AFRICA OIL CORP.

Report to Shareholders

March 31, 2015

AFRICA OIL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts expressed in United States dollars unless otherwise indicated)

For the three months ended March 31, 2015 and 2014

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2015 and 2014 and should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2014 and 2013 and related notes thereto.

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

The effective date of this MD&A is May 14, 2015.

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

PROFILE AND STRATEGY

AOC is a Canadian-based company whose common shares are traded on the TSX and Nasdaq Stockholm under the symbol "AOI". The Company is an international oil and gas exploration and development company, based in Canada, with oil and gas interests in Kenya, Ethiopia, and Puntland (Somalia).

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

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

WORKING INTERESTS

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

Country	Block/Area	Operator	December 31, 2014 Net Working Interest % [1]	March 31, 2015 Net Working Interest % [1]
Kenya	Block 9	AOC	50%	50%
Kenya	Block 10BB	Tullow	50%	50%
Kenya	Block 12A	Tullow	20%	20%
Kenya	Block 13T	Tullow	50%	50%
Kenya	Block 10BA	Tullow	50%	50%
Ethiopia (3)	Blocks 7/8	New Age	30%	30%
Ethiopia (4)	Adigala	New Age	10%	10%
Ethiopia	South Omo	Tullow	30%	30%
Ethiopia	Rift Basin Area	AOC	50%	50%
Puntland, Somalia	Dharoor Valley	Horn	27% (2)	24.5% (2)
Puntland, Somalia	Nugaal Valley	Horn	27% (2)	24.5% (2)

Footnotes:

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

2 AOC owns approximately 40.8% of Africa Energy Corp. ("Africa Energy" formerly Horn Petroleum Corporation). This figure represents the Company's Net Working Interest in the production sharing agreements, net of the 59.2% interest in Africa Energy Corp owned by third parties. As of March 2015, the Company maintains a significant influence in Africa Energy and will account for its share of the activity as an equity investment. Accordingly, the Company will no longer report the assets and liabilities associated with Africa Energy.

3 Under Operations Update, see update on Blocks 7/8 in Ethiopia. During the third quarter of 2014, the Company notified the Ethiopian Government and its partners that it intends to withdraw from Blocks 7 and 8.

4 Under Operations Update, see update on Adigala in Ethiopia. During the first quarter of 2015, the Company notified the Ethiopian Government and its partners that it intends to withdraw from Adigala.

UPDATED ASSESSMENT OF CONTINGENT RESOURCES

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

billion barrels of oil an increase of 52% over the prior assessment. Please refer to the Company's press release dated September 16, 2014 for details of the contingent resources by field.

OPERATIONS UPDATE

During the first quarter of 2015, seven wells finalized drilling across the South Lokichar Basin and the North Turkana basin in Block 10BA, Kenya. In addition, an extensive appraisal program of the Ngamia and Amosing fields in the South Lokichar Basin in Kenya Block 10BB has continued. These oil fields are expected to form the foundation for a phased development of the South Lokichar Basin. One drilling rig is currently active in the South Lokichar Basin.

Over the balance of 2015, the Company will focus its efforts on appraisal and exploration in the South Lokichar Basin, Extended Well Tests (EWT's) in the Amosing and Ngamia fields, and reservoir and engineering studies. These will focus on delivering the following objectives; confirming reservoir quality and deliverability, resource size and definition, and advancement of the development plans, including the export pipeline.

Tertiary Rift - Kenya

In the Amosing field, the Amosing-3 appraisal well, located one kilometer northwest of the Amosing-1 discovery, well was drilled. The well encountered up to 140 meters of net oil pay and proved an extension of the field. Pressure data from the Amosing-3 well indicated connectivity in some reservoir horizons encountered in the Amosing-1, 2 & 2A wells. The Amosing-4 well, located approximately one kilometer southeast of the Amosing-1 well, was drilled to test the southern extent of the field and successfully encountered 27 meters of net oil pay in thick upper reservoir zones proving the significant down-dip extent of the field. Mapping of the Amosing field does not close the structure to the south and there is potential for the field to spill up-dip into the Ekosowan prospect area, where the Ekosowan-1 well was drilled last year encountering a 900 meter column of near continuous oil shows in tight alluvial fan facies. The Amosing-4 well has further de-risked drilling of the Ekosowan prospect.

In preparation for the EWT's, production completions were successfully run in the Amosing-1 and Amosing-2A wells. The EWT involves production and injection testing to provide dynamic flow characterization of the Amosing field stacked reservoirs. Both wells have been completed in five zones with hydraulically controlled selective completions that permit independent tests of completed intervals without well intervention. Initial clean-up testing has been completed on both wells with excellent results. The Amosing-1 well flowed at a combined maximum rate of 5,600 barrels of oil per day ("bopd") from five zones and the Amosing-2A well flowed at a combined maximum rate of 6,000 bopd from four zones, the fifth zone being in the aquifer. Both wells demonstrated high quality reservoir sands and flowed 31 to 38 degree API dry oil under natural flow. Pressure data during the initial clean-up flows shows connectivity between the two completed wells in the upper three zones with further production testing required to test connectivity in the lower two zones. These findings support the static pressure data which indicated connectivity between the Amosing-1, 2, 2A and 3 wells in multiple zones. The Amosing EWT results are expected in the second quarter of this year.

In the Ngamia field, the Ngamia-7 and Ngamia-8 appraisal wells were drilled. The Ngamia-7 well was drilled 1.2 kilometers east of Ngamia-3 and encountered up to 130 meters of net oil pay identifying a large eastern extension of the field that had been identified from the new 3D seismic survey. The Ngamia-8 appraisal was drilled and encountered up to 200 meters of net oil pay in line with pre-drill expectations. The well was positioned in the center of the Ngamia structure and static pressure data indicates the well is in pressure communication with the oil discovered in the neighbouring Ngamia-1A, Ngamia-3, Ngamia-5, Ngamia-6 and Ngamia-7 wells.

In preparation for the EWT activities in the Ngamia field, the Ngamia-8 well is to be completed, located in the center of the eastern fault block between the Ngamia-3, 5, 6 and 7 wells. This well will be the main production well for the EWT. The Ngamia-3 and Ngamia-6 wells will be the two other wells completed as EWT wells. Initial flow testing of the Ngamia EWT wells is expected to commence around mid-year.

Elsewhere in the Lokichar basin, the Ekales-2 appraisal well reached a total depth of 4,059 meters and encountered an estimated 60-100 meters of net oil pay in the primary shallower objectives. This highly deviated well was also deepened to test the basin center stratigraphic play where it intersected sandstones with elevated pressures and 50 meters of oil bearing sands; however, operating conditions precluded logging and confirmation of any oil pay in this section. This was the first test of this exploration target and is very positive for the future upside potential of the South Lokichar Basin, above the significant oil resources already discovered.

During the period, the Epir-1 exploration well was drilled to a total depth of 3,057 meters in the North Kerio Basin in Block 10BB, Kenya. The well encountered a 100 meter interval of wet hydrocarbon gas shows with florescence indicating the presence of an active petroleum system. The hydrocarbon shows were encountered primarily in rocks which are not of reservoir quality. The partnership is very encouraged the Epir-1 well has demonstrated a working hydrocarbon system in the Kerio Basin and technical work will now focus on identifying a prospect in the basin where there is a high chance of trapping hydrocarbons in reservoir quality rock.

The Engomo-1 well was drilled in the first quarter of 2015, which was the first test of the North Turkana Basin in Block 10BA, Kenya. This prospect is to the west of Lake Turkana where numerous naturally occurring oil slicks and seeps have been observed. The Engomo-1 exploration well in Block 10BA was drilled to a total depth of 2,353 meters. The well encountered interbedded siltstones, sandstones and claystones, becoming more tuffaceous and tight until reaching a total depth in basement. No significant oil or gas shows were encountered and the well has been plugged and abandoned. The prevalence of tight facies in the wellbore may be due to the well's close proximity to the basin bounding fault. Future analysis will be focused on understanding how this result impacts the remaining prospectivity in the basin.

The full fast track processed data set for the 951 square kilometer 3D seismic survey over the series of significant discoveries along the western basin bounding fault in the South Lokichar Basin, is now available and is being interpreted. The 3D seismic indicates significantly improved structural and stratigraphic definition and additional prospectivity not evident on the 2D seismic. The large Amosing North prospect located on the northern flank of Amosing and updip of the Ngamia field has been identified from the 3D seismic and is being assessed as a potential 2015 drilling candidate. The 3D seismic mapping over the Etom area now shows that the Etom-1 discovery well was drilled in a graben between two large prospects, one located to the south and one to the north of the well. Technical work is being progressed so that these prospects are drill ready. In addition, the 3D seismic also reinforces the potential of the intra-Lokhone shale amplitude prospectivity.

In addition, the partnership has acquired over 1,100 meters of whole core from the wells drilled in the South Lokichar Basin, and an extensive program of detailed core analysis is ongoing that will provide results throughout the year. A key focus of the core program is to better assess oil saturation and to refine the recovery factors of the main reservoir sands. Early core analysis results support the reservoir assumptions used in the contingent resource estimate and are reducing the uncertainty around oil saturations in the reservoir.

The extensive appraisal activities in Kenya, including the EWT, along with the development concept studies completed in 2014, will address the key reservoir uncertainties around the contingent resource estimate. These are aerial net pay distribution and connectivity, which has a significant bearing on recovery factor and oil saturation in the reservoir sands. The results to date from the ongoing appraisal drilling program and early Amosing EWT results provides significant comfort that the reservoir sands are connected over an area larger than the assumed development well spacing which will narrow the range of uncertainty around recovery factors. The early results are positive in this respect.

The ongoing work program will enable a draft Field Development Plan (FDP) to be prepared by the end 2015. The current ambition of the joint venture partnership is to position the South Lokichar Basin development and an export pipeline for possible sanction by the end of 2016, subject to receipt of all necessary permits and approvals. Good progress continues to be made towards development of these oil resources and as part of the ongoing collaboration between the Governments of Kenya and Uganda on the oil export pipeline for the Lake Albert and South Lokichar resources, a joint technical adviser was appointed in late 2014. The independent technical studies being undertaken by the adviser, with extensive support from the Kenya and Uganda upstream partners, are progressing rapidly and should assist in the finalization of the pipeline route.

Cretaceous Anza Rift – Kenya

In Block 9, the Company continues to assess the results of its 2014 drilling program.

Tertiary Rift – Ethiopia

In the Rift Basin Area Block, a 2D seismic crew has mobilized and has commenced the acquisition of a minimum of 400 kilometer land and lake survey. Source rock outcrops and oil slicks on the lakes have been identified in the block where there is no existing seismic or wells.

RECENT DEVELOPMENTS

Financing

During February 2015, the Company completed a brokered private placement issuing an aggregate of 57,020,270 shares at a price of SEK 18.50 per share for gross proceeds of SEK 1,055 million or $125.0 million. A cash commission was paid in the amount of $4.5 million.

Subsequent to the first quarter of 2015, the Company entered into an investment agreement relating to a non-brokered private placement wherein, upon closing, 53,623,377 shares will be issued at a price of CAD $2.31 for gross proceeds of CAD $121,560,000. The Company expects the closing to occur by end of May 2015.

Court Proceedings

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

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

Since 2012, IPL and certain of the related parties have also commenced numerous court applications and appeals in respect of these proceedings, including applications to appeal recent High Court decisions to the Kenyan Court of Appeal. These applications and appeals have either been struck by court order, or are the subject of further appeals and applications for stays of proceedings filed on behalf of the Company. In April 2014 certain applications to appeal decisions made in Judicial Review Number 30 of 2010, and which had been determined in favor of the Company, were denied and leave to appeal to the Supreme Court was denied. There has been no further action taken in respect of that matter since that time. Most recently, in December 2014, the Company filed its record of appeal in respect of a High Court decision in Judicial Review Number 1 of 2012 allowing the Applicants to institute certain proceedings which the Company maintains have previously been adjudicated and settled.

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

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share	**31-Mar 2015**	**31-Dec 2014**	**30-Sep 2014**	**30-Jun 2014**	**31-Mar 2014**	**31-Dec 2013**	**30-Sep 2013**	**30-Jun 2013**
Operating expenses ($)	1,170	102,436	6,008	36,578	11,654	31,099	4,577	8,533
Interest income ($)	130	157	287	387	436	184	161	309
Foreign exchange gain (loss) ($)	(15)	(7)	(207)	41	(116)	(7,660)	867	(1,349)
Fair market value gain (loss) - warrants ($)	-	-	-	5	(4)	28	205	155
Net loss attributable to non-controlling interest ($) [1]	(249)	(48,028)	(245)	(294)	(206)	(282)	(98)	(160)
Net loss attributable to common shareholders ($)	(811)	(54,257)	(5,686)	(35,856)	(11,138)	(38,272)	(3,251)	(9,263)
Weighted average shares - Basic	338,312	312,333	312,290	310,528	309,967	291,366	252,960	252,735
Weighted average shares - Diluted	338,312	312,333	312,290	310,528	309,967	291,366	252,960	252,735
Basic loss per share ($)	(0.00)	(0.17)	(0.02)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)
Diluted loss per share ($)	(0.00)	(0.17)	(0.02)	(0.12)	(0.04)	(0.13)	(0.01)	(0.04)
Oil and gas expenditures ($)	77,300	135,916	95,527	114,007	92,426	71,985	62,898	55,304

(1) AOC currently owns approximately 40.8% of Africa Energy and accounts for its share of Africa Energy as an equity investment. The change from control to equity investment occurred due to a change in the composition of the Board of Directors as well as a significantly reduced involvement from AOC management in the operations of the Company. The majority of the Board is now comprised of independent Board members. As the Board and management no longer have the power to direct the activities of Africa Energy, control of Africa Energy has been lost. Prior to the loss of control, which occurred during the first quarter of 2015, AOC owned approximately 44.6% of Africa Energy and accounted for Africa Energy on a consolidated basis.

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

Operating expenses

The $4.0 million decrease in operating expenses from the second quarter to the third quarter of 2013 can be mainly attributed to a decreased in stock-based compensation costs as a result of the stock option grant in the second quarter of 2013. The $26.5 million increase in operating expenses from the third quarter to the fourth quarter of 2013 can be mainly attributed to a $22.9 million impairment of previously capitalized Block 10A exploration expenditures following the decision to relinquish the Block, increased compensation related costs associated with annual bonus incentives, and a $1.0 million donation to the Lundin Foundation. The $19.4 million decrease in operating expenses from the fourth quarter of 2013 to the first quarter of 2014 can be mainly attributed to annual bonus incentives and the impairment charge on Block 10A incurred in the fourth quarter of 2013, offset partially by a $7.4 million increase in stock-based compensation. The Company issued 5,958,500 stock options of AOC to directors, officers and employees in the first quarter of 2014 of which one-third vested immediately. The $24.9 million increase in operating expenses from the first to the second quarter of 2014 can be mainly attributed to a $30.8 million impairment of previously capitalized Blocks 7/8 exploration expenditures in Ethiopia and a $0.7 million increase in stock exchange and filing fees as a result of costs associated with the graduation to the TSX in Canada and Nasdaq Stockholm, offset partially by a $6.6 million decrease in stock-based compensation. Upon evaluating the results of El Kuran-3 further, the Company has written off previously capitalized intangible exploration assets related to Blocks 7&8. The decrease in stock-based compensation can be attributed to the options granted in the first quarter of 2014, of which one-third vested immediately. The $30.6 million decrease in operating expenses from the second quarter to the third quarter of 2014 can be mainly attributable to the impairment of intangible exploration assets relating to Blocks 7/8 and costs associated with graduation to the TSX in Canada and Nasdaq Stockholm, both which occurred in the second quarter of 2014. The $96.4 million increase in operating expenses from the third quarter to the fourth quarter of 2014 can be mainly attributable to a $90.6 million impairment of intangible exploration assets in the Dharoor and Nugaal exploration blocks in Puntand (Somalia) and a $5.8 million impairment of intangible exploration assets in the Adigala Block in Ethiopia. Ongoing political challenges in Puntland (Somalia) persist unresolved, including challenges regarding the legitimacy of oil concession contracts issued by the former and current central Somali governments and regional states (Puntland and Somaliland), many of which cover overlapping territory and border disputes between Somalia (including Puntland) and Somaliland. The Company has significantly reduced its presence in Bosaso, Puntland and ceased operational activities and associated expenditures until the political issues are resolved. Subsequent to the year-end, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala Block. An increase in salary costs associated with annual bonus incentives was offset by a reduction in stock-based compensation and donations. The decrease in stock-based compensation can attributed to unvested options that were cancelled due to forfeiture in the fourth quarter of 2014. A $0.5 million donation was made to the Lundin Foundation in the third quarter of 2014 versus nil in the fourth quarter of 2014. The $101.3 million decrease in operating expenses from the fourth quarter of 2014 to the first quarter of 2015 primarily relates to the $96.4 million in impairments losses recognized during the fourth quarter of 2014. The company recognized a $4.2 million gain in the first quarter of 2015 as a result of the Company's investment in Africa Energy changing from a position of control to a position of significant influence. The Company is required to recognize its investment in its former subsidiary at fair market value on the date control ceases. The Company recognized annual bonuses in the fourth quarter of 2014. These reductions were offset by increased stock-based compensation expense associated with the issuance of 5,194,000 stock options of AOC to directors, officers and employees in the first quarter of 2015, of which one-third vested immediately.

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

Interest income

Interest income decreased from the second quarter to the third quarter of 2013 due to a reduction in cash held as the Company continued its active exploration activities. Interest income increased in the fourth quarter of 2013 and again in the first quarter of 2014 due to an increase in cash as a result of the brokered private placement in October of 2013. Interest income decreased from the first quarter of 2014 to the first quarter of 2015 due to a reduction in cash held as the Company continued its active exploration activities.

Foreign exchange gains and losses

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

Fair market value adjustments – warrants

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

At March 31, 2015, nil warrants were outstanding in AOC and Africa Energy. In June 2014, all of the remaining 9,546,248 Africa Energy warrants expired unexercised.

RESULTS OF OPERATIONS

(thousands)	Three months ended March 31, 2015	Three months ended March 31, 2014
Salaries and benefits	$ 478	$ 458
Stock-based compensation	3,975	9,552
Travel	249	309
Office and general	119	184
Donation	-	750
Depreciation	11	17
Professional fees	154	195
Stock exchange and filing fees	247	189
Share of loss from equity investment	92	-
Gain on loss of control	(4,155)	-
Operating expenses	$ 1,170	$ 11,654

Operating expense decreased $10.5 million for the three months ended March 31, 2015 compared to the same period in the prior year. The majority of the decrease can be attributed to a reduction in stock-based compensation and a gain on the loss of control by the Company in regards to its investment in Africa Energy. The decrease in stock-based compensation expense can be mainly attributed to a significant reduction in the fair value of each option granted in the first quarter of 2015 compared to the first quarter of 2014. Under the Black-

Scholes option pricing model, the lower the exercise price of the option, the lower the fair value attributed to each option. During the three months ended March 31, 2015, 5,194,000 stock options of AOC were issued to directors, officers and employees at an average exercise price of CAD $2.45 per option versus 5,958,500 stock options of AOC issued at an average price of CAD $8.44 per option during the three months ended March 31, 2014. The Company's investment in Africa Energy changed from a position of control to a position of significant influence during the first quarter of 2015, which requires the Company's investment in Africa Energy to be recorded as an equity investment. The accounting for the equity investment resulted in the recognition of a gain for accounting purposes of $4.2 million. In the first quarter of 2014, the Company made a $0.8 million donation to the Lundin Foundation versus nil in the first quarter of 2015.

INTANGIBLE EXPLORATION ASSETS

(thousands)	**March 31, 2015**	**December 31, 2014**
Intangible exploration assets	$862,477	$785,177

During the three months ended March 31, 2015, intangible exploration assets increased by $77.3 million.

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

For the three months ended	**March 31, 2015**				**March 31, 2014**			
(thousands)	**Kenya**	**Ethiopia**	**Puntland**	**Total**	**Kenya**	**Ethiopia**	**Puntland**	**Total**
Drilling and completion	$ 60,602	$ (2,177)	$ -	**$ 58,425**	$ 59,945	$11,230	$ 76	**$ 71,251**
Development studies	2,150	-	-	**2,150**	-	-	-	**-**
Exploration surveys and studies	4,568	18	-	**4,586**	8,925	939	14	**9,878**
PSA and G&A related	11,809	330	-	**12,139**	8,416	2,353	528	**11,297**
Total	$ 79,129	$ (1,829)	$ -	**$ 77,300**	$ 77,286	$14,522	$ 618	**$ 92,426**

AOC incurred $79.1 million of intangible exploration expenditures in Kenya for the three months ended March 31, 2015. The majority of drilling expenditures related to the Company's portion of drilling costs regarding an exploration well at Engomo (Block 10BA) and an extensive appraisal program in the South Lokichar Basin. The majority of development study spend relates to progressing towards project sanction for the South Lokichar Basin.

A $1.8 million reduction of intangible exploration expenditures in Ethiopia for the three months ended March 31, 2015 was the result of adjustments made to previously accrued drilling expenditures.

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

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2015, the Company had cash of $187.4 million and working capital of $53.2 million as compared to cash of $161.1 million and working capital of $10.6 million at December 31, 2014. The Company's liquidity and capital resource position has increased since the end of 2014 due to a $125 million (gross proceeds) private placement which closed during the first quarter of 2015. In addition, subsequent to the quarter end the Company has announced its intention to complete a further $100 million (gross proceeds) private placement which upon closing are anticipated to further bolster the Company's capital resources.

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

STOCK-BASED COMPENSATION

The Company uses the fair value method of accounting for stock options granted to directors, officers, consultants and employees whereby the fair value of all stock options granted is recorded as a charge to operations. The estimated fair value is recognized over the applicable vesting period. All options granted vest over a two-year period, of which one-third vest immediately, and expire three years after the grant date. Stock-based compensation for the three months ended March 31, 2015 was $4.0 million as compared to $9.6 million during the same period in 2014. The decrease in stock-based compensation expense can be mainly attributed to a significant reduction in the fair value of each option granted in the first quarter of 2015 compared to the first quarter of 2014. Under the Black-Scholes option pricing model, the lower the exercise price of the option, the lower the fair value attributed to each option. During the three months ended March 31, 2015, 5,194,000 stock options of AOC were issued to directors, officers and employees at an average exercise price of CAD $2.45 per option versus 5,958,500 stock options of AOC issued at an average price of CAD $8.44 per option during the three months ended March 31, 2014. Under the Company's stock option plan, one-third of the stock options granted vest immediately, resulting in a higher expense during the first quarter of the stock-option issuance.

RELATED PARTY TRANSACTIONS

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

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Africa Energy which resulted in the Company owning 51.4% of the outstanding shares of Africa Energy. In June 2012 and March 2014, Africa Energy completed non-brokered private placements reducing the Company's ownership interest in Africa Energy to 40.8%. The following transactions occurred during the period between the Company and Africa Energy.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy $0.2 million during the three months ended March 31, 2015 (three months ended March 31, 2014 – $0.2 million). At March 31, 2015, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2014 – $ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

Under the terms of a Services Agreement between the Company and Africa Energy, the Company invoiced Africa Energy $ nil during the three months ended March 31, 2015 (three months ended March 31, 2014 - $0.03 million) for services provided by geologists and geophysicists employed by the Company. At March 31, 2015, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2014 – $ 0.03 million).

During the three months ended March 31, 2015, the Company invoiced Africa Energy $0.01 million for reimbursable expenses paid by the Company on behalf of Africa Energy (three months ended March 31, 2014 - $0.02 million). At March 31, 2015, the outstanding balance receivable from Africa Energy was $0.1 million (at December 31, 2014 – $0.07 million).

COMMITMENTS AND CONTINGENCIES

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

Kenya:

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

Under the terms of the Block 9 PSC, with the drilling of the Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. The Company's working interest in Block 9 is currently 50%.

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

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

Under the terms of the Block 10BA PSC, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in April 2014. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's and its partners' entry into the first additional exploration period which expires in April 2016. During the first additional exploration period, the Company and its partner are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partner are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is $17.0 million. The commitments in the Block 10BA PSC are supported by an outstanding letter of credit of $1,275,000 in favor of the Kenyan Government which is collateralized by bank deposit of $1,275,000. The Company's working interest in Block 10BA is currently 50%.

Ethiopia:

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

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

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the first additional exploration period which expired in January 2015. The Ministry of Mines in Ethiopia approved the Company’s and its partners’ entry into the second additional exploration period which expires in January 2017. During the second additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. The Company’s working interest in the South Omo Block is currently 30%.

Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company and its partner are obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of $1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of $1,250,000. The Company’s working interest in the Rift Basin Area Block is currently 50%.

Puntland (Somalia):

The following commitments relate to blocks held by Africa Energy, in which the Company has a significant influence through its 40.8% equity ownership.

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

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

OUTSTANDING SHARE DATA

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

Common shares outstanding	372,624,649
Outstanding share purchase options	17,363,500
Full dilution impact on common share outstanding	389,988,149

Subsequent to the first quarter of 2015, the Company entered into an investment agreement relating to a non-brokered private placement of 53,623,377 shares. The private placement is anticipated to close at the end of May 2015, at which time the full dilution impact on common shares outstanding would amount to 443,611,526.

USE OF PROCEEDS

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

Date of placement	October 28, 2013	February 23, 2015
Net proceeds	$447.4 million	$120.3 million
Shares issued	56,505,217	57,020,270
Planned use of proceeds	East African w ork program and general w orking capital	East African w ork program and general w orking capital
Uses of proceeds other than planned	None	None

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

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

Intangible Exploration Assets

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

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

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

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

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

Stock Based Compensation

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

Warrants

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

Income Tax

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

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

The accounting policy set out below has been applied to these consolidated financial statements.

Equity method:

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

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

There are no new standards or amendments to existing standards effective January 1, 2015.

RISK FACTORS

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

International Operations

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

International Boundary Disputes

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

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

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

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

Political Instability

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

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

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

Different Legal System and Litigation

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

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

Financial Statements Prepared on a Going Concern Basis

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

Shared Ownership and Dependency on Partners

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

Uncertainty of Title

Although the Company conducts title reviews prior to acquiring an interest in a concession, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the

Company's interest in the concession. Any uncertainty with respect to one or more of the Company's concession interests could have a material adverse effect on the Company's business, prospects and results of operations. In light of the boundary disputes and the dynamic political environment at both the federal and regional levels within Somalia, the constitutional and legal basis surrounding mineral and oil and gas rights is often disputed between the various levels of government and semi-autonomous states. The Federal Government of Somalia, elected in 2012, and the various regional governments have yet to mutually agree on a legislative framework surrounding the granting of exploration rights and administering exploration activities.

Competing Claims From ConocoPhillips

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

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

Risks Relating to Concessions, Licenses and Contracts

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

Competition

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

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

Risks Inherent in Oil and Gas Exploration and Development

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

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

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

Well-flow Test Results

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

Capital Requirements

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

Foreign currency exchange rate risk

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

Interest rate risk

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

Liquidity risk

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

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

Credit risk

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

OUTLOOK

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

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

Forward Looking Statements

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

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

Any statements regarding the following are forward-looking statements:

- expected closing dates for the completion of proposed transactions;
- planned exploration activity including both expected drilling and geological and geophysical related activities;
- anticipated future financing requirements
- future crude oil, natural gas or chemical prices;
- future sources of funding for our capital program;
- availability of potential farmout partners;
- government or other regulatory consent for exploration, development, farmout or acquisition activities;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future earnings;
- future asset acquisitions or dispositions;
- future debt levels;
- availability of committed credit facilities;
- possible commerciality;
- development plans or capacity expansions;
- future ability to execute dispositions of assets or businesses;
- future sources of liquidity, cash flows and their uses;
- future drilling of new wells;
- ultimate recoverability of current and long-term assets;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;

- expected operating costs;
- estimates on a per share basis;
- future foreign currency exchange rates;
- future market interest rates;
- future expenditures and future allowances relating to environmental matters;
- dates by which certain areas will be developed or will come on stream or reach expected operating capacity; and
- changes in any of the foregoing.

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

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

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

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

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

AFRICA OIL CORP.

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

	Note	March 31, 2015	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		$ 187,391	$ 161,162
Accounts receivable		3,234	1,633
Due from related party	12	108	-
Prepaid expenses		1,176	1,276
		191,909	164,071
Long-term assets			
Restricted cash	4	2,525	1,250
Equity investment	13	6,182	-
Property and equipment	5	39	50
Intangible exploration assets	6	862,477	785,177
		871,223	786,477
Total assets		$ 1,063,132	$ 950,548
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 138,748	$ 153,502
		138,748	153,502
Total liabilities		138,748	153,502
Equity attributable to common shareholders			
Share capital	7(b)	1,140,647	1,014,772
Contributed surplus		42,221	39,947
Deficit		(258,484)	(257,673)
Total equity attributable to common shareholders		924,384	797,046
Total liabilities and equity attributable to common shareholders		$ 1,063,132	$ 950,548
Commitments and contingencies	10		
Subsequent event	19		

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

Approved on behalf of the Board:

"CAMERON BAILEY"

CAMERON BAILEY, DIRECTOR

"KEITH HILL"

KEITH HILL, DIRECTOR

AFRICA OIL CORP.

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

For the three months ended	Note		March 31, 2015		March 31, 2014
Operating expenses					
Salaries and benefits		$	478	$	458
Stock-based compensation	8		3,975		9,552
Travel			249		309
Office and general			119		184
Donation	18		-		750
Depreciation	5		11		17
Professional fees			154		195
Stock exchange and filing fees			247		189
Share of loss from equity investment	13		92		-
Gain on loss of control	13		(4,155)		-
			1,170		11,654
Finance income	11		(130)		(436)
Finance expense	11		20		126
Net loss and comprehensive loss			1,060		11,344
Net loss and comprehensive loss attributable to non-controlling interest			249		206
Net loss and comprehensive loss attributable to common shareholders			811		11,138
Net loss attributable to common shareholders per share	15				
Basic		$	0.00	$	0.04
Diluted		$	0.00	$	0.04
Weighted average number of shares outstanding for the purpose of calculating earnings per share	15				
Basic			338,312,290		309,967,060
Diluted			338,312,290		309,967,060

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

AFRICA OIL CORP.

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

For the three months ended		**March 31, 2015**	**March 31, 2014**
	Note		
Share capital:	**7(b)**		
Balance, beginning of period		$ 1,014,772	$ 1,007,414
Private placement, net		120,329	-
Exercise of options		5,546	2,539
Balance, end of period		1,140,647	1,009,953
Contributed surplus:			
Balance, beginning of period		$ 39,947	$ 24,396
Stock based compensation	8	3,975	9,552
Exercise of options	8	(1,701)	(789)
Balance, end of period		42,221	33,159
Deficit:			
Balance, beginning of period		$ (257,673)	$ (150,736)
Net loss and comprehensive loss attributable to common shareholders		(811)	(11,138)
Balance, end of period		(258,484)	(161,874)
Total equity attributable to common shareholders		924,384	881,238
Non-controlling interest:			
Balance, beginning of period		$ -	$ 48,773
Net loss and comprehensive loss attributable to non-controlling interest		(249)	(206)
Derecognition of non-controlling interest on loss of control		249	-
Balance, end of period		-	48,567
Total equity		$ 924,384	$ 929,805

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

AFRICA OIL CORP.

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

For the three months ended		March 31, 2015	March 31, 2014
Cash flows provided by (used in):	**Note**		
Operations:			
Net loss and comprehensive loss for the period		$ (1,060)	$ (11,344)
Items not affecting cash:			
Stock-based compensation	8	3,975	9,552
Depreciation	5	11	17
Gain on loss of control	13	(4,155)	-
Share of loss from equity investment	13	92	-
Fair value adjustment - warrants		-	4
Unrealized foreign exchange loss		15	117
Changes in non-cash operating working capital	17	(977)	(731)
		(2,099)	(2,385)
Investing:			
Property and equipment expenditures	5	-	(8)
Intangible exploration expenditures	6	(77,300)	(92,426)
Farmout proceeds	6	-	13,207
Equity investment	13	(1,000)	-
Reduction of cash from change of control	13	(254)	-
Changes in non-cash investing working capital	17	(16,002)	21,553
		(94,556)	(57,674)
Financing:			
Common shares issued	7(b)	124,174	1,750
Deposit of cash for bank guarantee	4	(1,275)	(450)
		122,899	1,300
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(15)	(117)
Increase (decrease) in cash and cash equivalents		26,229	(58,876)
Cash and cash equivalents, beginning of period		$ 161,162	$ 493,209
Cash and cash equivalents, end of period		$ 187,391	$ 434,333
Supplementary information:			
Interest paid		Nil	Nil
Income taxes paid		Nil	Nil

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

1) Incorporation and nature of business:

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

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

2) Basis of preparation:

a) Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles for interim periods, specifically International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2014.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at May 14, 2015, the date the Board of Directors approved the statements.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in the significant accounting policies in Note 3 of the annual financial statements for the year ended December 31, 2014. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the Company's consolidated financial statements for the year ended December 31, 2014.

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

Those accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

Significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2014.

3) Significant accounting policies:

The accounting policy set out below has been applied to these consolidated financial statements.

a) Equity method:

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

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

There are no new standards or amendments to existing standards effective January 1, 2015.

4) Restricted cash:

At March 31, 2015, the Company has a restricted cash balance of $2.5 million, (December 31, 2014 - $1.3 million) which represents the following bank deposits securing outstanding letters of credit:

Block	In favor of	March 31, 2015	December 31, 2014
Rift Basin	Republic of Ethiopia	$ 1,250	$ 1,250
10BA	Republic of Kenya	1,275	-
		$ 2,525	$ 1,250

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

5) Property and equipment:

		March 31, 2015		December 31, 2014
Cost, beginning of period	$	396	$	382
Additions		-		14
Cost, end of period		396		396
Accumulated depreciation, beginning of period		(346)		(279)
Depreciation		(11)		(67)
Accumulated depreciation, end of period		(357)		(346)
Net carrying amount, beginning of period	$	50	$	103
Net carrying amount, end of period	$	39	$	50

As at March 31, 2015, the Company has recorded $0.04 million of property and equipment (December 31, 2014 - $0.1 million) consisting primarily of office and computer equipment. The Company depreciates its property and equipment on a straight line basis over the useful life of the assets (one to three years).

6) Intangible exploration assets:

		March 31, 2015		December 31, 2014
Net carrying amount, beginning of period	$	785,177	$	488,688
Intangible exploration expenditures		77,300		437,876
Impairment of intangible exploration assets		-		(128,180)
Farmout proceeds		-		(13,207)
Net carrying amount, end of period	$	862,477	$	785,177

As at March 31, 2015, $862.5 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2014 - $785.2 million). These expenditures relate to the Company's share of exploration projects which are pending the determination of proven and probable petroleum reserves, and include geological and geophysical expenditures, exploratory drilling expenditures, costs required under the Company's Productions Sharing Agreements with the respective governments, and general and administrative costs related to exploration activities. At March 31, 2015, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

During the three months ended March 31, 2015, the Company capitalized $1.9 million of general and administrative expenses related to intangible exploration assets (three months ended March 31, 2014 – $8.9 million).

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

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

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

During the first quarter of 2015, the Company notified the Ethiopian Government and its partners that it intends to withdraw from the Adigala Block. The Company wrote off $5.8 million of capitalized intangible exploration assets related to the Adigala Block in the fourth quarter of 2014. The remaining carrying value of the Adigala Block intangible exploration assets is $ nil.

Ongoing political challenges in Puntland (Somalia) persist unresolved, including challenges regarding the legitimacy of oil concession contracts issued by the former and current central Somali governments and regional states (Puntland and Somaliland), many of which cover overlapping territory and border disputes between Somalia (including Puntland) and Somaliland. The Company has significantly reduced its presence in Bosaso, Puntland and ceased operational activities and associated expenditures until the political issues are resolved. As a result, the Company fully impaired $90.6 million of previously capitalized intangible exploration assets during the fourth quarter of 2014 relating to the Dharoor Valley and Nugaal Valley PSAs. The remaining carrying amount of intangible exploration assets is $ nil. During March 2015, the method of accounting for the Company's ownership interest in Africa Energy Corp. ("Africa Energy", formerly Horn Petroleum Corporation) changed to equity accounting. Accordingly, the Company will no longer report intangible exploration assets associated with the oil and gas properties held by Africa Energy (see Note 13).

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

7) Share capital:

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

b) Issued:

		March 31, 2015			December 31, 2014		
	Note	Shares		Amount	Shares		Amount
Balance, beginning of period		312,333,279	$	1,014,772	309,470,323	$	1,007,414
Private placements, net of issue costs	(i)	57,020,270		120,329	-		-
Exercise of options	8	3,271,100		5,546	2,862,956		7,358
Balance, end of period		372,624,649	$	1,140,647	312,333,279	$	1,014,772

i) During February 2015, the Company completed a brokered private placement issuing an aggregate of 57,020,270 shares at a price of SEK 18.50 per share for gross proceeds of SEK 1,055 million or $125.0 million. A cash commission was paid in the amount of $4.5 million.

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

8) Share purchase options:

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

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

	March 31, 2015		December 31, 2014	
	Number of shares	Weighted average exercise price (CAD$)	Number of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	15,893,767	6.19	13,395,222	4.35
Granted	5,194,000	2.45	6,078,500	8.42
Expired or cancelled	(453,167)	6.62	(716,999)	7.91
Exercised	(3,271,100)	1.49	(2,862,956)	1.89
Balance, end of period	17,363,500	5.94	15,893,767	6.19

The weighted average closing share price on the day options were exercised during the three months ended March 31, 2015 was CAD$2.07 (twelve months ended December 31, 2014 - CAD$8.02).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model and the fair value of the options granted is expensed over the vesting period of the options. The fair value of each option granted by the Company during the three months ended March 31, 2015 and the year ended December 31, 2014 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2015	2014
Number of options granted during the year	5,194,000	6,078,500
Fair value of options granted (CAD$ per option)	1.06	3.33
Risk-free interest rate (%)	0.94	1.01
Expected life (years)	3.00	2.25
Expected volatility (%)	64	67
Expected dividend yield	-	-

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

The following table summarizes information regarding the Company's stock options outstanding at March 31, 2015:

Weighted Average Exercise price (CAD$/share)	Number outstanding	Weighted average remaining contractual life in years
2.25	600,000	4.95
2.48	4,557,000	4.82
5.94	5,344,000	1.05
7.30	120,000	2.24
7.86	100,000	1.34
8.32	250,000	0.27
8.44	5,642,500	1.88
9.90	750,000	0.45
5.94	17,363,500	2.41

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. During the three months ended March 31, 2015, the Company recognized $3.9 million in stock-based compensation expense related to stock options of AOC and Africa Energy, (three months ended March 31, 2014 - $9.6 million).

9) Segment information:

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

During March 2015, the Company's investment in Africa Energy changed from a position of control to a position of significant influence and, as such, the Company will account for Puntland (Somalia) as an equity investment on a go-forward basis.

At March 31, 2015	Kenya	Ethiopia	Puntland	Corporate	**Total**
Total assets	$ 780,096	$ 95,112	$ -	$ 187,924	**$ 1,063,132**
Intangible exploration assets	776,054	86,423	-	-	**862,477**
Property and equipment	-	-	-	39	**39**

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

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

Three months ended March 31, 2015	Kenya	Ethiopia	Puntland	Corporate	**Total**
Capital expenditures					
Intangible exploration assets	$ 79,129	$ (1,829)	$ -	$ -	**$ 77,300**
Property and equipment	-	-	-	-	**-**
	$ 79,129	$ (1,829)	$ -	$ -	**$ 77,300**
Statement of operations					
Expenses	$ 12	$ 4	$ -	$ 1,154	**1,170**
Finance income	-	-	-	(130)	**(130)**
Finance expense	-	-	-	20	**20**
Segmented loss	$ 12	$ 4	$ -	$ 1,044	**$ 1,060**

Three months ended March 31, 2014	Kenya	Ethiopia	Puntland	Corporate	**Total**
Capital expenditures					
Intangible exploration assets	$ 77,286	$ 14,522	$ 618	$ -	**$ 92,426**
Property and equipment	-	-	-	8	**8**
	$ 77,286	$ 14,522	$ 618	$ 8	**$ 92,434**
Statement of operations					
Expenses	$ 21	$ 6	$ 5	$ 11,622	**$ 11,654**
Finance income	-	-	-	(436)	**(436)**
Finance expense	-	-	-	126	**126**
Segmented loss	$ 21	$ 6	$ 5	$11,312	**$ 11,344**

10) Commitments and contingencies:

a) Contractual obligations

i) Kenya:

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

Under the terms of the Block 9 PSC, with the drilling of the Bahasi-1 well, AOC and its partner fulfilled the minimum work and financial obligations of the first additional exploration period. Effective December 31, 2013, the Company and its partner entered into the second additional exploration period under the Block 9 PSC in Kenya which will expire on December 31, 2015. Under the terms of the PSC, AOC and its partner are required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of $3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. At March 31, 2015, the Company's working interest in Block 9 was 50%.

Under the terms of the Block 12A PSC, the Company and its partners notified the Ministry of Energy and Petroleum for the Republic of Kenya of their intention to enter into the first additional exploration period in Block12A which expires in September 2016. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including 200 square kilometers of 3D seismic with a total minimum gross expenditure of $6.0 million. Additionally, the Company and its partners are required to drill one exploration well with a minimum gross expenditure of $15.0 million. At March 31, 2015, the Company's working interest in Blocks 12A was 20%.

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

Under the terms of the Block 10BA PSC, the Company and its partners fulfilled the minimum work and financial obligations of the initial exploration period which expired in April 2014. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's and its partners' entry into the first additional exploration period which expires in April 2016. During the first additional exploration period, the Company and its partner are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partner are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is $17.0 million. The commitments in the Block 10BA PSC are supported by an outstanding letter of credit of $1,275,000 in favor of the Kenyan Government which is collateralized by bank deposit of $1,275,000 (see note 4). At March 31, 2015, the Company's working interest in Block 10BA was 50%.

ii) Ethiopia:

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

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

Under the terms of the South Omo PSA, the Company and its partners fulfilled the minimum work and financial obligations of the first additional exploration period which expired in January 2015. The Ministry of Mines in Ethiopia approved the Company's and its partners' entry into the second additional exploration period which expires in January 2017. During the second additional exploration period, the Company and its partners are obligated to complete G&G operations (including acquisition of 200 kilometers of 2D seismic) with a minimum gross expenditure of $2.0 million. Additionally, the Company and its partners are required to drill one exploration well to a minimum depth of 3,000 meters with a minimum gross expenditure of $8.0 million. At March 31, 2015, the Company's working interest in the South Omo Block was 30%.

Under the Rift Basin Area PSA, during the initial exploration period which expires in February 2016, the Company and its partner are obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of $5.0 million. The commitments in the Rift Basin Area PSA are supported by an outstanding letter of credit of $1,250,000 in favor of the Ethiopian Government which is collateralized by bank deposit of $1,250,000 (see note 4). At March 31, 2015, the Company's working interest in the Rift Basin Area Block was 50%.

iii) Puntland (Somalia):

The following commitments relate to blocks held by Africa Energy, in which the Company has a significant influence through its 40.8% equity ownership.

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

Under the Joint Venture Agreement with Range Resources Ltd. ("Range"), relating to the Dharoor Valley and Nugaal Valley exploration blocks, the Company was obligated to solely fund $22.8 million of joint venture costs on each of the blocks ($45.5 million in total for both blocks) during the initial exploration period, in exchange for a 80% working interest in each PSA. The Company has fulfilled its sole funding obligation related to the Dharoor Valley and Nugaal Valley blocks, and as a result, Range is obligated to pay its 20% participating interest share of ongoing exploration costs related to each block. Upon commencement of commercial production, $3.5 million will be payable to Range. At March 31, 2015, the Company's working interest in each of the Dharoor Valley and Nugaal Valley exploration blocks was 60%.

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

11) Finance income and expense:

Finance income and expense for the three months ended March 31, 2015 and 2014 is comprised of the following:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Fair value adjustment - warrants	$ -	$ (4)
Interest and other income	130	436
Bank charges	(5)	(6)
Foreign exchange loss	(15)	(116)
Finance income	$ 130	$ 436
Finance expense	$ (20)	$ (126)

12) Related party transactions:

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

On September 20, 2011, a Share Purchase Agreement was executed between the Company and Africa Energy which resulted in the Company owning 51.4% of the outstanding shares of Africa Energy. In June 2012 and March 2014, Africa Energy completed non-brokered private placements reducing the Company's ownership interest in Africa Energy to 40.8%. The following transactions occurred during the period between the Company and Africa Energy.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy $0.2 million during the three months ended March 31, 2015 (three months ended March 31, 2014 – $0.2 million). At March 31, 2015, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2014 – $ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

Under the terms of a Services Agreement between the Company and Africa Energy, the Company invoiced Africa Energy $ nil during the three months ended March 31, 2015 (three months ended March 31, 2014 - $0.03 million) for services provided by geologists and geophysicists employed by the Company. At March 31, 2015, the outstanding balance receivable from Africa Energy was $ nil (at December 31, 2014 – $ 0.03 million).

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

During the three months ended March 31, 2015, the Company invoiced Africa Energy $0.01 million for reimbursable expenses paid by the Company on behalf of Africa Energy (three months ended March 31, 2014 - $0.02 million). At March 31, 2015, the outstanding balance receivable from Africa Energy was $0.1 million (at December 31, 2014 – $0.07 million).

13) Equity Investment:

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

14) Subsidiaries:

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

15) Earnings per share:

For the three months ended	March 31, 2015			March 31, 2014		
		Weighted Average			Weighted Average	
	Earnings	Number of shares	Per share amounts	Earnings	Number of shares	Per share amounts
Basic earnings per share						
Net loss attributable to common shareholders	$ 811	338,312,290	$ 0.00	$ 11,138	309,967,060	$ 0.04
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	$ 811	338,312,290	$ 0.00	$ 11,138	309,967,060	$ 0.04

For the three months ended March 31, 2015, the Company used an average market price of CAD$2.42 per share, respectively (three months ended March 31, 2014 - CAD$8.76) to calculate the dilutive effect of stock options. For the three ended March 31, 2015, 17,363,500 options were anti-dilutive and were not included in the calculation of dilutive loss per share (three months ended March 31, 2014 – 18,299,056).

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

16) Financial Instruments:

Assets and liabilities at March 31, 2015 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company’s cash and cash equivalents, receivables and payables are assessed on the fair value hierarchy described above. The Company’s cash and cash equivalents, receivables and payables are classified as Level 2. The fair value of the investment in Africa Energy was determined by a quoted stock price and is classified as Level 1. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the period.

17) Supplementary information:

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

	March 31, 2015	March 31, 2014
Changes in non-cash working capital		
Accounts receivable	$ (1,601)	$ (8,731)
Prepaid expenses	100	47
Accounts payable and accrued liabilities	(14,754)	29,506
	(16,255)	20,822
Non-cash working capital derecognized upon loss of control	(724)	-
	(16,979)	20,822
Relating to:		
Operating activities	(977)	(731)
Investing activities	(16,002)	21,553
Changes in non-cash working capital	$ (16,979)	$ 20,822

18) Donation:

During the three months-ended March 31, 2014, as part of the Company’s Community Social Responsibility commitment, the Company made a $0.8 million donation to the Lundin Foundation, a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

19) Subsequent event:

Subsequent to the first quarter of 2015, the Company entered into an investment agreement relating to a non-brokered private placement wherein, upon closing, 53,623,377 shares will be issued at a price of CAD $2.31 for gross proceeds of CAD $121,560,000. The Company expects the closing to occur by end of May 2015.