings of exploration acreage in Africa with operated and non-operated interests in multiple Production Sharing Contracts ("PSCs") encompassing more than 215,000 square kilometers (gross) in Kenya, Ethiopia and Puntland (Somalia). Africa Oil began acquiring this large acreage position prior to the heightened activity of recent years and has enjoyed first-mover advantage, building a large and relatively unexplored acreage position and then attracting strong partners to fund portions of the Company's capital requirements.

In Kenya, the Company currently holds working interests in four PSCs with the Government of the Republic of Kenya in the Tertiary Rift Play: Blocks 10BB, 13T, 10BA and 12A. The exploration areas covered by these PSCs are on trend with the significant Tullow Albert Graben oil discovery in neighboring Uganda where Tullow is working with the Government of Uganda and its joint venture partners, CNOOC and Total to complete a Lake Albert basin wide development plan which would include the construction of an oil export pipeline to the coast of East Africa, potentially through Kenya. Multiple discoveries have been made by the Tullow /Africa Oil Corp. joint venture in Blocks 10BB and 13T.

Also in Kenya, the Company holds a working interest in the Block 9 PSC, located in the Anza Graben play, which is a Mesozoic basin related to similar Mesozoic basins located in southern Sudan (Muglad Basin) where the petroleum system is proven and productive. The Muglad Basin is a potential analogue and provides calibration for the analysis of the prospectivity of this Block.

In Ethiopia, the Company currently has an interest in four PSCs with the Government of the Federal Democratic Republic of Ethiopia. The Company has a working interest in the South Omo and Rift Basin Area PSCs which are an extension of the Tertiary Rift trend to the north of the four Kenyan Tertiary Rift blocks. The Company has an interest in the Blocks 7/8 PSC in the Ogaden Basin which is a proven hydrocarbon basin; however, to date commercial production has not been established within the Block 7/8 PSC area. Oil, gas and condensate discoveries within the basin indicate that there is a working petroleum system. Additionally, the Company has an interest in the Adigala Block PSC which lies to the north of the Ogaden Basin where field work indicates that a petroleum system similar to that found in Northern Somalia or Yemen may potentially exist.

The Company, through its 44.6 per cent equity ownership interest in Horn Petroleum Corporation, currently has an interest in two PSCs with the Government of Puntland, a semi-autonomous State in Northern Somalia. The Nugaal Valley and Dharoor Valley Blocks offer the potential to explore in basins that are believed to be analogues of the proven and productive Marib-Shawba and Sayun-Masila Basins of Yemen. The Company's working interest at March 31, 2014, in the various concessions is outlined in the table below together with the gross and net acreage of each:

Region	Production Sharing Contracts	Operator	Current Working Interest <sup>(1)</sup>	Gross Acreage (km <sup>2</sup> )	Net Acreage <sup>(2)</sup> (km <sup>2</sup> )	Stage of exploration <sup>4</sup>
Puntland, Somalia	Dharoor Valley	Horn Petroleum Corporation	27% <sup>(3)</sup>	14,384	3,884	Second Exploration Period ends October 2015. No additional exploration periods remaining.
	Nugaal Valley	Horn Petroleum Corporation	27% <sup>(3)</sup>	21,784	5,882	Second Exploration Period ends October 2015. No additional exploration periods remaining.
Ethiopia	Blocks 7 and 8	New Age	30%	21,767	6,530	Initial Exploration Period expired April 2014. The Company has an option on two additional exploration periods each of which is two years in length.
	Adigala	New Age	10%	20,200	2,020	Third Exploration Period ends July 2015. No additional exploration periods remaining.
	South Omo	Tullow	30%	22,034	6,610	Second Exploration Period ends January 2015. The Company has an option on one additional exploration period two years in length.
	Rift Basin	Africa Oil Corp.	50%	42,519	21,260	Initial Exploration Period ends February 2016. The Company has an option on two additional exploration periods each of which is two years in length.
Kenya	Block 10BB	Tullow	50%	8,834	4,417	Second Exploration Period ends July 2014. The Company has an option on one additional exploration period two years in length.
	Block 10BA	Tullow	50%	21,084	10,542	Second Exploration Period ends April 2016. The Company has an option on one additional exploration period two years in length.
	Block 12A	Tullow	20%	20,365	4,073	Initial Exploration Period ends September 2014. The

						Company has an option on two additional exploration periods each of which is two years in length.
	Block13T	Tullow	50%	6,296	3,148	Second Exploration Period ends September 2014. The Company has an option on one additional exploration period two years in length.
	Block 9 <sup>(4)</sup>	Africa Oil Corp.	50%	15,782	7,891	Third Exploration Period ends December 2015. No additional exploration periods remaining.

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

<sup>2</sup> Net acreage is calculated by multiplying Gross Acreage by the Current Working Interest.

<sup>3</sup> Represents the Company's Net Working Interest subsequent to the formation of Horn Petroleum Corporation ("Horn"). The Company owns approximately 44.6 per cent of Horn. This figure represents the Company's Net Working Interest in the production sharing agreements, net of the 55.3 per cent minority interest in Horn.

<sup>4</sup> It is difficult to estimate approximate time before production given the fact that a development plan needs to be prepared and approved by the government. The Company has however previously disclosed that it is actively pursuing development studies in the Block 10BB/13T area, including commencement of the pre-front end engineering design (pre-FEED) and environmental and social impact assessment ("ESIA") studies for the pipeline, export terminal and field facilities. It is the goal that the Government of Kenya and the joint venture partnership to achieve project sanction, including the approval of an export pipeline, by the end of 2015/early 2016.

In 2012 Africa Oil with partner Tullow announced successful results from the Ngamia-1 exploration well on Block 10BB, which was the first exploration well for the Company in the Tertiary Rift Play in the Lokichar Basin. The well encountered more than 240 meters of net oil pay and confirmed the discovery of a significant new oil producing province, and the first significant oil discovery in Kenya. This discovery was followed by Twiga South-1 some 22 kilometers north, which also discovered and tested light gravity and further confirmed a potentially significant extension of the Tertiary Rift Play. A third significant discovery followed in the Etuko-1 well. By early 2014 the Company had announced additional oil discoveries in the Ekales, Agete, Amosing and Ewoi wells. The Lokichar Basin oil volumes now exceed the threshold for development studies to commence.

On the back of the successful exploration activities in Kenya during 2012, the Company, together with its partners, ramped up its exploration program in Kenya and Ethiopia. Entering 2013, two Tullow-Africa Oil joint venture rigs were operating in Kenya and one joint venture rig was operating in Ethiopia. Two additional Tullow-Africa Oil joint venture rigs (one of which is a testing and completion unit) were mobilized, the drilling unit commenced operations in November 2013 and the testing and completions unit commenced operations in February 2014. The Company, as operator, and its partner in Block 9 (Kenya) secured a sixth rig, which commenced drilling operations in September 2013. In addition, the Company and its partners in Block 7/8 (Ethiopia) mobilized a seventh rig for a one well commitment, which commenced drilling operations in October 2013. The Company will shortly release the rig operating block 7/8 (Ethiopia) and then expects to have six drilling rigs operating in the region through the rest of 2014. During 2013, the Company completed seven exploration wells and two multi-zone well tests across its blocks and exited the year with three wells drilling and one well under testing.

All operations in Block 10BB and Block 13T in Northern Kenya were temporarily suspended for approximately 12 days beginning on October 28, 2013 as a precautionary measure following demonstrations by members of local

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

During the first half of 2013, the Company completed a series of well tests at both Twiga South-1 and Ngamia-1 on Blocks 13T and 10BB in Kenya, respectively. These successful well tests confirmed over 5,000 barrels of oil per day (“**bopd**”) flow potential per well and doubled the previous estimates of net oil pay. Transient Pressure Analysis has been conducted on the Twiga South-1 and Ngamia-1 well tests. No pressure depletion was recorded over the duration of the tests.

In July 2013, the Company announced a new oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and was the first test of the Basin Flank Play in the eastern part of the South Lokichar Basin. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval based on log analysis. In February 2014, the Company announced the results of five well tests conducted on five Lokhone pay intervals in Etuko-1. 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. In March 2014, the Company announced the results of the Etuko-2 exploration well drilling 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 but 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 September 2013, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicated a potential pay zone of 60 to 100 meters to be confirmed by flow testing. Well testing was conducted utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig. In March 2014, the company announced the results of testing operations on the Ekales-1 well which confirmed this significant 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 November 2013, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. Logs indicated a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. In June 2014, the Company announced that well test results confirmed the Auwerwer pay previously released with a tested flow rate of 500 bopd. Agete-2, a downdip appraisal, is currently drilling.

In January 2014, the Company announced a new oil discovery at Amosing-1 located seven kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play in Block 10BB. Logs indicate 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. Amosing-2, a downdip appraisal well, with a planned sidetrack, is currently drilling.

Also in January 2014, the Company announced a new oil discovery at Ewoi-1 located four kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the South Lokichar Basin in Block 10BB. Logs indicate potential net pay of 20 to 80 meters to be confirmed by well testing. Testing operations are ongoing at Ewoi-1.

In March 2014, the Company announced the results of the Emong-1 well located four kilometers northwest of Ngamia-1 field discovery in Block 13T. 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. The results are not expected to impact the thickness and quality of reservoir throughout the main Ngamia field area.

In May 2014, the Company and its partner drilled a new prospect in the discovered basin in Northern Kenya, the Ekunyuk-1 well, which is located on the eastern flank play on trend with recent discoveries at Etuko and Ewoi. The well has now reached a final total depth of 1,802 meters and has encountered some 5 meters of net oil pay, within approximately 150 meters of reservoir quality water-bearing sandstone and an equal thickness of a basin-wide rich oil shale.

In May 2014, the Company announced initial results from the Twiga-2 appraisal well in the discovered basin in North Kenya. The initial wellbore at Twiga-2 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 has been discovered in the Auwerwer formation, similar in quality to the initial Twiga-1 discovery. The well is currently being deepened to evaluate the Lower Lokhone sand reservoirs and a testing program for this successful well is planned to be conducted later this year.

In June 2014, the Company announced the results of the Ngamia-2 well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the prospect. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appears to have identified a new fault block trap north of the main Ngamia accumulation. The reservoirs were high quality with more than 200 meters of net reservoir sands with good permeability inferred from MDT sampling. The well has been suspended for testing and the rig will continue to drill up to 4 additional appraisal wells in the Ngamia field area for an extended well test program. A 3D seismic program is currently being concluded over the field area which should allow for detailed mapping of the fault trends.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies.

In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015 or early 2016. The South Lokichar basin is located in the remote northwest of Kenya, approximately 800 kilometers from the Indian Ocean, and is serviced by limited existing infrastructure. To export the oil an 800 kilometers pipeline from the South Lokichar basin to a storage and offloading terminal near to Lamu on the coast is being planned. Due to the waxy nature of the oil the pipeline will be insulated and heated, which is standard technology to manage this type of crude oil. It is anticipated that the export pipeline will be developed jointly with the Uganda Lake Albert oil fields, which will reduce the unit export costs for both developments.

The Kenya, Uganda, Sudan and Rwanda Governments have agreed to a Memorandum of Understanding (“MOU”) to jointly develop regional infrastructure. One element of the MOU is an agreement to jointly develop a common crude oil export system from Lake Albert, Uganda, via South Lokichar, Kenya to Lamu on the Kenyan coast. There is

also the possibility that South Sudan may also build a spur line to join this pipeline system. The Kenyan Government has been nominated to take the lead on developing the pipeline. The expectation is that the export pipeline will be developed using a fund, build, operate and transfer model. A number of companies are showing significant interest in wanting to fund and build the pipeline.

In order that the pipeline export system be developed on a fast track basis the Uganda Lake Albert Joint Venture (“**UJV**”) have initiated an engineering study to design the pipeline; the initial phase of this work will be complete in the first half of 2014. Agreement has been reached between the Kenya South Lokichar Joint Venture (“**KJV**”) and the UJV to cooperate on the development of the pipeline. A Pipeline Coordination Agreement that sets out how the KJV and UKV will work together on the development of the pipeline is expected to be signed in the next few weeks. This agreement will give the KJV access to all the existing work the UJV has completed on the pipeline export system to date. The KJV and UJV will progress the engineering and environmental and social impact assessment (“**ESIA**”) for the pipeline in parallel with the Government of Kenya tendering the pipeline for bids with the aim of accelerating the pipeline development when the pipeline contractor is selected.

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

In the first quarter of 2013, the Tullow-Africa Oil joint venture tested a Cretaceous play in the Anza Basin with the Paipai-1 commitment well in Block 10A (Kenya), encountering light hydrocarbon shows. Due to concerns over economic viability, the Company and its partners have relinquished Block 10A as the partnership focuses its activities on the main Tertiary Rift Play across Kenya and Ethiopia.

In December 2013, the Company reported that the Bahasi-1 well on Block 9 in Kenya, had only encountered minor shows of gas. The rig then moved to drill Sala-1 on the northeastern flank of the basin to test a large prospect in the Cretaceous Anza rift, which is up-dip of two wells that had significant hydrocarbon shows.

In June 2014, the Company announced the Sala-1 well had resulted in a gas discovery in Block 9 onshore Kenya. The Sala-1 drilled a large 80 square kilometer anticlinal feature along the northern basin bounding fault in the Cretaceous Anza graben and encountered several sandstone intervals which had oil and gas shows. The well was drilled to a total depth of 3030 meters and petrophysical analysis indicated three zones of interest over a 1000 meter gross interval which were subsequently drill stem tested. 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 reservoir sand of over 125 meters and encountered a gas water contact so there is potential to drill up-dip on the structure where this entire interval will be above the gas-water contact. A lower interval tested at low rates of dry gas from a 50 meter potential net pay interval which can also be accessed at the up-dip location. It should also be noted that there were oil shows while drilling and small amounts of oil were recovered during drilling and testing which indicates there may be potential for oil down-dip on the structure.

An appraisal plan to follow up this discovery is currently being evaluated by the partnership in consultation with the Kenyan government. Plans being discussed include an up-dip location to confirm the areal extent of the gas zones tested where the full net sand interval can be intersected above the gas-water contact. The partnership is also considering a down-dip appraisal location to test an on-lapping stratigraphic wedge on the flanks of the structure which is of the same age as the zones in the nearby Ndovu-1 well which had oil and gas shows.

In July 2013, the Company reported that the Sabisa-1 well on the South Omo Block in Ethiopia, the most northerly well drilled on the Tertiary rift trend to date, had confirmed a viable hydrocarbon system with oil and heavy gas shows. In December 2013, the Company announced that the potential hydrocarbon bearing sands in Sabisa-1 were not present at the Tultule-1 well location. There were gas shows in the section, which point to a potential hydrocarbon source, and the results of these two wells will be analyzed to determine the future exploration program direction in the North Turkana Basin. The Company plans to drill two exploration wells in the Chew Bahir Basin, located to the east of the South Omo Block, in 2014. In May 2014, the Company released the results of the first of these wells, Shimela-1, which reached a final depth of 1,940 meters and encountered water bearing reservoirs. Shimela-1 was drilled to test a prospect in a north-western sub-basin of the vast Chew Bahir basin. The frontier wildcat well encountered lacustrine and volcanic rocks including almost 100 meters of net sandstone reservoir within siltstones and claystones. Trace thermogenic gas shows were recorded at 1,900 meters. The Gardim well, the second well in the Chew Bahir basin, is currently drilling.

The Company and its partners continued to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 3,044 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T in Kenya and the South Omo Block in Ethiopia with two onshore and one offshore 2D seismic crews operating through the year. A third onshore 2D seismic crew operating in the South Omo Block was released in May 2013 after completing 1,174 kilometers of 2D seismic. During 2014, the Company is planning to acquire 1,270 kilometers 2D seismic over the North Lokichar and Kerio Basins covering Blocks 10BB, 10BA and 13T. In addition, the Company and its partner in Blocks 10BB and 13T have commenced the acquisition of a 550 square kilometer 3D seismic survey over the discoveries and prospects along the western basin bounding fault in the South Lokichar Basin.

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

## **KENYA**

### ***Block 10BB***

Based on the very positive results at Ngamia-1 on Block 10BB in 2012, the Company and its partner, Tullow, have accelerated the pace of exploration along the Ngamia trend in Block 10BB and Block 13T. The Company currently has four drilling rigs and a testing and completion rig operating in the South Lokichar Basin in Northern Kenya. The Company completed three exploration wells and two multi-zone well tests across Blocks 10BB and 13T during 2013. In addition, on exiting the year the Company had two exploration wells drilling and one well under testing.

The Company has completed a series of six well tests at the Ngamia-1 discovery. The cumulative flow rate from the six well tests was over 3,200 bopd constrained by completion techniques and surface equipment. With optimized completion techniques and surface equipment it is estimated that these combined flow rates would increase to a

rate of 5,400 bopd. Five of the well tests were completed over the Auwerwer sandstones to verify reservoir quality and fluid content which appears of similar quality to those tested at the Twiga South-1 well in the same basin. High quality waxy sweet crude (25-35 degrees API) was flowed from all five zones in the Auwerwer formation with good quality reservoir sands encountered. One well test was conducted in the Lower Lokhone sandstone proving it to be a productive reservoir with 30 degree API oil. All zones produced dry oil with no water produced and no pressure depletion. As a result of testing several previously indeterminate zones in the well, net oil pay in the Ngamia-1 well has doubled to over 200 meters over a gross oil column of over 1,100 meters.

In July 2013, the Company announced a new oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the South Lokichar Basin. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval. In February 2014, the Company announced the results of five well tests conducted on five Lokhone pay intervals in Etuko-1. 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. In March 2014, the Company announced the results of the Etuko-2 exploration well drilled to test the upper Auwerwer sands overlying the discovered Lokhone pay intervals identified in Etuko-1. 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, but 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 January 2014, the Company announced a new oil discovery at Ewoi-1 located four kilometers to the east of the Etuko-1 discovery in the Basin Flank Play on the eastern side of the South Lokichar Basin. Logs indicate potential net pay of 20 to 80 meters to be confirmed by well testing. Testing operations are ongoing at Ewoi-1.

Also in January 2014, the Company announced a new oil discovery at Amosing-1 located seven kilometers southwest of the Ngamia-1 discovery along the Basin Bounding Fault Play. Logs indicate 160 to 200 meters of potential net oil pay in good quality sandstone reservoirs. Amosing-2, a down-dip appraisal well, with a planned sidetrack, is currently drilling.

In May 2014, the Company and its partner drilled a new prospect in the South Lokichar basin in Northern Kenya, the Ekunyuk-1 well, which is located on the eastern flank play on trend with recent discoveries at Etuko and Ewoi. The well reached a final total depth of 1,802 meters and has encountered some 5 meters of net oil pay, within approximately 150 meters of reservoir quality water-bearing sandstone and an equal thickness of a basin-wide rich oil shale.

In June 2014, the Company announced the results of the Ngamia-2 well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the prospect. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appears to have identified a new fault block trap north of the main Ngamia accumulation. The reservoirs were high quality with more than 200 meters of net reservoir sands with good permeability inferred from MDT sampling. The well has been suspended for testing and the rig will continue to drill up to 4 additional appraisal wells in the Ngamia field area for an extended well test program. A 3D seismic program is currently being concluded over the field area which should allow for detailed mapping of the fault trends.

The 2D seismic crew operating in Block 10BB completed 676 kilometers of 2D seismic during the quarter. Fast-track processing of this newly acquired survey is being integrated into subsurface mapping to finalize exploration drilling locations for the 2014 campaign, the first of which will be the basin opening test of the Dyepa prospect in the South Kerio Basin which is expected to spud mid-2014. This 2D seismic program identified a significant number of follow-

on prospects should Dyepa be successful. The seismic crew is now mobilizing to the North Lokichar Basin for an infill program that will further define prospects for the 2015 drilling campaign. Using a second crew, the Company and its partner have completed over 40 per cent of a 550 square kilometer 3D seismic survey that covers the Amosing, Ngamia, Ekales, Twiga South and Agete discoveries along the Basin Bounding Fault Play in Block 10BB and Block 13T combined.

### ***Block 13T***

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

In September 2013, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Well testing was conducted utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig. In March 2014, the Company announced the results of testing operations on the Ekales-1 well which confirmed this significant 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 November 2013, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. Logs indicated a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. In June 2014, the Company announced that well test results confirmed the Auwerwer pay previously released with a tested flow rate of 500 bopd. Agete-2, a downdip appraisal, is currently drilling.

In March 2014, the Company announced the results of the Emong-1 well located four kilometers northwest of Ngamia-1 field discovery in Block 13T. 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. The results are not expected to impact the thickness and quality of reservoir throughout the main Ngamia field area.

In May 2014, the Company announced initial results from the Twiga-2 appraisal well in the discovered basin in North Kenya. The initial wellbore at Twiga-2 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 has been discovered in the Auwerwer formation, similar in quality to the initial Twiga-1 discovery. The well is currently being deepened to evaluate the Lower Lokhone sand reservoirs and a testing program for this successful well is planned to be conducted later this year.

The Company has commenced the acquisition a 550 square kilometer 3D seismic survey over the Twiga South and Ngamia structures, in Blocks 13T and 10BB combined. The plan is to acquire an additional 200 kilometers of 2D seismic over the block during 2014 to define prospects in the North Lokichar Basin.

### ***Block 10BA***

The Company and its operating partner on Block 10BA, Tullow, have completed a 1,450 kilometer 2D seismic program, split evenly between onshore and offshore, half of which was acquired in 2013. The plan is to acquire an additional 200 kilometers of onshore 2D seismic in the North Lokichar Basin that extends into the Block. Preparations are underway to drill two exploration wells in the West Turkana Basin in the second half of 2014.

### ***Block 12A***

The Company and its partners on Block 12A have completed a 548 kilometer 2D seismic acquisition program in 2013, and committed to an additional 120 kilometer infill program that was completed in February 2014. The 2D seismic program is mainly focused in the Kerio Valley in the southwestern portion of the block.

### ***Block 10A***

In the first quarter of 2013, the Company and its operating partners on Block 10A completed drilling the Paipai-1 exploration well. The Paipai-1 well tested a large four-way closed structure with Cretaceous-age sandstone targets at multiple depths. Paipai-1 spudded in September 2012 and completed drilling in the first quarter of 2013 to a total depth of 4,255 meters. Light hydrocarbons were encountered while drilling but attempts to sample the reservoir fluid were unsuccessful. The license has subsequently been relinquished as the Tullow-Africa Oil partnership focuses its activities on the main Tertiary Rift Play across Kenya and Ethiopia.

### ***Block 9***

Block 9 is in the Cretaceous rift basin on trend with the South Sudan oil fields. In December 2013, the Company announced that it had drilled the Bahasi-1 well to a depth of 2,900 meters, encountering basement at 2,850 meters. The well encountered a thick section of Tertiary and Cretaceous inter-bedded sands and shales, but with only minor hydrocarbon shows. The Bahasi-1 well satisfied the remaining work commitment in the first additional exploration period under the Block 9 PSC, which expired in December 2013. The Company and its joint venture partner elected to enter the second additional exploration period under the PSC, which will expire in December 2015, and required the relinquishment of 50 per cent of the block area and the commitment to an exploration well, which will be satisfied by the drilling of Sala-1.

In June 2014, the Company announced the Sala-1 well had resulted in a gas discovery in Block 9 onshore Kenya. The Sala-1 drilled a large 80 square kilometer anticlinal feature along the northern basin bounding fault in the Cretaceous Anza graben and encountered several sandstone intervals which had oil and gas shows. The well was drilled to a total depth of 3030 meters and petrophysical analysis indicated three zones of interest over a 1000 meter gross interval which were subsequently drill stem tested. 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 reservoir sand of over 125 meters and encountered a gas water contact so there is potential to drill up-dip on the structure where this entire interval will be above the gas-water contact. A lower interval tested at low rates of dry gas from a 50 meters potential net pay interval which can also be accessed at the up-dip location. It should also be noted that there were oil shows while drilling and small amounts of oil were recovered during drilling and testing which indicates there may be potential for oil down-dip on the structure.

An appraisal plan to follow up this discovery is currently being evaluated by the partnership in consultation with the Kenyan government. Plans being discussed include an up-dip location to confirm the areal extent of the gas zones tested where the full net sand interval can be intersected above the gas-water contact. The partnership is also considering a down-dip appraisal location to test an on-lapping stratigraphic wedge on the flanks of the structure which is of the same age as the zones in the nearby Ndovu-1 well which had oil and gas shows.

In addition, the Company is considering drilling an appraisal well on the crest of the large Bogal structure to confirm this large potential gas discovery which has closure over an area of up to 200 square kilometers. The gross best estimate of prospective resources for Bogal are 1.8 trillion cubic feet of gas based on a third-party independent resource assessment. The Company currently has two optional slots on the Great Wall drilling rig used to drill the Sala-1 well that are available for this appraisal program.

The Company believes there is a very strong market for gas development in Kenya and have already engaged in discussions with power companies and the government to potentially fast track a gas to power project that could add significant value and create benefits for the people of Kenya. In 2013 the Government of Kenya launched its “+5000 MW by 2016 - Power to transform Kenya” initiative with ambitious plans to increase Kenya’s power generating capacity by 5,000 Mega Watts in 40 months. This plan includes significant generating capacity fuelled by imported LNG and coal which are currently being bid. The discovery of indigenous gas in significant quantities in Block 9 has the potential to offer a far more cost effective fuel source for these power projects that will also provide positive environmental and local development benefits. Significant interest exists with development agencies and commercial independent power producers to partner on power developments in Kenya.

## **ETHIOPIA**

### ***South Omo Block***

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

Based on the encouragement of the results of the Sabisa well, the Company decided to drill the nearby Tultule prospect, which was drilled to a total depth of 2,101 meters. The Tultule-1 well encountered a section similar to the nearby Sabisa-1 well in the upper portion of the well but the sands which appeared to be hydrocarbon bearing in the Sabisa-1 well were not present on the Tultule horst block feature with multiple volcanic units and shales in this section. There were gas shows in the section which indicate a potential hydrocarbon source. The results of these two wells will be analyzed to determine the future exploration program direction in the North Turkana Basin.

During 2013, the Company and its partners completed a 1,174 kilometer 2D seismic program in the Chew Bahir Basin on the eastern portion of the South Omo Block, which identified a number of prospects and leads. The Company plans to drill two exploration wells in the Chew Bahir Basin, located to the east of the South Omo Block, in 2014. In May 2014, the Company released the results of the first of these wells, Shimela-1, which reached a final depth of 1,940 meters and encountered water bearing reservoirs. Shimela-1 was drilled to test a prospect in a north-western sub-basin of the vast Chew Bahir basin. The frontier wildcat well encountered lacustrine and volcanic rocks including almost 100 meters of net sandstone reservoir within siltstones and claystones. Trace thermogenic gas shows were recorded at 1,900 metres. The Gardim well, the second well in the Chew Bahir basin, is currently drilling.

### ***Rift Basin Area***

In the first quarter of 2013, the Company executed a PSC for the Rift Basin Area in Ethiopia. Located north of the South Omo Block, the Rift Basin Area covers 42,519 square kilometers. This block is on trend with highly prospective blocks in the Tertiary rift valley including the South Omo Block in Ethiopia, and Kenyan Blocks 10BA, 10BB, 13T and 12A. The Company 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 a 2D seismic program which is expected to commence in the second half of 2014.

### ***Ogaden Blocks 7/8***

The Company and its partners continue to focus on the El Kuran oil accumulation on Block 8, discovered in the early 1970’s. After completing reservoir characterization studies, the Company and its partners focused efforts on testing and completion strategies for producing commercial quantities of oil and gas. The Company and its partners have recently completed the drilling of the El Kuran-3 appraisal well, which encountered a significant but tight gas-condensate zone in Jurassic Hammanlei carbonates. The well has been suspended pending a decision on conducting a fracture stimulation, which will be required to assess the long-term productivity of the formation. Discussions are ongoing with the Government of Ethiopia to secure an extension to the initial exploration period under the PSC to assess the economic viability of the discovery.

### ***Adigala Block***

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

## **PUNTLAND (SOMALIA)**

### ***Dharoor Valley and Nugaal Valley Blocks***

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

Efforts are now focused on making preparations for a seismic acquisition campaign in the Dharoor Valley area which will include a regional seismic reconnaissance grid in the previously unexplored eastern portion of the basin as well as prospect specific seismic to delineate a drilling candidate in the western portion of the basin where an active petroleum system was confirmed by the drilling at the Shabeel-1 and Shabeel North-1 locations in 2012. The Company continues to pursue efforts to drill an exploration well in the Nugaal Valley block and is working with the Puntland government to move this project forward.

Horn has been in discussion with potential joint venture partners and is reviewing new venture opportunities in the region. Somalia is going through an unprecedented period in its history with a real opportunity for all stakeholders to assist in the rebuilding of the country. The first internationally recognized Federal government took power in 2012 following over 20 years of transitional or no government. The Company actively engages with a range of

governments and organizations, domestic and international, around how Somalia can best develop a stable federal state including the institutions and systems it needs to properly manage its natural resources.

## OVERVIEW OF RESOURCES

On September 3, 2013 the Company issued a news release detailing its prospective and contingent resources. The underlying assessment of the resources has been carried out in accordance with the standards established by NI 51-101. The news release is incorporated by reference herein, please see Section “Documents incorporated by reference” below.

It should be noted that these estimates do not include the Company’s Puntland (Somalia) oil and gas interests, available at [www.sedar.com](http://www.sedar.com) under Horn Petroleum Corporation (“Horn”), Africa Oil’s 45 per cent owned subsidiary.

Given the large quantity of prospects and leads in the Company’s portfolio, the following three tables have been prepared for the convenience of readers by Africa Oil. The below details the contingent oil resources and prospective oil and gas resources by prospect and lead with the associated geological chance of success:

Summary of Contingent Oil Resources as of July 31, 2013				
Country	License	<u>GROSS</u> Best (2C) Estimate (MMbbl)	AOC Working Interest (per cent)	<u>NET</u> Best (2C) Estimate (MMbbl)
Kenya	Block 10BB	280	50 per cent	140
	Block 13T	87	50 per cent	44
Ethiopia	Block 7/8 <sup>2</sup>	155	30 per cent	47

Notes:

1. This summation of resources has been prepared for convenience by the Company.
2. Gross best estimate (2C) contingent gas resources of 106 BCF (32 BCF Net) not included in table for Blocks 7/8.
3. There is no certainty that any discovered resources will be commercially viable to produce.

Summary of Prospective Oil Resources as of July 31, 2013					
		UNRISKED		UNRISKED	RISKED
Country	License	<u>GROSS</u> Best Estimate (MMbbl)	AOC Working Interest (per cent)	<u>NET</u> Best Estimate (MMbbl)	<u>NET</u> Best Estimate (Risky) (MMbbl)
Kenya	Block 9	1,598	50 per cent	799	96
	Block 10A	376	30 per cent	113	14

	Block 10BA	9,836	50 per cent	4,918	374
	Block 10BB	2,364	50 per cent	1,182	302
	Block 12A	3,779	20 per cent	756	38
	Block 13T	2,174	50 per cent	1,087	382
Ethiopia	South Omo	2,641	30 per cent	792	88

Summary of Prospective Gas Resources as of July 31, 2013					
		UNRISKED		UNRISKED	RISKED
Country	License	<u>GROSS</u> Best Estimate (BCF)	AOC Working Interest (per cent)	<u>NET</u> Best Estimate (BCF)	<u>NET</u> Best Estimate (Risky) (BCF)
Kenya	Block 9	1,880	50 per cent	940	376
	Block 10A	360	30 per cent	108	38

Notes: This summation of resources has been prepared for convenience by the Company. Risked resources have been calculated and summed by the company after risking prospects and leads individually. Geological Chance of success (GCOS) varies with each prospect or lead. There is no certainty that any portion of the undiscovered resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

### **Significant factors or uncertainties relevant to properties with no attributed reserves**

As at July 31, 2013 reserves have yet to be attributed to any of the properties in which the Company holds an interest. Contingent resources have been attributed to the Lokichar Basin (Kenya) (Blocks 10BB and 13T) and the El Kuran discovery (Ethiopia) (Block 7/8).

#### LOKICHAR BASIN, KENYA

The key contingencies associated with the Lokichar Basin discoveries included in the contingent resources (Ngamia, Twiga South and Etuko) are as follows:

- Further data acquisition and analysis, including updated seismic mapping and depth conversion. These new data and analysis are required to better characterize the reservoir extent, to reduce the range of uncertainty associated with the Contingent Resources, and to mature the sub-surface development plans;
- Definition of field development plans and infrastructure requirements; and

- Government approval and project sanction (see Sub-section below entitled “*Government Approval and Project Sanction*”)

#### *Seismic mapping and depth conversion*

The structural closure at each discovery is constrained by multi-vintage 2D seismic data. These data are sufficient to define a structural closure at each discovery, however there remains significant uncertainty regarding the size of the trap. The area of closure and height of closure are dependent on the depth conversion methodology used. The oil-water contacts for the discoveries are uncertain; the resource estimates consider the uncertainty between the lowest known oil and structural spill-point, however, the true hydrocarbon contacts are yet to be confirmed by well logs and tests. Additional 3D seismic, currently being acquired in the basin, will allow a more precise assessment of the volume of recoverable hydrocarbons.

#### *Reservoir characterization*

The Auwerwer and Lokhone Formations have been penetrated by the Ngamia-1, Twiga South-1 and Etuko wells, drilled by Africa Oil and its co-venturers. However, borehole stability was severely affected by swelling clays, resulting in the borehole being significantly out of gauge in some parts of the reservoir section. This has made log interpretation challenging and there remains significant uncertainty with regard to:

- a. the average and total thickness of the reservoir pay zones;
- b. the areal extent of the reservoir pay zones (additional appraisal drilling required); and
- c. reservoir quality (porosity, net-to-gross and hydrocarbon saturation).

The appraisal drilling program, along with the proposed switch to a synthetic, oil-based mud system in the Lokichar Basin, should aid in reducing this reservoir uncertainty.

#### *Maturation of subsurface development plans*

Oil from the Lokichar Basin wells is a waxy crude (30 to 35 per cent wax). With a wax appearance temperature in the region of 66 to 84 C; the oil is solid at room temperature. Taking this into consideration, the use of hot water injection for secondary recovery along with artificially-lifted production wells is proposed. In order to validate this concept and optimize development, additional data and evaluation are required:

- a. additional appraisal wells;
- b. further production and inter-well interference testing;
- c. water injection trials;
- d. additional fluid analyses;
- e. special core analyses; and
- f. further G&G studies.

#### *Field development plan and infrastructure requirements*

No approved field development plans have been prepared for the three discoveries. Appraisal of the discoveries is required to address the issues outlined above is required to reduce the current large uncertainty associated with the discoveries before finalized field development plans can be generated.

Kenya has limited oil infrastructure (Mombasa refinery) and no export facilities currently in place. The discoveries in Blocks 10BB and 13T are remote and cannot be delivered to market without significant infrastructure investment.

The Lokichar Basin is in a remote part of Kenya, approximately 700 kilometers from the most likely point of export at Lamu. New build pipeline infrastructure and road upgrades will be required to permit field development and

production export for these resources. Whilst there may be outline plans for this new infrastructure, there is currently no firm commitment or government approval.

## EL KURAN DISCOVERY, ETHIOPIA

The key contingencies associated with the El Kuran discovery are as follows:

- further data acquisition and geological studies, including updated seismic mapping and depth conversion; these are required to improve the reservoir characterization and to mature the sub-surface development plans;
- definition of field development plans and infrastructure requirements; and
- government approval and project sanction (see Sub-section below entitled “*Government Approval and Project Sanction*”)

### *Seismic mapping and depth conversion*

The structural closure at El Kuran is constrained by multi-vintage 2D seismic data. These data are sufficient to define a structural closure at each discovery, however there remains significant uncertainty regarding the size of the trap. The area of closure and height of closure are dependent on the seismic interpretation and depth conversion methodology used. The hydrocarbon contact for the discovery is uncertain; the resource estimates consider the uncertainty between the lowest known hydrocarbon and structural spill-point, however, the true hydrocarbon contacts are yet to be confirmed by well logs and tests.

### *Reservoir characterization*

The Jurassic Hamanlei Formation has been penetrated by El Kuran-1 and El Kuran-2. However, these wells were drilled in the past and the logging and testing of these wells was sub-optimal, when compared with current evaluation techniques. There remains significant uncertainty to be resolved with regard to:

- a. the number of reservoir pay zones within the gross reservoir interval;
- b. the average thickness of the reservoir pay zones;
- c. the areal extent of the reservoir pay zones (additional appraisal drilling required);
- d. reservoir quality (porosity, net-to-gross and hydrocarbon saturation) and confirmation of potential commercial flow rates; and
- e. the presence of naturally occurring fractures and their impact on reservoir productivity.

The deeper Adigrat/Gumbero reservoir is interpreted from log data to be gas-bearing. Drilling is required to confirm the nature and size of the discovery, reservoir extent, nature of the hydrocarbons and the potential productivity of the reservoir.

### *Maturation of subsurface development plans*

Further data and acquisition and evaluation are required to advance development plans for El Kuran including:

- a. additional appraisal drilling utilizing modern logs, aimed at providing better formation evaluation and enhanced understanding of naturally occurring fractures;
- b. in-situ fluid sampling; and
- c. additional testing to assess the productive capacity of the reservoir, potentially utilizing hydraulic fracturing and acid stimulation.

*Field development plan and infrastructure requirements*

No field development plans have currently been prepared for the El Kuran discovery. Appraisal of the discovery to address the issues outlined above is required to reduce the current large uncertainty associated with the discovery such plans can be generated.

Ethiopia has no oil infrastructure and no export facilities currently in place. The El Kuran discovery is remote and cannot be delivered to market without significant infrastructure investment.

**GOVERNMENT APPROVAL AND PROJECT SANCTION**

Regulatory support and approval for both Kenya and Ethiopia will be required for the commercialization of the Company's contingent resources to proceed. In accordance with the Company's PSCs and joint venture agreements, field development plans must be agreed by the Company and its joint venture partners before submission for approval by the respective governments.

Given the possible large scale of future development projects in Kenya and Ethiopia to commercialize the contingent resources, significant capital requirements are anticipated which are potentially beyond the Company's current sources of capital. The Company 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 the Company.

Prior to project sanction for the areas in which the Company has an interest in contingent resources, numerous agreements and studies will need to be completed in addition to field development plans, including major engineering/ procurement/ construction agreements, environmental and social impact assessments, land acquisition agreements and community development plans.

# OTHER INFORMATION ABOUT AFRICA OIL

## Business concept and strategy

Africa Oil is a Canadian-based oil and gas company. The Company is engaged in the exploration, acquisition and development of oil and natural gas interests in the East Africa Rift Basin, spanning Ethiopia, Kenya and Puntland (Somalia). Africa Oil's main focus is large, conventional oil and gas projects.

## History of the Company

Africa Oil Corp. was incorporated under the BCBCA on March 29, 1993 under the name "Canmex Minerals Corporation". On August 20, 2007 the Company changed its name to "Africa Oil Corp."

## OPERATIONAL BACKGROUND

Prior to December 31, 2005, Africa Oil's principal business activities were the acquisition, exploration and development of mineral properties in Mexico. The Company has relinquished its interests in all of its Mexican mineral properties.

In early 2007, Africa Oil acquired interests in two concessions located in the semi-autonomous state of Puntland, Somalia. The Company entered into Production Sharing Contracts and joint venture agreements to acquire an 80 per cent working interest in licenses in each of the Nugaal and Dharoor Valleys. Africa Oil acquired its interest in the licenses from Range Resources Ltd. ("**Range**"), a public company listed on the Australian Stock Exchange. As consideration for its working interest, the Company paid Range USD 5 million and assumed the obligation to solely fund USD 22.75 million of joint venture costs on each of the blocks (USD 45.5 million in total for both blocks) during the exploration period.

During April 2007, Africa Oil completed a private placement of four million Shares offered at a price of CAD 5 per Share, providing the Company with CAD 20 million in gross proceeds. The net proceeds were utilized on the Puntland (Somalia) exploration program and for general working capital purposes.

Exploration activities during 2007 focused on seismic reprocessing and integration of all geophysical and geological data related to the Nugaal Block in Puntland (Somalia). In addition, the Company mapped several drilling prospects on both the Nugaal and Dharoor Blocks. Plans were developed to commence both a Puntland seismic acquisition and drilling program in 2008.

During April 2008, Africa Oil announced that as a result of the deterioration of the security situation in parts of Somalia the implementation of the Nugaal drill program would be delayed. Operations in the Dharoor Valley remained unaffected.

During July 2008 the Company commenced seismic activities in the Dharoor Valley with the intent to acquire 2D seismic vibrosis data to complement the existing 4,000 kilometers of 2D seismic data obtained on the Nugaal Valley.

During September 2008, Africa Oil entered into two short-term loan agreements with a shareholder of the Company in the aggregate amount of CAD 6 million which was provided to Africa Oil at an interest rate of prime plus 2 per cent. For provision of the loans to Africa Oil, the lender received an aggregate of 295,631 Shares of the Company as bonus shares.

During December 2008, the Company completed the 2D seismic survey in the Dharoor Valley of Puntland (Somalia). A total of 782 kilometers of good quality seismic vibroseis data, comprised of a grid of 15 lines, were recorded during the survey. The intent for the data was to combine it with existing 555 kilometers of seismic data to further interpret and generate exploratory drill targets for the Dharoor Valley.

On April 29, 2009, Africa Oil completed the acquisition (the “**Lundin Acquisition**”), pursuant to an agreement (the “**Share Purchase Agreement**”) with Lundin Petroleum B.V. (“**LPBV**”), of a portfolio of East African exploration oil projects in Ethiopia and Kenya held by Lundin Petroleum AB under various PSCs. Under the terms of the Share Purchase Agreement Africa Oil, through its wholly owned subsidiary, Africa Oil Holdings Cooperatief U.A., acquired the Lundin Petroleum AB subsidiaries, Lundin East Africa B.V. and Lundin Kenya B.V. The Ethiopian interests acquired included an 85 per cent working interest in Blocks 2, 6, 7 and 8 in the Ogaden Basin, and a 50 per cent working interest in the Adigala Block. The Kenyan interests acquired included a 100 per cent interest in Block 10A and a 30 per cent interest in Block 9. Africa Oil became the operator of all of these projects, excluding Block 9 in Kenya.

Pursuant to the Share Purchase Agreement, Africa Oil paid LPBV approximately USD 23.7 million for both entities. The payment was funded through a convertible loan (the “**Convertible Loan**”) from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum AB, bearing interest at the rate of USD LIBOR, plus 3 per cent, calculated semi-annually. The Convertible Loan, including any accrued and unpaid interest, was convertible on or before December 31, 2011, at the option of either Africa Oil or Lundin Services BV, into Shares of Africa Oil, issuable at a deemed price of CAD 0.90 per share.

Subsequent to the completion of the Lundin Acquisition, Lundin East Africa B.V. and Lundin Kenya B.V., underwent name changes; specifically, Lundin East Africa B.V. was renamed Africa Oil Ethiopia B.V., and Lundin Kenya B.V. was renamed Africa Oil Kenya B.V. Also during April 2009, the Company completed a non-brokered, private placement of 37,421,018 subscription receipts of the Company offered at a price of CAD 0.95 per subscription receipt for gross proceeds of CAD 35.5 million. Each subscription receipt entitled the holder to receive one unit of the Company. One unit comprised one Share plus one share purchase warrant exercisable at CAD 1.50 per Share for a period of three years, subject to a forced exercise provision whereby, if Africa Oil traded at or above CAD 2.00 per Share for a period of 20 consecutive days, the warrant holder may be required to exercise the warrant or elect expiry. The proceeds of the private placement were utilized in the Company’s East African exploration programs and to fund ongoing working capital requirements.

In May 2009, Africa Oil entered into the East African Exploration Limited (“**EAX**”) farmout agreement (the “**EAX Farmout Agreement**”) with Black Marlin Energy Limited’s subsidiary, EAX. Pursuant to the EAX Farmout Agreement, the Company agreed to transfer to EAX an interest in the PSCs for Blocks 2, 6, 7 and 8, located in Ethiopia, and in the PSC for Block 10A, located in Kenya.

Under the terms of the EAX Farmout Agreement, EAX agreed to pay a disproportionate share of costs associated with planned 2D seismic programs to be carried out in 2009 through 2010 as well as paying a portion of Africa Oil’s past costs and future operational costs, and Africa Oil agreed to transfer the following interests (the “**EAX Assigned Interests**”) to EAX upon satisfaction of certain closing conditions, including receipt of Ministerial Approval in both Ethiopia and Kenya:

- transfer of a 30 per cent license interest in the Blocks 2&6 PSA;
- transfer of a 30 per cent license interest in the Blocks 7&8 PSA; and
- transfer of a 20 per cent license interest in the Block 10A PSC.

Also during May 2009, Africa Oil entered into a shares-for-debt arrangement in respect of loans provided to the Company in September 2008 totaling CAD 6 million, plus accrued interest of CAD 195,520. With the approval of the TSX-V, Africa Oil extinguished the loan and promissory note by converting the debt to 6,521,601 units of the Company on the basis of CAD 0.95 per unit, each unit having the same terms as the units that were issuable pursuant to the April 2009 private placement.

In June 2009, the Company entered into an agreement (the “**Arrangement Agreement**”) for the acquisition of all the issued and outstanding shares of Turkana Energy Inc. (“**Turkana**”), a privately held oil and gas exploration company based in Vancouver, British Columbia. The principal asset of Turkana was Block 10BB, a highly prospective exploration block in northwestern Kenya. Under the Arrangement Agreement, completed on July 21, 2009, the Company agreed to issue 7.5 million Shares of Africa Oil to the shareholders of Turkana, exchanged at a ratio of 0.20647 Africa Oil Share for one Turkana share. Existing debt holders of convertible loans of Turkana were offered Shares of Africa Oil in exchange for the extinguishment of debt to a maximum payout of CAD 1 million. The Shares issued under the debt settlement were subsequently issued at a deemed price per Share of CAD 0.90. Turkana held an undivided 100 per cent interest in Block 10BB pursuant to a Production Sharing Contract with the Government of the Republic of Kenya, made in October 25, 2007.

In August 2009, Africa Oil entered into the Lion Energy Farmout Agreement with Lion Energy (formerly Raytec Metals Corp.). Pursuant to the Lion Energy Farmout Agreement the Company agreed to transfer to Lion Energy an interest in the Production Sharing Agreements for the Dharoor Valley Exploration Area and the Nugaal Valley Exploration Area, each located in Puntland (Somalia), and in the Production Sharing Contracts for Block 9, Block 10A and Block 10BB, all located in Kenya.

Under the terms of the Lion Energy Farmout Agreement, Lion Energy agreed to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas throughout 2009 and 2010 and to deposit in escrow, as security for its payment obligations, USD 4 million, and Africa Oil agreed to transfer the following interests (the “**Assigned Interests**”) to Lion Energy upon satisfaction of certain closing conditions, including the receipt of Exchange approval and Ministerial Approval in both Somalia and Kenya:

- transfer of a 15 per cent license interest in the Nugaal and Dharoor Valley PSA;
- transfer of a 10 per cent license interest in the Block 9 PSA;
- transfer of a 25 per cent license interest in the Block 10A PSA; and,
- transfer of a 20 per cent license interest in the Block 10BB PSA.

In September 2009, Africa Oil made changes to its board and management. Mr. Ian Gibbs resigned as a Director in order to be able to take on the position of Chief Financial Officer, following the resignation of Mr. Darren Moulds. Mr. James Phillips, was appointed Vice President of Exploration and Mr. John Craig was appointed a Director.

In early October 2009, the Board of Directors was expanded to include Mr. Bryan Benitz who brings over 40 years of financial markets expertise and investment banking experience to the Company, particularly in oil and gas. Later in October, Mr. Rick Schmitt elected to resign as President and Mr. Keith Hill assumed the role of President, adding to his responsibilities as the Company’s existing Chief Executive Officer.

In November 2009, Africa Oil announced that the Bogal-1 oil exploration well located in Block 9 (Kenya), operated by CNOOC Limited, was spudded on October 28, 2009.

In December 2009, Africa Oil amended the PSCs made in respect of the Dharoor and Nugaal Valley Exploration areas. The amendments reflected the extension of initial exploration periods from 36 to 48 months, with a revised

expiry period of January 17, 2011. In addition, the terms of the exploration programs were amended such that the Company, at its option, could drill one exploratory well in each of the Dharoor and Nugaal Valley Exploration Areas, or two exploratory wells in the Dharoor Valley. In consideration of the extension of the exploration period, Africa Oil agreed to voluntarily relinquish 25 per cent of the original agreement area on or before January 17, 2010 and agreed to pay a USD 1 million bonus within 30 days of a commercial discovery in each of the production blocks. Further, the Company agreed to certain enhanced abandonment and environmental safety measures and to make a one-time USD 1,050,000 payment to the Puntland government for development of infrastructure.

In the same month, the Company received the final requisite government approvals from the Republic of Kenya, the Federal Democratic Republic of Ethiopia and the State of Puntland (Somalia) in respect of the previously announced farmouts to Lion and EAX. In January 2010, the Company received the results of an independent resource estimate of its contingent and prospective resources. The estimate was prepared in accordance with NI 51-101, with an effective date of December 1, 2009. The results of the report were disclosed in the Company's January 7, 2010 news release and January 8, 2010 material change report.

In February 2010, the Company entered into the Platform Assignment Agreement pursuant to which the Company acquired Platform's 100 per cent interest in Blocks 12A and 13T in Kenya. The acquisition, which was subject to requisite government and regulatory approvals, was completed on September 9, 2010. At that time, the Company issued 2,500,000 Shares of the Company and 1,500,000 share purchase warrants to Platform in consideration of the acquisition. In August 2010, the Kenyan Government approved the assignment of a 100 per cent interest in Blocks 12A and 13T in Kenya to the Company. The Blocks were assigned to the Company by Platform.

On March 15, 2010 Lion Energy received final approval from the TSX-V in respect of the farmout agreement. This was the only remaining condition required to conclude the transfer of the Assigned Interests to Lion Energy.

On June 14, 2010 the Company entered into the Agriterra Farmout Agreement to acquire an 80 per cent participating interest and operatorship of the South Omo Block in Ethiopia. During August 2010, Africa Oil completed a farmout agreement and joint venture agreement with Agriterra Ltd. (formerly White Nile Ltd.).

In July 2010 the Company completed a non-brokered, private placement of 25,000,000 Shares at a price of CAD 1.00 per Share for gross proceeds of CAD 25 million. The securities were distributed on July 19, 2010, as to 21,394,990 Shares, and on July 26, 2010, as to 3,605,010 Shares. The proceeds of the private placement were utilized to fund the Company's exploration programs and for ongoing working capital requirements. A finder's fee of 5 per cent payable in cash and Shares (416,666 Shares) was paid on a portion of the placement,

On August 12, 2010 the Company entered into the Red Emperor Farmout Agreement pursuant to which Red Emperor could earn up to a 20 per cent participating interest in the Dharoor and Nugaal Valley Blocks in Puntland (Somalia), subject to certain conditions precedent, including ministerial approval. A finder's fee in the amount of up to CAD 250,000, 50 per cent of which was payable in Shares of the Company, was paid to Komodo Capital in connection with the Red Emperor Farmout Agreement (see *"Overview of Farmout and Joint Venture Agreements – Red Emperor Farmout"* for further details).

On September 1, 2010 the Company entered into the Tullow Farmout Agreement pursuant to which Tullow acquired a 50 per cent interest in, and operatorship of, Blocks 10BB and 10A in Kenya and of the South Omo Block in Ethiopia. Additionally, Tullow was granted, and subsequently exercised, an option to acquire 50 per cent of the Company's interest in, and operatorship of, Blocks 12A and 13T, Kenya (see *"Overview of Farmout and Joint Venture Agreements – Tullow Farmout Agreements"* for further details). To facilitate the Tullow Farmout Agreements, Africa Oil amended the Lion Energy Farmout Agreement to reduce Lion Energy's interest in Block 10BB

to 10 per cent (originally 20 per cent) and to relinquish its interest in Block 10A (originally 25 per cent)(see *“Overview of Farmout and Joint Venture Agreements – Lion Energy Farmout and Lion Energy Farmout Amendment”* for further details).

The Shares of the Company commenced trading on the First North list of the NASDAQ OMX Stock Exchange in Sweden, on September 30, 2010. The Company engaged Pareto (formerly E. Öhman J:or Fondkommission AB) as its financial advisor in connection with the listing and as its certified advisor.

On November 22, 2010 the Company elected to exercise its rights to accelerate the expiry date of certain of its outstanding warrants. As a result, 99.5 per cent of the Company’s share purchase warrants that were issued pursuant to a private placement in April 2009 were exercised, providing gross proceeds to the Company of approximately CAD 55.8 million.

On November 29, 2010 the Company entered into the Centric Arrangement Agreement to effect a business combination of the two companies pursuant to a plan of arrangement. Under the terms of the Centric Arrangement Agreement, the Company acquired all of the issued and outstanding shares of Centric in consideration for 0.3077 Africa Oil Shares and CAD 0.0001 for each common share of Centric.

On December 9, 2010 the Company signed an agreement with the Government of Ethiopia to jointly study the Rift Valley Block. The Joint Study Agreement has an 18 month term, following which the Company will have the exclusive right to enter into negotiations for a production sharing agreement for all or part of the Rift Valley Block (see *“Overview of Farmout and Joint Venture Agreements – Study Block”* for further details). The Company also closed the Ethiopian (South Omo) portion of the Tullow Farmout Agreement on December 9 and entered into the 12A/13T Farmout Agreement (see *“Overview of Farmout and Joint Venture Agreements – Tullow Farmout Agreements”* for further details).

Effective December 31, 2010, Africa Oil and its joint venture partner, Lion Energy, entered into the First Additional Exploration Phase under the Block 9 PSC in Kenya. As a result of the withdrawal of its two other joint venture partners, Africa Oil held a 66.7 per cent working interest in the PSC (Lion Energy held the remaining 33.3 per cent) and was approved by the government as Operator of Block 9 (see *“Production Sharing Contracts Overview – Block 9, Kenya”* for further details).

During 2010, the Company completed the recording and processing of 610 kilometers of 2D seismic on Block 10BB, Kenya, and also re-processed all available vintage seismic data sharpening the imaging and the amplitude response for use in detecting direct hydrocarbon indicators on the Block. A surface geological survey was also completed on Block 10BB during the third quarter of 2010 and modules were analyzed in order to detect oil and gas seepage from identified prospects and leads on the Block. Environmental impact assessments were completed on Block 10BB over four potential drill sites and Government permits have been issued. In Block 10A, Kenya, the Company reprocessed all available vintage seismic data with the objective of improving imaging of the data acquired in the 1980s. The Company commenced recording approximately 850 kilometers (gross) of 2D seismic which it expects to be completed by the end of March 2011. New play concepts are being developed for Block 10A based on the reprocessed data in combination with the vintage data. In Block 9, Kenya, the CNOOC-operated Bogal-1 exploration well, which was spud on October 28, 2009, reached a total depth of 5,085 meters. Preliminary testing on two potential gas pay zones was completed with only minimal flow of gas from each zone. Analysis of the test results indicated that neither test was in communication with the extensive fracture network proven by the abundant fluid losses during drilling and the Formation Micro Imaging log. The well was subsequently plugged pending further analysis of the test results to determine the feasibility of an additional testing program. During 2010, the acquisition of 782 kilometers of good quality 2D seismic was completed in the Dharoor Block of Puntland (Somalia).

The Company combined 555 kilometers of previously acquired data into the seismic database which continues to be evaluated to determine exploration well locations. Exploration activities in Puntland were focused on drilling the first exploration well in Somalia in over 20 years. On the Ogaden Blocks (Blocks 7 and 8), the Company completed its seismic acquisition program acquiring 500 kilometers of 2D seismic. The new data has been integrated with existing seismic to generate a series of new prospect maps. The Company continued to focus efforts on the El Kuran prospect in the Block 7/8 license.

## RECENT MILESTONES

### 2011

#### Significant transactions

- On January 17, 2011, the Company, together with its partners, entered into amending agreements with the Government of Puntland, represented by the Puntland Petroleum and Mineral Agency, in respect of the Dharoor Valley and Nugaal Valley PSAs. Under these PSAs, as amended, the expiry of the First Exploration Period was extended from January 2011 to January 2012 and then further extended to October 2012 (See *“Overview of Production Sharing Contracts”* for further details). In January 2011, the Company completed the Red Emperor Farmout Agreement following receipt of ministerial approval (see *“Overview of Farmout and Joint Venture Agreements”* for further details).
- On January 26, 2011, the Company completed a farmout to Tullow in respect of Blocks 10BB and 10A, Kenya, and closed the amended farmout arrangements with Lion Energy, contemplated under the Lion Energy Farmout Amendment. As a result, the Company paid Lion Energy USD 2.5 million and issued to Lion Energy a total of 2,500,000 Shares of the Company (see *“Overview of Farmout and Joint Venture Agreements”* for further details).
- On February 22, 2011, following receipt of government approvals, the Company closed on the 12A/13T Farmout Agreement at which time Tullow paid the Company an aggregate of USD 1,686,432 (see *“Overview of Farmout and Joint Venture Agreements”* for further details).
- On February 23, 2011, the Company completed the Centric Arrangement Agreement. As a result of the business combination with Centric, the Company acquired a 50 per cent working interest in Block 10BA in Kenya and a 25 per cent interest in two exploration licenses (Blocks 7 and 11) in the Republic of Mali. The Company issued 30,155,524 Shares to the shareholders of Centric (based on an exchange ratio of 0.3077 Africa Oil Share and USD 0.0001 for each one Centric share).
- On March 3, 2011, the Company completed an amendment to the Convertible Loan and received a Notice of Conversion from Lundin Services. As a result, the Company issued to Lundin Services a total of 14,000,000 Shares in respect of the conversion by Lundin Services of a portion of the loan amount, being USD 12,957,840. On April 11, 2011, the Company and Lundin Services agreed to convert the remaining USD 10.8 million of the convertible loan plus USD 0.2 million of accrued interest into 11,850,150 Shares of the Company.
- On March 23, 2011, the Company entered into the Red Emperor Farmout Amendment amending certain terms of the Red Emperor Farmout Agreement (see *“Overview of Farmout and Joint Venture Agreements”* for further details).

- On June 20, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Lion Energy. Pursuant to the Lion Energy Arrangement Agreement, the Company acquired all of the issued and outstanding shares of Lion Energy in consideration for 14,962,447 Shares of the Company, net of 2,500,000 Shares of the Company that Lion Energy owned at the date of the acquisition. The Company also issued 287,250 stock options, of which 237,250 were subsequently exercised and 50,000 expired between 30 and 90 days from the effective date of the transaction, and 2,289,000 share purchase warrants that expired unexercised on June 29, 2011.
- In July 2011, the Dharoor Valley and Nugaal Valley PSCs were further amended requiring execution of a drilling contract by July 31, 2011, drilling operations to commence on the first well by November 15, 2011 and drilling operations to commence on a second well by January 17, 2012. The Company agreed to relinquish 15,627 square kilometers (gross) of the Nugaal Valley Exploration Area, perform a surface geochemistry survey in the Nugaal Valley Exploration Area, and pay the Puntland State of Somalia USD 1,000,000 in infrastructure and development support fees.
- On September 20, 2011, the Company completed a share exchange transaction with Denovo Capital Corp. whereby Denovo acquired all of the issued and outstanding shares of Canmex I, a wholly owned subsidiary of the Company in consideration for 27,777,778 (post-consolidation) shares of Denovo. Canmex I held the Company's 60 per cent interest in the Dharoor Valley and Nugaal Valley PSCs. Prior to closing, Denovo effected a consolidation of its share capital on a basis of 0.65 new shares for each old share, and changed its name to "Horn Petroleum Corporation". Horn also completed a non-brokered private placement of an aggregate of 45,535,195 subscription receipts at a price of CAD 0.90 per subscription receipt for gross proceeds of USD 41.3 million. The subscription receipts were converted into common shares and warrants of Horn on September 20, 2011. The Company acquired 11,111,111 post-consolidated shares and 11,111,111 post-consolidation share purchase warrants in the Horn private placement. In connection with the private placement, Horn paid a finder's fee consisting of the issuance of an aggregate of 812,517 common shares and the payment of USD 0.9 million in cash. Subsequent to the Horn transaction, the Company owned 51.4 per cent of the outstanding shares of Horn. As well, a management services arrangement was agreed to between Horn and the Company in which the management of the Company assumed responsibility for the operating decisions of Horn. As such, the Company is deemed to control Horn.

#### Operational activity

- During 2011, the Company with its partners implemented an active exploration work program spanning six contract areas in Kenya, four in Ethiopia including a joint study area, and two in Puntland, Somalia.
- In Block 10BB, Kenya, the Company and its operating partner, Tullow, interpreted 610 kilometers of newly acquired and legacy 2D seismic data. A number of prospects and leads were evaluated and the Ngamia-1 prospect was selected for the initial well in Block 10BB. In addition, a full tensor gravity (FTG) survey was acquired over the majority of the block to further define prospective areas that lacked sufficient 2D seismic data.
- In Block 10A, Kenya, the Company with Tullow as operator reprocessed available legacy seismic data and completed acquiring 812 kilometers of 2D seismic data. The Company and its partner identified several

prospects and leads and further augmented the seismic data set with an FTG survey over key prospects. In the fourth quarter, the Paipai prospect was selected as the first exploration well to be drilled in the block.

- In Block 10BA, Kenya, the Company with Tullow as operator, completed the acquisition of an FTG survey over the majority of the block. The FTG survey was used along with existing seismic data to identify prospects and leads both onshore and within Lake Turkana. In the fourth quarter, the Company and its partner prepared a program to acquire 1,350 kilometers of 2D seismic data over prospective areas which included both marine and onshore seismic data acquisition.
- In Block 13T, Kenya, the Company with partner Tullow completed acquisition of an FTG survey over the majority of the block. The FTG survey in combination with legacy 2D seismic was used to plan a 500 kilometers 2D seismic program that commenced in the fourth quarter and was completed in the first quarter of 2012. Interpretation of early lines in the program, along with reprocessed legacy seismic data further confirmed a string of prospects on trend with the Ngamia-1 prospect of Block 10BB, and the acquisition program was modified while in progress to focus on those leads.
- In Block 12A, Kenya, the Company and its partner Tullow, completed acquisition of an FTG survey over the majority of the block. The FTG survey in combination with field work in the Kerio Valley was used to plan a 500 kilometers 2D seismic program.
- In Block 9, Kenya, the Company as operator acquired 750 kilometers of 2D seismic data in the oil-prone Kaisut Sub-basin. The Company combined the new seismic data with legacy and selected reprocessed data to identify several large oil-prone prospects with large upside resource potential. The Company also continued evaluating resource estimates for the Bogal gas discovery and contracted a third-party consulting group to evaluate potential gas markets and commercialization of the Bogal gas resources.
- In the South Omo Block of Ethiopia, the Company, with Tullow as operator, completed an FTG survey over the majority of the block with a focus on the Turkana and Chew Bahir Basins. The FTG survey identified a number of promising leads and was the basis for planning a 1,000 kilometers 2D seismic program that commenced in the fourth quarter of 2011.
- In the Adigala Block of Ethiopia, the Company continued to evaluate gravity and seismic data acquired in the initial exploration period, and with partners submitted an application and received approval to enter the next exploration period with a work commitment consisting of an FTG acquisition program, seismic reprocessing, and geological studies. Reprocessing efforts commenced in the fourth quarter, along with planning for a surface geological field program. Start-up of the 9,218 line-kilometer FTG survey began in December 2011 and was completed in January 2012.
- In the Ogaden Basin of Ethiopia, the Company and its partners integrated and interpreted all newly acquired and legacy 2D seismic data over Blocks 7 and 8. The Company completed a reservoir characterization study over the El Kuran structure that focused on the light oil resources within the Jurassic carbonate reservoirs. The reservoir study identified between 4 to 8 zones that could potentially be productive with the application of effective completion techniques. Following those encouraging results, the Company continued to evaluate various completion applications and cost estimates for various well designs and completion methods. The Company analyzed how best to re-drill and test El Kuran to commercialize the light oil resources. The Company also submitted notice to relinquish Ogaden Blocks

2/6 that was subsequently approved. The Company and its partners paid USD 2.135 million to the Ministry of Mines in Ethiopia, in lieu of unfulfilled commitments with respect to Blocks 2/6.

- In the autonomous region of Puntland, Somalia, the Company, through its ownership in Horn Petroleum, pursued an aggressive exploration program that was focused on interpreting 782 kilometers of newly acquired 2D seismic data. From this data the partnership identified several prospects and leads and selected Shabeel-1 and Shabeel North-1 as primary prospects for a 2012 drilling campaign. In the Nugaal Block, work continued to refine the subsurface interpretation of prospective areas based on a close integration of well control with seismic data.

## 2012

### Significant transactions

- In February 2012, the Company, together with its partners, entered into amending agreements with the Government of Puntland, represented by the Puntland Petroleum and Mineral Agency, in respect of the Dharoor Valley and Nugaal Valley PSAs. Under the PSAs, as amended, the First Exploration Period expiry date was further extended by the Puntland Government to October 17, 2012 in order to provide sufficient time to evaluate drilling results. In October 2012, the Company and its partners entered into the next exploration period in both the Dharoor Valley and Nugaal Valley PSAs which each carry a commitment to drill one exploration well in each block by October 2015. (See “*Overview of Production Sharing Contracts*” for further details.)
- In March 2012, 6,521,601 common share purchase warrants outstanding at an exercise price of CAD 1.50 per warrant were converted into Shares of the Company for proceeds of USD 9.8 million.
- In June 2012, the Company’s subsidiary, Horn completed a non-brokered private placement issuing an aggregate of 18.75 million units at a price of CAD 0.80 per unit for gross proceeds of CAD 15 million. Each unit was comprised of one Share and one-half of a share purchase warrant. Each whole warrant is exercisable over a period of two years at a price of CAD 1.20 per share. A finder’s fee was paid, consisting of the issuance of an aggregate of 342,500 units and the payment of USD 0.1 million in cash. All securities issued under the private placement were subject to a statutory hold period which expired on October 9, 2012. The Company acquired 4,315,000 of the units issued for gross proceeds of USD 3.5 million and currently owns 44.6 per cent of the outstanding shares of Horn.
- During the third quarter of 2012, the Company issued a total 420,000 Shares to Lockwood Financial Ltd. and Peninsula Merchant Syndications Corp. as a settlement of claimed professional fees relating to previously completed farmout transactions.
- In July 2012, the Company completed a farmout transaction with Tullow. In accordance with the farmout agreement (the “**2012 Tullow Farmout Agreement**”), Tullow paid the Company USD 0.8 million in consideration of past exploration expenditures, including the interim period prior to closing, to acquire an additional 15 per cent interest in Block 12A in Kenya. Tullow also agreed to fund 15 per cent of the Company’s working interest share of expenditures related to the acquisition of 520 Kilometers of 2D seismic until an expenditure cap of USD 10.3 million on a gross basis, following which the Company will be

responsible for its working interest share of seismic acquisition costs. Tullow previously acquired a 50 per cent interest in, and operatorship of, Block 12A in a transaction that was completed in February 2011.

- In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50 per cent interest in Block 9 and a 15 per cent interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the Company USD 32.0 million in consideration of past exploration expenditures, and agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of USD 25 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made. In addition, the Company and Marathon have agreed to jointly pursue exploration activities on an additional area in Ethiopia.
- In October 2012, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 25 per cent interest in the Company's Blocks 7 and 8 in Ethiopia, together with operatorship of Blocks 7 & 8 and the Adigala Area. In accordance with the farmout agreement, New Age paid the Company USD 1.5 million in consideration of past exploration expenditures.

In December 2012, the Company completed a private placement in two tranches issuing an aggregate of 30 million Shares of the Company at a price of CAD 7.75 per Share for gross proceeds of CAD 232.5 million. The Shares issued pursuant to the closing of the first tranche of the private placement on December 7, 2012 were subject to a hold period that expired on April 8, 2013. The Shares issued pursuant to the closing of the second tranche of the private placement were subject to a hold period that expired on April 14, 2013. A 4 per cent finder's fee was paid on a portion of the private placement.

#### Operational activity

- During the first quarter of 2012, the Company discovered over 100 meters of net oil pay in the Ngamia-1 well in Block 10BB (Kenya), the first Tullow-Africa Oil joint venture exploration well drilled. In response to the successful Ngamia-1 well, the Company together with its partners ramped up its exploration program in Kenya and Ethiopia, and at year-end had two rigs operating in Kenya and one rig operating in Ethiopia. The Company and its partner agreed to source a fourth rig to commence testing and drilling operations in the second half of 2013.
- Following completion of the Ngamia-1 well, the Company and its partner Tullow moved the rig to drill the Twiga South-1 exploration well in Block 13T (Kenya) which is on trend with Ngamia-1. Twiga South-1 successfully encountered 30 meters of net oil pay. The Company and its partners commenced a drill stem test ("DST") near the end of 2012.
- The first additional rig was mobilized to Block 10A (Kenya) to drill Paipai-1 which spud in the fourth quarter of 2012 and was completed in the first quarter of 2013. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval; however attempts to recover samples were unsuccessful. The Company and its partners were not able to test the well due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered. As a result, the well was temporarily suspended pending further data evaluation. The rig was then mobilized to the South Lokichar Basin in Block 10BB to drill the Etuko prospect in the undrilled flank play.

- The Company continued to actively acquire, process, and interpret 2D seismic over Blocks 10BA, 10BB, 12A, 13T and South Omo with three seismic crews active during the year.
- In Puntland (Somalia), the Company, through its 44.6 per cent ownership interest in Horn, completed a two well exploration drilling program. Both well sites have been restored to original condition and demobilization of drilling equipment from Puntland has been completed. While the Company was disappointed that the first two exploration wells in Puntland did not flow oil, the Company remains highly encouraged that all of the critical elements exist for oil accumulations, and based on this encouragement, the Company and its partners entered into the next exploration period in both the Dharoor Valley and Nugaal Valley PSC's which carry a commitment to drill one exploration well in each block.

## 2013

### Significant transactions

- In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete geological and geophysical 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 USD 5.0 million.

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 for net proceeds of USD 440 million. The Shares were placed through a syndicate comprising of Citigroup Global Markets Limited, Dundee Securities Europe LLP and Pareto Securities AS, who together acted as joint bookrunners (the "**Joint Bookrunners**"). A cash commission equal to 3 per cent of the gross proceeds was paid to the Joint Bookrunners.

### Operational activity

- On the back of the successful exploration activities in Kenya during 2012, the Company, together with its partners, continued to ramp up its exploration program in Kenya and Ethiopia. Entering the year, two Tullow-Africa Oil joint venture rigs were operating in Kenya and one joint venture rig was operating in Ethiopia. Two additional Tullow-Africa Oil joint venture rigs (one of which is a testing and completion unit) were mobilized in Kenya during November 2013. The Company, as operator, and its partner in Block 9 (Kenya) secured a sixth rig, which commenced drilling operations in September 2013. In addition, the Company and its partners in Block 7/8 (Ethiopia) mobilized a seventh rig for a one well commitment, which commenced drilling operations in October 2013. The Company completed seven exploration wells and two multi-zone well tests across its blocks and exited the year with three wells drilling and one well under test.
- During the first quarter of 2013, the Company and its partner, Tullow, conducted well testing operations at Twiga South-1, which resulted in a cumulative flow rate of 2,812 bopd from three zones, despite being constrained by surface equipment. With optimized production equipment, the cumulative flow rate is anticipated to have increased to a cumulative rate of approximately 5,200 bopd. High quality 37 degree API waxy sweet crude flowed from all three zones in the Auwerwer formation with good quality reservoir sands encountered. The well was suspended as a potential future production well.

- Also during the first quarter of 2013, the Company and its operating partners on Block 10A completed drilling the Paipai-1 exploration well. The Paipai-1 well tested a large four-way closed structure with Cretaceous-age sandstone targets at multiple depths. Paipai-1 spudded in September 2012 and completed drilling in the first quarter of 2013 to a total depth of 4,255 meters. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval. Attempts to sample the reservoir fluid were unsuccessful and the hydrocarbons encountered while drilling were not recovered to surface. The Company and its partners were unable to test the well at the time due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered at this depth.
- During the second quarter of 2013, the Company completed a series of six well tests at the Ngamia-1 discovery. The cumulative flow rate from the six well tests was over 3,200 bopd constrained by completion techniques and surface equipment. With optimized completion techniques and surface equipment it is estimated that these combined flow rates would increase to a rate of 5,400 bopd. Five of the well tests were completed over the Auwerwer sandstones to verify reservoir quality and fluid content which appears of similar quality to those tested at the Twiga South-1 well in the same basin. High quality waxy sweet crude (25-35 degrees API) was flowed from all five zones in the Auwerwer formation with good quality reservoir sands encountered. One well test was conducted in the Lower Lokhone sandstone proving it to be a productive reservoir with 30 degree API oil. All zones produced dry oil with no water produced and no pressure depletion. As a result of testing several previously indeterminate zones in the well, net oil pay in the Ngamia-1 well doubled to over 200 meters over a gross oil column of over 1,100 meters. Transient pressure analysis has been conducted on the Twiga South-1 and Ngamia-1 well tests. No pressure depletion was recorded over the duration of the tests. The Ministry of Energy agreed to a proposal by Tullow, as operator of Blocks 10BB and 13T, to carry out a combined exploration and evaluation program over a defined AOI including all of the mapped prospects and leads along the basin bounding fault on the western edge of the Lokichar Basin. The basis of the AOI approach is to adopt a basin-wide approach to concurrently explore and evaluate the area as opposed to undertaking well-by-well appraisals for each discovery well. This basin-wide approach, with regards to the AOI, is mutually agreed to be the most efficient and quickest approach to moving the exploration and evaluation work program forward towards reaching a commercial threshold of reserves required to justify any large scale oil development. In July, the Company announced a new oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval based on log analysis.
- Also in July, the Company completed drilling the Sabisa-1 well in the South Omo Block. The well encountered reservoir quality sands, oil shows and heavy gas shows indicating an oil prone source rock and thick shale section which may provide a good seal for the numerous fault bounded traps identified in the basin; however, only the lowermost sands appeared to be in trapping configuration at Sabisa-1. Based on the encouragement of the results of this well, the Company decided to drill the nearby Tultule prospect next.
- In September, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicated a potential pay zone of 60 to 100 meters to be confirmed by flow testing.

- Also in September, the Company announced details of an updated independent assessment of the Company's contingent and prospective resources on its Kenyan and Ethiopian exploration properties. The effective date of this assessment was July 31, 2013 and it was carried out in accordance with the standards established by the NI 51-101. Please refer to the Company's press release dated September 3, 2013 for details of the prospective and contingent resources by prospect and lead, including the geologic chance of success.
- All operations in Block 10BB and Block 13T in Northern Kenya were temporarily suspended on October 28, 2013 as a precautionary measure following demonstrations by members of local communities. Operations resumed on November 8, 2013 after successful discussions relating to the operating environment with central and regional government and local community leaders. These discussions led to the signing of a Memorandum of Understanding which clearly lays out a plan for the Government of Kenya, county government, local communities in Northern Kenya and the Tullow-Africa Oil joint venture to work together inclusively over the long-term and to ensure operations can continue without disruption in the future.
- In November, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. Logs indicate a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015 or early 2016.
- In December, the Company completed drilling the Bahasi-1 well in Block 9 to a depth of 2,900 meters, encountering metamorphic basement at 2850 meters. A thick section of Tertiary and Cretaceous interbedded sands and shales were encountered with only minor shows of gas throughout the section, accordingly the well was plugged and abandoned. Subsequent to the completion of Bahasi-1, the rig moved to the Sala-1 well which has a planned total depth of 3,450 meters and is expected to complete in April 2014. The Sala prospect is a large three way dip closed structure against the rift bounding fault in the Cretaceous Anza Basin in a similar structural setting to the Tertiary Ngamia discovery in Block 10BB. The Sala prospect is up-dip of the Bogal-1 and Nduvo-1 wells both of which encountered significant hydrocarbon shows.
- Also in December, the Company completed the Tutule-1 well which reached a total depth of 2101 meters. The well encountered a section similar to the nearby Sabisa-1 well in the upper portion of the well but the sands which appeared to be hydrocarbon bearing in the Sabisa well were not present on the Tutule horst block feature with multiple volcanic units and shales in this section. There were gas shows in the section which point to a potential hydrocarbon source and the results of these two wells will be analyzed to determine the future exploration program direction in the North Turkana Basin.
- Also in December, the previously planned test of the Paipai-1 well in Block 10A was cancelled due to concerns over economic viability. Further, the Company and its partners have elected not to continue into the next exploration phase on this block.

- The Company and its partners continued to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 3,044 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T in Kenya and the South Omo Block in Ethiopia with two onshore and one offshore 2D seismic crews operating throughout the remainder of the year. A third onshore 2D seismic crew operating in the South Omo Block was released in May 2013 after completing 1,174 kilometers of 2D seismic. In addition, the Company and its partner in Blocks 10BB and 13T mobilized a 3D seismic crew to begin a 550 square kilometer 3D seismic survey over the Ngamia-1 and Twiga South-1 discoveries. The Company completed acquiring an extensive full tensor gradiometry survey in December over the Rift Basin Area in Ethiopia, and is conducting an exhaustive environmental and social impact assessment over the block in preparation for a seismic program in 2014.

## 2014

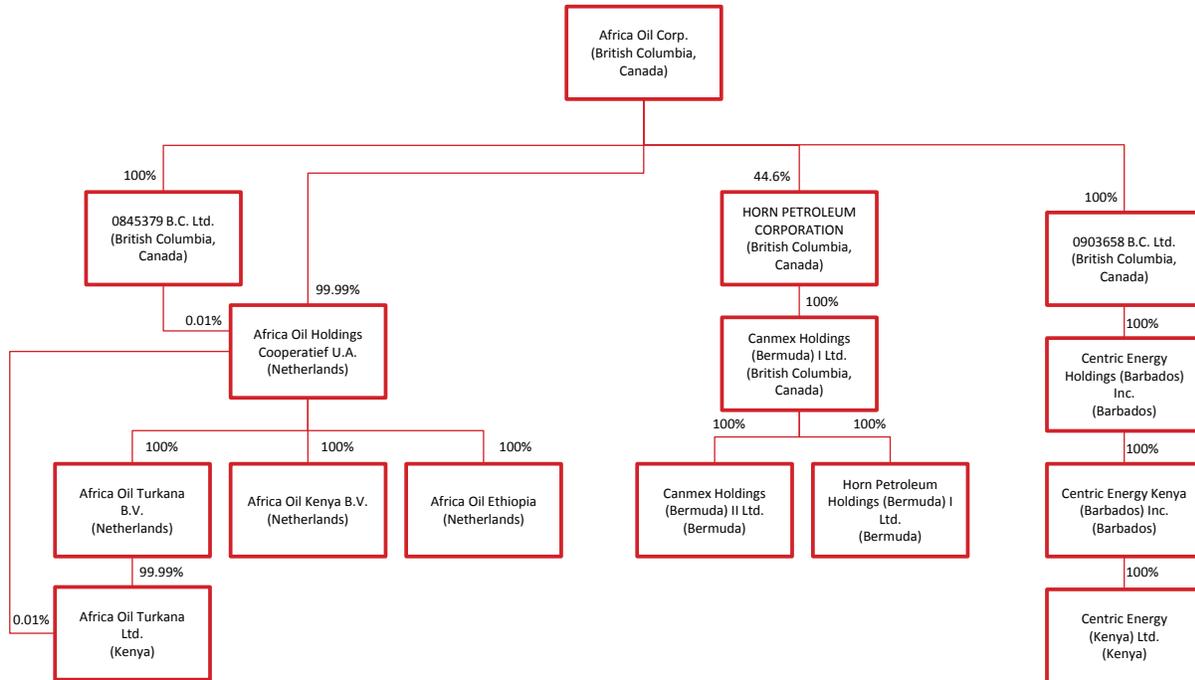
- In January, the Company announced a new discovery at the Amosing-1 exploration well, located south of the Ngamia discovery and also along the Basin Bounding Fault Play. Based on results of drilling, wireline logs and samples of reservoir fluid, the well has intersected potential net oil pay of 160 to 200 meters.
- Also in January, the Company announced a new discovery at the Ewoi-1 exploration well, the second exploration well drilled by the Tullow-Africa Oil joint venture in the Basin Flank Play on the eastern side of the South Lokichar Basin in Block 10BB. Logs indicate potential net pay of 20 to 80 meters to be confirmed by well testing.
- In February, well testing at Etuko-1 from five identified Lokhone pay intervals confirmed the previously announced discovery. 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.
- In March, 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 but flowed only water on drill stem test. The results are considered inconclusive and analysis is underway to consider further options to evaluate this reservoir.
- Also in March, the company announced the results of testing operations on the Ekales-1 well which confirmed this significant 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.
- Also in March, the Company announced the results of the Emong-1 well located four kilometers northwest of Ngamia-1 field discovery in Block 13T. 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. The results are not expected to impact the thickness and quality of reservoir throughout the main Ngamia field area.

- Also in March, the Company and its partners announced that drilling of the El Kuran-3 well, in the Somali region of Ethiopia, reached a total depth of 3528 meters. After completing reservoir characterization studies, the Company and its partners focused efforts on testing and completion strategies for producing commercial quantities of oil and gas. The well encountered a significant but tight gas-condensate zone in Jurassic Hammanlei carbonates. The well has been suspended pending a decision on conducting a fracture stimulation, which will be required to assess the long-term productivity of the formation. Discussions are ongoing with the Government of Ethiopia to secure an extension to the initial exploration period under the PSC to assess the economic viability of the discovery.
- Also in March, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50 per cent interest in Rift Basin Area leaving Africa Oil with 50 per cent working. In accordance with the farmout agreement, Marathon is obligated to pay the Company USD 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 USD 15.0 million. The Company will maintain operatorship in Rift Basin Area, but Marathon has the right to assume operatorship if a commercial discovery is made.
- Also in March, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 40 per cent interest in the Company's Adigala Block leaving Africa Oil with 10 per cent working interest. In accordance with the farmout agreement, New Age is obligated to fund 10 per cent of the Company's working interest share of expenditures related to the acquisition of a planned 1,000 kilometer 2D seismic program to a maximum expenditure of USD 10.0 million on a gross basis, following which the Company would be responsible for its working interest share of expenditures.
- In May, the Company released the results of the Shimela-1 well in the Chew Bahir Basin of the South Omo Block. The well which reached a final depth of 1,940 meters and encountered water bearing reservoirs. Shimela-1 was drilled to test a prospect in a north-western sub-basin of the vast Chew Bahir basin. The frontier wildcat well encountered lacustrine and volcanic rocks including almost 100 meters of net sandstone reservoir within siltstones and claystones. Trace thermogenic gas shows were recorded at 1,900 meters.
- In June, the Company announced that Agete-1 well test results confirmed the Auwerwer pay previously released with a tested flow rate of 500 bopd.
- Also in June, the Company announced the results of the Ngamia-2 well which was drilled 1.7 kilometers from the Ngamia-1 discovery well to test the northwest flank of the prospect. The well encountered up to 39 meters of net oil pay and 11 meters of net gas pay and appears to have identified a new fault block trap north of the main Ngamia accumulation. The reservoirs were high quality with more than 200 meters of net reservoir sands with good permeability inferred from MDT sampling.
- Also in June, the Company announced the Sala-1 well had resulted in a gas discovery in Block 9 onshore Kenya. The Sala-1 drilled a large 80 square kilometer anticlinal feature along the northern basin bounding fault in the Cretaceous Anza graben and encountered several sandstone intervals which had oil and gas shows. The well was drilled to a total depth of 3030 meters and petrophysical analysis indicated three zones of interest over a 1000 meter gross interval which were subsequently drill stem tested. 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 reservoir sand of over 125 meters and encountered a gas water contact so there is

potential to drill up-dip on the structure where this entire interval will be above the gas-water contact. A lower interval tested at low rates of dry gas from a 50 meter potential net pay interval which can also be accessed at the up-dip location. It should also be noted that there were oil shows while drilling and small amounts of oil were recovered during drilling and testing which indicates there may be potential for oil down-dip on the structure.

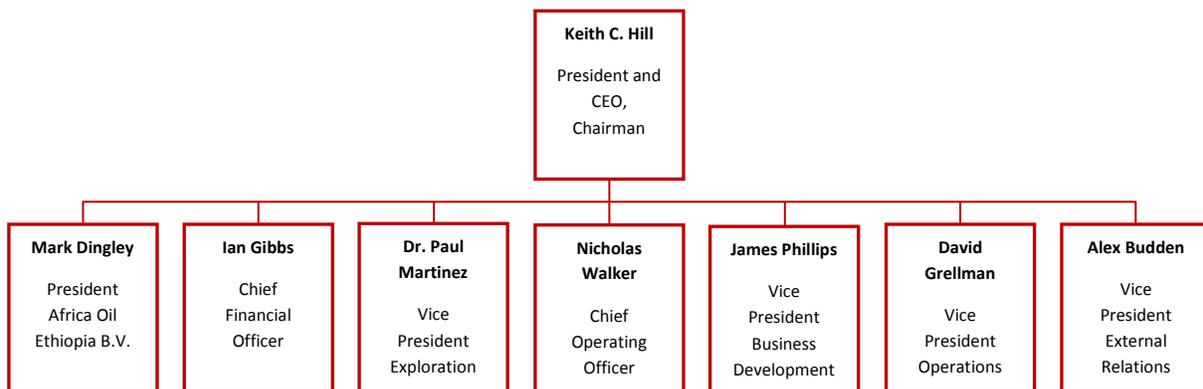
## Legal structure

As of the date of this prospectus, the Company's legal structure is as follows (the share of capital and votes is evident below):



## Organizational chart

As of the date of this prospectus, the Company's organizational chart is as follows:



## Employees and contractors

Geographic Location	Number of Employees/Consultants 2011		Number of Employees/Consultants 2012		Number of Employees/Consultants 2013	
	Employees	Consultants	Employees	Consultants	Employees	Consultants
Canada	9	2	14	2	15	2
United Kingdom	-	-	1	-	1	-
Ethiopia	15	2	16	2	11	2
Nairobi	6	1	10	-	17	15

## Ongoing and future investments

To date, Africa Oil has primarily relied on equity financings and industry farmout transactions to fund its ongoing exploration and appraisal activities. Entering 2014, the Company held cash of USD 493 million and positive working capital of USD 440 million. The Company is currently estimating net 2014 oil and gas expenditures of USD 348 million with over 70 per cent allocated to drilling activities. Geographically, 83 per cent of estimated oil and gas expenditures are anticipated to be incurred in Kenya, driven primarily by the extensive exploration and appraisal programs ongoing in Blocks 10BB and 13T. Existing cash on hand and expected cash flow is expected to be sufficient for the Company's working capital requirements for the coming twelve month period as of the date of this prospectus.

As the Company is in the exploration and appraisal phase, operating income is not expected in the short to mid-term.

## Social policies

The objective of Africa Oil's corporate responsibility strategy is to address the challenge of sustainability – delivering value to its shareholders, providing economic and social benefits to communities while concurrently minimizing its environmental footprint. The Company views its commitment to corporate responsibility as a strategic advantage that enables it to access and effectively manage new business opportunities. Africa Oil is committed to providing a safe, healthy, and transparent environment for employment, production, and sharing of the economic benefits that flow from its regional presence.

Africa Oil is committed to building a legitimate 'social license to operate' in the communities and countries in which it operates. The Company sees this as an essential foundation for its business activity. Africa Oil will therefore enter into dialogue and engagement with key stakeholders, conducted in the spirit of transparency and good faith, at all stages of company activities. Africa Oil also has contractual obligations to support community development initiatives under its PSAs. Through ongoing stakeholder engagement led by corporate affairs officers in country teams, supported by dedicated community liaison and community development officers in each of its exploration theatres, initiatives reflecting local priorities are identified and supported across three key areas: community infrastructure, sustainable livelihoods and economic development. Africa Oil contributes to and works closely with the Lundin Foundation on many of these issues.

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. 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 contribution is a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

## SELECTED FINANCIAL INFORMATION

The Company prepares its financial statements in accordance with International financial reporting standards "IFRS".

This information should be read together with Sections "Comments to the financial statements" and "Capital structure, indebtedness and related information", the Company's audited financial statements for the years 2011, 2012 and 2013, and the unaudited interim financial statements for the three-month period ending on March 31, 2014. The Company's audited financial statement for the years 2011, 2012 and 2013 and the unaudited interim financial statements for the three-month period ending on March 31, 2014 have been incorporated into this prospectus by reference, see Section "Documents incorporated by reference" below.

This Section provides a summary of the Company's financial performance and position. The financial information presented below has been derived from the Company's unaudited quarterly financial statements and audited annual financial statements for the specific reporting periods.

### Income statements

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
<b>Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Salaries and benefits	458	563	5,040	3,665	1,696
Stock-based compensation	9,552	697	12,746	4,943	4,348
Travel	309	281	1,588	1,469	1,133
Office and general	184	203	1,160	1,012	1,753
Donation	750	100	1,151	2,313	-
Depreciation	17	13	55	48	48
Professional fees	195	103	786	4,187	1,476
Stock exchange and filing fees	189	200	969	916	547
Impairment of intangible exploration assets	-	-	22,874	3,127	6,969
<b>Operating expenses</b>	<b>11,654</b>	<b>2,160</b>	<b>46,369</b>	<b>21,680</b>	<b>17,970</b>
Gain on acquisition of Lion Energy	-	-	-	-	(4,143)
Dilution loss on sale of subsidiary	-	-	-	-	4,579
Finance income	(436)	(3,099)	(4,141)	(1,727)	(12,079)
Finance expense	126	1,051	9,210	164	2,626
<b>Net loss and comprehensive loss</b>	<b>11,344</b>	<b>112</b>	<b>51,438</b>	<b>20,117</b>	<b>8,953</b>
<i>Net income and comprehensive income attributable to non-controlling interest</i>	<i>206</i>	<i>(1,762)</i>	<i>(1,222)</i>	<i>(2,676)</i>	<i>(1,691)</i>
<i>Net loss and comprehensive loss attributable to common shareholders</i>	<i>11,138</i>	<i>1,874</i>	<i>52,660</i>	<i>22,793</i>	<i>10,644</i>

## Balance sheets

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
<b>ASSETS</b>					
Cash and cash equivalents	434,333	237,144	493,209	272,175	109,558
Marketable securities	-	-	-	-	2,606
Accounts receivable	11,926	2,584	3,195	2,848	2,717
Prepaid expenses	1,332	1,080	1,379	1,124	600
<b>Current assets</b>	<b>447,591</b>	<b>240,808</b>	<b>497,783</b>	<b>276,147</b>	<b>115,481</b>
Restricted cash	1,700	825	1,250	1,119	2,919
Property and equipment	94	83	103	82	39
Intangible exploration assets	567,907	321,375	488,688	282,109	185,672
<b>Long-term assets</b>	<b>569,701</b>	<b>322,283</b>	<b>490,041</b>	<b>283,310</b>	<b>188,630</b>
<b>TOTAL ASSETS</b>	<b>1,017,292</b>	<b>563,091</b>	<b>987,824</b>	<b>559,457</b>	<b>304,111</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>Total equity</b>	<b>929,805</b>	<b>520,738</b>	<b>929,847</b>	<b>520,153</b>	<b>275,948</b>
Accounts payable and accrued liabilities	87,482	41,964	57,976	36,188	23,768
Current portion of warrants	5	8	1	2,288	1,513
<b>Current liabilities</b>	<b>87,487</b>	<b>41,972</b>	<b>57,977</b>	<b>38,476</b>	<b>25,281</b>
Warrants	-	381	-	828	2,882
<b>Long term liabilities</b>	<b>-</b>	<b>381</b>	<b>-</b>	<b>828</b>	<b>2,882</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,017,292</b>	<b>563,091</b>	<b>987,824</b>	<b>559,457</b>	<b>304,111</b>
<i>Equity attributable to common shareholders</i>					
<i>share capital</i>	<i>1,009,953</i>	<i>558,555</i>	<i>1,007,414</i>	<i>558,555</i>	<i>306,510</i>
<i>contributed surplus</i>	<i>33,159</i>	<i>12,820</i>	<i>24,396</i>	<i>12,123</i>	<i>8,425</i>
<i>deficit</i>	<i>(161,874)</i>	<i>(99,950)</i>	<i>(150,736)</i>	<i>(98,076)</i>	<i>(75,283)</i>
	<i>881,238</i>	<i>471,425</i>	<i>881,074</i>	<i>472,602</i>	<i>239,652</i>
<i>non-controlling interest</i>	<i>48,567</i>	<i>49,313</i>	<i>48,773</i>	<i>47,551</i>	<i>36,296</i>

## Cash flow statements

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
Cash flows provided by (used in)					
Operations					
Net loss and comprehensive loss for the year	(11,344)	(112)	(51,438)	(20,117)	(8,953)
Items not affecting cash					
Stock-based compensation	9,552	697	12,746	4,943	4,348
Share-based expense	-	-	-	3,763	-
Depreciation	17	13	55	48	48
Loss (gain) on marketable securities	-	-	-	124	(236)
Gain on acquisition of Lion Energy	-	-	-	-	(4,143)
Impairment of intangible exploration assets	-	-	22,874	3,127	6,969
Dilution loss on sale of subsidiary	-	-	-	-	4,579
Fair value adjustment – warrants	4	(2,727)	(3,115)	(832)	(8,845)
Fair value adjustment – convertible debt	-	-	-	-	(2,032)
Foreign exchange loss related to financing	-	-	7,396	-	-
Unrealized foreign exchange loss	117	1,119	25	1,055	1,901
Changes in non-cash operating working capital	(731)	(750)	(756)	(657)	(622)
	(2,385)	(1,760)	(12,213)	(8,546)	(6,986)
Investing					
Property and equipment expenditures	(8)	(14)	(76)	(91)	(39)
Intangible exploration expenditures	(92,426)	(39,266)	(229,453)	(133,823)	(41,285)
Farmout proceeds	13,207	-	-	34,259	14,901
Cash received on business acquisitions, net cash issued	-	-	-	-	18,637
Proceeds on disposal of Canmex, net of investment in Horn	-	-	-	-	29,923
Proceeds from sale of marketable securities	-	-	-	2,442	-
Changes in non-cash working capital	21,553	6,834	21,942	12,373	16,611
	(57,674)	(32,446)	(207,587)	(84,840)	38,748
Financing					
Common shares issued	1,750	-	448,386	255,169	3,020
Foreign exchange loss related to financing	-	-	(7,396)	-	(411)
Deposit of cash for bank guarantee	(450)	-	(1,250)	(375)	(2,175)
Release of bank guarantee	-	294	1,119	2,175	2,888
Changes in non-cash financing working capital	-	-	-	-	169
	1,300	294	440,859	256,969	3,491
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency					
	(117)	(1,119)	(25)	(966)	(1,821)
Cash and cash equivalents, beginning of period	493,209	272,175	272,175	109,558	76,126
Cash and cash equivalents, end of period	434,333	237,144	493,209	272,175	109,558
<b>Increase in cash and cash equivalents</b>	<b>(58,876)</b>	<b>(35,031)</b>	<b>221,034</b>	<b>162,617</b>	<b>33,432</b>
<i>Supplementary information</i>					
<i>interest paid</i>	0	0	0	0	411
<i>income taxes paid</i>	0	0	0	0	0

## Key ratios

USD thousands	Unaudited Mar 31, 2014	Unaudited Mar 31, 2013	Audited Dec 31, 2013	Audited Dec 31, 2012	Audited Dec 31, 2011
Net loss attributable to common shareholders per share, basic	0.04	0.01	0.20	0.10	0.06
Net loss attributable to common shareholders per share, diluted	0.04	0.01	0.20	0.10	0.08
Equity ratio end of period <sup>(1)</sup>	91%	92%	94%	93%	91%
Weighted average number of shares outstanding for the purpose of calculation earnings per share, basic	309,967,060	252,165,938	263,081,763	220,664,278	193,471,492
Weighted average number of shares outstanding for the purpose of calculation earnings per share, diluted	309,967,060	252,165,938	263,081,763	220,664,278	194,030,846
Dividend paid per share	0	0	0	0	0

<sup>(1)</sup> "Total equity end of period" divided by "total assets end of period"

# COMMENTS TO THE FINANCIAL STATEMENTS

*This information should be read together with Sections “Selected financial information” and “Capital structure, indebtedness and related information”, the Company’s audited financial statement for the years 2011, 2012 and 2013, and the unaudited interim financial statements for the three-month period ending on March 31, 2014. The Company’s audited financial statement for the years 2011, 2012 and 2013 and the unaudited interim financial statements for the three-month period ending on March 31, 2014 have been incorporated into this prospectus by reference (see Section “Documents incorporated by reference” below).*

## Operating loss

The operating losses are a reflection of the Company being in a non-revenue stage. The Company’s oil and gas interests are in the early phase of upstream oil and gas life-cycles.

## Operating expenses

### **JANUARY – MARCH 2014 COMPARED TO JANUARY – MARCH 2013**

Operating expenses in January – March 2014 (January – March 2013) were USD 11.7 million (USD 2.2 million). Operating expenses increased USD 9.5 million for the three months ended March 31, 2014 compared to the same period in the prior year. The Company recorded an increase of USD 8.9 million in stock-based compensation which is attributable to 5,958,500 stock options of Africa Oil issued to directors, officers and employees in the first quarter of 2014 of which one-third vested immediately. The Company made USD 0.8 million and USD 0.1 million of donations to the Lundin Foundation in the first quarter of 2014 and 2013, respectively. 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.

### **JANUARY – DECEMBER 2013 COMPARED TO JANUARY – DECEMBER 2012**

Operating expenses in 2013 (2012) were USD 46.4 million (USD 21.7 million). Operating expenses increased by USD 24.7 million for the year ended December 31, 2013 compared to the prior year. The Company recorded a USD 22.9 million impairment of intangible exploration assets relating to Block 10A in Kenya in 2013, while in 2012, the Company recorded a USD 3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali. The increase of USD 7.8 million in stock-based compensation is attributable to an increase in the number of options granted in 2013 compared to 2012. The USD 3.4 million decrease in professional fees was mainly the result of 420,000 Shares issued in 2012 as a settlement of claimed professional fees relating to previously completed farmout transactions. The USD 1.4 million increase in salary and benefits is the result of increased operational activity and increased headcount in 2013. The Company made USD 1.2 million donation in 2013 and a USD 2.3 million donation in 2012, both to the Lundin Foundation.

### **JANUARY – DECEMBER 2012 COMPARED TO JANUARY – DECEMBER 2011**

Operating expenses in 2012 (2011) were USD 21.7 million (USD 18.0 million). Operating expenses increased by USD 3.7 million for the year ended December 31, 2012 compared to the prior year. In 2012, the Company recorded a USD 3.1 million impairment of intangible exploration assets relating to Blocks 7 and 11 in Mali, while in the previous year, the Company recorded a USD 7.0 million impairment of intangible exploration assets relating to Blocks 2/6 in Ethiopia. In 2012, the Company also made a USD 2.3 million donation to the Lundin Foundation. The increase in professional fees in 2012 was the result of 420,000 Shares issued in the year as a settlement of claimed professional fees relating to previously completed farmout transactions. Compensation related costs and travel costs increased due to operational activity, increased headcount, and the exploration success in 2012.

## Net loss and comprehensive loss

### **JANUARY – MARCH 2014 COMPARED TO JANUARY – MARCH 2013**

Net loss in January – March 2014 (January – March 2013) were USD 11.3 million (USD 0.1 million). The increase in the net loss was due to the USD 9.5 million increase in operating expenses (described above). Finance income decreased USD 2.7 million due to a USD 2.7 million gain recorded on the fair market value adjustment to Horn warrants in the first quarter of 2013 resulting from a reduction in Horn's share price combined with a reduction in the remaining life of the warrants. Finance expense decreased USD 0.9 million due to a 1.0 million foreign exchange loss in the first quarter of 2013 as the Canadian dollar weakened against the US dollar over the period while the Company held Canadian dollars.

### **JANUARY – DECEMBER 2013 COMPARED TO JANUARY – DECEMBER 2012**

The Company's net loss for the year ended December 31, 2013 was USD 51.4 million or USD 0.20 per Share as compared to a loss of USD 20.1 million or USD 0.10 Share for the year ended December 31, 2012.

The increase in net loss of USD 31.3 million for the year ended December 31, 2013 in comparison with the previous year was primarily due to a USD 24.7 million increase in operating expenses (described above) 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 USD 9.2 million foreign exchange loss in 2013, compared to a foreign exchange gain of USD 0.6 million in 2012. Of foreign exchange loss in 2013, USD 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 USD 3.1 million gain on the revaluation of the warrant liability in 2013, compared to a USD 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.

### **JANUARY – DECEMBER 2012 COMPARED TO JANUARY – DECEMBER 2011**

The Company's net loss for the year ended December 31, 2012 was USD 20.1 million or USD 0.10 per Share as compared to a loss of USD 9.0 million or USD 0.08 share, diluted, for the year ended December 31, 2011.

The increase in net loss of USD 11.1 million for the year ended December 31, 2012 in comparison with the previous year was primarily due to a USD 3.7 million increase in operating expenses (described above), gains in 2011 relating to the Lion Energy acquisition and the revaluation of warrants, offset partially by a dilution loss in 2011 in relation to the Horn Transaction. The Company recorded a USD 4.1 million gain on the acquisition of Lion Energy in 2011 as the fair value of the net working capital and intangible exploration assets acquired were in excess of the consideration issued. The gains on revaluation of warrants in 2011 resulted from a reduction in the Share price of the Company and Horn as well as a reduction in the remaining life of the warrants. The Company recorded a USD 4.6 million loss in 2011 on the sale of its subsidiary holding the working interest Puntland (Somalia) to Horn. In accordance with IFRS, when a reverse acquisition occurs, any excess of the fair value of the consideration paid over the value of the net assets acquired is recognized in the consolidated statement of net loss and comprehensive loss as an expense.

## Cash flow

### **JANUARY – MARCH 2014 COMPARED TO JANUARY – MARCH 2013**

As at March 31, 2014, the Company had cash of USD 434.3 million and working capital of USD 360.1 million as compared to cash of USD 237.1 million and working capital of USD 198.8 million at March 31, 2013. Of the USD 434.3 million in cash at March 31, 2014, USD 3.4 million is cash held by Horn. The Company's liquidity and capital resource position has improved significantly since the end of the first quarter of 2013 due to the brokered private placement in October 2013 which raised USD 440 million net of issuance costs and related foreign exchange, offset partially by intangible asset expenditures and cash-based operating expenses.

Net cash used in operating activities was USD 2.4 million for the period ended March 31, 2014, compared to USD 1.8 million for the period ended March 31, 2013, and consisted primarily of cash based operating expenses and was adjusted for the impact of non-cash items and changes in non-cash working capital items. The increase in cash used in operating activities is mainly attributable to an increase in donations to the Lundin Foundation.

Net cash used in investing activities for the period ended March 31, 2014, amounted to USD 57.7 million compared to net cash used in investing activities for the period ended March 31, 2013, which amounted to USD 32.4 million. The increase in net cash used in investing activities is mainly attributable to an increase in the pace of exploration resulting in the addition of drilling rigs, offset partially by the close of the Rift Basin Area farmout.

Cash flow provided by financing activities was USD 1.3 million for the period ended March 31, 2014, compared to USD 0.3 million for the period ended March 31, 2013. The increase in cash flow from financing activities is attributable to the issuance of Shares resulting from stock option exercises, offset partially by a deposit relating to a bank guarantee as required by the Block 9 production sharing contract (Kenya).

### **JANUARY – DECEMBER 2013 COMPARED TO JANUARY – DECEMBER 2012**

As at December 31, 2013, the Company had cash of USD 493.2 million and working capital of USD 439.8 million as compared to cash of USD 272.2 million and working capital of USD 237.7 million at December 31, 2012. Of the USD 493.2 million in cash at December 31, 2013, USD 3.6 million is cash held by Horn. The Company's liquidity and capital resource position has improved significantly since the end of 2012 due to the brokered private placement in October 2013 which raised USD 440 million net of issuance costs and related foreign exchange, offset partially by intangible asset expenditures and cash-based operating expenses.

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 approximately USD 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.

Net cash used in operating activities was USD 12.2 million for the year ended December 31, 2013, compared to USD 8.5 million for the year ended December 31, 2012, and consisted primarily of cash based operating expenses and was adjusted for the impact of non-cash items and changes in non-cash working capital items. The increase in net cash used in operating activities is attributable to an increase in salary related costs and travel costs resulting from increased operational activity and increased headcount in 2013.

Net cash used in investing activities for the year ended December 31, 2013, amounted to USD 207.6 million compared to net cash used in investing activities for the year ended December 31, 2012, which amounted to USD 84.8 million. The increase in net cash used in investing activities is mainly attributable to an increase in the pace of

exploration resulting in the addition of drilling rigs in 2013. In 2012, the Company received farmout proceeds totaling USD 34.3 million relating to farmouts on Blocks 9 and 12A in Kenya and Blocks 7/8 in Ethiopia.

Cash flow provided financing activities was USD 440.9 million for the year ended December 31, 2013, compared to USD 257.0 million for the year ended December 31, 2012. The increase in cash flow from financing activities is attributable to proceeds from the private placements as described above.

## **JANUARY – DECEMBER 2012 COMPARED TO JANUARY – DECEMBER 2011**

As at December 31, 2012, the Company had cash of USD 272.2 million and working capital of USD 237.7 million as compared to cash of USD 109.6 million and working capital of USD 90.2 million at December 31, 2011. Of the USD 272.2 million in cash at December 31, 2012, USD 9.5 million is cash held by Horn. The Company's liquidity and capital resource position has improved significantly throughout 2012. Working capital increased significantly compared to the end of 2011 due to the CAD 232.5 million non-brokered private placement and proceeds received from farmout transactions which closed in 2012, offset partially by intangible asset expenditures and cash-based operating expenses.

In December 2012, the Company closed the first and second tranches of its private placement, issuing 30,000,000 Shares at CAD 7.75 per Share for net proceeds of USD 226.4 million.

Net cash used in operating activities was USD 8.5 million for the year ended December 31, 2012, compared to USD 7.0 million for the year ended December 31, 2011, and consisted primarily of cash based operating expenses and was adjusted for the impact of non-cash items and changes in non-cash working capital items. The increase in net cash used in operating activities is attributable to activities is attributable to an increase in salary related costs and travel costs resulting from increased operational activity and increased headcount in 2013.

Net cash used in investing activities was USD 84.8 million for the year ended December 31, 2012, compared to net cash provided by investing activities of USD 38.7 million for the year ended December 31, 2011. The increase in net cash from investing activities is mainly attributable to an increase in the pace of exploration in 2012 and cash acquired on assets acquisitions and divestitures in 2011.

Cash flow from financing activities for the year ended December 31, 2012 was USD 257.0 million, which comprised of proceeds from the private placement in December of 2012, compared to USD 3.5 million for the year ended December 31, 2011.

## **Investments**

### **JANUARY – MARCH 2014 COMPARED TO JANUARY – MARCH 2013 (USD)**

For the three months ended (USD thousands)	March 31, 2014				March 31, 2013			
	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	59,945	11,230	76	<b>71,251</b>	19,451	7,989	440	<b>27,880</b>
Exploration surveys and studies	8,925	939	14	<b>9,878</b>	3,726	2,457	13	<b>6,196</b>
PSA and G&A Related	8,416	2,353	528	<b>11,297</b>	3,021	1,309	860	<b>5,190</b>
<b>Total</b>	<b>77,286</b>	<b>14,522</b>	<b>618</b>	<b>92,426</b>	<b>26,198</b>	<b>11,755</b>	<b>1,313</b>	<b>39,266</b>

Africa Oil incurred USD 77.3 million of intangible exploration expenditures in Kenya for the three months ended March 31, 2014. The majority of drilling expenditures related to the Company's portion of drilling costs on the Etuko-1 well testing and Etuko-2 well (Block 10BB), the Amosing-1 well (Block 10BB), the Ewoi-1 well (Block 10BB),

the Agete-1 well (Block 13T), the Twiga-2 well (Block 13T), the Ekales-1 well test (Block 13T), and the Emong-1 well (Block 13T). 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 and 12A.

Africa Oil incurred USD 14.5 million of intangible exploration expenditures in Ethiopia for the three months ended March 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 in the South Omo block. The majority of exploration surveys and studies related to 2D seismic acquisition preparation costs in the Rift Basin Area.

Africa Oil incurred USD 0.6 million of intangible exploration expenditures in Puntland for the three months ended March 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 ongoing in the quarter.

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.

### **JANUARY – DECEMBER 2013 COMPARED TO JANUARY – DECEMBER 2012 (USD)**

For the year ended (USD thousands)	December 31, 2013				December 31, 2012			
	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	121,183	43,604	374	<b>165,161</b>	56,600	4,844	30,455	<b>91,899</b>
Exploration surveys and studies	25,754	10,094	28	<b>35,876</b>	20,218	8,056	325	<b>28,599</b>
PSA and G&A Related	21,377	5,375	1,664	<b>28,416</b>	7,351	2,493	3,481	<b>13,325</b>
<b>Total</b>	<b>168,314</b>	<b>59,073</b>	<b>2,066</b>	<b>229,453</b>	<b>84,169</b>	<b>15,393</b>	<b>34,261</b>	<b>133,823</b>

The Company incurred USD 168.3 million of intangible exploration expenditures in Kenya for the year ended December 31, 2013. The majority of drilling expenditures related to the Company's portion of drilling costs on the Ngamia-1 well testing (Block 10BB), the Paipai-1 well (Block 10A), the Etuko-1 well and testing (Block 10BB), the Amosing-1 well (Block 10BB), the Ewoi-1 well (Block 10BB), the Twiga South-1 well testing (Block 13T), the Ekales-1 well (Block 13T), and the Agete-1 well (Block 13T). The majority of exploration surveys and studies related to 2D seismic acquisition costs on Blocks 10BB, 12A, and 10BA.

Africa Oil incurred USD 59.1 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2013. The majority of drilling expenditures related to the Company's portion of drilling costs at El Kuran-3 in Blocks 7/8, and Sabisa-1 and Tultule-1 in the South Omo block. The majority of exploration surveys and studies related to 2D seismic acquisition costs the Chew Bahir basin in the South Omo Block.

The Company incurred USD 2.1 million of intangible exploration expenditures in Puntland for the year ended December 31, 2013. The majority of expenditures related to PSA related expenditures, capitalized G&A costs and expenditures related to exploratory well costs at the Shabeel North-1 well which was completed in 2012.

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

### **JANUARY – DECEMBER 2012 COMPARED TO JANUARY – DECEMBER 2011 (USD)**

For the year ended (USD thousands)	December 31, 2012				December 31, 2011			
	Kenya	Ethiopia	Puntland	Total	Kenya	Ethiopia	Puntland	Total
Drilling and completion	56,600	4,844	30,455	<b>91,899</b>	1,723	1,061	10,229	<b>13,013</b>
Exploration surveys and studies	20,218	8,056	325	<b>28,599</b>	15,769	4,598	230	<b>20,597</b>
PSA and G&A Related	7,351	2,493	3,481	<b>13,325</b>	2,671	1,181	3,823	<b>7,675</b>
<b>Total</b>	<b>84,169</b>	<b>15,393</b>	<b>34,261</b>	<b>133,823</b>	<b>20,163</b>	<b>6,840</b>	<b>14,282</b>	<b>41,285</b>

The Company incurred USD 84.2 million of intangible exploration expenditures in Kenya for the year ended December 31, 2012. The majority of expenditures related to the Company's portion of drilling costs on the Ngamia-1 well (Block 10BB), the Twiga South-1 well (Block 13T), and the Paipai-1 well (Block 10A), as well as 2D seismic costs on Blocks 10BB, 13T, and 10BA. Of the USD 84.2 million expenditures in Kenya, USD 7.4 million related the Company's portion of PSA related costs G&A costs.

Africa Oil incurred USD 34.3 million of intangible exploration expenditures in Puntland for the year ended December 31, 2012. The majority of expenditures related to exploratory wells at the Shabeel-1 and Shabeel North-1 locations. Of the USD 34.3 million expenditures in Puntland, USD 3.5 million related the Company's portion of PSA related costs and G&A costs.

Africa Oil incurred USD 15.4 million of intangible exploration expenditures in Ethiopia for the year ended December 31, 2012. The majority of expenditures related to the Company's portion of a 2D seismic acquisition program and drilling site preparation costs for the Sabisa-1 well in South Omo. Of the USD 15.4 million expenditures in Ethiopia, USD 2.5 million related the Company's portion of PSA related costs and G&A costs.

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

# CAPITAL STRUCTURE, INDEBTEDNESS AND RELATED INFORMATION

*This information should be read together with Sections “Selected financial information” and “Comments to the financial statements”, the Company’s audited financial statement for the years 2011, 2012 and 2013, and the unaudited interim financial statements for the three-month period ending on March 31, 2014. The Company’s audited financial statement for the years 2011, 2012 and 2013, and the unaudited interim financial statements for the three-month period ending on March 31, 2014 have been incorporated into this prospectus by reference (see Section “Documents incorporated by reference” below).*

This Section breaks down the Company’s financial position and provides related information. The information provided is primarily based on the Company’s unaudited financial statements for the three-month period ended March 31, 2014

## Financial position

On March 31, 2014, the Company had nil interest bearing liabilities. The Company’s cash and cash equivalents amounted to USD 434.3 million.

Total shareholders’ equity on March 31, 2014 was USD 929.8 million. The equity ratio (defined under the Key ratios table above) was 91 per cent.

## Total equity and debt

<b>Shareholders’ equity and debt capital as at March 31, 2014</b>	<b>USD thousands</b>
Guaranteed	0
Secured	0
Unguaranteed/unsecured	0
<b>Total current debt</b>	<b>0</b>
Guaranteed	0
Secured	0
Unguaranteed/unsecured	0
<b>Total non-current debt</b>	<b>0</b>
Share capital	1,009,953
Contributed surplus	33,159
Accumulated other comprehensive income	0
Retained earnings	(161,874)
Non-controlling interest	48,567
<b>Total shareholders’ equity</b>	<b>929,805</b>
<b>TOTAL EQUITY AND DEBT</b>	<b>929,805</b>

## Net interest-bearing indebtedness

<b>Net financial debt or net financial assets as at March 31, 2014</b>	<b>USD thousands</b>
A. Cash	434,333
B. Cash equivalents	0
C. Trading securities	0
<b>D. Liquidity (A + B + C)</b>	<b>434,333</b>
<b>E. Current financial receivables</b>	<b>0</b>
F. Current bank debt	0
G. Current portion of non-current debt	0
H. Other current financial debt	0
<b>I. Total current financial debt (F + G + H)</b>	<b>0</b>
<b>J. Net current financial assets (D+E-I)</b>	<b>434,333</b>
K. Non-current bank loans	0
L. Bonds issued	0
M. Other non-current loans	0
<b>N. Non-current financial debt (K + L + M)</b>	<b>0</b>
<b>O. Net financial assets (J + N)</b>	<b>434,333</b>

## Working capital

The Company's current funds and expected cash flows are deemed to be sufficient for the Company's working capital requirements for the coming twelve month period as of the date of this prospectus.

## Property and equipment

### Breakdown of property and equipment as at March 31, 2014 (USD thousand)

	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book amount</b>
Office and computer equipment	390	296	94
	<b>390</b>	<b>296</b>	<b>94</b>

Corporate equipment consists primarily of office equipment and leasehold improvements while African equipment consists primarily of field equipment and vehicles. These assets are stated at cost less accumulated depreciation. Depreciation of these corporate assets is calculated using a straight-line basis. The Company's fixed assets are not leased and not subject to any encumbrances.

## Risk management

### FOREIGN CURRENCY

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 USD 7.4 million (2012 – USD nil). Other than this hedge, the Company has not entered into any derivative instruments.

## **CREDIT**

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.

## **INTEREST RATE**

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

## **Tendencies**

On the back of the successful exploration activities in Kenya during 2012 and 2013, the Company, together with its partners, ramped up its exploration program in Kenya. The Company currently has five drilling rigs and one testing and completion rig operating in Kenya and Ethiopia, and the currently plan is to maintain this rig count throughout the rest of 2014.

Given the significant volumes discovered and the extensive exploration and appraisal program planned to fully assess the upside potential of the basin, the Tullow-Africa Oil joint venture has agreed with the Government of Kenya to commence development studies. In addition, the partnership is involved in a comprehensive pre-FEED study of the export pipeline. The current ambition of the Government of Kenya and the joint venture partnership is to reach project sanction for development, including an export pipeline, by the end of 2015 or early 2016. Costs with respect to these development activities began to ramp up at the beginning of 2014.

## **Other information**

As of the date of this prospectus, the Company is not aware of any measures, such as public, tax policies, monetary policies or other political and/or policy measures which, directly or indirectly, has had or could have a material effect on the Company's business.

There has been no significant change to the Company's financial position or its position as regards the market since March 31, 2014 (the date to which the most recent interim financial statements relate).

# BOARD OF DIRECTORS, EXECUTIVE OFFICERS AND AUDITOR

## Board of directors

The following table provides the names and residence of each of the directors and executive officers, the date they commenced serving on the Board, the positions they are currently holding as of the date of this prospectus and the positions which they have held during the past five years.

Name	Position(s) held in the Company	Other current position(s)	Other position(s) which have been held in the past 5 years, but is no longer holding
<b>Keith C. Hill</b> Ontario, Canada	<ul style="list-style-type: none"> <li>• Director since October 16, 2006</li> <li>• Chief Executive Officer since March 30, 2009</li> <li>• President since October 20, 2009</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of ShaMaran Petroleum Corp</li> <li>• Chairman of Petro Vista Energy Corp.</li> <li>• Chairman of Horn Petroleum Corporation</li> <li>• Director of BlackPearl Resources Ltd.</li> <li>• Director of Tyner Resources Ltd.</li> <li>• Director of TAG Oil Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>J. Cameron Bailey</b> Alberta, Canada	<ul style="list-style-type: none"> <li>• Director since May 3, 1994</li> </ul>	<ul style="list-style-type: none"> <li>• President and CEO of Fortaleza Energy Inc.</li> <li>• Director of Phoenix Technology Income Fund</li> <li>• Director of Phoenix Technology Services Inc.</li> <li>• Director of PHX Energy Services Corp.</li> <li>• Director of ShaMaran Petroleum Corp.</li> </ul>	<ul style="list-style-type: none"> <li>• President and CEO of Alvo Petro Inc. (formerly Fortress Energy Inc.).</li> </ul>

Name	Position(s) held in the Company	Other current position(s)	Other position(s) which have been held in the past 5 years, but is no longer holding
<b>Gary S. Guidry</b> Alberta, Canada	<ul style="list-style-type: none"> <li>• Director since June 23, 2008</li> </ul>	<ul style="list-style-type: none"> <li>• President, CEO and a director of Caracal Energy Inc.</li> <li>• Director of TransGlobe Energy Corporation</li> <li>• Director of ShaMaran Petroleum Corp.</li> </ul>	<ul style="list-style-type: none"> <li>• President and CEO of Orion Oil &amp; Gas Corporation</li> </ul>
<b>John H. Craig</b> Ontario, Canada	<ul style="list-style-type: none"> <li>• Director since June 19, 2009</li> </ul>	<ul style="list-style-type: none"> <li>• Partner of the firm Cassels Brock &amp; Blackwell LLP</li> <li>• Director of Lundin Mining Corporation</li> <li>• Director of Denison Mines Corp.</li> <li>• Director of BlackPearl Resources Ltd.</li> <li>• Director of Corsa Coal Corp.</li> <li>• Director of Consolidated HCI Holdings Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Director of Sirocco Mining Inc. (formerly Atacama Minerals Corp.)</li> <li>• Director of Etrion Corporation</li> </ul>
<b>Bryan M. Benitz</b> United Kingdom	<ul style="list-style-type: none"> <li>• Director since September 29, 2009</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Vice Chairman and a director of Longreach Oil and Gas Ltd.</li> </ul>

## Executive officers

Name	Position(s) held in the Company	Other current position(s)	Other position(s) which have been held in the past 5 years, but is no longer holding
<b>Keith C. Hill</b> Ontario, Canada	<ul style="list-style-type: none"> <li>Chief Executive Officer since March 30, 2009 (President and Director)</li> </ul>	<ul style="list-style-type: none"> <li>See information above, under the Section “Board of directors”</li> </ul>	<ul style="list-style-type: none"> <li>See information above, under the Section “Board of directors”</li> </ul>
<b>Ian Gibbs</b> British Columbia, Canada	<ul style="list-style-type: none"> <li>Director from June 2008 to September 2009</li> <li>Chief Financial Officer from October 2006 to March 2008; Chief Financial Officer since September 15, 2009</li> </ul>	<ul style="list-style-type: none"> <li>Director of Fortress Minerals Corp.</li> <li>Director of Horn Petroleum Corp.</li> <li>Director of Petro Vista Energy Corp.</li> </ul>	
<b>James Phillips</b> Nairobi, Kenya	<ul style="list-style-type: none"> <li>Vice President of Business Development since September 10, 2012</li> <li>Chief Operating Officer from March 14, 2011 to September 10, 2012</li> <li>Vice President, Exploration from September 15, 2009 to March 14, 2011</li> </ul>	<ul style="list-style-type: none"> <li>President of Horn Petroleum Corporation</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Dr. Paul Martinez</b> Alberta, Canada	<ul style="list-style-type: none"> <li>Vice President, Exploration since March 14, 2011</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Director International Business Development for Occidental Oil &amp; Gas</li> <li>Vice President Exploration, Occidental Libya Oil &amp; Gas BV</li> </ul>
<b>David Grellman</b> Nairobi, Kenya	<ul style="list-style-type: none"> <li>Vice President, Operations since March 31, 2011</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Manager Exploration Operations for Occidental Oil &amp; Gas</li> <li>President of Horn Petroleum Corporation</li> </ul>
<b>Nicholas Walker</b> Alberta, Canada	<ul style="list-style-type: none"> <li>Chief Operating Officer since September 10, 2012</li> </ul>	<ul style="list-style-type: none"> <li>Director of Petro Vista Energy Corp.</li> </ul>	<ul style="list-style-type: none"> <li>Executive Vice-President of International Operations West for Talisman Energy Inc.</li> <li>Senior Vice-President and Director for Talisman Energy (UK) Limited</li> </ul>

Name	Position(s) held in the Company	Other current position(s)	Other position(s) which have been held in the past 5 years, but is no longer holding
<b>Alex Budden</b> United Kingdom	<ul style="list-style-type: none"> <li>Vice President, External Relations since July 15, 2012</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Diplomat for the British Foreign &amp; Commonwealth Office</li> </ul>
<b>Mark Dingley</b> Addis Ababa, Ethiopia	<ul style="list-style-type: none"> <li>President of Africa Oil Ethiopia B.V. and Chief Operating Officer of Horn Petroleum Corporation since May 1, 2013</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Vice President, Middle East Operations for Talisman Energy Inc.</li> </ul>

## Other information regarding the board of directors and executive officers

All members of the Board and executive officers have their business address at Suite 2000, 885 West Georgia Street, Vancouver, British Columbia, Canada, with the exception of:

- Keith C. Hill, whose business address is 1<sup>st</sup> Floor, Equatorial Fidelity Centre, Waridi Lane, Off Waiyaki Way, Nairobi, Kenya;
- J. Cameron Bailey, whose business address is Suite 802, 322 11<sup>th</sup> Avenue SW, Calgary, Alberta, T2R 0C5;
- Gary Guidry, whose business address is 2100, 555 – 4<sup>th</sup> Avenue SW, Calgary, AB, Canada T2P 3E7;
- Bryan Benitz, whose business address is The Mill House, Wyllye, Wiltshire BA12 0QP. U.K.;
- John Craig, whose business address is 2100, 40 King Street West, Toronto, ON, Canada, M5H 3C2;
- James Phillips, whose business address is 1<sup>st</sup> Floor, Equatorial Fidelity Centre, Waridi Lane, Off Waiyaki Way, Nairobi, Kenya;
- Nicholas Walker, whose business address is 1750, 300 – 5<sup>th</sup> Avenue SW, Calgary, AB, Canada T2P 3C4;
- Dr. Paul Martinez, whose business address is 1750, 300 – 5<sup>th</sup> Avenue SW, Calgary, AB, Canada T2P 3C4;
- David Grellman, whose business address is 1<sup>st</sup> Floor, Equatorial Fidelity Centre, Waridi Lane, Off Waiyaki Way, Nairobi, Kenya; and
- Mark Dingley, whose business address is 4<sup>th</sup> Floor, Bole Kifle Ketema, Kebele 03/05, Addis Ababa, Ethiopia.

### CORPORATE CEASE TRADE ORDERS

Other than as disclosed below, no director or officer or person holding a sufficient number of securities of the Company to affect materially the control of the Company, is, or within the past ten years before the date of this prospectus has been, a director or officer of any other issuer that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; (ii) was subject to an event that resulted in such an order after the person ceased to be a director or officer; (iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets; or (iv) was subject to such bankruptcy proceedings within a year of that person ceasing to act in that capacity.

Mr. J. Cameron Bailey is a director and officer of Fortaleza Energy Inc. and a former director and officer of Alvo Petro Inc. which was formerly Fortress Energy Inc. (“**Fortress**”). On March 2, 2011, the Court of Queen’s Bench of Alberta granted an order (the “**Order**”) under the Companies’ Creditors Arrangement Act (Canada) (“**CCAA**”) staying all claims and actions against Fortress and its assets and allowing Fortress to prepare a plan of arrangement for its creditors if necessary. Fortress took such step in order to enable Fortress to challenge a reassessment issued by the Canada Revenue Agency (“**CRA**”). As a result of the reassessment, if Fortress had not taken any action, it would have been compelled to immediately remit one half of the reassessment to the CRA and Fortress did not have the necessary liquid funds to remit, although Fortress had assets in excess of its liabilities with sufficient liquid assets to pay all other liabilities and trade payables. Fortress believed that the CRA’s position was not sustainable and vigorously disputed the CRA’s claim. Fortress filed a Notice of Objection to the reassessment and on October 20, 2011 announced that its Notice of Objection was successful, CRA having confirmed there were no taxes payable. As the CRA claim had been vacated and no taxes or penalties were owing Fortress no longer required the protection of the Order under the CCAA and on October 28, 2011 the Order was removed. On March 3, 2011 the TSX suspended trading in the securities of Fortress due to Fortress having been granted a stay under the CCAA. In addition the securities regulatory authorities in Alberta, Ontario and Quebec issued a cease trade order with

respect to Fortress for failure to file its annual financial statements for the year ended December 31, 2010 by March 31, 2011. The delay in filing was due to Fortress being granted the CCAA order on March 2, 2011 and the resulting additional time required by its auditors to deliver their audit opinion. The required financial statements and other continuous disclosure documents were filed on April 29, 2011 and the cease trade order was subsequently removed. On September 1, 2010 Fortress closed the sale of substantially all of its oil and gas assets. As a result of the sale Fortress was delisted from the TSX on March 30, 2011 as it no longer met minimum listing requirements.

## **INDIVIDUAL BANKRUPTCIES**

During the ten years preceding the date of this prospectus, no director, officer or shareholder holding a sufficient number of Shares of the Company to affect materially the control of the Company, or a personal holding company of any such person, has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold his or her assets.

The foregoing information, not being within the knowledge of the Company, has been furnished by the respective directors, officers and any control shareholder of the Company individually.

## **PENALTIES OR SANCTIONS**

No director or officer of the Company, or shareholder holding a sufficient number of Shares of the Company to materially affect control of the Company, has been the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

No director of the Company or any of the executive officers has been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company or from acting as the management or conducting of the affairs of a company during the past five years, or has been evicted of any fraudulent acts.

## **CONFLICTING INTERESTS**

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation, or the terms of such participation. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties, thereby allowing for their participation in larger programs, the involvement in a greater number of programs or a reduction in financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and the financial position at that time.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosure by the directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (*British Columbia*) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. Other than as disclosed above, the directors and officers of the Company are not aware of any such conflicts of interest in any existing or contemplated contracts with or transactions involving the Company.

## **INSIDER HOLDINGS**

The table set out below accounts for the holdings of insiders in Africa Oil, per June 11, 2014.

<b>Insider</b>	<b>Common Shares held</b>	<b>Options held</b>
James Cameron Bailey	44,300	346,000
Bryan M. Benitz	190,000	513,000
John Hunter Craig	87,200	613,000
Ian Gibbs	663,200	2,107,000
Gary Stephen Guidry	100,000	346,000
Keith Charles Hill	1,110,216	2,452,000
James Phillips	65,000	1,857,000
Paul Martinez	30,000	1,588,889
David Grellman	-	875,334
Nick Walker	5,000	2,135,000
Mark Dingley	-	589,000

## Compensation, pension and benefits

### SUMMARY COMPENSATION TABLE

The table set out below provides a summary of compensation paid to each executive officer of the Corporation for each of the Corporation's three most recently completed financial years:

Name and principal position of Executive Officer	Year	Salary <sup>(1)</sup>	Option-based awards <sup>(2)</sup>	Non-Equity Annual incentive plans/ Bonuses	All other compensation	Total compensation
Keith Hill <i>President &amp; CEO</i>	2013	291,286	1,434,920	582,572	94,165	2,402,944
	2012	252,635	Nil	505,271	Nil	757,906
	2011	252,763	723,126	126,381	Nil	1,102,270
Ian Gibbs <i>Chief Financial Officer</i>	2013	291,286	1,434,920	364,108	8,468	2,098,782
	2012	252,635	Nil	252,635	Nil	505,270
	2011	252,763	723,126	126,381	Nil	1,102,270
Nicholas Walker <i>Chief Operating Officer</i>	2013	291,286	1,434,920	436,929	12,336	2,175,472
	2012	78,949	3,005,850	77,812	Nil	3,162,611
	2011	N/A	N/A	N/A	N/A	N/A
James Phillips <i>Vice President Business Development</i>	2013	300,000	1,434,920	225,000	113,830	2,073,750
	2012	282,000	Nil	282,000	Nil	564,000
	2011	282,000	723,126	141,000	Nil	1,146,126
Dr. Paul Martinez <i>Vice President Exploration</i>	2013	291,286	1,145,462	364,108	12,419	1,813,275
	2012	252,635	Nil	252,635	Nil	505,271
	2011	180,968	491,268	45,497	Nil	717,733
David Grellman <i>Vice President Operations, President &amp; Chief Executive Officer, Horn Petroleum Corporation</i>	2013	300,000	717,460	225,000	136,471	1,378,931
	2012	250,000	142,377	250,000	46,360	688,737
	2011	187,497	317,242	47,000	26,435	578,174
Alex Budden <i>Vice President External Affairs</i>	2013	242,738	618,500	182,539	Nil	1,043,778
	2012	119,370	811,950	78,822	Nil	1,010,142
	2011	-	-	-	-	-
Mark Dingley <i>President of Africa Oil Ethiopia B.V. and Chief Operating Officer of Horn Petroleum Corporation</i>	2013	166,664	989,600	125,000	14,995	1,296,259
	2012	-	-	-	-	-
	2011	-	-	-	-	-

Notes:

- (1) Salaries for the Executive Officers are paid in Canadian dollars and converted to United States dollars for reporting purposes, except for Mr. Phillips, Mr. Dingley and Mr. Grellman who are paid in USD.

- (2) These amounts represent the value of stock options granted to the respective Executive Officer. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model taking into account the following assumptions on a weighted average basis: (i) risk-free interest rate ( per cent); (i) expected life (years); and (iii) expected volatility ( per cent). This is consistent with the accounting values used in the Corporation’s financial statements. The dollar amount in this column represents the total value ascribed to the stock options; however, all of these stock options are subject to vesting as to one-third on the date of grant, one-third one year from the date of grant and the remaining one-third two years from the date of grant.

## COMPENSATION

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 former President, Chief Operating Officer and Chief Financial Officer of Horn. Directors include both the Company’s five Directors and Horn’s four 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.

(All amounts expressed in thousands of USD, unless otherwise indicated.)

	Year ended December 31, 2013	Year ended December 31, 2012
Directors’ fees	221	230
Director’s share-based compensation	1,159	457
Management’s short-term wages, bonuses and benefits	5,782	4,006
Management’s share-based compensation	8,532	3,382
	<b>15,694</b>	<b>8,075</b>

For the year ended December 31, 2013, USD 2.6 million of management remuneration was capitalized to intangible exploration assets (2012 – USD 1.8 million).

## INCENTIVE PROGRAMS

As of the date of this prospectus, the Company had 18,299,056 stock options outstanding under its stock-based incentive plan.

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. Stock-based compensation for the year ended December 31, 2013 was USD 12.7 million as compared to USD 4.9 million in 2012. The increase in stock-based compensation was due to the 6,081,000 options granted in 2013 compared to only 1,385,000 granted in the prior year. One-third of stock options granted vested immediately. Of the USD 12.7 million stock-based compensation expense recognized in 2013, USD 0.5 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.

For specification of the holders of the stock options, please see Section “*Insider holdings*” above.

## PENSIONS AND BENEFITS

The Company has not accrued any monies in gratuity for pension funds for any of its executive officers.

## **TERMINATION AND CHANGE OF CONTROL BENEFITS**

The Company and its subsidiaries have not entered into any compensatory plan or arrangement in respect of compensation received or that may be received by any of the named executive officers, during the Company's most recently completed or current financial year to compensate such executive officers in the event of the termination of employment (resignation, retirement, change of control) or in the event of a change in responsibilities following a change in control, except for those disclosed below.

### ***Keith Hill, President and Chief Executive Officer***

On January 15, 2010 the Company entered into an executive employment agreement with Mr. Keith Hill, the President and Chief Executive Officer of the Company, at an annual salary of CAD 250,000. On January 1, 2013, his base annual salary was raised to CAD 300,000 per annum.

Pursuant to the terms of Mr. Hill's employment agreement, the Company may terminate Mr. Hill's employment without notice or payment in lieu of notice for cause. Additionally, the agreement may be terminated by the Company by notice to Mr. Hill if he becomes permanently disabled. Upon the termination of Mr. Hill's employment for cause or if Mr. Hill voluntarily elects to terminate his agreement, Mr. Hill shall not be entitled to any severance payment other than compensation earned by Mr. Hill before the date of termination.

Mr. Hill may be terminated by the Company for any reason other than specified above, upon 60 days written notice of the termination of his employment agreement. Mr. Hill is entitled to a continued benefit package at the Company's expense for two years, with an estimated value of approximately USD 17,178, if his employment is terminated within one year after a change of control occurs.

In the event that (i) the Company sells a controlling interest in all or substantially all of its assets or of one or more of its subsidiaries that owns, taken together, substantially all of the assets of the Company; or (ii) there is a change of control of the Company, Mr. Hill is entitled to resign and to receive the equivalent of two years' base salary in a lump sum (equivalent to CAD 600,000) plus the continuation of all of benefits for two years, at the highest level provided to Mr. Hill at any time within the one year period prior to the change of control. In addition, Mr. Hill's outstanding incentive stock option awards in the Company would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 9,922,780 as at December 31, 2013).

A "change of control" is deemed to occur if:

- (a) there is a successful take-over of the Company; or
- (b) a person or group other than the Lundin Family and its trusts becomes the largest shareholder of the Company.

### ***Ian Gibbs, Chief Financial Officer***

On September 14, 2009 the Company entered into an executive employment agreement with Mr. Ian Gibbs, the Chief Financial Officer of the Company at an annual salary of CAD 250,000. On January 1, 2013, his base annual salary was raised to CAD 300,000 per annum.

Pursuant to the terms of Mr. Gibbs' employment agreement, the Company may terminate Mr. Gibbs' employment without notice or payment in lieu of notice for cause. Additionally, the agreement may be terminated by the Company by notice to Mr. Gibbs if he becomes permanently disabled. Upon the termination of Mr. Gibbs' employment for cause or if he voluntarily elects to terminate his agreement, Mr. Gibbs shall not be entitled to any severance payment other than compensation he earned before the date of termination.

Mr. Gibbs may be terminated by the Company for any reason other than specified above, upon 60 days written notice of the termination of his employment agreement. Mr. Gibbs is entitled to a continued benefit package at the Company's expense for two years, with an estimated value of approximately USD 17,444, if his employment is terminated within one year after a change of control occurs.

In the event that (i) the Company sells a controlling interest in all or substantially all of its assets or of one or more of its subsidiaries that owns, taken together, substantially all of the assets of the Company; or (ii) there is a change of control of the Company, Mr. Gibbs is entitled to resign and to receive the equivalent of two years' base salary in a lump sum (currently equivalent to CAD 600,000) plus the continuation of all of benefits for two years, at the highest level provided to Mr. Gibbs at any time within the one year period prior to the change of control. In addition, Mr. Gibbs' outstanding incentive stock option awards in the Company would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 9,922,780 as at December 31, 2013).

A "change of control" is deemed to occur if:

- (a) there is a successful take-over of the Company; or
- (b) a person or group other than the Lundin Family and its trusts becomes the largest shareholder of the Company.

#### ***Nicholas Walker, Chief Operating Officer***

On September 10, 2012 the Company entered into an executive employment agreement with Mr. Walker at an annual salary of CAD 250,000. On January 1, 2013, his base annual salary was raised to CAD 300,000 per annum.

Pursuant to the terms of Mr. Walker's employment agreement, the Company may terminate Mr. Walker's employment without notice or payment in lieu of notice for cause. Additionally, the agreement may be terminated by the Company by notice to Mr. Walker if he becomes permanently disabled. Upon the termination of Mr. Walker's employment for cause or if he voluntarily elects to terminate his agreement, Mr. Walker shall not be entitled to any severance payment other than compensation he earned before the date of termination.

Mr. Walker may be terminated by the Company for any reason other than specified above, upon 60 days written notice of the termination of his employment agreement. Mr. Walker is entitled to a continued benefit package at the Company's expense for two years, with an estimated value of approximately USD 24,360, if his employment is terminated within one year after a change of control occurs.

In the event that (i) the Company sells a controlling interest in all or substantially all of its assets or of one or more of its subsidiaries that owns, taken together, substantially all of the assets of the Company, or (ii) there is a change of control of the Company, Mr. Walker is entitled to resign and to receive the equivalent of two years' base salary in a lump sum (currently equivalent to CAD 600,000) plus the continuation of all of benefits for two years, at the highest level provided to Mr. Walker at any time within the one year period prior to the change of control. In addition, Mr. Walker's outstanding incentive stock option awards in the Company would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 1,908,200 as at December 31, 2013).

A "change of control" is deemed to occur if there is a successful take-over of the Company.

***Dr. Paul Martinez, Vice President Exploration***

In accordance with the Company's current 10 per cent Rolling Stock Option Plan (the "Plan"), Dr. Martinez's outstanding incentive stock option awards in the Company would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 6,192,731 as at December 31, 2013).

***James Phillips, Vice President Business Development***

Upon the acquisition of the subsidiary Africa Oil Ethiopia B.V. (formerly Lundin East Africa B.V.) ("AOE") on April 29, 2009, the Company assumed the contractual obligations of the subsidiary in relation to Mr. Phillips' executive employment agreement as Vice President Exploration of the subsidiary. Under the contract of employment with AOE, Mr. Phillips is entitled to a base annual salary of USD 282,000, plus benefits. On September 10, 2012, Mr. Phillips became the Vice President Business Development for the Company and continued his employment under the same terms and conditions of his employment agreement with AOE. On January 1, 2013, his base annual salary was raised to USD 300,000 per annum.

Pursuant to the terms of Mr. Phillips' employment agreement, the Company or AOE may terminate Mr. Phillips' employment without notice or payment in lieu of notice for cause. Additionally, the agreement may be terminated by the Company or AOE by notice to Mr. Phillips if he becomes permanently disabled. Upon the termination of Mr. Phillips' employment for cause or if he voluntarily elects to terminate his agreement, Mr. Phillips shall not be entitled to any severance payment other than compensation earned by Mr. Phillips before the date of termination.

Mr. Phillips may be terminated by the Company or AOE for any reason other than specified above, upon 60 days written notice of the termination of his employment agreement. Mr. Phillips is entitled to a continued benefits package at the Company's expense for two years, with an estimated value of approximately USD 17,980, if his employment is terminated within one year after a change of control occurs. In addition, Mr. Phillips' outstanding incentive stock option awards in the Company would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 8,140,280 as at December 31, 2013).

In the event that (i) the Company sells a controlling interest in all or substantially all of its assets or any of its subsidiaries, or (ii) there is a change of control of the Company, Mr. Phillips is entitled to resign and to receive the equivalent of two years' base salary in a lump sum (currently equivalent to USD 600,000) plus the continuation of all of benefits for two years at the highest level provided to Mr. Phillips at any time within the one year period prior to the change of control.

A "change of control" is deemed to occur if:

- (a) there is a successful take-over of the Company; or
- (b) a person or group other than the Lundin Family and its trusts becomes the largest shareholder of the Company.

Upon termination of employment, the Company shall pay all reasonable repatriation expenses incurred by Mr. Phillips to return to the United States.

***Alex Budden, Vice President External Relations***

In accordance with the Plan, Mr. Budden's outstanding incentive stock option awards in the Corporation would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 1,050,000 as at December 31, 2013).

***David Grellman, Vice President Operations, President and Chief Executive Officer, Horn Petroleum Corporation***

In accordance with the Plan, Mr. Grellman's outstanding incentive stock option awards in the Corporation would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 3,646,385 as at December 31, 2013).

***Mark Dingley, President of Africa Oil Ethiopia B.V. and Chief Operating Officer of Horn Petroleum Corporation***

In accordance with the Plan, Mr. Dingley's outstanding incentive stock option awards in the Corporation would fully vest and become immediately exercisable upon a change of control occurring (valued at CAD 1,316,000 as at December 31, 2013).

## **Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants, ("**PwC**") have prepared the Independent Auditors' Report in respect of the Company's consolidated audited financial statements for the years ended December 31, 2013, 2012 and 2011. PwC have advised the Company that they are independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

PwC has served as auditor of the Company for more than five years. The responsible partner of PwC with respect to the auditing of Africa Oil Corp. is John Williamson. Mr. Williamson has audited the financial statements of the Company since 2009, *i.e.* PwC has not resigned, been removed or not re-appointed as the Company's auditors since their initial appointment in 2008.

For information regarding the Company's Audit Committee, please see Section "*Corporate Governance*" below.

# CORPORATE GOVERNANCE

## Canadian corporate governance code

Since Africa Oil is not a Swedish limited liability company (Sw. *aktiebolag*), it is not subject to the rules in the Swedish Companies Act or in the Swedish Code of Corporate Governance. However, Africa Oil is required to comply with the corporate governance code of its country of incorporation. The Company has adopted and complies with corporate governance rules and guidelines of the Canadian Securities Administrators and applicable securities legislation in all material aspects.

Corporate governance guidelines were adopted by Canadian regulatory authorities in June 2005, and deal with matters such as the constitution and independence of corporate boards, the effectiveness and education of board members and other items dealing with sound corporate governance practices. Further details regarding corporate governance are set forth in the Section “*Summary of Shareholder Rights*”.

Furthermore, the Board has adopted a “Code of Business Conduct and Ethics” and “Whistleblower Policy”, whereby complaints will be received by the Chairman of the Audit Committee. It is through this whistleblowing avenue that the Board monitors and satisfies itself as to compliance with the Code of Business Conduct and Ethics. The Board expects directors and employees to act ethically at all times and to acknowledge their adherence to the policies comprising the Code of Business Conduct and Ethics, which is intended to deter wrongdoing and to promote, amongst other things: honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the securities regulators and in other public communications made by the Company; and compliance with applicable governmental laws, rules and regulations.

Reporting issuers in Canada are subject to National Instrument 58-101 Disclosure of Corporate Governance Practices and are required to disclose its corporate governance practices in accordance with that instrument. This disclosure must be published in the issuer’s management information circular, or in its annual information form if a management information circular is not sent to its security holders.

## Board structure and function

The Board shall be constituted at all times of a majority of independent directors in accordance with National Instrument 58-201 (Effective Corporate Governance). The Chairman of the Board should also be independent or alternatively the Board will appoint an independent lead director.

The Board is currently comprised of five directors, a majority of whom are independent directors according to the definition of “independent” set out in National Instrument 52-110 (Audit Committees). Keith Hill is the President and Chief Executive Officer, as well as Board Chairman, and as such is not considered independent. John Craig is the Lead Director and is considered independent.

Africa Oil does not have a formal policy limiting the number of outside directorships or the number of directors that can sit on the same board outside of the Company.

The Board is responsible for the stewardship of the business and for acting in the best interests of the Company and its shareholders. Its responsibility includes: the assignment to the various committees of directors the general responsibility for developing the Company’s approach to corporate governance and nomination of directors related issues, financial reporting and internal controls, oil and gas resources, and/or reserves, and issues relating to

compensation of officers and employees, reviewing with senior management; reviewing major corporate decisions which require Board approval and approving such decisions as they arise, major capital expenditure decisions (in excess of CAD 5 million), material decisions relating to senior personnel, major property acquisitions or divestments, major investments; performing such other functions as prescribed by law or assigned to the Board in the Company’s constituting documents and by-laws; as well as reviewing feedback provided by the Company’s various stakeholders, amongst other things.

## Audit committee

The Audit Committee oversees the accounting and financial reporting processes of the Company and its subsidiaries and all audits and external reviews of the financial statements of the Company on behalf of the Board, and has general responsibility for oversight of internal controls, accounting and auditing activities of the Company and its subsidiaries. All auditing services and non-audit services to be provided to the Company by the Company’s auditors are pre-approved by the Audit Committee. The Committee is responsible for examining all financial information, including annual and quarterly financial statements, prepared for securities commissions and similar regulatory bodies prior to filing or delivery of the same. The Audit Committee also oversees the annual audit process, quarterly review engagements, the Company’s internal accounting controls, the Code of Business Conduct and Ethics, any complaints and concerns regarding accounting, internal controls or auditing matters and the resolution of issues identified by the Company’s external auditors. The Audit Committee recommends to the Board the firm of independent auditors to be nominated for appointment by the shareholders and the compensation of the auditors. The Audit Committee meets a minimum of four times per year.

### Composition of the Audit Committee

Below are the details of each audit committee member, whether he/she is independent and financially literate as such terms are defined in National Instrument 52-110 – Audit Committees (“**NI 52-110**”) and his/her education and experience as it relates to the performance of his/her duties as an audit committee member.

### Relevant Education and Experience

Each current member of the Audit Committee has extensive experience with financial statements, accounting issues, understanding internal controls and procedures for financial reporting and other related matters relating to public resource-based companies. The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as a member of the Audit Committee are as follows:

Member Name	Independent <sup>(1)</sup>	Financially Literate <sup>(2)</sup>	Education and Experience Relevant to Performance of Audit Committee Duties
J. Cameron Bailey (Chair)	Yes	Yes	Mr. Bailey is a Chartered Financial Analyst and has 24 year experience in the natural resource sector. Mr. Bailey has served as Executive Officer, Director and Audit Committee Chairman for a number of public resource companies and service companies.
Gary S. Guidry	Yes	Yes	Mr. Guidry is an Alberta registered P. Eng. and holds a B.Sc. in petroleum engineering from Texas A & M University. Mr. Guidry has attained financial experience and exposure to accounting and financial issues in his current role as President and Chief Executive Officer of Caracal Energy Inc. and previously, in his previous positions with a number of publicly-traded companies, including Orion Oil & Gas Corporation, Tanganyika Oil Company Ltd., Calpine Natural Gas Trust and Alberta Energy Company.
Bryan M. Benitz	Yes	Yes	Mr. Benitz has been engaged in investment management and corporate development in Canada, the United States

			and Europe for over forty years in a variety of senior executive positions. Mr. Benitz has attained financial experience and exposure to accounting and financial issues while on boards and audit committees of various public companies. Mr. Benitz graduated from Fettes College in Edinburgh Scotland in 1951.
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<sup>(1)</sup> A member of an audit committee is considered independent if the member has no director or indirect material relationship with the Company which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment, or is otherwise deemed to have a material relationship under NI 52-110.

<sup>(2)</sup> An individual is financially literate if he/she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements.

### **Audit Committee Oversight**

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor that was not adopted by the board of directors.

## **Compensation committee**

As of the fiscal year ended December 31, 2013 the Compensation Committee was comprised of three directors, namely, Messrs. J. Cameron Bailey (Chair), Bryan M. Benitz and John H. Craig, all of whom are independent. All members of the Compensation Committee have direct experience which is relevant to their responsibilities as Compensation Committee members. All members are or have held senior executive or director roles within the public company sector and have a good financial understanding which allows them to assess the costs versus benefits of compensation plans. The members combined experience in the resource sector provides them with the understanding of the Company's success factors and risks, which is very important when determining metrics for measuring success.

The Compensation Committee's mandate includes reviewing and making recommendations to the Board of Directors in respect of compensation matters relating to the Company's executives which are identified in the Section entitled "*Summary Compensation Table*". The Compensation Committee is responsible for:

- evaluating the CEO's performance and establishing executive and senior officer compensation;
- administering the Company's policy on remuneration;
- preparing the Board for decisions on matters relating to the principles of remuneration, remuneration and other terms of employment of the executive management;
- monitoring and evaluating programs for variable remuneration for the executive management and the current remuneration structures and levels within the Company, including the extent and level of participation in incentive programs in conjunction with the Board; and
- delivering an annual statement on executive compensation.

The Compensation Committee has also been mandated to review the adequacy and form of annual compensation for non-executive directors to ensure that such compensation realistically reflects the responsibilities and risks involved in being an effective director. The Compensation Committee meets at least once annually. The Compensation Committee also meets at other times during the year as necessary, such as when a component of the Company's overall compensation package, including the stock option plan, is being amended or reviewed. The Compensation Committee did not retain a compensation consultant or advisor at any time since the beginning of the Company's most recently completed financial year to assist in determining compensation for any of its directors and officers.

## Corporate governance and nominating committee

The Corporate Governance and Nominating Committee is composed of Gary S. Guidry (Chair), J. Cameron Bailey and John H. Craig, each of whom is independent within the meaning of National Instrument 52-110.

Under its mandate, the Corporate Governance and Nominating Committee is responsible for proposing new nominees, when deemed appropriate, for appointment or election to the Board and recommending the new board of director nominees at the next annual meeting of shareholders.

In addition, the Corporate Governance and Nominating Committee has the responsibility in general for developing and monitoring the Company's approach to corporate governance issues such as: developing a code of ethical business conduct; the Company's response to applicable rules, policies and guidelines respecting corporate governance matters; assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors on a periodic basis, which will include monitoring the quality of the relationship between management and the Board and recommending any improvements, if necessary; ensuring that, where necessary, appropriate structures and procedures are in place to ensure that the Board can function independently of management; periodically examining the size of the Board, with a view to determining the impact of the number of directors upon effectiveness, and making recommendations where appropriate to the Board as to any programs the corporate governance and nomination committee determines to be appropriate to reduce or increase the number of directors to a number which facilitates more effective decision making; taking responsibility for the development, adoption and enforcement of the Code of Business Conduct and Ethics by the Board, and filing the same on SEDAR<sup>10</sup>; and proposing new nominees, when deemed appropriate, for appointment or election to the Board and recommending the new Board of Director nominees at the next annual meeting of shareholders.

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<sup>10</sup> System for Electronic Document Analysis and Retrieval

# SHARE CAPITAL AND RELATED ISSUES

## Description of share capital

As of March 31, 2014 the Company had an aggregate of 310,524,989 Shares issued and outstanding. The Company has an unlimited authorized capital of Shares without par value. The Shares have been issued under the BCBCA. The Company does not hold any of its Shares on its own account. As of March 31, 2014 the Company had 18,299,056 stock-options outstanding. Each Share is denominated in CAD and shall entitle to one vote.

The Company's Shares entitle the holders thereof to receive notice of and to attend at all meetings of shareholders, with each Share entitling the holder to one vote on any resolution to be passed at such shareholders' meeting. The holders of Shares are also entitled to dividends, if as and when, declared by the Board of the Company. Upon the liquidation, dissolution or winding up of the Company, the holders of the Shares are entitled to receive the remaining assets of the Company available for distribution to the shareholders.

The Shares are not subject to any offer made due to a mandatory bid obligation, redemption right or redemption obligation, nor have the Shares been subject to a public takeover offer during the current or the past financial year. The Shares are not subject to any restrictions on their transferability.

## Historic share capital

Africa Oil Corp. was incorporated under the BCBCA on March 29, 1993 under the name "Canmex Minerals Corporation" with an authorized capital of 100,000,000 Shares. On July 2, 1999 the issued and outstanding Shares of the Company were consolidated on a one-for-five basis and the authorized capital was increased, post-consolidation to 100,000,000 Shares. On August 20, 2007 the Company changed its name to Africa Oil Corp. On June 19, 2009 the shareholders of Africa Oil passed a special resolution increasing the Company's authorized share capital to an unlimited number of Shares.

Please see below for a summary of the Company's Share issuances from January 1, 2011 until March 31, 2014. As at January 1, 2011, outstanding Shares amounted to, in aggregate, 135,806,100.

Date	Event/Treasury Direction Number	Change	Total Shares
January 6, 2011	Option exercise	33,332	135,839,432
January 6, 2011	Finder's Fee	51,653	135,891,085
January 26, 2011	Lion Energy Acquisition	2,500,000	138,391,085
February 1, 2011	Option Exercise	15,000	138,406,085
February 1, 2011	Option Exercise	100,000	138,506,085
February 1, 2011	Centric Energy Acquisition	30,155,524	168,661,609
March 3, 2011	Loan Payment	14,000,000	182,661,609
March 8, 2011	Warrant Exercise	30,000	182,691,609
April 8, 2011	Option Exercise	3,333	182,694,942

April 11, 2011	Loan Payment	1,850,100	194,545,042
April 20, 2011	Warrant Exercise	1,500,000	196,045,042
May 24, 2011	Option Exercise	116,667	196,161,709
June 20, 2011	Lion Energy Acquisition	17,462,447	213,624,156
July 12, 2011	Option Exercise	15,000	213,639,156
July 15, 2011	Option Exercise	60,000	213,699,156
July 19, 2011	Option Exercise	25,000	213,724,156
July 20, 2011	Option Exercise	106,000	213,830,156
July 20, 2011	Option Exercise	31,250	213,861,406
September 21, 2011	Finder's Fee	51,653	213,913,059
December 15, 2011	Return to Treasury – Lion Energy Acquisition	(2,500,000)	211,413,059
January 31, 2012	Option Exercise	10,000	211,423,059
February 1, 2012	Option Exercise	133,333	211,556,392
February 10, 2012	Option Exercise	15,000	211,571,392
February 17, 2012	Option Exercise	100,000	211,671,392
February 17, 2012	Option Exercise	40,000	211,711,392
February 24, 2012	Option Exercise	66,600	211,777,992
February 27, 2012	Option Exercise	15,000	211,792,992
February 24, 2012	Option Exercise	2,500	211,795,492
March 1, 2012	Option Exercise	50,000	211,845,492
March 2, 2012	Option Exercise	100,000	211,945,492
March 8, 2012	Option Exercise	39,000	211,984,492
March 7, 2012	Option Exercise	100,000	212,084,492
March 12, 2012	Option Exercise	41,733	212,126,225
March 13, 2012	Option Exercise	16,666	212,142,891
March 12, 2012	Warrant Exercise	6,521,601	218,664,492
July 3, 2012	Settlement Agreement	95,000	218,759,492
July 10, 2012	Option Exercise	1,400,968	220,160,460

July 10, 2012	Option Exercise	139,000	220,299,460
July 11, 2012	Option Exercise	114,000	220,413,460
July 12, 2012	Option Exercise	215,477	220,628,937
July 12, 2012	Option Exercise	39,999	220,668,936
July 13, 2012	Option Exercise	16,668	220,685,604
July 18, 2012	Option Exercise	109,333	220,794,937
July 19, 2012	Option Exercise	15,000	220,809,937
August 14, 2012	Option Exercise	100,000	220,909,937
August 21, 2012	Option Exercise	12,500	220,922,437
August 17, 2012	Settlement Agreement	325,000	221,247,437
August 31, 2012	Option Exercise	100,000	221,347,437
September 10, 2012	Option Exercise	25,000	221,372,437
September 10, 2012	Option Exercise	100,000	221,472,437
September 11, 2012	Option Exercise	25,000	221,497,437
September 11, 2012	Option Exercise	100,000	221,597,437
September 11, 2012	Option Exercise	12,100	221,609,537
September 11, 2012	Option Exercise	16,667	221,626,204
September 12, 2012	Option Exercise	7,900	221,634,104
September 12, 2012	Option Exercise	5,500	221,639,604
September 12, 2012	Option Exercise	15,000	221,654,604
September 13, 2012	Option Exercise	400,000	222,054,604
September 21, 2012	Option Exercise	34,667	222,089,271
October 12, 2012	Option Exercise	8,334	222,097,605
December 7, 2012	Private Placement – Tranche 1 – December 7, 2012	20,544,991	242,642,596
December 7, 2012	Private Placement – Tranche 1 – December 7, 2012	7,360,000	250,002,596
December 7, 2012	Private Placement – Tranche 1 – December 7, 2012	260,000	250,262,596
December 7, 2012	Private Placement – Tranche 1 – December 7, 2012	202,000	250,464,596
December 7, 2012	Treasury Cancellation request – Private Placement – Tranche 1 – December 7, 2012	(485,000)	249,979,596

December 13, 2012	Option Exercise	55,667	250,035,263
December 13, 2012	Private Placement – Tranche 2 – December 13, 2012	2,118,009	252,153,272
December 18, 2012	Option Exercise	6,666	252,159,938
December 19, 2012	Option Exercise	6,000	252,165,938
April 5, 2013	Option Exercise	50,000	252,215,938
April 18, 2013	Option Exercise	100,000	252,315,938
April 19, 2013	Option Exercise	7,334	252,323,272
April 19, 2013	Option Exercise	19,700	252,342,972
April 22, 2013	Option Exercise	200,000	252,542,972
April 23, 2013	Option Exercise	33,334	252,576,306
April 26, 2013	Option Exercise	35,000	252,611,306
April 29, 2013	Option Exercise	30,300	252,641,606
April 30, 2013	Option Exercise	20,000	252,661,606
April 29, 2013	Option Exercise	145,000	252,806,606
April 29, 2013	Option Exercise	25,000	252,831,606
April 29, 2013	Option Exercise	10,000	252,841,606
April 29, 2013	Option Exercise	65,000	252,906,606
May 28, 2013	Option Exercise	50,000	252,956,606
August 21, 2013	Option Exercise	6,000	252,962,606
August 23, 2013	Option Exercise	2,500	252,965,106
October 24, 2013	Brokered Private Placement – Issuance #1	3,770,000	256,735,106
October 25, 2013	Brokered Private Placement – Issuance #2	6,910,000	263,645,106
October 25, 2013	Brokered Private Placement – Issuance #3	45,195,217	308,840,323
October 25, 2013	Brokered Private Placement – Issuance #4	34,686	308,875,009
October 25, 2013	Brokered Private Placement – Issuance #5	595,314	309,470,323
January 23, 2014	Option Exercise	100,000	309,570,323
February 18, 2014	Option Exercise	653,333	310,223,656
February 19, 2014	Option Exercise	3,334	310,226,990

February 19, 2014	Option Exercise	2,500	310,229,490
February 19, 2014	Option Exercise	18,000	310,247,490
February 20, 2014	Option Exercise	25,000	310,272,490
February 19, 2014	Option Exercise	100,000	310,372,490
February 21, 2014	Option Exercise	24,333	310,396,823
February 24, 2014	Option Exercise	50,000	310,446,823
February 25, 2014	Option Exercises	61,500	310,508,323
February 26, 2014	Option Exercises	16,666	310,524,989
<b>Total as at March 31, 2014</b>			<b>310,524,989</b>

## Significant share ownership

To the knowledge of the directors and officers of the Company, the Company's largest registered shareholders as of May 30, 2014 are:

Shareholder	Common shares held	Percentage of common shares and votes
NORDEA ALLEMANSFOND ALFA	13,472,467	4.3 %
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	10,147,908	3.3 %
ROYTOR & CO.	6,280,000	2.0 %
CBLDN-STANDARD LIFE ASSURANCE LTD.	6,080,990	2.0 %
ROBUR FÖRSÄKRING	5,453,422	1.8 %

The Company is not aware of any individual registered shareholders owning greater than 10 per cent of the Company's issued and outstanding Shares. The Company is not aware of any agreements which could lead to a change in the control of the Company.

## Dividend policy

There are no restrictions which prevent Africa Oil from paying dividends. The Company has not paid dividends on its Shares and it has no present intentions of paying any dividends on its Shares, as it anticipates that all available funds will be invested to finance the growth of its business. The directors will determine if and when dividends should be declared and paid in the future, based on Africa Oil's financial position at the relevant time.

# LEGAL AND SUPPLEMENTARY INFORMATION

## Incorporation and legal form of business

The legal and commercial name of the Company is Africa Oil Corp., and it is a public limited liability company incorporated in the Province of British Columbia, Canada, under the BCBCA. The Company's incorporation number is BC0443700, and the Company's Shares are currently traded under the symbol "AOI" on the TSX and NASDAQ OMX First North.

Africa Oil Corp. was incorporated under the BCBCA on March 29, 1993 under the name "Canmex Minerals Corporation". On August 20, 2007 the Company changed its name to "Africa Oil Corp."

Africa Oil's registered and records office is located at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1. The Company's corporate office is located at Suite 2000, 885 West Georgia Street, Vancouver, B.C. V6C 3E8. The Company also has an office located at Suite 1750, 300 – 5<sup>th</sup> Avenue SW, Calgary, AB, Canada T2P 3C4.

## Related party transactions

### *Transactions with Horn Petroleum Corp.*

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Horn which resulted in the Company owning 51.4 per cent 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, 2013, the Company owned 44.6 per cent 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 USD 0.9 million during 2013 (2012 – USD 0.9 million). At December 31, 2013, the outstanding balance receivable from Horn, recorded as a due from related party, was USD nil (2012 – USD 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, Africa Oil invoiced Horn USD 0.03 million during 2013 (2012 – USD 0.3 million) for services provided by geologists and geophysicists employed by Africa Oil. As at December 31, 2013, USD 0.01 million was outstanding and recorded in due from related party (2012 – USD nil). During 2013, Africa Oil invoiced Horn USD 0.1 million for reimbursable expenses paid by Africa Oil on behalf of Horn (2012 – USD 0.3 million). As at December 31, 2013, USD 0.1 million was outstanding and recorded in due from related party (2012 – USD nil). During December 2011, Horn's subsidiary Canmex Holdings (Bermuda) II Ltd. Commenced the transfer of USD 1.5 million to Horn, via Africa Oil. Africa Oil transferred the funds to Horn during the first quarter of 2012.

## Significant agreements, including financial agreements

The Company has not within the last financial year entered into any material contracts, nor are there any material contracts entered into before the last financial year that are still in effect, except for:

- i. the PSCs (which are summarized below);
- ii. certain farmout and joint venture agreements (which are summarized below); and
- iii. other contracts which have been entered into in the ordinary course of business.

## **OVERVIEW OF PRODUCTION SHARING CONTRACTS**

### ***Block 10BB, Kenya (50 per cent working interest)***

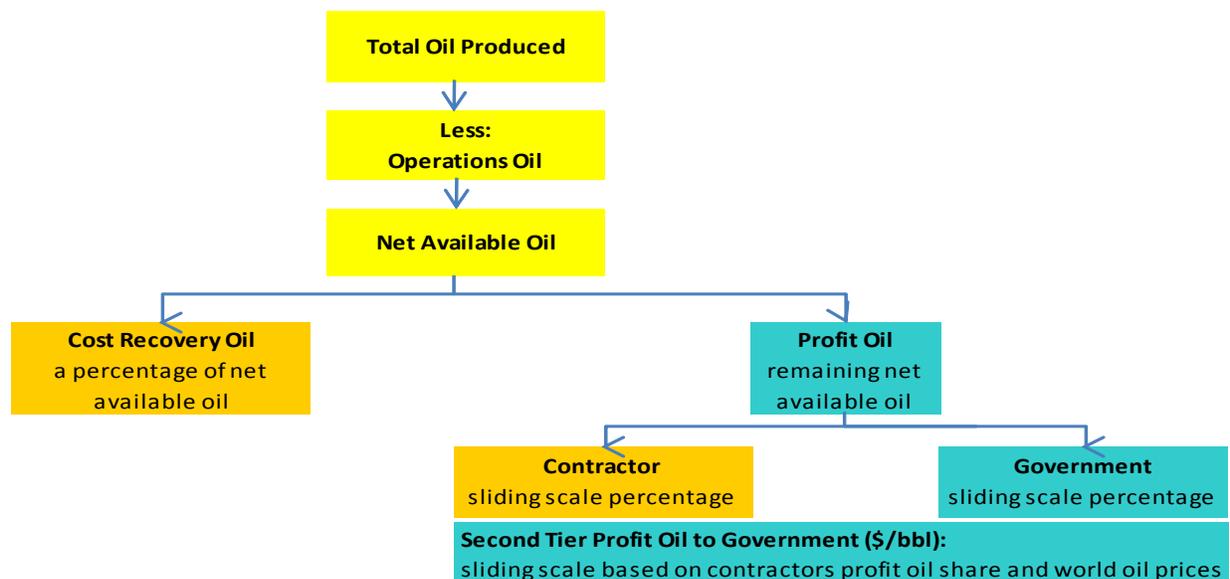
The Block 10BB PSC contemplates an initial four year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The Contractor Group is currently in the first additional exploration period which expires in July 2014. During the first additional exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 300 square kilometers of 3D seismic with a minimum required expenditure of USD 7.0 million. In addition, the Contractor Group is required to drill one well to a vertical depth of at least 3,000 meters with a minimum required expenditure of USD 6.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish 30 per cent of the remaining contract area.

During the second additional exploration period, the Contractor Group is required to acquire and interpret 250 square kilometers of 3D seismic at a minimum cost of USD 7.0 million. In addition, the Contractor Group is required to drill three exploratory wells, to a vertical depth of at least 3,000 meters per well. The minimum required expenditure for each well is USD 6.0 million.

The Kenyan Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 20 per cent of the total interest in that development area. The Kenyan Government may exercise its participation rights within six months from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Block 10BB PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

A second tier Profit Oil payment is due to the Government when oil prices exceed a stated world oil price. The amount payable per barrel is calculated by multiplying the Contractor Group’s share of Profit Oil by a stated percentage and by the prevailing oil price in excess of the contractually agreed threshold world oil price.

***Block 10A, Kenya (30 per cent working interest)***

The Block 10A PSC contemplated an initial four year exploration period which was extended to January 2014 by the Ministry of Energy for the Republic of Kenya. The Contractor group has fulfilled its minimum work obligations of the first exploration period, and has elected not to enter the first additional exploration period.

***Block 9, Kenya (50 per cent working interest)***

The Company completed drilling the Bogal-1 well in May 2010 and entered the first additional exploration phase under the Block 9 PSC. Although the Company was required to relinquish 25 per cent of the original contract area at the end of the first exploration period, the Kenyan Ministry asked the Company to maintain the contract area 100 per cent and waived the requirement to relinquish.

The Company completed drilling the Bahasi-1 well in December 2013 and entered the second additional exploration period under the Block 9 PSC. The Company has proposed a relinquishment of 50 per cent of the original contract area.

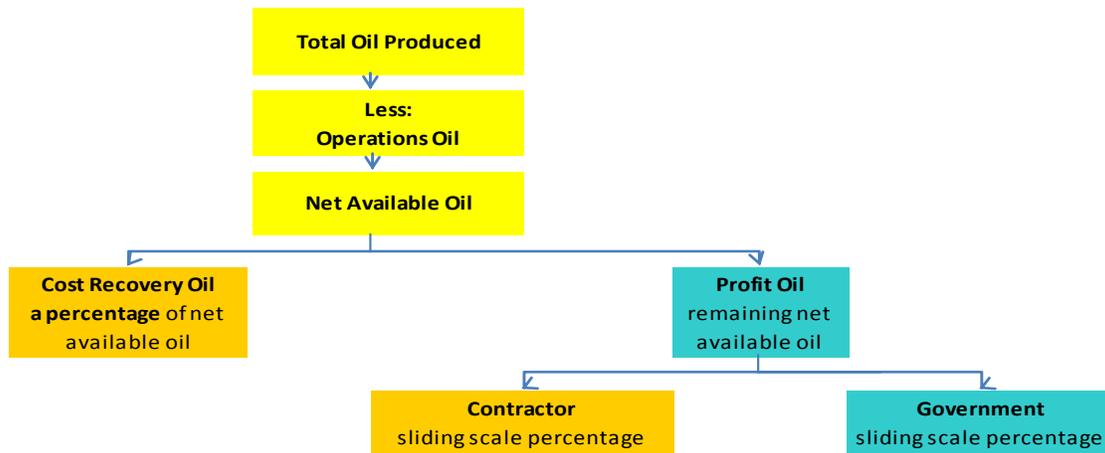
During the second additional exploration period, which has a two year term, the Company is required to, in consultation with the Ministry of Energy for the Republic of Kenya, determine how much 2D or 3D seismic work, if

any, is required. In addition, the Company is required to drill one well, to a vertical depth of at least 1,500 meters. The minimum required expenditure for the well is USD 3.0 million.

The Kenyan Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 13 per cent of the total interest in that development area. The Kenyan Government may exercise its participation rights within six months from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A development and production period commences once the Company has made a commercial discovery and a development plan is adopted. The development and production period is 25 years with a possible 10 year extension.

The following diagram illustrates the allocation of production under the terms of the Block 9 PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Company for operational needs for the work performed under the PSC. Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Company for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Company is based on a sliding scale with the portion allocated to the Company declining as the volume of Profit Oil increases.

***Block 13T, Kenya (50 per cent working interest)***

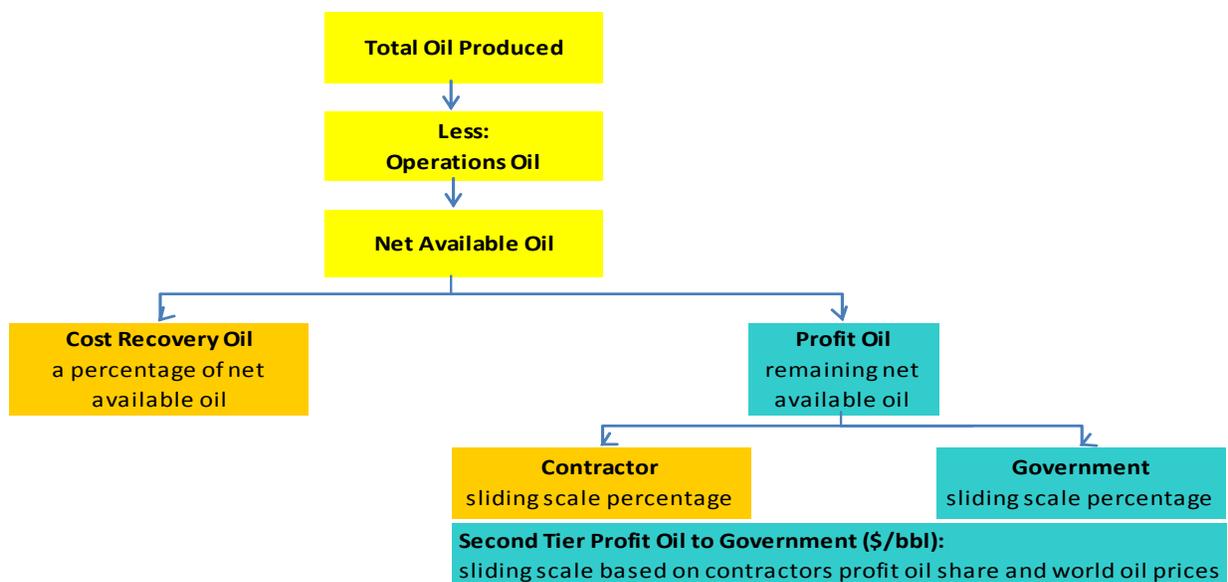
The Block 13T PSC contemplates an initial three year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The Contractor Group is currently in the first additional exploration period which expires in September 2014. During the first additional exploration period, the Contractor Group is required to acquire and interpret an additional 200 square kilometers of 3D seismic at a minimum cost of USD 6.0 million. In addition, the Contractor Group is required to drill one well exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 15.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish an additional 25 per cent of the remaining contract area in the each Block.

During the second additional exploration period, the Contractor Group is required to acquire and interpret an additional 200 square kilometers of 3D seismic at a minimum cost of USD 6.0 million. In addition, the Contractor Group is required to drill one exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for each well is USD 15.0 million.

The Kenyan Government may elect to participate in any petroleum operations in any development area in the Block and acquire an interest of up to 22.5 per cent of the total interest in that development area, 15 per cent of which will be held by the Kenyan Government and 7.5 per cent which will be held by the National Oil Corporation of Kenya. The Kenyan Government and the National Oil Corporation of Kenya may exercise its participation rights within six months from the date a development plan is adopted. Upon electing to participate in a development area, the Government and the National Oil Corporation of Kenya would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Block 13T PSC:



***Block 12A, Kenya (20 per cent working interest)***

The Block 12A PSC contemplates an initial three year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The first exploration period expiry date has been extended to September 2014. During the first exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 500 kilometers of 2D seismic or 100 square kilometers of 3D seismic, reprocess existing seismic, acquire an air borne gravity survey and complete block-wide surface geology mapping and sampling. The minimum required expenditure of geological and geophysical activities is USD 3.6 million. At the end of the first exploration period, the Contractor Group must relinquish 25 per cent of the original contract area.

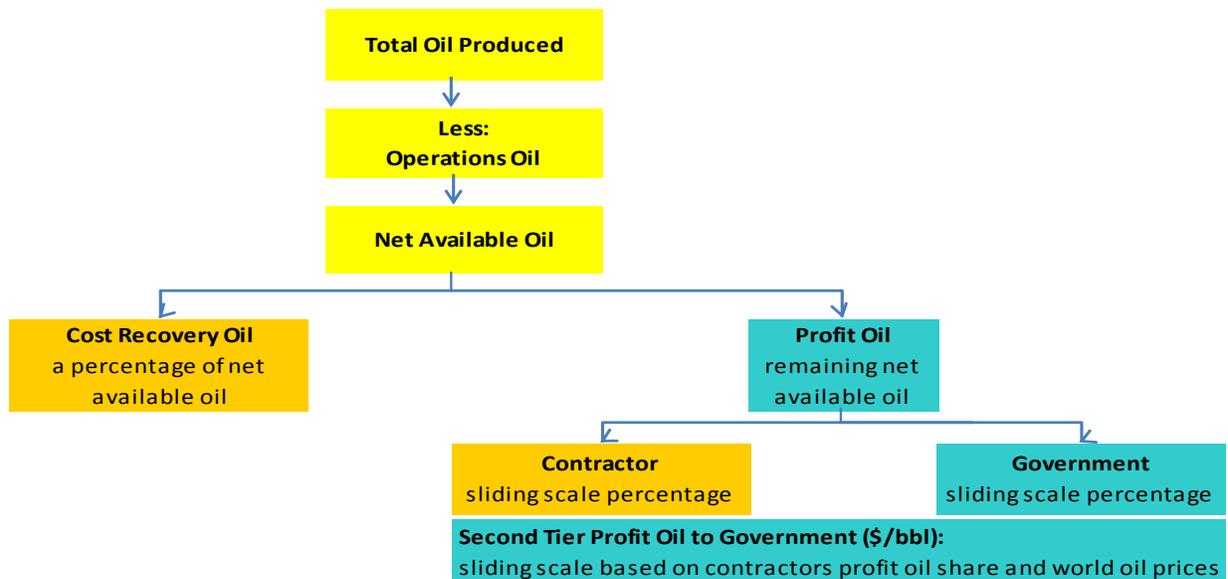
During the first additional exploration period, the Contractor Group is required to acquire and interpret an additional 200 square kilometers of 3D seismic at a minimum cost of USD 6.0 million. In addition, the Contractor Group is required to drill one well exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 15.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish an additional 25 per cent of the remaining contract area.

During the second additional exploration period, the Contractor Group is required to acquire and interpret an additional 200 square kilometers of 3D seismic at a minimum cost of USD 6.0 million. In addition, the Contractor Group is required to drill one exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 15.0 million.

The Kenyan Government may elect to participate in any petroleum operations in any development area in the Block and acquire an interest of up to 22.5 per cent of the total interest in that development area, 15 per cent of which will be held by the Kenyan Government and 7.5 per cent which will be held by the National Oil Corporation of Kenya. The Kenyan Government and the National Oil Corporation of Kenya may exercise its participation rights within six months from the date a development plan is adopted. Upon electing to participate in a development area, the Government and the National Oil Corporation of Kenya would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the term the PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these

activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

A second tier Profit Oil payment is due to the Government when oil prices exceed a stated world oil price. The amount payable per barrel is calculated by multiplying the Contractor Group's share of Profit Oil by a stated percentage and by the prevailing oil price in excess of the contractually agreed threshold world oil price.

***Block 10BA, Kenya (50 per cent working interest)***

The Block 10BA PSC contemplates an initial three year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The first exploration period expiry date has been extended to April 2014. During the first exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 200 kilometers of 2D seismic and the reprocessing of existing seismic data. The minimum required expenditure of geological and geophysical activities is USD 3.0 million. At the end of the first exploration period, the Contractor Group must relinquish 25 per cent of the original contract area.

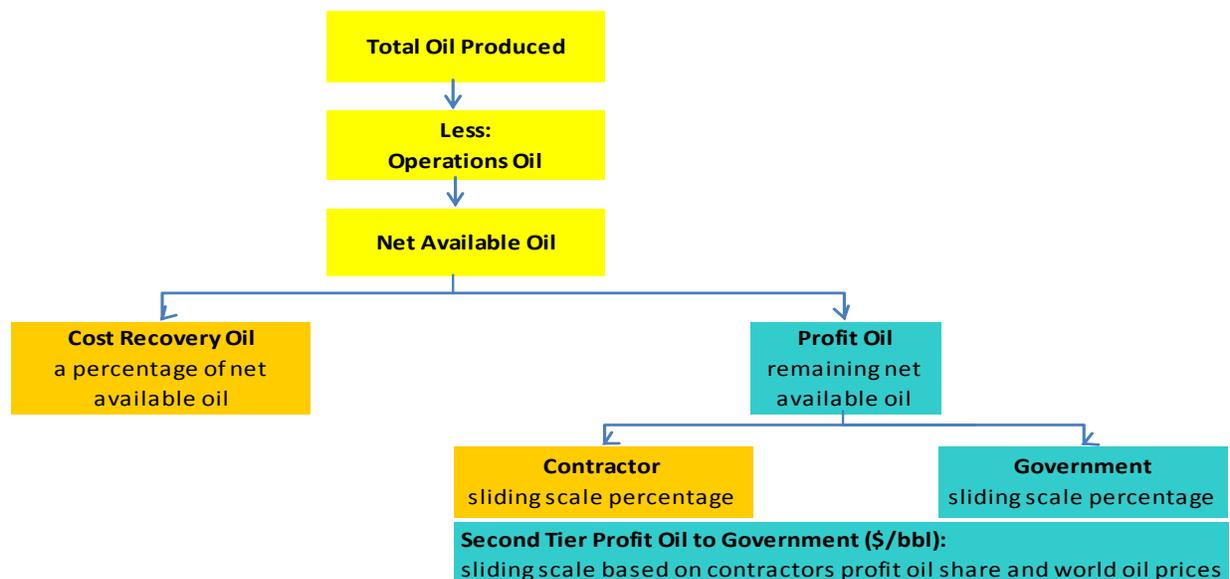
During the first additional exploration period, the Contractor Group is required to acquire and interpret 1,000 kilometers of 2D seismic or carry out surveys of 50 square kilometers of 3D seismic and drill one well or carry out surveys of 45 square kilometers of 3D seismic at a minimum cost of USD 17.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish an additional 25 per cent of the remaining contract area.

During the second additional exploration period, the Contractor Group is required to carry out surveys of 500 kilometers of 2D seismic or carry out surveys of 25 square kilometers of 3D seismic and drill two exploratory wells at a minimum cost of USD 19.0 million.

The Kenyan Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 10 per cent of the total interest in that development area. The Kenyan Government may exercise its participation rights within six months from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Block 10BA PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

A second tier Profit Oil payment is due to the Government when oil prices exceed a stated world oil price. The amount payable per barrel is calculated by multiplying the Contractor Group’s share of Profit Oil by a stated percentage and by the prevailing oil price in excess of the contractually agreed threshold world oil price.

***Blocks 7 and 8, Ethiopia (30 per cent working interest)***

The Block 7&8 PSC contemplates an initial four year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The initial exploration period expiry date has been extended to April 2014. During the first exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 1,250 kilometers of 2D seismic, reprocessing existing seismic, acquire an air borne gravity survey and conduct a multi-disciplinary geophysical and geological study. The minimum required expenditure of geological and geophysical activities is USD 11.0 million. In addition, the Contractor Group is required to drill one well, to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 6.0 million. At the end of the first exploration period, the Contractor Group must relinquish 25 per cent of the original contract area.

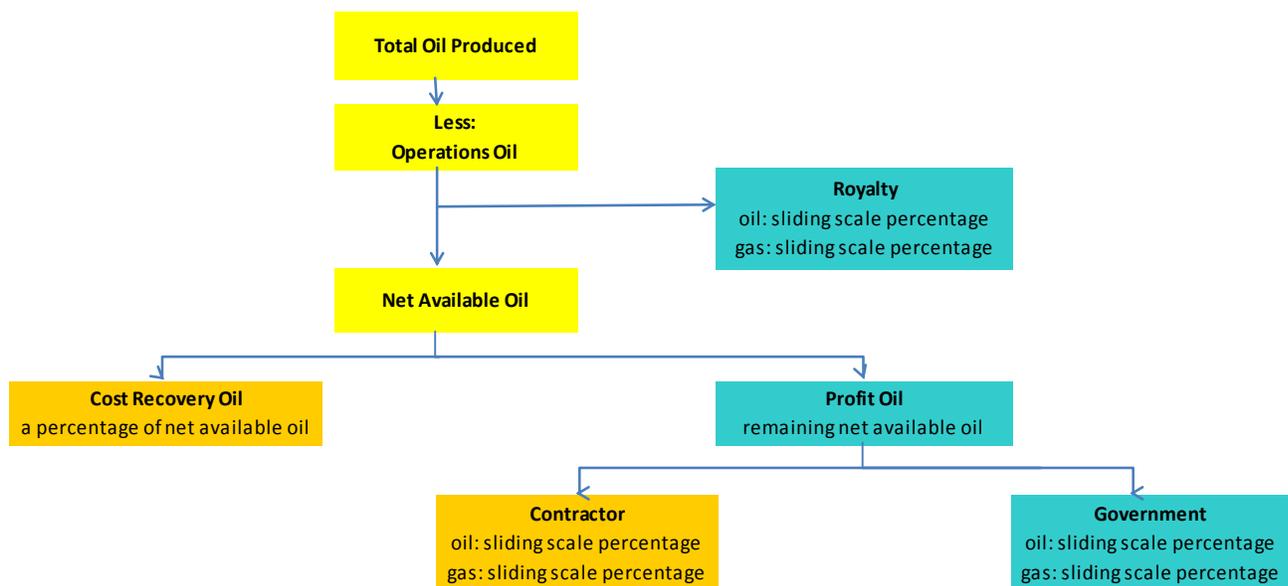
During the first additional exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 1,300 kilometers of 2D seismic. The minimum required expenditure of geological and geophysical activities is USD 11.0 million. In addition, the Contractor Group is required to drill one well, to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 6.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish an additional 25 per cent of the original contract area.

During the second additional exploration period, the Contractor Group is required to complete geological and geophysical activities, including the acquisition of 200 kilometers of seismic. The minimum required expenditure of geological and geophysical activities is USD 1.0 million. In addition, the Contractor Group is required to drill two wells, to a minimum vertical depth of at least 3,000 meters per well. The minimum required expenditure for each well is USD 6.0 million.

The Ethiopian Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 15 per cent of the total interest in that development area. The Ethiopian Government may exercise its participation rights within 120 days from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Blocks 7 and 8 PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a royalty, payable to the Ethiopian Minister of Mines and Energy, based on an increasing sliding scale as the rate of oil and/or gas increases

Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

**Adigala Block, Ethiopia (10 per cent working interest)**

The Adigala PSC contemplates an initial four year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The Contractor Group is currently in the second additional exploration period.

In July 2013, the Ministry of Mines in Ethiopia approved the Contractor Group’s entry into the second additional exploration period, with amended minimum work commitments, which expires July 2015. During the second additional exploration period, the Contractor Group is required to complete the acquisition of 500 kilometers of 2D seismic. In addition, the Contractor Group is required to drill one exploration well in the event that a viable prospect can be identified.

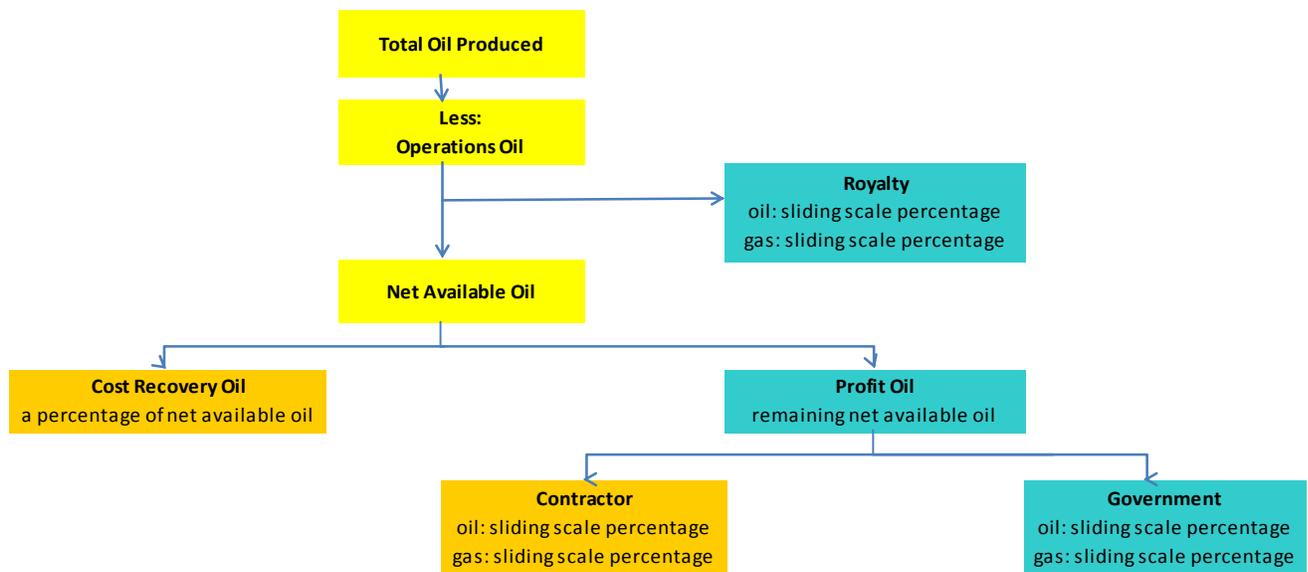
At the end of the first additional exploration period, the Contractor Group relinquished approximately 25 per cent of the original contract area.

At the end of the second additional exploration period, the Contractor Group will be required to relinquish the remainder of the contract area which is not included within an appraisal or development area.

The Ethiopian Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 15 per cent of the total interest in that development area. The Ethiopian Government may exercise its participation rights within 120 days from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Adigala Block PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a royalty, payable to the Ethiopian Minister of Mines and Energy, based on an increasing sliding scale as the rate of oil and/or gas increases

Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

***South Omo Block, Ethiopia (30 per cent working interest)***

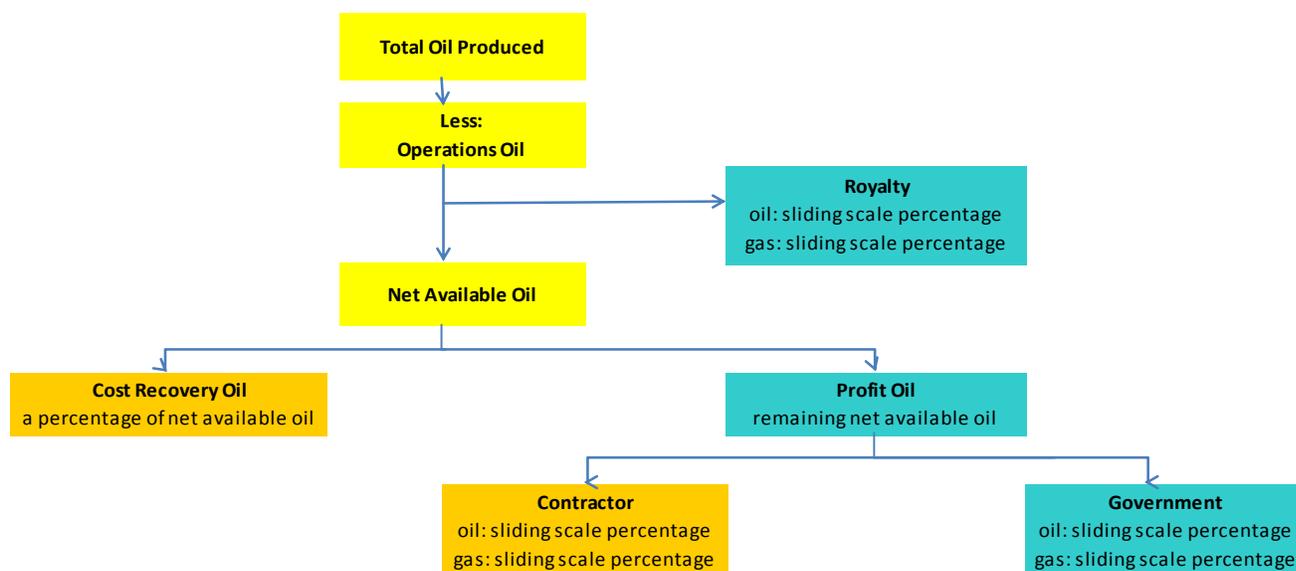
The South Omo Block PSA contemplates an initial four year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. In January 2013, the Contractor Group elected to enter the first additional exploration period which includes the requirement to relinquish 25 per cent of the original contract area. During the first additional exploration period, the Contractor Group is required to acquire an additional 200 kilometers of 2D seismic at a minimum expenditure of USD 2.0 million. In addition, the Contractor Group is required to drill one exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 8.0 million. At the end of the first additional exploration period, the Contractor Group must relinquish 45 per cent of the original contract area.

During the second additional exploration period, the Contractor Group is required to acquire an additional 200 kilometers of 2D seismic at a minimum expenditure of USD 2.0 million. In addition, the Contractor Group is required drill one exploratory well to a vertical depth of at least 3,000 meters. The minimum required expenditure for the well is USD 8.0 million. At the end of the second additional exploration period, the Contractor Group must relinquish the remainder of the original contract area that is not included within an appraisal area or development area.

The Ethiopian Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 15 per cent of the total interest in that development area. The Ethiopian Government may exercise its participation rights within 120 days from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the South Omo Block PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a royalty, payable to the Ethiopian Minister of Mines and Energy, based on an increasing sliding scale as the rate of oil and/or gas increases

Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

### ***Rift Basin Area, Ethiopia (50 per cent working interest)***

The Rift Basin Area PSA contemplates an initial three year exploration period and, at the option of the Contractor Group, two additional exploration periods of two years each. The Contractor Group is currently in the initial exploration period which expires in February 2016. During the initial exploration period, the Contractor Group is required to complete geological and geophysical activities, including acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic with a minimum gross expenditure of USD 5.0 million. At the end of the initial exploration period, the Contractor Group must relinquish 25 per cent of the original contract area.

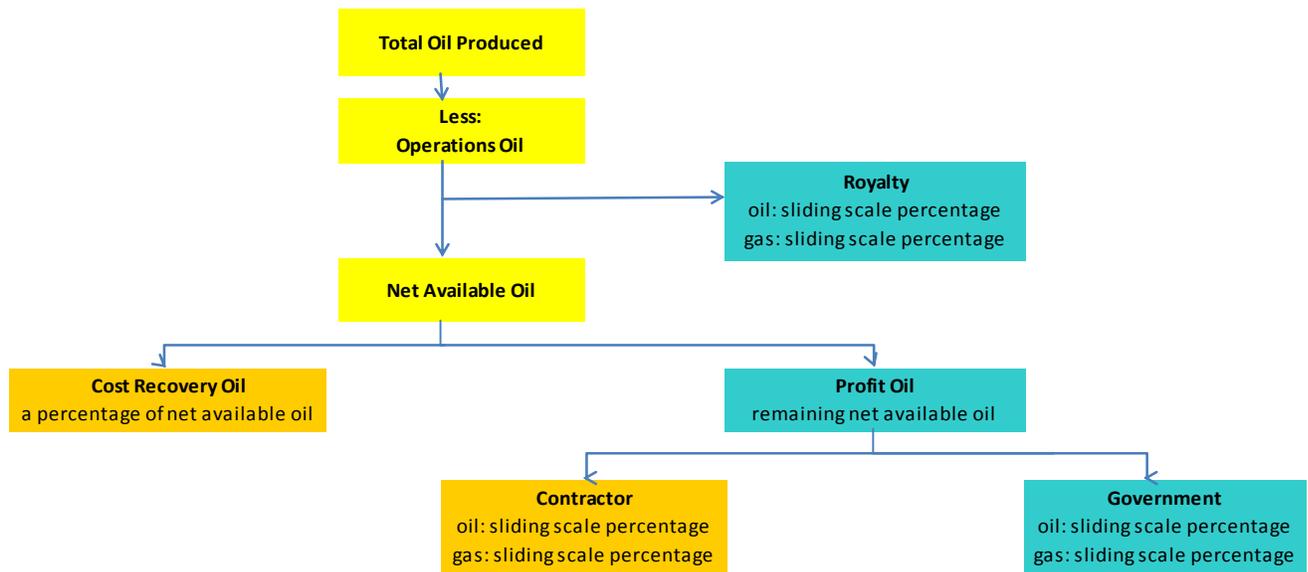
During the first additional exploration period, the Contractor Group is required to drill one exploratory well. The minimum required expenditure for the well is USD 7.5 million. If required for drilling, the Contractor Group is obligated to acquire an additional 400 kilometers of infill 2D seismic. At the end of the first additional exploration period, the Contractor Group must relinquish 25 per cent of the original contract area.

During the second additional exploration period, the Contractor Group is required to drill one exploratory well. The minimum required expenditure for the well is USD 7.5 million. At the end of the second additional exploration period, the Contractor Group must relinquish the remainder of the original contract area that is not included within an appraisal area or development area.

The Ethiopian Government may elect to participate in any petroleum operations in any development area and acquire an interest of up to 18 per cent of the total interest in that development area. The Ethiopian Government may exercise its participation rights within 120 days from the date a development plan is adopted. Upon electing to participate in a development area, the Government would assume responsibility for its share of costs incurred with respect to the development area.

A 25 year development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted.

The following diagram illustrates the allocation of production under the terms of the Rift Basin Area PSC:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a royalty, payable to the Ethiopian Minister of Mines and Energy, based on an increasing sliding scale as the rate of oil and/or gas increases

Up to a stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. The portion of Profit Oil available to the Contractor Group is based on a sliding scale with the portion allocated to the Contractor Group declining as the volume of Profit Oil increases.

***Dharoor and Nugaal Valley Blocks, Puntland (Somalia) (27 per cent working interest)***

The PSCs covering both the Dharoor Valley Block and the Nugaal Valley Block were amended in December 2009 and January 2011 in order to extend the initial exploration period. These amendments extended the initial exploration expiry date to January 17, 2012. In consideration of these extensions of the initial exploration period, Africa Oil relinquished 50 per cent of the original contract area and agreed to pay a USD 1 million bonus within 30 days of a commercial discovery in each of the production blocks. Further, the Company agreed to certain enhanced abandonment and environmental safety measures and made payments to the Puntland government, in the aggregate amount of USD 1,550,000 for the two amendments, for development of infrastructure. Under the

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

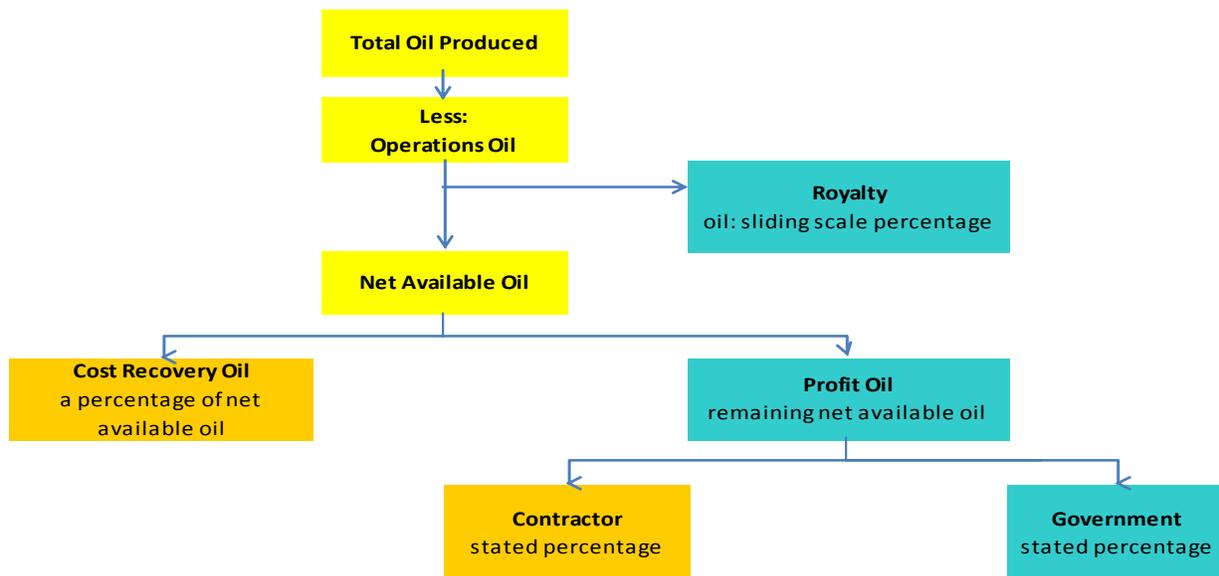
In July 2011, the PSC’s were further amended requiring execution of a drilling contract by July 31, 2011, drilling operations to commence on the first well by November 15, 2011, and drilling operations to commence on a second well by January 17, 2012. The Company agreed to relinquish 15,627 square kilometers (gross) of the Nugaal Valley Exploration area, perform a surface geochemistry survey in the Nugaal Valley Exploration area, pay the Puntland State of Somalia USD 1,000,000 in infrastructure and development support fees.

In February 2012, the Puntland Government granted the Company and extension of the first exploration period expiry date for the Dharoor Valley and Nugaal Valley Exploration areas to October 17, 2012 in order to provide for sufficient time to evaluate drilling results.

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

A development and production period commences once the Contractor Group has made a commercial discovery and a development plan is adopted. The development and production period is 20 years with a possible 5 year extension.

The following diagram illustrates the allocation of production under the terms of the Dharoor and Nugaal Valley Block PSCs:



Of the “Total Oil Produced”, “Operations Oil” is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a royalty, payable to the Government of Puntland, based on an increasing sliding scale as the rate of oil increases.

Up to stated maximum percentage of the “Net Available Oil” is available for cost recovery with the remainder allocated to “Profit Oil”. Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other applicable costs and expenditures incurred directly or indirectly with these activities. Profit Oil is between the Contractor Group and the Government based on stated percentages of Profit Oil.

***Blocks 7 and 11 (Mali) (25 per cent working interest)***

In January 2013, the Company terminated its interest in Blocks 7 and 11 in Mali and has been released from all future obligations in relation to these Blocks.

## **OVERVIEW OF FARMOUT AND JOINT VENTURE AGREEMENTS**

***Lion Energy Farmout Agreement and Lion Energy Farmout Amendment***

Pursuant to the terms of the Lion Energy Farmout Agreement, Africa Oil agreed to transfer to Lion Energy an interest in the Nugaal Valley and Dharoor Valley PSAs, Puntland (Somalia) and in the PSCs covering Block 9, Block 10A and Block 10BB, Kenya.

Under the terms of the Lion Energy Farmout Agreement, Africa Oil agreed to transfer the following interests to Lion Energy upon satisfaction of certain closing conditions, including the receipt of TSX-V approval and ministerial approval in both Puntland (Somalia) and Kenya:

- a 15 per cent license interest in the Nugaal and Dharoor Valley PSAs;
- a 10 per cent license interest in the Block 9 PSC;
- a 25 per cent license interest in the Block 10A PSC; and,
- a 20 per cent license interest in the Block 10BB PSC.

In consideration for such interests, Lion Energy agreed to pay a disproportionate share of costs associated with the planned work programs to be carried out in the subject areas and to deposit in escrow, as security for its payment obligations, USD 4 million.

Pursuant to an allocation agreement dated April 20, 2010 (the “**Allocation Agreement**”) the Company, together with Lion Energy, Peninsula and Lockwood Financial Ltd. (“**Lockwood**”) agreed to the allocation of a finders’ fee payable to Lockwood and Peninsula in respect of the Lion Energy Farmout Agreement. The Company agreed to pay a finder’s fee equal to CAD 842,900 to Peninsula in connection with the Lion Energy Farmout Agreement based upon aggregate expenditures of USD 26,208,000, payable in Shares of the Company. The Company issued a total of 730,240 Shares to Peninsula. Lion Energy agreed to pay a finder’s fee equal to CAD 500,000 comprised of a cash payment of USD 150,000 and the issuance of an aggregate of 1,277,777 shares of Lion Energy to Lockwood. Lion Energy paid Lockwood USD 150,000 and issued 444,444 shares of Lion Energy, with the Company issuing a further 95,000 Shares to Lockwood to settle the amount remaining under the Allocation Agreement.

Ministerial approval of the Lion Energy Farmout Agreement was obtained from the Puntland Government on December 8, 2010 and from the Kenyan Government on December 9, 2010. Requisite TSX-V approval to the Lion Energy Farmout Agreement was received on March 15, 2010 and to the Peninsula finder’s fee arrangement on April 26, 2010.

On July 29, 2010, Lion Energy and Africa Oil entered into the Lion Energy Farmout Amendment. Pursuant to the terms of the Lion Energy Farmout Amendment, Lion Energy agreed to relinquish all of its interest in the Block 10A

PSC and relinquish a ten per cent (10 per cent) participating interest in the Block 10BB PSC in consideration for which Africa Oil agreed to:

- (a) release to Lion Energy the USD 4 million that had been deposited into escrow under the terms of the Lion Energy Farmout Agreement;
- (b) issue to Lion Energy 2,500,000 Shares of Africa Oil which Shares were subject to a voluntary six month hold period from the date of closing of the Lion Energy Farmout Amendment;
- (c) pay Lion Energy USD 2.5 million in cash; and
- (d) release Lion Energy from its obligation to pay a disproportionate share of costs associated with the planned work programs to be carried out in the remaining subject areas.

The transaction contemplated under the Lion Energy Farmout Amendment was subject to requisite ministerial and TSX-V approvals and was also subject to completion of the transactions contemplated under the Tullow Farmout Agreements in respect of South Omo, Ethiopia, and Blocks 10A and 10BB, Kenya. On January 26, 2011, following receipt of the necessary approvals and satisfaction of the conditions precedent related to the Tullow Farmout Agreements, the Company closed the transactions contemplated under the Lion Energy Farmout Amendment and paid Lion Energy USD 2.5 million and issued to Lion Energy 2,500,000 Shares. The Company also released to Lion Energy the USD 4 million held in escrow under the terms of the Lion Energy Farmout Agreement.

Effective June 20, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Lion Energy. Pursuant to the Lion Energy Arrangement Agreement, the Company acquired all of the issued and outstanding shares of Lion Energy in consideration for 14,962,447 Shares of the Company, net of 2,500,000 Shares of the Company that Lion Energy owned at the date of the acquisition. The Company also issued 287,250 stock options of which 237,250 were subsequently exercised and 2,289,000 share purchase warrants that expired unexercised on June 29, 2011.

#### ***Farmout Agreement with EAX***

On May 29, 2009, Africa Oil entered into the EAX Farmout Agreement with EAX, pursuant to which the Company agreed to transfer to EAX, effective as at December 9, 2009, a 30 per cent license interest in the PSAs covering Blocks 2 and 6 and 7 and 8 in Ethiopia and a 20 per cent license interest in the PSC covering Block 10A in Kenya.

Under the terms of the EAX Farmout Agreement, EAX was obligated to pay a disproportionate share of costs associated with the planned work programs carried out in 2009 and 2010 and to pay a portion of Africa Oil's past costs and future operational costs. As consideration for past costs incurred by the Company, EAX paid the Company USD 1,700,000.

#### ***Assignment Agreement and 12A/13T Amending Agreement with Platform***

On January 11, 2010, Africa Oil entered into the Platform Assignment Agreement with Platform. Under the Platform Assignment Agreement, Africa Oil agreed to purchase from Platform all of Platform's right, title and interest in and to, and all of its obligations under (collectively, the "**Platform Interest**"), two PSCs (the "**Blocks 12A and 13T PSCs**"), each made September 17, 2008 between Platform and the Kenyan Government.

The terms of the Platform Assignment Agreement provided that it would automatically terminate if the closing date for the purchase and sale of the Platform Interest had not occurred by June 1, 2010. On May 27, 2010, Africa Oil entered into the 12A/13T Amending Agreement with Platform. Under the 12A/13T Amending Agreement, Platform and Africa Oil agreed to certain amendments to the Platform Assignment Agreement including the extension of the

date by which the purchase and sale of the Platform Interest was required to be completed, *i.e.*, from June 1, 2010 to September 30, 2010. Africa Oil also agreed to provide bank and parent company guarantees to the Kenyan Government in accordance with the terms of the Blocks 12A and 13T PSCs.

The Kenyan Government consented to the Company's acquisition of Blocks 12A and 13T on August 17, 2010 by signing deeds of assignment in respect of each Block. The Platform Assignment Agreement, as amended by the 12A/13T Amending Agreement, was approved by the TSX-V on August 18, 2010 and the transactions contemplated by the Platform Assignment Agreement, as amended by the 12A/13T Agreement completed on September 9, 2010.

The purchase price for the Platform Interest was comprised of 2,500,000 Shares of Africa Oil and 1,500,000 share purchase warrants. Each warrant entitled Platform to acquire one additional Share of the Company at a price of USD 1.50 per Share for a period of two years, *i.e.* on or before September 9, 2012. On November 22, 2010, the Company elected to exercise its rights to accelerate the expiry date of the warrants to May 22, 2011. All 1,500,000 share purchase warrants were exercised on April 20, 2011.

### ***Red Emperor Farmout Agreement and Red Emperor Farmout Amendment***

On August 12, 2010, the Company entered into the Red Emperor Farmout Agreement under which Puntland Oil agreed to acquire a 10 per cent participating interest in respect of the Nugaal and Dharoor Valley PSAs, with an option to increase its participating interest in both of the Nugaal and Dharoor Valley PSAs to 20 per cent. The option was exercised by Puntland Oil on October 21, 2010. In consideration for the 20 per cent participating interest, Puntland Oil agreed to pay 30 per cent of all drilling costs associated with the drilling of two wells under the Nugaal and Dharoor Valley PSAs, being one exploration well under each of the production sharing agreements, or, if Africa Oil chooses, two wells in the Dharoor Valley Exploration Area, in each case for the initial USD 25 million of gross costs. Thereafter Puntland Oil shall be responsible for its proportionate share of such costs.

Also pursuant to the Red Emperor Farmout Agreement, Red Emperor entered into an escrow agreement under which it has deposited USD 2 million into an escrow account, to be offset against the last USD 2 million cash call made by Africa Oil in respect of the work programs for the exploration areas, based on approved budgets.

Completion of the Red Emperor Farmout Agreement was subject to the approval of the Government of Puntland, which was received in January 2011. Pursuant to a finder's fee agreement dated June 10, 2010 between the Company and Komodo Capital (the "**Komodo Finder's Fee Agreement**"), the Company was obligated to pay an aggregate of USD 125,000 in cash and USD 125,000 in Shares (103,306 Shares at a deemed price of USD 1.21/share) in connection with the Red Emperor Farmout Agreement. The finder's fee was payable in two tranches, 50 per cent upon receipt of confirmation that the escrow arrangements under the Red Emperor Farmout Agreement had been satisfied (the "**First Tranche**") and the remaining 50 per cent (the "**Second Tranche**") upon the entering into of a drilling rig contract in respect of either the Dharoor Valley or Nugaal Valley exploration areas. On January 6, 2011 and September 21, 2011, the Company satisfied its obligations to Komodo Capital in respect of the First and Second Tranches, respectively.

On March 23, 2011 the Company and Red Emperor entered into the Red Emperor Farmout Amendment under which Red Emperor acknowledged that it had made the election to increase the interests assigned to it in the PSCs covering the Dharoor Valley Block and the Nugaal Valley Block assigned to it from a 10 per cent participating interest to a 20 per cent participating interest. In addition, Red Emperor's initial obligation in respect of the initial exploration well drilled pursuant to the Nugaal Valley PSC, or the second exploration well drilled pursuant to the Dharoor Valley PSC, as applicable, was reduced to 20 per cent of pre-spud costs. Red Emperor also elected to maintain its 20 per cent participating interest in the PSCs covering the Nugaal Valley Block and the Dharoor Valley

Block, after reviewing certain data relating to the first exploration well, and was committed to paying 30 per cent of the drilling costs related to the one well drilling commitment included in the first exploration period of both the Dharoor and Nugaal Valley PSCs.

#### ***Farmout Agreement with Agriterra***

On June 14, 2010, Africa Oil entered into the Agriterra Farmout Agreement under which Africa Oil agreed to acquire an 80 per cent participating interest in respect of the petroleum production sharing agreement (the “**South Omo Block PPSA**”) made January 2008 between Agriterra and the Ethiopian Government relating to the South Omo Block.

In consideration for the 80 per cent participating interest, Africa Oil agreed to pay to Agriterra 80 per cent of past costs, to a maximum of USD 2,517,000, incurred by Agriterra in connection with the South Omo Block PSA and 100 per cent of the costs associated with certain seismic and geological and geochemical work. The USD 2,517,000 of past costs owing to Agriterra under the Agriterra Farmout Agreement will be offset against cash calls made by Africa Oil in its capacity as operator, in respect of Agriterra’s participation share of all costs under the South Omo Block joint operating agreement.

Africa Oil received ministerial consent of Ethiopian Government to the Agriterra Farmout Agreement on August 19, 2010.

#### ***Farmout Agreements with Tullow***

On September 1, 2010, Africa Oil and Tullow entered into the Tullow Farmout Agreement. Under the Tullow Farmout Agreement, Africa Oil agreed to assign to Tullow a 50 per cent interest in and operatorship of, each of the Block 10A PSC, the Block 10BB PSC and the South Omo Block PSA. Tullow was also granted an option to acquire a 50 per cent interest in the Blocks 12A and 13T PSCs, which it subsequently exercised (see below).

In consideration of the assignment, Tullow has paid Africa Oil USD 9.5 million, representing 50 per cent of Africa Oil’s audited past costs in the blocks. In addition, Tullow agreed to fund its 50 per cent working interest and Africa Oil’s working interest share of joint venture expenditures on Blocks 10A, 10BB, and South Omo from July 1, 2010, the effective date, until the cap of USD 23.75 million (based on Africa Oil’s carried interest) was reached. Upon reaching the expenditure cap, Africa Oil was responsible for its working interest share of future joint venture expenditures.

The South Omo portion of the farmout to Tullow was completed on December 9, 2010. The farmout of Blocks 10A and 10BB to Tullow was completed in January 2011.

Tullow exercised its option in respect of the Blocks 12A and 13T PSCs on September 1, 2010 and entered into the 12A/13T Farmout Agreement with Africa Oil in respect of those blocks, on December 9, 2010. Under the 12A/13T Farmout Agreement, Africa Oil agreed to assign to Tullow 50 per cent interest in, and operatorship of, each of Blocks 12A and 13T in consideration of USD 1.55 million, being 50 per cent of Africa Oil’s past costs in respect of the blocks plus 50 per cent of gross petroleum costs incurred by Africa Oil from September 9, 2010, to a maximum of USD 500,000. On February 22, 2011, the Company closed on the 12A/13T farmouts at which time Tullow paid the Company an aggregate of USD 1,686,432. Tullow and Africa Oil are responsible for their working interest share of joint venture expenditures in these blocks going forward.

As a result of the completion of the Centric Plan of Arrangement, the Company acquired an interest in Block 10BA, Kenya. Block 10BA is the subject of the 10BA Farmout Agreement. Pursuant to the terms of the 10BA Farmout

Agreement, Tullow acquired a 50 per cent interest in, and operatorship of, Block 10BA in consideration of the reimbursement of 50 per cent of Centric's acquisition costs, being approximately USD 750,000, and the payment of 80 per cent of the first USD 30 million of expenditures required under the Block 10BA PSC. Upon reaching the expenditure cap, each joint venture partner was responsible for its working interest share of future costs. On November 4, 2010, Kenyan Government approval to the 10BA Farmout Agreement was received and on January 26, 2011, the transaction closed at which time Tullow paid to Centric an amount of USD 1.0 million in respect of estimated historic costs related to the acquisition of the PSC and exploration of Block 10BA.

In July 2012, the Company completed a farmout transaction with Tullow whereby Tullow paid the Company USD 1.1 million in consideration of past exploration expenditures to acquire an additional 15 per cent interest in Block 12A in Kenya. Tullow agreed to fund 15 per cent of the Company's working interest share of expenditures related to the acquisition of 520 Kilometers of 2D seismic until an expenditure cap of USD 10.3 million on a gross basis, following which the Company would be responsible for its working interest share of seismic acquisition costs.

### ***Joint Venture with Range***

Pursuant to a joint venture arrangement with Range (the "**Range Joint Venture**") relating to the Dharoor and Nugaal Valley Exploration Blocks, Puntland (Somalia), the Company was obligated to solely fund USD 22.8 million of joint venture costs on each of the blocks (USD 45.5 million in total for both blocks) during the exploration period, in exchange for a 80 per cent working interest in each block. In the event that a commercial discovery is declared on a block prior to Africa Oil spending USD 22.8 million, Africa Oil shall be deemed to have earned its interest in the block and the Company and Range will be responsible for future expenditures on the block in proportion to their respective working interests. In the event that Africa Oil did not fund the required USD 22.8 million during the initial exploration periods, the Company's interest in the block would be forfeited. An additional USD 3.5 million will be payable to Range upon commencement of commercial production. The Company fulfilled its sole funding obligation related to both the Dharoor Valley and Nugaal Valley Blocks. As a result, Range is currently obligated to pay its 20 per cent participating interest share of ongoing exploration costs related to both Blocks.

### ***Rift Basin Area, Ethiopia***

In December 2010, the Company signed a definitive agreement (the "**Joint Study Agreement**") with the Ethiopian Government to jointly study the Rift Basin Area (formerly referred to as the "Rift Valley Block"). The Company committed to carry out an airborne geophysical survey over the Block. The Joint Study Agreement had an 18 month term, following which the Company could enter into negotiations for a production sharing agreement for all or part of the Rift Basin Area.

In February 2013, the Company entered into a PSA on the Rift Basin Area in Ethiopia with the Ministry of Mines, Government of Ethiopia. Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company is obligated to complete geological and geophysical 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 USD 5.0 million. The Company's current working interest in the Rift Basin Area is 100 per cent.

### ***Farmout Agreement with Marathon Oil Corporation***

In October 2012, the Company completed a farmout transaction with Marathon whereby Marathon acquired a 50 per cent interest in Block 9 and a 15 per cent interest in Block 12A, both in Kenya. In accordance with the farmout agreement, Marathon paid the company USD 32.0 million in consideration of past exploration expenditures, and has agreed to fund the Company's working interest share of future joint venture expenditures on these blocks to a maximum of USD 25 million. The Company will maintain operatorship in Block 9, but Marathon has the right to assume operatorship if a commercial discovery is made.

In March 2014, the Company completed another farmout transaction with Marathon whereby Marathon acquired a 50 per cent interest in the Rift Basin Area of Ethiopia. Africa Oil will maintain operatorship of the block, but Marathon has the right to assume operatorship if a commercial discovery is made. In consideration for the assignment of this interest, Marathon will pay the Company an entry payment of USD 3.0 million in respect of past costs, and has agreed to fund USD 15.0 million of Africa Oil's working interest share of joint venture expenditures in the Rift Basin Area. Africa Oil and Marathon each hold a 50 per cent working interest in the Rift Basin Area.

#### ***Farmout Agreement with New Age (Africa Global Energy) Limited***

In October 2012, the Company completed a farmout transaction with New Age whereby New Age acquired an additional 25 per cent interest in the Company's Blocks 7 & 8 in Ethiopia, together with operatorship of Blocks 7 & 8 and the Adigala Area. In accordance with the farmout agreement, New Age paid the Company USD 1.5 million in consideration of past exploration expenditures. New Age already held a 15 per cent interest in Blocks 7 & 8, bringing its total interest to 40 per cent.

In March 2014, the Company completed another farmout transaction with New Age whereby New Age acquired an additional 40 per cent working interest in the Adigala Block, in Ethiopia. The Company's interest has now been reduced to 10 per cent. In consideration of the assignment New Age will carry Africa Oil's working interest share of a planned 1,000 kilometer 2D seismic work program in the Adigala Block.

## **Licenses**

Africa Oil is engaged in conventional oil and gas exploration and appraisal operations and is not dependent upon specific licenses or patents to carry on its activities other than the PSCs entered into between the Company and the host governments in the countries in which it operates.

## **Bankruptcy, reorganizations and similar procedures**

There are no bankruptcy, receivership or similar proceedings against the Company, nor is the Company aware of any such pending or threatened proceedings. There have not been any voluntary bankruptcy, receivership or similar proceedings by the Company within the three most recently completed financial years or completed or currently proposed for the current financial year.

There have been no reorganizations of or involving the Company within the three most recently completed financial years or completed or currently proposed for the current financial year.

## **Restructuring program**

The Company has not undertaken any restructuring program, and does not foresee undertaking any restructuring program in the near future.

## **Legal proceedings and regulatory actions**

### **LEGAL PROCEEDINGS**

Neither the Company nor its material subsidiaries and material properties are currently, or have been in the past twelve months, subject to any material legal proceedings or regulatory actions, which could have a material effect on the Company's or the Group's financial position or profitability, except for those set out below.

The Company is a party to two separate court proceedings in Kenya initiated by Interstate Petroleum Ltd. (“IPL”), and certain related parties of IPL, as Applicants. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involve a dispute concerning the administrative process that lead to the issuance of exploration permits in respect of, amongst others, Blocks 10BA, 10BB, 12A and 13T. The primary Respondents include the Minister and the Ministry of Energy, Republic of Kenya. The Company and certain of its affiliates are named as Interested Parties in these proceedings. The Company has initiated its own court proceedings against IPL and certain related parties, including various applications for costs and Winding-Up Cause No. 1 of 2012. This 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

Since 2012, IPL has also commenced numerous court applications and appeals in respect of these proceedings, including two applications to appeal recent High Court decisions to the Kenyan Supreme Court. On February 24, 2014, IPL’s Notice of Appeal, filed in May 2013 in respect of Judicial Review Number 30 of 2010, was struck by a court order. On April 11, 2014, the two applications for leave to appeal to the Supreme Court were also dismissed.

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 made by the Applicants in any of these proceedings.

## **REGULATORY ACTIONS**

No penalties or sanctions were imposed by a court relating to securities legislation or by a securities regulatory authority during the Company’s recently completed financial year, nor were there any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, nor were any settlement agreements entered into before a court relating to securities legislation or with a securities regulatory authority during the Company’s recently completed financial year.

## **Environmental issues**

There are currently no outstanding proceedings relating to environmental issues to which the Company is a part.

# TAX MATTERS

*The following is a summary of certain tax issues that may arise as a result of holding Shares in the Company. The summary is based on Swedish tax legislation currently in force and is intended only as general information for shareholders, who are resident or domiciled in Sweden for tax purposes, if not otherwise stated.*

*The summary does not cover situations where Shares are held as current assets in business operations or by a partnership. Furthermore, the summary does not cover special regulations governing tax exempt capital gains, shareholding in companies that are, or have previously been, closely held companies or on Shares acquired on the basis of such holdings, or other specific situations and rules. The summary is not applicable to shareholders that have ever been resident in Canada for Canadian tax purposes, carried on business or maintained a permanent establishment in Canada or performed independent personal services in Canada from a fixed base situated in Canada, each as defined in the Sweden-Canada Income Tax Convention (1996). Each shareholder is recommended to consult a tax adviser for information on the specific tax consequences that may arise as a result of holding Shares in the Company, including the applicability and effect of foreign or other rules, tax treaties or from foreign exchange rate fluctuations between currencies which may be applicable.*

## INDIVIDUALS

### *Capital gains taxation*

Individuals who sell their shares, are subject to capital gains tax. The current tax rate is 30 per cent of the gain. The capital gain is calculated to equal the difference between the sales proceeds, after deduction for sales expenses, and the shares' acquisition cost for tax purposes. The acquisition cost is determined according to the "average cost method". This means that the costs for all shares of the same type and class are added together and determined collectively, with respect to changes to the holding. Alternatively, "the standard rule" according to which the acquisition cost is deemed to be equal to 20 per cent of the net sales price may be applied on the disposal of listed shares.

Capital losses on listed shares are fully deductible against taxable capital gains on shares during the same fiscal year. The loss is also deductible against gains on other listed securities that are taxed in the same manner as shares (except for shares in mutual funds containing only Swedish receivables). A loss in excess of the above mentioned gains is deductible with 70 per cent against any other taxable income derived from capital.

If a deficit arises in the income from capital category, a reduction of the tax on income from employment and from business, as well as the tax on real estate, is allowed. The tax reduction allowed amounts to 30 per cent of any deficit not exceeding SEK 100,000 and 21 per cent of any deficit in excess of SEK 100,000. Deficits may not be carried forward to a later fiscal year.

An individual tax resident in Sweden for the purposes of the tax treaty between Sweden and Canada is not subject to any Canadian capital gains taxation from the sale of shares listed on NASDAQ OMX Stockholm.

### *Dividend taxation*

In general, dividends on shares are taxed in Sweden at a rate of 30 per cent as income from capital for individuals. Additionally, dividends from a limited company resident in Canada, such as the Company, are generally subject to Canadian withholding tax at a rate of 25 per cent. However, under the tax treaty between Sweden and Canada, the tax rate is normally reduced to 15 per cent for dividends beneficially owned by a person resident in Sweden for the purpose of the treaty. The treaty rate is only applied if sufficient information regarding the tax residency of the

shareholder is available.

The Company assumes responsibility for deducting tax in relation to the dividends where required.

Since the dividend is generally taxable in both Sweden and Canada, double taxation may occur. However, Canadian withholding tax levied can be credited from Swedish tax to the extent Swedish tax is attributable to foreign income (overall credit).

If the foreign tax should exceed the Swedish tax attributable to foreign income one year, the credit may, subject to certain limitations, be carried forward for up to five years. Alternatively, the foreign tax may be deducted as a cost for the recipient.

## LIMITED LIABILITY COMPANIES

### *Capital gains*

Swedish limited liability companies (*Sw. aktiebolag*) are taxed on all income as income from business activities at a flat rate of 22 per cent (the old rate 26.3 per cent applied for financial years commencing before December 31, 2012). Regarding the calculation of a capital gain or loss and the acquisition cost, see Section "Individuals". A capital loss on shares incurred by a corporate shareholder may be offset only against gains on shares or other securities that are taxed in the same manner as shares. Such capital losses may, under certain circumstances, also be deductible against capital gains on such securities within the same group of companies, provided the requirements for group contributions are met. Capital losses on shares or other such securities, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against similar capital gains in future years without any limitation in time.

Capital gains on listed shares in limited liability companies, including foreign equivalents, are tax-exempt (and capital losses on such shares are non-deductible) provided that the holding represents at least 10 per cent of the voting rights of all shares. Exemption may also be available provided the holding is conditioned by the shareholder's (or affiliated company's) business. Capital gains on listed shares are only tax-exempt if they are held not less than one year from the day any of the above holding requirements were met.

### *Dividend taxation*

In general, dividends on shares to limited liability companies are taxed in Sweden at a rate of 22 per cent as ordinary income from business activities (the old rate 26.3 per cent applied for financial years commencing before December 31, 2012). Dividends on listed shares in limited liability companies, including foreign equivalents, are tax exempt provided that the holding represents at least ten per cent of the voting rights of all shares (or the holding is conditioned by the shareholder's, or affiliated company's business). The dividend tax exemption only applies if the listed shares are not disposed of within one year from the day any of the above holding requirements were met. The shares do not have to have been held continuously for one year at the date of distribution. Taxation will, however, be triggered if the shares are sold (or otherwise ceases to be entitled to the tax exemption) before the one year holding period requirement is met. A dividend on shares that ceases to be covered by the tax exemption may therefore be subject to tax in a different fiscal year than the dividend was received.

Dividends from a limited company resident in Canada, such as the Company, are generally subject also to Canadian withholding tax at a rate of 25 per cent. However, under the tax treaty between Sweden and Canada, the tax rate is normally reduced to 15 per cent for dividends beneficially owned by a legal entity resident in Sweden for the purpose of the treaty. If the beneficial owner is a company resident in Sweden for the purposes of the tax treaty

that controls directly at least ten per cent of the voting power, or that holds directly at least 25 per cent of the capital, in the Company, the withholding tax rate is reduced to five per cent.

The treaty rate is only applied if sufficient information regarding the tax residency of the shareholder is available. The Company assumes responsibility for deducting tax in relation to the dividends where required.

Since the dividend is generally taxable in both Sweden and Canada, double taxation may occur. However, Canadian withholding tax levied can be credited from Swedish tax to the extent Swedish tax is attributable to foreign income (overall credit).

If the foreign tax should exceed the Swedish tax attributable to foreign income one year, the credit may, subject to certain limitations, be carried forward for up to five years. Alternatively, the foreign tax may be deducted as a cost for the recipient.

### **CERTAIN TAX ISSUES FOR SHAREHOLDERS WHO ARE NOT TAX RESIDENT IN SWEDEN**

Individual shareholders who are not resident or domiciled in Sweden for Swedish tax purposes are generally not subject to tax in Sweden for capital gains realized upon the sale or other disposal of shares. Shareholders may, however, be subject to taxation in their country of domicile and elsewhere. If shares are attributable to a permanent establishment in Sweden, the rules concerning tax-exempt dividends and capital gains described above are applicable with certain limitations.

Under a domestic Swedish tax provision, non-Swedish tax resident individuals may be subject to Swedish capital gains taxation upon a sale or other disposal of shares in non-Swedish corporate entities if the shares were acquired during their tax residency in Sweden if they have been resident or lived permanently in Sweden at any time during the calendar year of such disposal or during the previous ten calendar years preceding the year of disposal. The applicability of this provision may however be limited by an applicable tax treaty between Sweden and other countries.

Foreign legal entities are not liable to Swedish tax on dividends or capital gains upon a sale or other disposal of shares, provided that the shares are not pertaining to a permanent establishment in Sweden.

### **CANADIAN WITHHOLDING TAX**

Since Africa Oil is a Canadian company, dividends paid or credited (or which are deemed to be paid or credited) to a non-resident Canadian holder may be subject to a Canadian withholding tax of 25 per cent. When the beneficial owner of such dividends is a resident of Sweden, according to the Canada – Sweden Tax Treaty, the withholding tax rate may generally be reduced to 15 per cent. Where the beneficial owner is a corporation that directly controls at least 10 per cent of the votes or holds directly at least 25 per cent of the capital in Africa Oil, the withholding tax rate may be reduced to 5 per cent. Unless the dividend is tax-free for the Swedish holder, the Canadian tax withheld can generally be credited against Swedish income tax and real estate tax. In order to benefit from the tax credit, legal entities must apply for a tax credit in their income tax return. Individuals will automatically benefit from the tax credit, since the Swedish preliminary tax withheld may be limited to 15 per cent to reach the normal 30 per cent.

## SUMMARY OF SHAREHOLDER RIGHTS

The following is a summary of the rights of shareholders in Africa Oil based upon the BCBCA, the regulations promulgated thereunder and the Company's articles of incorporation. It also sets out certain differences between British Columbian corporate law and Canadian corporate governance principles compared to Swedish corporate law (in those parts applicable on companies whose shares are subject to trading on a regulated market) and Swedish corporate governance principles. As noted in the Section "Corporate Governance", the Company is not required to comply with Swedish corporate governance rules. The summary is of a general nature only. It is not an exhaustive account of the aforementioned corporate documents. It is neither an exhaustive review of the aforementioned corporate documents nor of all potentially relevant differences between Canadian and Swedish law or corporate governance requirements, material or not.

### The business of Africa Oil

#### CANADA

The articles of incorporation do not restrict the business that the Company can carry on.

#### SWEDEN

Under the Swedish Companies Act, the objectives of a Swedish company must be set out in the articles of association. These objectives set out the limits within which the company can operate.

### Shares

#### CANADA

The Shares have been issued in accordance with the BCBCA. The capital structure of the Company is composed of an unlimited number of common shares without par value (referred to as "Shares" in this prospectus).

#### SWEDEN

Under the Swedish Companies Act, a company may issue different classes of shares only if such share classes are specified in a company's articles of association. The articles shall also contain limitations on the minimum and maximum number of shares of each share class.

### Voting rights

#### CANADA

Under the BCBCA, a corporation is required to prepare a list of registered shareholders and each registered shareholder on the list is entitled to vote his or her corresponding number of shares. A registered shareholder can either attend the meeting and vote him or herself or appoint someone else to vote his or her shares (a "proxy holder"). A shareholder appoints a proxy holder to attend and act on the shareholder's behalf at a meeting of shareholders by giving the proxy holder a completed and executed form of proxy. A proxy holder is required to vote the shares in accordance with the shareholder's instructions or may be provided authority by the shareholder to vote at the proxyholder's discretion.

Many shareholders are "Non-Registered" shareholders because the shares of the company they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the shares. The intermediary cannot vote the shares registered in its name unless it

receives written voting instructions from the beneficial owner. If the beneficial owner requests and provides an intermediary with appropriate documentation, the intermediary must appoint the beneficial owner or nominee of the beneficial owner as proxy holder.

Instead of attending a meeting, a shareholder can also vote electronically. Unless the articles otherwise provide, any vote may be held entirely by means of a telephone or other communications medium if all shareholders and proxy holders participating in the meeting, whether by telephone, by other communications medium or in person, are able to communicate with each other.

## **SWEDEN**

Under the Swedish Companies Act, all shares carry one vote unless different share classes with different voting rights are provided for in the articles of association of the company. No share may however have a voting right which exceeds ten times the voting rights of any other share.

Shareholders registered in the share register as of the record date for a general meeting are entitled to vote at such general meeting (in person or by appointing a proxy holder). Shareholders with shares registered through a nominee must request to be temporarily registered as a shareholder of record on the record date in order to participate in a general meeting. The share register is kept by Euroclear and the record date for a general meeting shall be the fifth business day prior to the date of the meeting. Shareholders must also, if provided for in the articles of association, give notice of their intention to attend the shareholders' meeting.

## **Shareholder meetings**

### **CANADA**

Under the BCBCA, companies are required to hold an annual meeting of shareholders at least once in each calendar year and not more than fifteen months after holding the last preceding annual meeting. Meetings of shareholders must be held in British Columbia except in certain circumstances provided for in the articles or if the location for the meeting is approved in writing by the provincially appointed Registrar of Companies before the meeting is held.

General meetings of shareholders may be called by the Board at any time or by a court upon the application of a director or shareholder. The holders of not less than five per cent of the issued voting shares may also requisition the directors to call a meeting of the shareholders for the purposes stated in the requisition to be held within four months after the date on which the requisition is received by the company, and if the directors fail to send notice of a general meeting within 21 days, any requisitioning shareholders, or any one or more of them holding, in the aggregate, more than 2.5 per cent of the issued voting shares of the Company may send notice of a general meeting to be held to transact the business stated in the requisition.

Under the BCBCA, shareholder action without a meeting may only be taken by written resolution signed by all shareholders who would be entitled to vote thereon at a meeting.

### **SWEDEN**

Under the Swedish Companies Act, the board of directors is responsible for convening general meetings but holders of not less than 10 per cent of all shares in the company may request that an extraordinary general meeting is convened. If so requested, the board has two weeks to issue a notice to convene the general meeting failing which the shareholder can request that the Companies Registration Office convenes the meeting. General meetings shall be held in the municipality in which the board of directors holds its registered office or in another municipality in Sweden if specified in the articles of association.

The general meeting shall be opened by the chairman of the board or such person as the board has decided. Moreover, the Swedish corporate governance code stipulates that the chairman of the board of directors together with a quorum of directors, as well as the chief executive officer, shall attend general meetings. The chairman of the general meeting shall be nominated by the nomination committee and elected by the general meeting.

Minutes from general meetings shall be available on the company's website no later than two weeks after the meeting.

## Notices

### CANADA

At least 21 days prior to the meeting date, the Company is required to mail a notice of the date, time and location of a general meeting and a management proxy solicitation information circular to all registered shareholders and the beneficial owners who have requested to receive a copy and who hold shares as at the record date.

### SWEDEN

Under the Swedish Companies Act, a general meeting of shareholders must be preceded by a notice. The notice of the annual general meeting of shareholders must be given no sooner than six weeks and no later than four weeks before the date of the meeting. In general, notice of extraordinary general meetings must be given no sooner than six weeks and no later than three weeks before the meeting. The notice shall be announced in a press release, published in the Swedish Official Gazette and on the company's website. The company must also publish in a daily newspaper with nationwide circulation a short form message containing information regarding the notice and where it can be found. The notice shall include an agenda listing each item that the meeting is to resolve upon.

Pursuant to the Swedish corporate governance code, a company shall, as soon as the time and venue of a general meeting have been decided publish such information on the company's website. With respect to annual general meetings, such publication shall be made no later than in conjunction with the third quarterly report.

## Record date

### CANADA

The record date for a meeting of shareholders is set by the Board. The Company is required to file on SEDAR a notice of record date and meeting date at least 25 days before the record date for the meeting. The record date must not precede the date on which the meeting is to be held by more than two months, or in the case of a general meeting requisitioned under the BCBCA, by more than four months. The record date must not precede the date on which the meeting is held by fewer than 21 days.

### SWEDEN

Under the Swedish Companies Act the record date for a general meeting is the fifth business day (*i.e.* not a holiday) prior to the date of the meeting.

## Issue of shares

### CANADA

Under the TSX regulations, shareholder approval is required in those instances where the number of securities issued or issuable exceeds 25 per cent of the number of securities of the issuer which are outstanding, on a non-diluted basis.

Under the BCBCA:

- (1) shares may be issued at such times and to such persons and for such consideration as the directors may determine;
- (2) shares issued by the company are non-assessable, and the holders are not liable to the company or to its creditors in respect thereof; and
- (3) a share shall not be issued until the consideration for the share is fully paid in money or in property or past services performed by the corporation and the value of the consideration received by the corporation for such share must equal or exceed the issue price set for the share.

### SWEDEN

Under the Swedish Companies Act, resolutions on new share issues are as a main rule passed by the shareholders at a general meeting. A general meeting may also authorize the board of directors to issue new shares for period no longer than until the next annual general meeting. Furthermore, the board of directors may also resolve to issue new shares without such authorization, provided that the resolution is conditioned upon the shareholders' approval at a general meeting.

New shares may be issued against payment in cash, in kind or by way of set-off.

When issuing new shares the limitations on maximum number of shares and share capital set out in the company's articles of association need to be adhered to, unless a general meeting decides to amend the articles.

## Pre-emption rights

### CANADA

The articles of Africa Oil do not contain any pre-emption rights.

### SWEDEN

Under the Swedish Companies Act, shareholders have pre-emption rights (*Sw. företrädesrätt*) to subscribe for new shares issued in proportion to their shareholdings as of a certain record date for the new share issue. Pre-emption rights to subscribe for new shares do not apply in respect of shares issued for consideration in kind or shares issued pursuant to convertibles or warrants previously granted by the company. The pre-emption rights to subscribe for new shares may also be set aside by a resolution passed by two thirds of the votes cast and shares represented at the general meeting resolving upon the issue. The corresponding majority threshold applies to a decision by a general meeting to authorize the board to decide upon new share issues with deviation from shareholders' pre-emption rights.

## Dividends

### CANADA

Under the BCBCA, a corporation may pay a dividend in money or property or by issuing shares or warrants of the corporation. A corporation shall not declare or pay a dividend if there are reasonable grounds for believing that: (a) the corporation is insolvent; or (b) the payment of the dividend would render the corporation insolvent.

### SWEDEN

Under the Swedish Companies Act, payments of dividends require a shareholder resolution at a general meeting. A resolution to pay dividends may, with some exceptions, not exceed the amount recommended by the board of directors. Dividends may only be made if, after the payment of the dividend, there is sufficient coverage for the company's restricted equity and the payment of dividends is justified, taking into consideration the equity required for the type of operations, the company's need for consolidation and liquidity as well as the company's financial position in general. Each shareholder appearing in share register as of the record date for the dividend is entitled to receive the dividend distribution. Dividends are normally distributed to the shareholders through Euroclear.

## Distribution of assets on liquidation

### CANADA

Under the BCBCA, a company may liquidate if it has been authorized to do so by a special resolution. In addition, a shareholder, a beneficial owner of a share, a director or any other person, including a creditor of the corporation whom the court considers appropriate, may apply to court for an order that the company be liquidated and dissolved if an event occurs on the occurrence of which the articles of the company provide that the company is to be liquidated and dissolved or the court otherwise considers it just and equitable to do so.

After the final accounts have been approved by the liquidator and, in the case of a voluntary liquidation ordered by the court, an order of the court, the liquidator will distribute any remaining property of the corporation, after the discharge of its obligations, among the shareholders according to their respective rights.

### SWEDEN

Under the Swedish Companies Act, a company can enter into voluntary liquidation following a resolution by simple majority vote among the shareholders at a general meeting. All shares carry equal rights in a liquidation unless otherwise provided for in articles of association.

The Swedish Companies Act also stipulates that a company shall enter into compulsory liquidation in a capital deficiency situation and in certain other situations.

## Certain extraordinary corporate actions

### CANADA

Under the BCBCA, certain extraordinary corporate actions, such as certain amalgamations, continuances, and sales, leases or exchanges of all or substantially all of the property of a corporation other than in the ordinary course of business, and other extraordinary corporate actions such as liquidations, dissolutions and (if ordered by a court) arrangements, are required to be approved by special resolution. A special resolution is a resolution passed at a meeting by not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution or a resolution signed by all of the shareholders entitled to vote on that resolution. In certain cases, a special

resolution to approve an extraordinary corporate action is also required to be approved separately by the holders of a separate class or series of shares.

## **SWEDEN**

Under the Swedish Companies Act, a statutory merger requires a shareholder resolution passed at a general meeting. The majority requirements for a valid resolution depends on the type of companies involved, however not less than two-thirds of the votes cast and the shares represented at the meeting. A voluntary liquidation requires a resolution passed at a shareholders meeting supported by more than half of the votes cast, unless otherwise provided in the articles of association of the company. A material change of the operations conducted by the company may require a change of the company's objects and purposes in the articles of association, see Section "Amendment to the articles" below.

## **Restrictions on change of control**

### **CANADA**

The Company does not have any shareholder rights plans in effect.

### **SWEDEN**

Not applicable for Swedish companies with shares listed on a regulated market.

## **Mandatory takeover bids/ squeeze-out rules**

### **CANADA**

Canadian securities laws contain procedural requirements for takeover bids and going-private transactions. In addition, the BCBCA provides that in certain circumstances a security holder or security holders who, in the aggregate, hold more than ninety per cent of the shares of any class of shares is entitled to compel the acquisition of the shares held by remaining shareholders.

If the acquiring company elects to proceed by way of takeover bid but fails to acquire the requisite percentage of the shares to permit a force-out of the minority, the company may elect to squeeze out the minority through another corporate process, such as by plan of arrangement or by amalgamation.

### **SWEDEN**

Under Swedish law an obligation to launch a mandatory takeover bid applies when a party becomes the owner of 30 per cent or more of the votes in a company with shares listed on a regulated market.

Under the Swedish Companies Act, a shareholder holding more than 90 per cent of the shares in a company is entitled, on a compulsory basis, to buy-out the remaining shares from the other shareholders in the company. On the other hand, a minority shareholder is also, in such situation, entitled to demand that the majority shareholder purchases his or her shares.

## **Redemption provisions**

### **CANADA**

Under the BCBCA, a corporation may redeem, on the terms and in the manner provided in its memorandum or articles, any of its shares that has a right of redemption attached to it, purchase any of its shares or otherwise acquire any of its shares. However, a corporation must not redeem or otherwise acquire any of its shares if there

are reasonable grounds for believing that the corporation is insolvent or making the payment or providing the consideration would render the corporation insolvent.

A listed company can file a Notice of Intention to Make a Normal Course Issuer Bid with the TSX seeking approval for the company to purchase by normal market purchases over a 12 month period the greater of 10 per cent of the public float on the date of acceptance of the notice of the normal course issuer bid by the TSX; or 5 per cent of such class of securities issued and outstanding on the date of acceptance..

## **SWEDEN**

Under the Swedish Companies Act, a company with shares listed on a regulated market is permitted to repurchase a maximum of 10 per cent of all outstanding shares in the company. A resolution to repurchase shares must be taken either by a qualified majority vote among the shareholders at a general meeting or, following authorization from the general meeting with same majority vote, by the board of directors.

A general meeting may also resolve upon the redemption of the company's shares through which the share capital of the company will be reduced. This is a more formal and complex process, which as a main rule involves also notice to the company's creditors.

## **Amendments to the articles**

### **CANADA**

Under the BCBCA, any amendment to the articles generally requires approval by special resolution, which is a resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of that resolution or a resolution signed by all of the shareholders entitled to vote on that resolution.

### **SWEDEN**

Under the Swedish Companies Act, an amendment of the articles of association requires a shareholder resolution at a general meeting. The majority requirement for a valid resolution depends on the type of alteration. However, not less than two-thirds of the votes cast and of the shares represented at the meeting will be required. The board of directors is not allowed to make amendments to the articles of association. Any amendment to the articles will have to be registered with the Swedish Companies Registration Office.

## **Directors and the board of directors**

### **NUMBER OF DIRECTORS**

#### ***Canada***

Under the BCBCA, a public company must have no fewer than three directors. There are no Canadian residency requirements. The directors are elected at the annual meeting of Africa Oil shareholders for a term expiring at the end of the next annual meeting. Under the BCBCA, the directors may also, if the articles so provide, appoint one or more additional directors, who shall also hold office for a term expiring at the end of the next annual meeting, provided that the total number of directors so elected shall not exceed one third of the number of directors elected at the previous annual meeting. Any casual vacancy occurring in the board of directors may also be filled by the directors.

### **Sweden**

Under the Swedish Companies Act, a public company shall have a board of directors consisting of at least three board members and the chairman of the board may not be the managing director of the company. More than half of the directors shall be resident within the European Economic Area (unless otherwise approved by the Swedish Companies Registration Office). The actual number of board members shall be determined by a shareholders' meeting, within the limits set out in the company's articles of association.

Under the Swedish corporate governance code, not more than one director may also be a senior executive of the relevant company or a subsidiary. In addition, a majority of board members shall be independent of the company and its management and two of these members shall also be independent of major shareholders in the company.

## **NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS**

### **Canada**

Under the BCBCA, the term of office of each of the present directors expires at the next annual general meeting. At the meeting, shareholders will be asked to pass an ordinary resolution to set the number of directors and the proxy circular will disclose the persons thereunder to be proposed for election as directors of the company. Any director must qualify under the BCBCA to act as a director and consent to acting as a director. In certain circumstances, a vacancy among directors may also be filled by the remaining directors. The articles also contain advance notice provisions requiring that additional director nominations for any given meeting must be received by Africa Oil in advance of the meeting.

Under the BCBCA, the shareholders of a corporation may remove any director or directors from office by a special resolution which is passed by a majority of 66 2/3 per cent of the votes cast by the shareholders entitled to vote on the resolution. Where the holders of any class or series of shares of a corporation have an exclusive right to elect one or more of the directors such that a director so elected may only be removed by a separate special resolution of those shareholders. In addition, the directors may also remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence, or if the director ceases to be qualified to act as a director of a company and does not promptly resign.

### **Sweden**

Under Swedish law, the board of directors shall, except for any employee representatives, be elected by the annual general meeting of shareholders, unless the articles of association provide otherwise. The members of the board of directors are usually elected for the period until the end of the next annual general meeting of shareholders, unless a longer term of up to four financial years is set out in the articles of association. It is possible for a board member to be re-elected for a new term of office.

Companies to which the Swedish corporate governance code applies shall have a nomination committee. In addition to nominating directors, the nomination committee shall nominate the chairman of the board of directors and the auditors and shall also propose fees to each director and to the auditors. The nomination committee's proposals are to be presented in the notice of the general meeting and on the company's website. At the same time, the nomination committee is to issue a statement on the company's website explaining its proposals and providing more information about the candidates proposed for election or re-election.

Under the Swedish corporate governance code, the annual general meeting of shareholders shall either appoint the members of a nomination committee or pass a resolution specifying how the members are to be appointed. The nomination committee shall have at least three members, the majority of which shall be independent of the company and its management. One of the independent members shall also be independent of the company. One

of the independent members shall also be independent of the largest shareholder. The chief executive officer and other senior executives may not be members of the nomination committee.

## **REMUNERATION**

### ***Canada***

According to the articles of the Company, the directors shall be paid such remuneration for their services as the Board may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by the shareholders. The articles permit that the remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director. The directors shall also be entitled to be reimbursed for reasonable expenses incurred in and about the business of the Company.

### ***Sweden***

Under the Swedish Companies Act, the remuneration to the board of directors shall be determined by the annual general meeting of shareholders, specifying the amount for each director. For companies complying with the Swedish corporate governance code, the nomination committee's proposal to the annual general meeting of shareholders shall include a proposal regarding the remuneration to each member of the board.

In addition, the board of directors shall, pursuant to the Swedish corporate governance code, have a remuneration committee. The remuneration committee shall prepare the board of directors' resolutions regarding executive compensation and shall also monitor and evaluate the company's principles and levels of remuneration to the executive management, including programs for variable compensation. The code also stipulates that variable compensation paid in cash to the executive management shall be subject to predetermined limits regarding the total outcome and that the board of directors in such cases shall consider (i) to make payment conditional on the performance proving to be sustainable over time, and (ii) to introduce the right to reclaim remuneration that has been paid on the basis of information which later proves to be manifestly misstated. Furthermore, all share and share-price related incentive schemes for the executive management shall be approved by a general meeting.

## **Powers of the board of directors**

### **CANADA**

Directors of corporations governed by the BCBCA have fiduciary obligations to the corporation. Under the BCBCA, the duty of loyalty requires directors of a Canadian corporation to act honestly and in good faith with a view to the best interests of the corporation, and the duty of care requires that the directors exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board is responsible for the stewardship of the business and for acting in the best interests of the Company and its shareholders.

### **SWEDEN**

Under the Swedish Companies Act, the board of directors is responsible for the organization of the company and shall monitor the financial situation of the company and the group. The board shall appoint a managing director and issue instructions to such director setting out the responsibilities of the board and managing director. The board shall also issue instructions in reporting obligations in order for the board to fulfill its duties.

The managing director is responsible for the day-to-day management of the company in accordance with law, which normally includes appointing the other senior executives. The managing director shall be resident within the European Economic Area (unless otherwise approved by the companies' registration office).

## Right to indemnification

### CANADA

Under the BCBCA, a corporation may indemnify a current or former director or officer, a current or former director or officer of another company at the request of the corporation or at a time when the company is or was an affiliate of the corporation (an “**Indemnifiable Person**”), against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal, administrative, investigative or other proceeding to which he or she is made a party by reason of being or having been a director or officer of such corporation or such body corporate, if: (a) he or she acted honestly and in good faith with a view to the best interests of such corporation or associated company; and (b) in the case of a proceeding that is not a civil proceeding, if he or she had reasonable grounds for believing that his or her conduct was lawful.

### SWEDEN

The Swedish Companies Act does not contain any specific provisions requiring that the articles of association provide for indemnification of board members, officers or other persons. Instead, Swedish companies can have professional indemnity insurance in place for its board members and officers.

The annual general meeting of shareholders shall resolve on the discharge of the board of directors and managing director from liability. An action for damages on behalf of the company may be available in certain circumstances against a founder, board member, managing director, auditor or shareholder of the company. Such an action may be instituted where at a general meeting of shareholders the majority, or a minority comprising the owners of at least one-tenth of all shares, has supported the proposal that such an action be instituted. The action for damages in favor of a company may also be conducted by owners (in their own name) of at least one-tenth of all shares.

## Financial statements, auditor’s reports, auditors and audit committee

### CANADA

Under the BCBCA, the directors of the Company must place before the shareholders at every annual meeting (a) comparative financial statements as prescribed relating separately to the period that began immediately after the end of the last completed financial year and ended not more than six months before the annual meeting, and the immediately preceding financial year; and (b) the report of the auditor, if any.

Issuers are required to prepare and file on SEDAR its annual financial statements and annual management discussion and analysis along with the report of the auditor, if any, within 90 days of financial year-end. Issuers are required to prepare and file on SEDAR its quarterly financial statements and interim management discussion and analysis within 45 days of the end of the first, second and third financial quarter.

The Audit Committee is appointed by the Board pursuant to provisions of the BCBCA. The primary responsibility for the Corporation’s financial reporting, accounting systems and internal controls is vested in senior management and is overseen by the Board. The Audit Committee is a standing committee of the Board established to assist it in fulfilling its responsibilities in this regard. The Audit Committee shall have responsibility for overseeing management reporting on internal controls. While it is management’s responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so.

## **SWEDEN**

Under the Swedish Companies Act, the annual general meeting shall adopt the balance sheet and the profit and loss statement. Further, it makes decisions in respect of the disposition of the company's profit or loss (such as payment of dividends). Swedish companies with shares listed on a regulated market are required to make their annual reports public not later than four months after the end of each financial year.

The annual report, together with the auditor's report, must be presented at the annual general meeting which according to the Swedish Companies Act is to be held within six months after the end of the financial year.

Auditors are appointed by a general meeting of shareholders, whereby a registered accounting firm may be appointed as auditor. The Swedish corporate governance code requires that the board of directors shall at least once annually meet the company's auditor without any member of the executive management present.

Companies with shares listed on a regulated market must have an audit committee, unless the assignments of such committee are carried out by the board of directors. The audit committee shall (i) monitor the company's financial reporting; (ii) monitor the efficiency of the company's internal control, internal audit and risk management; (iii) keep itself informed regarding the audit of the annual report and consolidated financial statements; (iv) review and monitor the auditor's impartiality and independence, paying particular attention to whether the auditor provides the company with services other than auditing services; and (v) assist in the preparation of a proposal to the general meeting for a resolution regarding the election of auditors.

## **Corporate governance reports and website**

### **CANADA**

Companies listed on the TSX must provide corporate governance information in the management information circular (usually referred to as a proxy circular). The circular is distributed together with the Company's notice of annual shareholders' meeting and is filed on SEDAR. There is no requirement to include the management information circular on the Company's website, or to have the management information circular reviewed by the Company's auditors. The content of the management information circular is regulated by Canadian securities laws, and the circular must, among other things include a discussion of the Company's compliance with the Canadian corporate governance principles. Although there are no legal requirements regarding the information on the Company's website, the Company does include information useful to investors.

### **SWEDEN**

Swedish companies with shares listed on a regulated market are obliged by law to prepare an annual corporate governance report, with information about, among other things, the key elements of the internal control systems, information about major shareholders, information about the board of directors and its committees and any mandates for the board of directors to issue new shares or acquire treasury shares.

The Swedish corporate governance code requires that the company states which rules of the Swedish corporate governance code it has not complied with and to explain the reasons for each case of non-compliance, and describe the solution it has adopted instead. The company must also have a section on its website devoted to corporate governance matters, where the company's three most recent corporate governance reports are to be posted, together with, among other things, the articles of association, information about upcoming shareholders' meetings and minutes from general meetings held during the past three years.

## Company's obligation to disclose changes in its share capital

### CANADA

The Company is required to file a report with the TSX within ten days of the end of each month in which any change to the number of outstanding or reserved listed securities has occurred (including a reduction in such number that results from a cancellation or redemption of securities).

### SWEDEN

Following the Listing on NASDAQ OMX Stockholm, the Company is required, under Swedish law, to report any changes in the number of shares or votes. Such disclosure shall be made on the last trading day of the calendar month in which the increase or decrease of shares or votes occurred.

## Distribution of information to the Canadian and Swedish markets

The content and format of the disclosure obligations of Canadian issuers is mandated under National Instrument 51-102 and other National Instruments. The Canadian Securities Administrators have implemented National Policy 51-201 Disclosure Standards to provide “best disclosure” practices in order that everyone investing in securities will have equal access to information that may affect their investment decisions. Canadian securities legislation prohibits a reporting issuer from selective disclosure or informing any person or company in a special relationship with a reporting issuer, other than in the necessary course of business, of a material fact or a material change before that material information has been generally disclosed. Securities legislation also prohibits anyone in a special relationship with a reporting issuer from purchasing or selling securities of the reporting issuer with knowledge of a material fact or material change about the issuer that has not been generally disclosed.

The Company maintains a disclosure policy to ensure that communications to the investing public about the Company are (i) timely, factual and accurate and (ii) broadly disseminated in accordance with all applicable legal and regulatory requirements. The disclosure policy extends to all employees, consultants and the Board of the Company and its subsidiaries and those individuals authorized to speak on behalf of the Company or its subsidiaries.

Following the Listing on NASDAQ OMX Stockholm the Company will be subject to the rules on disclosure of the NASDAQ OMX Stockholm Rulebook for Issuers. Financial reports and press releases will be published on the Company's website at [www.africaoilcorp.com](http://www.africaoilcorp.com) and by its news distributors. Financial reports and press releases are also filed on SEDAR at [www.sedar.com](http://www.sedar.com). The information will be in English only.

## Swedish insider reporting rules

In addition to any reporting requirements under applicable Canadian laws, persons holding an insider position (Sw. *insynställning*) in Africa Oil will, by reason of the Listing, be required to report their holdings of Shares and other financial instruments to the Swedish Financial Supervisory Authority (the “SFSA”). Such reporting shall be made in accordance with the Swedish Act on Reporting Obligations for Certain Holdings of Financial Instruments (SFS 2000:1087). These reports are publicly available on the SFSA's website [www.fi.se](http://www.fi.se). In addition, the same act stipulates a trading ban for the chief executive officer, the deputy chief executive officer(s), the members and deputy members of the Board, and the external auditor and deputy auditor of the Company during the thirty days preceding the publication of the Company's ordinary quarterly interim reports (including the day of publication).

Furthermore, following the Listing, the Company must publish information on any acquisitions or transfers resulting in the portion of the Shares or votes in the Company held by the Company itself reaching, exceeding or falling below 5, 10, 15, 20, 25, 30, 50,  $66\frac{2}{3}$ , or 90 per cent of the aggregate number of Shares or voting rights in the Company. The Company will also be subject to additional disclosure rules of NASDAQ OMX Stockholm.

## DEFINITIONS AND TERMS

<b>“10BA Farmout Agreement”</b>	means the Farmout Agreement made September 27, 2010 between Centric Energy (Kenya) Limited and Tullow Kenya B.V., in respect of the PSC covering Block 10BA, Kenya.
<b>“12A/13T Farmout Agreement”</b>	means the Farmout Agreement made December 9, 2010 between, among others, the Company and Tullow Kenya B.V., in respect of the PSCs covering Block 12A and Block 13T, Kenya.
<b>“12A/13T Amending Agreement”</b>	means the amendment to the Platform Assignment Agreement, made May 27, 2010.
<b>“2D”</b>	means two dimensional.
<b>“3D”</b>	means three dimensional.
<b>“Africa Oil” or the “Company”</b>	means Africa Oil Corp., including Africa Oil and its subsidiaries.
<b>“Agriterra”</b>	means Agriterra Limited (formerly White Nile Ltd.).
<b>“Agriterra Farmout Agreement”</b>	means the Farmout Agreement made June 14, 2010 between AOEBV and Agriterra, in respect of the South Omo Block in Ethiopia.
<b>“AOEBV”</b>	means Africa Oil Ethiopia B.V.
<b>“AOI”</b>	means area of interest.
<b>“BCBCA”</b>	means the <i>Business Corporations Act</i> (British Columbia) S.B.C. 2002 c.57, as amended, including the regulations promulgated thereunder.
<b>“Canmex I”</b>	means Canmex Holdings (Bermuda) I Ltd.
<b>“Centric”</b>	means Centric Energy Corp.
<b>“Centric Arrangement Agreement”</b>	means the Arrangement Agreement dated as of November 29, 2010, as amended by Amending Agreements dated December 23, 2010 and January 4, 2011, between the Company and Centric, including the disclosure letters of Centric and the Company.
<b>“Centric Plan of Arrangement”</b>	means the arrangement completed pursuant to the provisions of Part 9, Division 5 of the BCABC in accordance with the terms and conditions set forth in the Plan of Arrangement attached as Schedule A to the Centric Arrangement Agreement pursuant to which the Company acquired all of the issued and outstanding shares of Centric on the basis of 0.3077 shares of the Company and USD 0.0001 in cash for each one share of Centric.

<b>“commercial discovery”</b>	means a discovery that is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal work or similar operations, including recoverable reserves of petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with prudent international petroleum industry practices.
<b>“Contractor Group”</b>	means the parties, including joint venture partners, that hold a working interest in a PSA or a PSC.
<b>“Convertible Loan”</b>	means the convertible loan provided by Lundin Services pursuant to a loan agreement dated April 29, 2009 between the Company and Lundin Services, as amended on March 1, 2011, in the approximate amount of USD 10.8 million. The Convertible Loan had a maturity date of December 31, 2011 and bore interest at the rate of USD six-month LIBOR plus 3 per cent. The Convertible Loan, including any accrued and unpaid interest, was convertible on or before December 31, 2011, at the option of either Africa Oil or Lundin Services, into common shares of Africa Oil, issuable at a deemed price of CAD 0.90 per share.
<b>“crude oil”</b>	means a mixture that consists mainly of pentanes and heavier hydrocarbons, which may contain sulphur and other non-hydrocarbon compounds, that is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated. It does not include solution gas or natural gas liquids.
<b>“Denovo”</b>	means Denovo Capital Corp.
<b>“development costs”</b>	means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs or support equipment and facilities and other costs of development activities, are costs incurred to: <ul style="list-style-type: none"> <li>(a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;</li> <li>(b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs</li> </ul>

of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly(c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and

(c) provide improved recovery systems.

**“development well”**

means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

**“EAX”**

means East African Exploration Limited, a wholly-owned subsidiary of Black Marlin Energy Holdings Limited. Black Marlin Energy Holdings Limited was acquired by Afren plc on October 7, 2010.

**“EAX Farmout Agreement”**

means the Farmout Agreement made May 29, 2009 between, among others, the Company and EAX, in respect of the PSAs covering Blocks 2 and 6 and 7 and 8, Ethiopia and the PSC covering Block 10A, Kenya.

**“Ethiopian Government”**

means the Government of the Federal Democratic Republic of Ethiopia.

**“First North”**

means the First North exchange at NASDAQ OMX-Stockholm.

**“Farmout Agreement”**

means a contractual agreement between parties whereby the holder of an interest in an oil and gas concession agrees to assign all or part of that interest to another entity in exchange for fulfilling contractually specified conditions.

**“gross”**

means:

(a) in relation to wells, the total number of wells in which the Company has an interest; and

(b) in relation to properties, the total area of properties in which the Company has an interest.

**“Horn Petroleum” or “Horn”**

means Horn Petroleum Corporation.

**“Kenyan Government”**

means the Government of the Republic of Kenya.

**“Komodo Capital”**

means Komodo Capital Pty. Ltd.

**“Lion Energy”**

means Lion Energy Corp. (formerly Raytec Metals Corp.)

<b>“Lion Energy Arrangement Agreement”</b>	means the Arrangement Agreement dated as of April 3, 2011, as amended by Amending Agreement dated June 20, 2011, between the Company and Lion Energy, including the disclosure letters of Lion Energy and the Company.
<b>“Lion Energy Farmout Agreement”</b>	means the Farmout Agreement made August 19, 2009 between, among others, the Company and Lion Energy, in respect of the PSAs covering Dharoor Valley Block and the Nugaal Valley Block, located in Puntland (Somalia), the PSAs covering Block 9, Block 10A and Block 10BB, Kenya.
<b>“Lion Energy Farmout Amendment”</b>	means the amendment to the Lion Energy Farmout Agreement made July 29, 2010.
<b>“Lundin Services”</b>	means Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB.
<b>“Marathon”</b>	means Marathon Oil Corporation.
<b>“natural gas”</b>	means all gaseous petroleum and inerts.
<b>“net”</b>	means: <ul style="list-style-type: none"> <li>(a) in relation to the Company’s interest in wells, the number of wells obtained by aggregating the Company’s working interest in each of its gross wells; and</li> <li>(b) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company.</li> </ul>
<b>“New Age”</b>	means New Age (African Global Energy) Limited.
<b>“operating costs”</b>	mean costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities.
<b>“NI 51-101”</b>	means the National Instrument 51-101 — <i>Standard of Disclosure for Oil and Gas Activities</i> of the Canadian Securities Administrators and the companion policies and forms thereto, as amended from time to time.
<b>“Peninsula”</b>	means Peninsula Merchant Syndications Corp.
<b>“petroleum”</b>	means: (i) any naturally occurring hydrocarbons in gaseous or liquid state; (ii) any mixture of naturally occurring hydrocarbons in gaseous or liquid state; or (iii) any petroleum (as defined in (i) or (ii) above) that has been returned to a reservoir.

<b>“petroleum operations”</b>	means all exploration, gas marketing, development, production and decommissioning operations, as well as any other activities or operations directly or indirectly related or connected with said operations (including health, safety and environmental operations and activities) and authorized or contemplated by, or performed in accordance with PSC’s.
<b>“Platform”</b>	means Platform Resources Inc.
<b>“Platform Assignment Agreement”</b>	means the agreement made January 11, 2010 between, among others, the Company and Platform, in respect of Blocks 12A and 13T in Kenya.
<b>“production”</b>	means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas.
<b>“PSC”, “PSA”, “Production Sharing Contract” or “Production Sharing Agreement”</b>	means contracts or agreements entered into with a host government providing for petroleum operations in a defined area and the division of petroleum production from the petroleum operations.
<b>“Profit Oil”</b>	means the amount of production, after deducting cost oil production allocated to costs and expenses that would be divided between the participating parties and the host government under a Production Sharing Contract.
<b>“prospect”</b>	means a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.
<b>“prospective resources”</b>	means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.
<b>“Puntland Oil”</b>	means Puntland Oil Pty Ltd. , a wholly-owned subsidiary of Red Emperor.
<b>“Range”</b>	means Range Resources Ltd.
<b>“Red Emperor”</b>	means Red Emperor Resources NL.
<b>“Red Emperor Farmout Agreement”</b>	means the Farmout Agreement made August 12, 2010 between, among others, the Company and Red Emperor, in respect of the PSAs covering Dharoor Valley Block and the Nugaal Valley Block, located in Puntland (Somalia).
<b>“Red Emperor Farmout</b>	means the amendment to the Red Emperor Farmout Agreement

<b>Amendment</b>	made March 23, 2011.
<b>“SEDAR”</b>	means the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval.
<b>“Shares”</b>	means the common shares representing the capital of the Company.
<b>“TSX”</b>	means the Toronto Stock Exchange.
<b>“TSX-V”</b>	means the TSX Venture Exchange.
<b>“Tullow”</b>	means Tullow Oil plc.
<b>“Tullow Farmout Agreement”</b>	means the Farmout Agreement made September 1, 2011 between, among others, the Company, Tullow Kenya B.V. and Tullow Ethiopia B.V., in respect of the PSAs covering Blocks 10A and 10BB, Kenya and the South Omo Block, Ethiopia.
<b>“working interest”</b>	means a percentage of the ownership in an oil and gas concession granting its owner the right to explore and develop oil and gas from a specific property which normally bears its proportionate share of the costs of exploration, development and operations as well as any royalties or other production burdens.

## Conversion Table

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	Cubic meters	28.174
Cubic meters	Cubic feet	35.315
Bbls	Cubic meters	0.159
Cubic meters	Bbls	6.289
Feet	Meters	0.305
Meters	Feet	3.281
Miles	Kilometers	1.609
Kilometers	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMbtu	0.950
MMbtu	Gigajoules	1.0526

## Abbreviations

Oil and Natural Gas Liquids		Natural Gas	
Bbls	Barrels of crude oil	Mcf	Thousand cubic feet of natural gas
Bbls/d	Barrels of crude oil per day	MMcf	Million cubic feet of natural gas
Boe	Barrels of oil equivalent	Bcf	Billion cubic feet of natural gas
Boe/d	Barrels of oil equivalent per day	Mcfd	Thousand cubic feet of natural gas per day
Mbbl	Thousands of barrels of crude oil	Mcfe	Thousand cubic feet of gas equivalent
NGLs	Natural gas liquids	MMbtu	Million British Thermal Units

Note: The calculations of barrels of oil equivalent (boe) and thousand cubic feet of gas equivalent (Mcfe) are based on the standard of 6Mcf: 1 bbl when converting natural gas to oil and 1 bbl: 6 Mcf when converting oil to natural gas. Boe and Mcfe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl or a Mcfe conversion ratio of 1 bbl: 6 Mcf is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents form part of the prospectus and are incorporated by reference:

- Audited consolidated financial statements for the financial year ended December 31, 2011;
- Audited consolidated financial statements for the financial year ended December 31, 2012;
- Audited consolidated financial statements for the financial year ended December 31, 2013;
- Unaudited consolidated interim financial statements for the three-month period ended March 31, 2014;
- Management's discussions and analysis for the years ended December 31, 2011 and 2010;
- Management's discussions and analysis for the years ended December 31, 2012 and 2011;
- Management's discussions and analysis for the years ended December 31, 2013 and 2012;
- Management's discussions and analysis for the three months ended March 31, 2014 and 2013; and
- The Company's news release disclosing its resource estimates dated September 3, 2013.

The above-listed documents are available in electronic format at [www.africaoilcorp.com](http://www.africaoilcorp.com).

## **DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents are also available in electronic format for inspection on [www.africaoilcorp.com](http://www.africaoilcorp.com).

- The Company's articles of incorporation, certificate of incorporation and by-laws
- Documents relating to corporate governance issues

# ADDRESSES

<b>The Company</b>	Africa Oil Corp. 2000, 885 West Georgia Street Vancouver, British Columbia Canada V6C 3E8 Phone: +1 604 689 7842
<b>Financial adviser</b>	Pareto Securities AB P.O. Box 7415 Berzelii Park 9 Stockholm 103 91 Sweden
<b>External auditor</b>	PricewaterhouseCoopers LLP Suite 3100, 111-5th Avenue SW Calgary , Alberta Canada T2P 5L3
<b>Swedish legal counsel</b>	Gernandt & Danielsson Advokatbyrå KB P.O. Box 5747 Hamngatan 2 Stockholm 114 87 Sweden
<b>Canadian legal counsel</b>	McCullough O'Connor Irwin LLP Suite 2600 - 1066 West Hastings Street Vancouver, British Columbia Canada V6E3X1
<b>Central securities depositories</b>	Euroclear Sweden AB P.O. Box 191 Klarabergsviadukten 63 Stockholm 101 23 Sweden
<b>Transfer agent</b>	Computershare Investor Services Inc. 510 Burrard Street Vancouver, British Columbia Canada V6C 3A8

# CERTIFICATE OF INCORPORATION AND ARTICLES

## CERTIFICATE OF INCORPORATION

NUMBER: 443700



COMPANY ACT

CANADA  
PROVINCE OF BRITISH COLUMBIA

## CERTIFICATE OF INCORPORATION

*I Hereby Certify that*

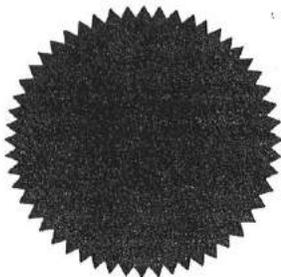
**CANMEX MINERALS CORPORATION**

has this day been incorporated under the *Company Act*

*Issued under my hand at Victoria, British Columbia  
on March 29, 1993*

A handwritten signature in cursive script that reads 'J. Powell'.

JOHN S. POWELL  
*Registrar of Companies*





Number: BC0443700

**CERTIFICATE  
OF  
CHANGE OF NAME**

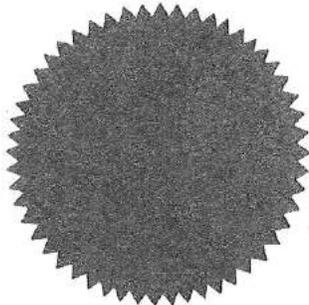
*BUSINESS CORPORATIONS ACT*

I Hereby Certify that CANMEX MINERALS CORPORATION changed its name to AFRICA OIL CORP. on August 20, 2007 at 12:01 AM Pacific Time.

*Issued under my hand at Victoria, British Columbia*

*On August 20, 2007*

**RON TOWNSHEND**  
*Registrar of Companies*  
Province of British Columbia  
Canada



# ARTICLES OF AFRICA OIL

Incorporation number: BC0443700

## AFRICA OIL CORP. (the “Company”)

### ARTICLES

1.	Interpretation.....	1
2.	Shares and Share Certificates.....	2
3.	Issue of Shares .....	3
4.	Share Registers.....	4
5.	Share Transfers.....	4
6.	Transmission of Shares .....	6
7.	Purchase of Shares .....	6
8.	Borrowing Powers.....	6
9.	Alterations.....	7
10.	Meetings of Shareholders.....	8
11.	Proceedings at Meetings of Shareholders .....	9
12.	Votes of Shareholders.....	13
13.	Directors.....	16
14.	Election and Removal of Directors.....	17
15.	Alternate Directors.....	20
16.	Powers and Duties of Directors .....	21
17.	Disclosure of Interest of Directors .....	21
18.	Proceedings of Directors .....	23
19.	Executive and Other Committees .....	25
20.	Officers.....	26
21.	Indemnification .....	27
22.	Dividends .....	28
23.	Documents, Records and Reports .....	30
24.	Notices .....	30
25.	Seal.....	31
26.	Prohibitions.....	32
27.	Advance Notice Provisions.....	33

#### 1. INTERPRETATION

##### 1.1 Definitions

In these Articles, unless the context otherwise requires:

- (1) “board of directors”, “directors” and “board” mean the directors or sole director of the Company for the time being;
- (2) “*Business Corporations Act*” means the *Business Corporations Act* (British Columbia) as amended from time to time and includes all regulations as amended from time to time made pursuant to that Act;
- (3) “legal personal representative” means the personal or other legal representative of the shareholder;

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- (4) “registered address” of a shareholder means the shareholder’s address as recorded in the central securities register;
- (5) “seal” means the seal of the Company, if any.

### **1.2 Business Corporations Act and Interpretation Act Definitions Applicable**

The definitions in the *Business Corporations Act* and the definitions and rules of construction in the *Interpretation Act*, with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the *Business Corporations Act* and a definition or rule in the *Interpretation Act* relating to a term used in these Articles, the definition in the *Business Corporations Act* will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the *Business Corporations Act*, the *Business Corporations Act* will prevail.

## **2. SHARES AND SHARE CERTIFICATES**

### **2.1 Authorized Share Structure**

The authorized share structure of the Company consists of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

### **2.2 Form of Share Certificate**

Each share certificate issued by the Company must comply with, and be signed as required by, the *Business Corporations Act*.

### **2.3 Shareholder Entitled to Certificate or Acknowledgment**

Each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder’s name or (b) a non-transferable written acknowledgment of the shareholder’s right to obtain such a share certificate, provided that in respect of a share held jointly by several persons, the Company is not bound to issue more than one share certificate and delivery of a share certificate for a share to one of several joint shareholders or to one of the shareholders’ duly authorized agents will be sufficient delivery to all.

### **2.4 Delivery by Mail**

Any share certificate or non-transferable written acknowledgment of a shareholder’s right to obtain a share certificate may be sent to the shareholder by mail at the shareholder’s registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

### **2.5 Replacement of Worn Out or Defaced Certificate or Acknowledgement**

If the directors are satisfied that a share certificate or a non-transferable written acknowledgment of the shareholder’s right to obtain a share certificate is worn out or defaced, they must, on production to them of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as they think fit:

- (1) order the share certificate or acknowledgment, as the case may be, to be cancelled; and

- (2) issue a replacement share certificate or acknowledgment, as the case may be.

#### **2.6 Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgment**

If a share certificate or a non-transferable written acknowledgment of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, a replacement share certificate or acknowledgment, as the case may be, must be issued to the person entitled to that share certificate or acknowledgment, as the case may be, if the directors receive:

- (1) proof satisfactory to them that the share certificate or acknowledgment is lost, stolen or destroyed; and
- (2) any indemnity the directors consider adequate.

#### **2.7 Splitting Share Certificates**

If a shareholder surrenders a share certificate to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

#### **2.8 Certificate Fee**

There must be paid to the Company, in relation to the issue of any share certificate under Articles 2.5, 2.6 or 2.7, the amount, if any and which must not exceed the amount prescribed under the *Business Corporations Act*, determined by the directors.

#### **2.9 Recognition of Trusts**

Except as required by law or statute or these Articles, no person will be recognized by the Company as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as by law or statute or these Articles provided or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

### **3. ISSUE OF SHARES**

#### **3.1 Directors Authorized**

Subject to the *Business Corporations Act* and the rights of the holders of issued shares of the Company, the Company may issue, allot, sell or otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the directors may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

#### **3.2 Commissions and Discounts**

The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person purchasing or agreeing to purchase shares of the Company from

the Company or any other person or procuring or agreeing to procure purchasers for shares of the Company.

### **3.3 Brokerage**

The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

### **3.4 Conditions of Issue**

Except as provided for by the *Business Corporations Act*, no share may be issued until it is fully paid. A share is fully paid when:

- (1) consideration is provided to the Company for the issue of the share by one or more of the following:
  - (a) past services performed for the Company;
  - (b) property;
  - (c) money; and
- (2) the value of the consideration received by the Company equals or exceeds the issue price set for the share under Article 3.1.

### **3.5 Share Purchase Warrants and Rights**

Subject to the *Business Corporations Act*, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

## **4. SHARE REGISTERS**

### **4.1 Central Securities Register**

As required by and subject to the *Business Corporations Act*, the Company must maintain in British Columbia a central securities register. The directors may, subject to the *Business Corporations Act*, appoint an agent to maintain the central securities register. The directors may also appoint one or more agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares, as the case may be. The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

### **4.2 Closing Register**

The Company must not at any time close its central securities register.

## **5. SHARE TRANSFERS**

### **5.1 Registering Transfers**

A transfer of a share of the Company must not be registered unless:

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- (1) a duly signed instrument of transfer in respect of the share has been received by the Company;
- (2) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate has been surrendered to the Company; and
- (3) if a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgment has been surrendered to the Company.

#### **5.2 Form of Instrument of Transfer**

The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the directors from time to time.

#### **5.3 Transferor Remains Shareholder**

Except to the extent that the *Business Corporations Act* otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

#### **5.4 Signing of Instrument of Transfer**

If a shareholder, or his or her duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented by the share certificates or set out in the written acknowledgments deposited with the instrument of transfer:

- (1) in the name of the person named as transferee in that instrument of transfer; or
- (2) if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

#### **5.5 Enquiry as to Title Not Required**

Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgment of a right to obtain a share certificate for such shares.

#### **5.6 Transfer Fee**

There must be paid to the Company, in relation to the registration of any transfer, the amount, if any, determined by the directors.

## **6. TRANSMISSION OF SHARES**

### **6.1 Legal Personal Representative Recognized on Death**

In case of the death of a shareholder, the legal personal representative, or if the shareholder was a joint holder, the surviving joint holder, will be the only person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative, the directors may require proof of appointment by a court of competent jurisdiction, a grant of letters probate, letters of administration or such other evidence or documents as the directors consider appropriate.

### **6.2 Rights of Legal Personal Representative**

The legal personal representative has the same rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles, provided the documents required by the *Business Corporations Act* and the directors have been deposited with the Company.

## **7. PURCHASE OF SHARES**

### **7.1 Company Authorized to Purchase Shares**

Subject to Article 7.2, the special rights and restrictions attached to the shares of any class or series and the *Business Corporations Act*, the Company may, if authorized by the directors, purchase or otherwise acquire any of its shares at the price and upon the terms specified in such resolution.

### **7.2 Purchase When Insolvent**

The Company must not make a payment or provide any other consideration to purchase or otherwise acquire any of its shares if there are reasonable grounds for believing that:

- (1) the Company is insolvent; or
- (2) making the payment or providing the consideration would render the Company insolvent.

### **7.3 Sale and Voting of Purchased Shares**

If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

- (1) is not entitled to vote the share at a meeting of its shareholders;
- (2) must not pay a dividend in respect of the share; and
- (3) must not make any other distribution in respect of the share.

## **8. BORROWING POWERS**

The Company, if authorized by the directors, may:

- (1) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

- (2) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate;
- (3) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and
- (4) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

## **9. ALTERATIONS**

### **9.1 Alteration of Authorized Share Structure**

Subject to Article 9.2 and the *Business Corporations Act*, the Company may by special resolution:

- (1) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;
- (2) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;
- (3) subdivide or consolidate all or any of its unissued, or fully paid issued, shares;
- (4) if the Company is authorized to issue shares of a class of shares with par value:
  - (a) decrease the par value of those shares; or
  - (b) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;
- (5) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;
- (6) alter the identifying name of any of its shares; or
- (7) otherwise alter its shares or authorized share structure when required or permitted to do so by the *Business Corporations Act*.

### **9.2 Special Rights and Restrictions**

Subject to the *Business Corporations Act*, the Company may by special resolution:

- (1) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or
- (2) vary or delete any special rights or restrictions attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued.

### **9.3 Change of Name**

The Company may by consent resolution of the directors or by special resolution authorize an alteration of its Notice of Articles in order to change its name or adopt or change any translation of that name.

### **9.4 Other Alterations**

If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by special resolution alter these Articles.

## **10. MEETINGS OF SHAREHOLDERS**

### **10.1 Annual General Meetings**

Unless an annual general meeting is deferred or waived in accordance with the *Business Corporations Act*, the Company must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors.

### **10.2 Resolution Instead of Annual General Meeting**

If all the shareholders who are entitled to vote at an annual general meeting consent by a unanimous resolution under the *Business Corporations Act* to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Article 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

### **10.3 Calling of Meetings of Shareholders**

The directors may, whenever they think fit, call a meeting of shareholders.

### **10.4 Notice for Meetings of Shareholders**

The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

- (1) if and for so long as the Company is a public company, 21 days;
- (2) otherwise, 10 days.

### **10.5 Record Date for Notice**

The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

- (1) if and for so long as the Company is a public company, 21 days;

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- (2) otherwise, 10 days.

If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

#### **10.6 Record Date for Voting**

The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

#### **10.7 Failure to Give Notice and Waiver of Notice**

The accidental omission to send notice of any meeting to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive or reduce the period of notice of such meeting.

#### **10.8 Notice of Special Business at Meetings of Shareholders**

If a meeting of shareholders is to consider special business within the meaning of Article 11.1, the notice of meeting must:

- (1) state the general nature of the special business; and
- (2) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:
  - (a) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and
  - (b) during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

### **11. PROCEEDINGS AT MEETINGS OF SHAREHOLDERS**

#### **11.1 Special Business**

At a meeting of shareholders, the following business is special business:

- (1) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;
- (2) at an annual general meeting, all business is special business except for the following:
  - (a) business relating to the conduct of or voting at the meeting;
  - (b) consideration of any financial statements of the Company presented to the meeting;

- (c) consideration of any reports of the directors or auditor;
- (d) the setting or changing of the number of directors;
- (e) the election or appointment of directors;
- (f) the appointment of an auditor;
- (g) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution;
- (h) any other business which, under these Articles or the *Business Corporations Act*, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

### **11.2 Special Majority**

The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

### **11.3 Quorum**

Subject to the special rights and restrictions attached to the shares of any class or series of shares, the quorum for the transaction of business at a meeting of shareholders is two shareholders entitled to vote at the meeting whether in person or by proxy who hold, in the aggregate, at least 5% of the issued shares entitled to be voted at the meeting.

### **11.4 One Shareholder May Constitute Quorum**

If there is only one shareholder entitled to vote at a meeting of shareholders:

- (1) the quorum is one person who is, or who represents by proxy, that shareholder, and
- (2) that shareholder, present in person or by proxy, may constitute the meeting.

### **11.5 Other Persons May Attend**

The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

### **11.6 Requirement of Quorum**

No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

### **11.7 Lack of Quorum**

If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:

- (1) in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and
- (2) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

#### **11.8 Lack of Quorum at Succeeding Meeting**

If, at the meeting to which the meeting referred to in Article 11.7(2) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

#### **11.9 Chair**

The following individual is entitled to preside as chair at a meeting of shareholders:

- (1) the chair of the board, if any; or
- (2) if the chair of the board is absent or unwilling to act as chair of the meeting, the president, if any.

#### **11.10 Selection of Alternate Chair**

If, at any meeting of shareholders, there is no chair of the board or president present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the secretary, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting.

#### **11.11 Adjournments**

The chair of a meeting of shareholders may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

#### **11.12 Notice of Adjourned Meeting**

It is not necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

#### **11.13 Decisions by Show of Hands or Poll**

Subject to the *Business Corporations Act*, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of the result of the vote by show of hands, is directed by the chair or demanded by at least one shareholder entitled to vote who is present in person or by proxy.

#### **11.14 Declaration of Result**

The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair or demanded under Article 11.13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

#### **11.15 Motion Need Not be Seconded**

No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

#### **11.16 Casting Vote**

In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

#### **11.17 Manner of Taking Poll**

Subject to Article 11.18, if a poll is duly demanded at a meeting of shareholders:

- (1) the poll must be taken:
  - (a) at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and
  - (b) in the manner, at the time and at the place that the chair of the meeting directs;
- (2) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and
- (3) the demand for the poll may be withdrawn by the person who demanded it.

#### **11.18 Demand for Poll on Adjournment**

A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

#### **11.19 Chair Must Resolve Dispute**

In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and his or her determination made in good faith is final and conclusive.

#### **11.20 Casting of Votes**

On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

#### **11.21 Demand for Poll**

No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected.

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### **11.22 Demand for Poll Not to Prevent Continuance of Meeting**

The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

### **11.23 Retention of Ballots and Proxies**

The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxyholder entitled to vote at the meeting. At the end of such three month period, the Company may destroy such ballots and proxies.

## **12. VOTES OF SHAREHOLDERS**

### **12.1 Number of Votes by Shareholder or by Shares**

Subject to any special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under Article 12.3:

- (1) on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and
- (2) on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

### **12.2 Votes of Persons in Representative Capacity**

A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the person satisfies the chair of the meeting, or the directors, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

### **12.3 Votes by Joint Holders**

If there are joint shareholders registered in respect of any share:

- (1) any one of the joint shareholders may vote at any meeting, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or
- (2) if more than one of the joint shareholders is present at any meeting, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

### **12.4 Legal Personal Representatives as Joint Shareholders**

Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of Article 12.3, deemed to be joint shareholders.

### **12.5 Representative of a Corporate Shareholder**

If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders of the Company, and:

- (1) for that purpose, the instrument appointing a representative must:
  - (a) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
  - (b) be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting;
- (2) if a representative is appointed under this Article 12.5:
  - (a) the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and
  - (b) the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

### **12.6 Proxy Provisions Do Not Apply to All Companies**

If and for so long as the Company is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply, Articles 12.7 to 12.14 apply only insofar as they are not inconsistent with any securities legislation in any province or territory of Canada or in the federal jurisdiction of the United States or in any states of the United States that is applicable to the Company and insofar as they are not inconsistent with the regulations and rules made and promulgated under that legislation and all administrative policy statements, blanket orders and rulings, notices and other administrative directions issued by securities commission or similar authorities appointed under that legislation.

### **12.7 Appointment of Proxy Holders**

Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a meeting of shareholders of the Company may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

### **12.8 Alternate Proxy Holders**

A shareholder may appoint one or more alternate proxy holders who need not be shareholders to act in the place of an absent proxy holder.

### 12.9 Deposit of Proxy

A proxy for a meeting of shareholders must:

- (1) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
- (2) unless the notice provides otherwise, be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting.

A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

### 12.10 Validity of Proxy Vote

A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:

- (1) at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
- (2) by the chair of the meeting, before the vote is taken.

### 12.11 Form of Proxy

A proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors or the chair of the meeting:

*[name of company]*  
(the "Company")

The undersigned, being a shareholder of the Company, hereby appoints *[name]* or, failing that person, *[name]*, as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on *[month, day, year]* and at any adjournment of that meeting.

Number of shares in respect of which this proxy is given (if no number is specified, then this proxy if given in respect of all shares registered in the name of the shareholder): \_\_\_\_\_

Signed *[month, day, year]*

\_\_\_\_\_  
*[Signature of shareholder]*

\_\_\_\_\_  
*[Name of shareholder—printed]*

### 12.12 Revocation of Proxy

Subject to Article 12.14, every proxy may be revoked by an instrument in writing that is:

- (1) received at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
- (2) provided, at the meeting, to the chair of the meeting.

#### **12.13 Revocation of Proxy Must Be Signed**

An instrument referred to in Article 12.13 must be signed as follows:

- (1) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or his or her legal personal representative or trustee in bankruptcy;
- (2) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under Article 12.5.

#### **12.14 Production of Evidence of Authority to Vote**

The chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

### **13. DIRECTORS**

#### **13.1 First Directors; Number of Directors**

The number of directors, excluding additional directors appointed under Article 14.8, is set at:

- (1) subject to paragraphs (2) and (3), the number of directors that is equal to the number of the Company's first directors;
- (2) if the Company is a public company, the greater of three and the most recently set of:
  - (a) the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and
  - (b) the number of directors set under Article 14.4;
- (3) if the Company is not a public company, the most recently set of:
  - (a) the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and
  - (b) the number of directors set under Article 14.4.

#### **13.2 Change in Number of Directors**

If the number of directors is set under Articles 13.1(2)(a) or 13.1(3)(a):

- (1) the shareholders may elect or appoint the directors needed to fill any vacancies in the board of directors up to that number;
- (2) if the shareholders do not elect or appoint the directors needed to fill any vacancies in the board of directors up to that number contemporaneously with the setting of that number, then the directors may appoint, or the shareholders may elect or appoint, directors to fill those vacancies.

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### **13.3 Directors' Acts Valid Despite Vacancy**

An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

### **13.4 Qualifications of Directors**

A director is not required to hold a share in the capital of the Company as qualification for his or her office but must be qualified as required by the *Business Corporations Act* to become, act or continue to act as a director.

### **13.5 Remuneration of Directors**

The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by the shareholders. That remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

### **13.6 Reimbursement of Expenses of Directors**

The Company must reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

### **13.7 Special Remuneration for Directors**

If any director performs any professional or other services for the Company that in the opinion of the directors are outside the ordinary duties of a director, or if any director is otherwise specially occupied in or about the Company's business, he or she may be paid remuneration fixed by the directors, or, at the option of that director, fixed by ordinary resolution, and such remuneration may be either in addition to, or in substitution for, any other remuneration that he or she may be entitled to receive.

### **13.8 Gratuity, Pension or Allowance on Retirement of Director**

Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to his or her spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

## **14. ELECTION AND REMOVAL OF DIRECTORS**

### **14.1 Election at Annual General Meeting**

At every annual general meeting and in every unanimous resolution contemplated by Article 10.2:

- (1) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and
- (2) all the directors cease to hold office immediately before the election or appointment of directors under paragraph (1), but are eligible for re-election or re-appointment.

#### **14.2 Consent to be a Director**

No election, appointment or designation of an individual as a director is valid unless:

- (1) that individual consents to be a director in the manner provided for in the *Business Corporations Act*;
- (2) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or
- (3) with respect to first directors, the designation is otherwise valid under the *Business Corporations Act*.

#### **14.3 Failure to Elect or Appoint Directors**

If:

- (1) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Article 10.2, on or before the date by which the annual general meeting is required to be held under the *Business Corporations Act*; or
- (2) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Article 10.2, to elect or appoint any directors;

then each director then in office continues to hold office until the earlier of:

- (3) the date on which his or her successor is elected or appointed; and
- (4) the date on which he or she otherwise ceases to hold office under the *Business Corporations Act* or these Articles.

#### **14.4 Places of Retiring Directors Not Filled**

If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not re-elected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors for the time being set pursuant to these Articles until further new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors for the time being set pursuant to these Articles, the number of directors of the Company is deemed to be set at the number of directors actually elected or continued in office.

#### **14.5 Directors May Fill Casual Vacancies**

Any casual vacancy occurring in the board of directors may be filled by the directors.

#### **14.6 Remaining Directors Power to Act**

The directors may act notwithstanding any vacancy in the board of directors but, if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purposes of appointing directors up to that number, summoning a meeting

of shareholders for the purpose of filling any vacancies on the board of directors, or, subject to the *Business Corporations Act*, for any other purpose.

#### **14.7 Shareholders May Fill Vacancies**

If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

#### **14.8 Additional Directors**

Notwithstanding Articles 13.1 and 13.2, between annual general meetings or unanimous resolutions contemplated by Article 10.2, the directors may appoint one or more additional directors, but the number of additional directors appointed under this Article 14.8 must not at any time exceed:

- (1) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or
- (2) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Article 14.8.

Any director so appointed ceases to hold office immediately before the next election or appointment of directors under Article 14.1(1), but is eligible for re-election or re-appointment.

#### **14.9 Ceasing to be a Director**

A director ceases to be a director when:

- (1) the term of office of the director expires;
- (2) the director dies;
- (3) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or
- (4) the director is removed from office pursuant to Articles 14.10 or 14.11.

#### **14.10 Removal of Director by Shareholders**

The Company may remove any director before the expiration of his or her term of office by special resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

#### **14.11 Removal of Director by Directors**

The directors may remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence, or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

## **15. ALTERNATE DIRECTORS**

### **15.1 Appointment of Alternate Director**

Any director (an "appointor") may by notice in writing received by the Company appoint any person (an "appointee") who is qualified to act as a director to be his or her alternate to act in his or her place at meetings of the directors or committees of the directors at which the appointor is not present unless (in the case of an appointee who is not a director) the directors have reasonably disapproved the appointment of such person as an alternate director and have given notice to that effect to his or her appointor within a reasonable time after the notice of appointment is received by the Company.

### **15.2 Notice of Meetings**

Every alternate director so appointed is entitled to notice of meetings of the directors and of committees of the directors of which his or her appointor is a member and to attend and vote as a director at any such meetings at which his or her appointor is not present.

### **15.3 Alternate for More Than One Director Attending Meetings**

A person may be appointed as an alternate director by more than one director, and an alternate director:

- (1) will be counted in determining the quorum for a meeting of directors once for each of his or her appointors and, in the case of an appointee who is also a director, once more in that capacity;
- (2) has a separate vote at a meeting of directors for each of his or her appointors and, in the case of an appointee who is also a director, an additional vote in that capacity;
- (3) will be counted in determining the quorum for a meeting of a committee of directors once for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, once more in that capacity;
- (4) has a separate vote at a meeting of a committee of directors for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, an additional vote in that capacity.

### **15.4 Consent Resolutions**

Every alternate director, if authorized by the notice appointing him or her, may sign in place of his or her appointor any resolutions to be consented to in writing.

### **15.5 Alternate Director Not an Agent**

Every alternate director is deemed not to be the agent of his or her appointor.

### **15.6 Revocation of Appointment of Alternate Director**

An appointor may at any time, by notice in writing received by the Company, revoke the appointment of an alternate director appointed by him or her.

### **15.7 Ceasing to be an Alternate Director**

The appointment of an alternate director ceases when:

- (1) his or her appointor ceases to be a director and is not promptly re-elected or re-appointed;
- (2) the alternate director dies;
- (3) the alternate director resigns as an alternate director by notice in writing provided to the Company or a lawyer for the Company;
- (4) the alternate director ceases to be qualified to act as a director; or
- (5) his or her appointor revokes the appointment of the alternate director.

#### **15.8 Remuneration and Expenses of Alternate Director**

The Company may reimburse an alternate director for the reasonable expenses that would be properly reimbursed if he or she were a director, and the alternate director is entitled to receive from the Company such proportion, if any, of the remuneration otherwise payable to the appointor as the appointor may from time to time direct.

### **16. POWERS AND DUTIES OF DIRECTORS**

#### **16.1 Powers of Management**

The directors must, subject to the *Business Corporations Act* and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the *Business Corporations Act* or by these Articles, required to be exercised by the shareholders of the Company.

#### **16.2 Appointment of Attorney of Company**

The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit. Any such power of attorney may contain such provisions for the protection or convenience of persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or her.

#### **16.3 Remuneration of the auditor**

The directors may set the remuneration of the auditor without the prior approval of the shareholders.

### **17. DISCLOSURE OF INTEREST OF DIRECTORS**

#### **17.1 Obligation to Account for Profits**

A director or senior officer who holds a disclosable interest (as that term is used in the *Business Corporations Act*) in a contract or transaction into which the Company has entered or proposes to enter

is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the *Business Corporations Act*.

#### **17.2 Restrictions on Voting by Reason of Interest**

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

#### **17.3 Interested Director Counted in Quorum**

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

#### **17.4 Disclosure of Conflict of Interest or Property**

A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the *Business Corporations Act*.

#### **17.5 Director Holding Other Office in the Company**

A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

#### **17.6 No Disqualification**

No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

#### **17.7 Professional Services by Director or Officer**

Subject to the *Business Corporations Act*, a director or officer, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

#### **17.8 Director or Officer in Other Corporations**

A director or officer may be or become a director, officer or employee of, or otherwise interested in, any person in which the Company may be interested as a shareholder or otherwise, and, subject to the *Business Corporations Act*, the director or officer is not accountable to the Company for any

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remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other person.

## **18. PROCEEDINGS OF DIRECTORS**

### **18.1 Meetings of Directors**

The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

### **18.2 Voting at Meetings**

Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

### **18.3 Chair of Meetings**

The following individual is entitled to preside as chair at a meeting of directors:

- (1) the chair of the board, if any;
- (2) in the absence of the chair of the board, the president, if any, if the president is a director; or
- (3) any other director chosen by the directors if:
  - (a) neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting;
  - (b) neither the chair of the board nor the president, if a director, is willing to chair the meeting; or
  - (c) the chair of the board and the president, if a director, have advised the secretary, if any, or any other director, that they will not be present at the meeting.

### **18.4 Meetings by Telephone or Other Communications Medium**

A director may participate in a meeting of the directors or of any committee of the directors in person or by telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other. A director may participate in a meeting of the directors or of any committee of the directors by a communications medium other than telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other and if all directors who wish to participate in the meeting agree to such participation. A director who participates in a meeting in a manner contemplated by this Article 18.4 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner.

### **18.5 Calling of Meetings**

A director may, and the secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

#### **18.6 Notice of Meetings**

Other than for meetings held at regular intervals as determined by the directors pursuant to Article 18.1, reasonable notice of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors and the alternate directors by any method set out in Article 24.1 or orally or by telephone.

#### **18.7 When Notice Not Required**

It is not necessary to give notice of a meeting of the directors to a director or an alternate director if:

- (1) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed; or
- (2) the director or alternate director, as the case may be, has waived notice of the meeting.

#### **18.8 Meeting Valid Despite Failure to Give Notice**

The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director or alternate director, does not invalidate any proceedings at that meeting.

#### **18.9 Waiver of Notice of Meetings**

Any director or alternate director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and, unless the director otherwise requires by notice in writing to the Company, to his or her alternate director, and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director or alternate director.

#### **18.10 Quorum**

The quorum necessary for the transaction of the business of the directors may be set by the directors and, if not so set, is deemed to be set at two directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

#### **18.11 Validity of Acts Where Appointment Defective**

Subject to the *Business Corporations Act*, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

#### **18.12 Consent Resolutions in Writing**

A resolution of the directors or of any committee of the directors may be passed without a meeting:

- (1) in all cases, if each of the directors entitled to vote on the resolution consents to it in writing; or
- (2) in the case of a resolution to approve a contract or transaction in respect of which a director has disclosed that he or she has or may have a disclosable interest, if each of the other directors who are entitled to vote on the resolution consents to it in writing.

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A consent in writing under this Article may be by signed document, fax, email or any other method of transmitting legibly recorded messages. A consent in writing may be in two or more counterparts which together are deemed to constitute one consent in writing. A resolution of the directors or of any committee of the directors passed in accordance with this Article 18.12 is effective on the date stated in the consent in writing or on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the *Business Corporations Act* and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

## **19. EXECUTIVE AND OTHER COMMITTEES**

### **19.1 Appointment and Powers of Executive Committee**

The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, and this committee has, during the intervals between meetings of the board of directors, all of the directors' powers, except:

- (1) the power to fill vacancies in the board of directors;
- (2) the power to remove a director;
- (3) the power to change the membership of, or fill vacancies in, any committee of the directors; and
- (4) such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

### **19.2 Appointment and Powers of Other Committees**

The directors may, by resolution:

- (1) appoint one or more committees (other than the executive committee) consisting of the director or directors that they consider appropriate;
- (2) delegate to a committee appointed under paragraph (1) any of the directors' powers, except:
  - (a) the power to fill vacancies in the board of directors;
  - (b) the power to remove a director;
  - (c) the power to change the membership of, or fill vacancies in, any committee of the directors; and
  - (d) the power to appoint or remove officers appointed by the directors; and
- (3) make any delegation referred to in paragraph (2) subject to the conditions set out in the resolution or any subsequent directors' resolution.

### **19.3 Obligations of Committees**

Any committee appointed under Articles 19.1 or 19.2, in the exercise of the powers delegated to it, must:

- (1) conform to any rules that may from time to time be imposed on it by the directors; and

- (2) report every act or thing done in exercise of those powers at such times as the directors may require.

#### **19.4 Powers of Board**

The directors may, at any time, with respect to a committee appointed under Articles 19.1 or 19.2:

- (1) revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding;
- (2) terminate the appointment of, or change the membership of, the committee; and
- (3) fill vacancies in the committee.

#### **19.5 Committee Meetings**

Subject to Article 19.3(1) and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under Articles 19.1 or 19.2:

- (1) the committee may meet and adjourn as it thinks proper;
- (2) the committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting;
- (3) a majority of the members of the committee constitutes a quorum of the committee; and
- (4) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in case of an equality of votes, the chair of the meeting does not have a second or casting vote.

### **20. OFFICERS**

#### **20.1 Directors May Appoint Officers**

The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

#### **20.2 Functions, Duties and Powers of Officers**

The directors may, for each officer:

- (1) determine the functions and duties of the officer;
- (2) entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and
- (3) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

### **20.3 Qualifications**

No officer may be appointed unless that officer is qualified in accordance with the *Business Corporations Act*. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as a managing director must be a director. Any other officer need not be a director.

### **20.4 Remuneration and Terms of Appointment**

All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the directors thinks fit and are subject to termination at the pleasure of the directors, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity.

## **21. INDEMNIFICATION**

### **21.1 Definitions**

In this Article 21:

- (1) “eligible penalty” means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;
- (2) “eligible proceeding” means a legal proceeding or investigative action, whether current, threatened, pending or completed, in which a director, former director or alternate director of the Company (an “eligible party”) or any of the heirs and legal personal representatives of the eligible party, by reason of the eligible party being or having been a director or alternate director of the Company:
  - (a) is or may be joined as a party; or
  - (b) is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding;
- (3) “expenses” has the meaning set out in the *Business Corporations Act*.

### **21.2 Mandatory Indemnification of Directors and Former Directors**

Subject to the *Business Corporations Act*, the Company must indemnify a director, former director or alternate director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each director and alternate director is deemed to have contracted with the Company on the terms of the indemnity contained in this Article 21.2.

### **21.3 Indemnification of Other Persons**

Subject to any restrictions in the *Business Corporations Act*, the Company may indemnify any person.

#### **21.4 Non-Compliance with *Business Corporations Act***

The failure of a director, alternate director or officer of the Company to comply with the *Business Corporations Act* or these Articles does not invalidate any indemnity to which he or she is entitled under this Part.

#### **21.5 Company May Purchase Insurance**

The Company may purchase and maintain insurance for the benefit of any person (or his or her heirs or legal personal representatives) who:

- (1) is or was a director, alternate director, officer, employee or agent of the Company;
- (2) is or was a director, alternate director, officer, employee or agent of a corporation at a time when the corporation is or was an affiliate of the Company;
- (3) at the request of the Company, is or was a director, alternate director, officer, employee or agent of a corporation or of a partnership, trust, joint venture or other unincorporated entity;
- (4) at the request of the Company, holds or held a position equivalent to that of a director, alternate director or officer of a partnership, trust, joint venture or other unincorporated entity;

against any liability incurred by him or her as such director, alternate director, officer, employee or agent or person who holds or held such equivalent position.

### **22. DIVIDENDS**

#### **22.1 Payment of Dividends Subject to Special Rights**

The provisions of this Article 22 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.

#### **22.2 Declaration of Dividends**

Subject to the *Business Corporations Act*, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable.

#### **22.3 No Notice Required**

The directors need not give notice to any shareholder of any declaration under Article 22.2.

#### **22.4 Record Date**

The directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. on the date on which the directors pass the resolution declaring the dividend.

#### **22.5 Manner of Paying Dividend**

A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways.

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#### **22.6 Settlement of Difficulties**

If any difficulty arises in regard to a distribution under Article 22.5, the directors may settle the difficulty as they deem advisable, and, in particular, may:

- (1) set the value for distribution of specific assets;
- (2) determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and
- (3) vest any such specific assets in trustees for the persons entitled to the dividend.

#### **22.7 When Dividend Payable**

Any dividend may be made payable on such date as is fixed by the directors.

#### **22.8 Dividends to be Paid in Accordance with Number of Shares**

All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

#### **22.9 Receipt by Joint Shareholders**

If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

#### **22.10 Dividend Bears No Interest**

No dividend bears interest against the Company.

#### **22.11 Fractional Dividends**

If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

#### **22.12 Payment of Dividends**

Any dividend or other distribution payable in cash in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the address of the shareholder, or in the case of joint shareholders, to the address of the joint shareholder who is first named on the central securities register, or to the person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

#### **22.13 Capitalization of Surplus**

Notwithstanding anything contained in these Articles, the directors may from time to time capitalize any surplus of the Company and may from time to time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the surplus or any part of the surplus.

## **23. DOCUMENTS, RECORDS AND REPORTS**

### **23.1 Recording of Financial Affairs**

The directors must cause adequate accounting records to be kept to record properly the financial affairs and condition of the Company and to comply with the *Business Corporations Act*.

### **23.2 Inspection of Accounting Records**

Unless the directors determine otherwise, or unless otherwise determined by ordinary resolution, no shareholder of the Company is entitled to inspect or obtain a copy of any accounting records of the Company.

## **24. NOTICES**

### **24.1 Method of Giving Notice**

Unless the *Business Corporations Act* or these Articles provides otherwise, a notice, statement, report or other record required or permitted by the *Business Corporations Act* or these Articles to be sent by or to a person may be sent by any one of the following methods:

- (1) mail addressed to the person at the applicable address for that person as follows:
  - (a) for a record mailed to a shareholder, the shareholder's registered address;
  - (b) for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;
  - (c) in any other case, the mailing address of the intended recipient;
- (2) delivery at the applicable address for that person as follows, addressed to the person:
  - (a) for a record delivered to a shareholder, the shareholder's registered address;
  - (b) for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;
  - (c) in any other case, the delivery address of the intended recipient;
- (3) sending the record by fax to the fax number provided by the intended recipient for the sending of that record or records of that class;
- (4) sending the record by email to the email address provided by the intended recipient for the sending of that record or records of that class;
- (5) physical delivery to the intended recipient.

### **24.2 Deemed Receipt of Mailing**

A record that is mailed to a person by ordinary mail to the applicable address for that person referred to in Article 24.1 is deemed to be received by the person to whom it was mailed on the day, Saturdays, Sundays and holidays excepted, following the date of mailing.

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### **24.3 Certificate of Sending**

A certificate signed by the secretary, if any, or other officer of the Company or of any other corporation acting in that behalf for the Company stating that a notice, statement, report or other record was addressed as required by Article 24.1, prepaid and mailed or otherwise sent as permitted by Article 24.1 is conclusive evidence of that fact.

### **24.4 Notice to Joint Shareholders**

A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing the notice to the joint shareholder first named in the central securities register in respect of the share.

### **24.5 Notice to Trustees**

A notice, statement, report or other record may be provided by the Company to the persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by:

- (1) mailing the record, addressed to them:
  - (a) by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and
  - (b) at the address, if any, supplied to the Company for that purpose by the persons claiming to be so entitled; or
- (2) if an address referred to in paragraph (1)(b) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

## **25. SEAL**

### **25.1 Who May Attest Seal**

Except as provided in Articles 25.2 and 25.3, the Company's seal, if any, must not be impressed on any record except when that impression is attested by the signatures of:

- (1) any two directors;
- (2) any officer, together with any director;
- (3) if the Company only has one director, that director; or
- (4) any one or more directors or officers or persons as may be determined by the directors.

### **25.2 Sealing Copies**

For the purpose of certifying under seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite Article 25.1, the impression of the seal may be attested by the signature of any director or officer.

### 25.3 Mechanical Reproduction of Seal

The directors may authorize the seal to be impressed by third parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the *Business Corporations Act* or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more unmounted dies reproducing the seal and the chair of the board or any senior officer together with the secretary, treasurer, secretary-treasurer, an assistant secretary, an assistant treasurer or an assistant secretary-treasurer may in writing authorize such person to cause the seal to be impressed on such definitive or interim share certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

## 26. PROHIBITIONS

### 26.1 Definitions

In this Article 26:

- (1) “designated security” means:
  - (a) a voting security of the Company;
  - (b) a security of the Company that is not a debt security and that carries a residual right to participate in the earnings of the Company or, on the liquidation or winding up of the Company, in its assets; or
  - (c) a security of the Company convertible, directly or indirectly, into a security described in paragraph (a) or (b);
- (2) “security” has the meaning assigned in the *Securities Act* (British Columbia);
- (3) “voting security” means a security of the Company that:
  - (a) is not a debt security, and
  - (b) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

### 26.2 Application

Article 26.3 does not apply to the Company if and for so long as it is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply.

### **26.3 Consent Required for Transfer of Shares or Designated Securities**

No share or designated security may be sold, transferred or otherwise disposed of without the consent of the directors and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

## **27. ADVANCE NOTICE PROVISIONS**

### **27.1 Nomination of Directors**

- (1) Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of persons for election to the board may be made at any annual meeting of shareholders or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:
  - (a) by or at the direction of the board, including pursuant to a notice of meeting;
  - (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Business Corporations Act, or a requisition of the shareholders made in accordance with the provisions of the Business Corporations Act; or
  - (c) by any person (a "Nominating Shareholder"): (A) who, at the close of business on the date of the giving of the notice provided for below in this Article 27.1 and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth below in this Article 27.1.
- (2) In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Secretary of the Company at the principal executive offices of the Company.
- (3) To be timely, a Nominating Shareholder's notice to the Secretary of the Company must be made:
  - (a) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the Notice Date) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10th) day following the Notice Date; and
  - (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made. In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.

- (4) To be in proper written form, a Nominating Shareholder's notice to the Secretary of the Company must set forth:
- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director: (A) the name, age, business address and residential address of the person; (B) the principal occupation or employment of the person; (C) the class or series and number of shares in the capital of the Company which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (D) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Business Corporations Act and Applicable Securities Laws (as defined below); and
  - (b) as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Company and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Business Corporations Act and Applicable Securities Laws (as defined below).
- (5) The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.
- (6) No person shall be eligible for election as a director of the Company unless nominated in accordance with the provisions of this Article 27.1; provided, however, that nothing in this Article 27.1 shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Business Corporations Act. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.
- (7) For purposes of this Article 27.1:
- (a) "public announcement" shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Company under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com); and
  - (b) "Applicable Securities Laws" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.
- (8) Notwithstanding any other provision of this Article 27.1, notice given to the Secretary of the Company pursuant to this Article 27.1 may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the Secretary of

the Company for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the Secretary at the address of the principal executive offices of the Company; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

- (9) Notwithstanding the foregoing, the board may, in its sole discretion, waive any requirement in this Article 27.1.

**27.2 Application**

- (1) Article 27.1 does not apply to the Company in the following circumstances:
- (a) if and for so long as the Company is not a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply; or
  - (b) to the election or appointment of a director or directors in the circumstances set forth in Article 14.7.

Dated June 3, 2013

"Keith Hill"  
Director