



Consolidated Financial Statements  
(Expressed in thousands of United States dollars)

**AFRICA OIL CORP.**

For the three and nine months ended September 30, 2017 and 2016

# AFRICA OIL CORP.

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

		September 30, 2017	December 31, 2016
	<b>Note</b>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 423,905	\$ 463,061
Accounts receivable	4	56,402	213
Due from related party	12	-	57
Prepaid expenses		1,160	1,155
		481,467	464,486
Long-term assets			
Accounts receivable	4	18,750	-
Equity investment	13	6,446	7,330
Property and equipment	5	132	197
Intangible exploration assets	6	506,862	534,929
		532,190	542,456
<b>Total assets</b>		<b>\$ 1,013,657</b>	<b>\$ 1,006,942</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 38,329	\$ 29,501
		38,329	29,501
<b>Total liabilities</b>		<b>38,329</b>	<b>29,501</b>
Equity attributable to common shareholders			
Share capital	7(b)	1,290,796	1,290,389
Contributed surplus		50,892	49,677
Deficit		(366,360)	(362,625)
<b>Total equity attributable to common shareholders</b>		<b>975,328</b>	<b>977,441</b>
<b>Total liabilities and equity attributable to common shareholders</b>		<b>\$ 1,013,657</b>	<b>\$ 1,006,942</b>
Commitments and contingencies	10		
Subsequent events	18		

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

Approved on behalf of the Board:

*"ANDREW BARTLETT"*

ANDREW BARTLETT, DIRECTOR

*"KEITH HILL"*

KEITH HILL, DIRECTOR

# AFRICA OIL CORP.

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

		Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	<b>Note</b>				
Operating expenses					
Salaries and benefits		\$ 419	\$ 435	989	\$ 1,264
Equity-based compensation	8	740	774	1,871	2,250
Travel		262	259	576	685
Office and general		353	64	442	143
Donation	17	-	350	850	1,000
Depreciation	5	26	5	78	8
Professional fees		76	82	455	1,471
Stock exchange and filing fees		161	202	467	602
Share of loss from equity investment	13	272	334	884	1,068
		2,309	2,505	6,612	8,491
Finance income	11	(1,371)	(925)	(2,904)	(2,136)
Finance expense	11	6	13	27	85
Net loss and comprehensive loss attributable to common shareholders		944	1,593	3,735	6,440
Net loss attributable to common shareholders per share	14				
Basic		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Diluted		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Weighted average number of shares outstanding for the purpose of calculating earnings per share	14				
Basic		456,617,074	456,417,074	456,599,041	456,417,074
Diluted		456,617,074	456,417,074	456,599,041	456,417,074

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)

		September 30, 2017	September 30, 2016
	<b>Note 7(b)</b>		
<b>Share capital:</b>			
Balance, beginning of the period		\$ 1,290,389	\$ 1,290,389
Exercise of options		407	-
Balance, end of the period		1,290,796	1,290,389
<b>Contributed surplus:</b>			
Balance, beginning of the period		\$ 49,677	\$ 46,353
Equity-based compensation	8	1,871	1,476
Settlement of Restricted Share Units	8	(553)	-
Exercise of options	8	(103)	-
Balance, end of the period		50,892	47,829
<b>Deficit:</b>			
Balance, beginning of the period		\$ (362,625)	\$ (344,863)
Net loss and comprehensive loss attributable to common shareholders		(3,735)	(4,847)
Balance, end of the period		(366,360)	(349,710)
Total equity		\$ 975,328	\$ 988,508

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)

		Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows provided by (used in):					
	<b>Note</b>				
Operations:					
Net loss and comprehensive loss for the period		\$ (944)	\$ (1,593)	\$ (3,735)	\$ (6,440)
Items not affecting cash:					
Equity-based compensation	8	740	774	1,871	2,250
Depreciation	5	26	5	78	8
Share of loss from equity investment	13	272	334	884	1,068
Unrealized foreign exchange (gain) loss		(83)	3	(45)	58
Changes in non-cash operating working capital	16	7	171	190	(99)
		18	(306)	(757)	(3,155)
Investing:					
Property and equipment expenditures	5	(1)	(23)	(13)	(27)
Intangible exploration expenditures	6	(15,861)	(8,395)	(46,933)	(31,630)
Farmout proceeds received on closing	6	-	-	-	386,970
Farmout proceeds released from restricted cash	6	-	-	-	52,500
Changes in non-cash investing working capital	16	2,809	(6,418)	8,751	(19,935)
		(13,053)	(14,836)	(38,195)	387,878
Financing:					
Common shares issued	7(b)	-	-	304	-
Settlement of Restricted Share Units	8	-	-	(553)	-
Release of bank guarantee		-	-	-	1,250
		-	-	(249)	1,250
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency					
		83	(3)	45	(58)
Increase (decrease) in cash and cash equivalents		(12,952)	(15,145)	(39,156)	385,915
Cash and cash equivalents, beginning of the period		\$ 436,857	\$ 505,265	\$ 463,061	\$ 104,205
Cash and cash equivalents, end of the period		\$ 423,905	\$ 490,120	\$ 423,905	\$ 490,120
Supplementary information:					
Interest paid		Nil	Nil	Nil	Nil
Income taxes paid		Nil	Nil	Nil	Nil

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

# AFRICA OIL CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

## 1) Incorporation and nature of business:

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

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

## 2) Basis of preparation:

### a) Statement of compliance:

The Company prepares 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, 2016.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at November 14, 2017, the date the Board of Directors approved the statements.

### b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in the significant accounting policies in Note 3 of the annual financial statements for the year ended December 31, 2016.

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

(Unaudited)

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

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

The issuance of performance share units and restricted share units during the first quarter of 2017 requires the use of estimates and judgments and is described further in Note 7 below. All other 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, 2016.

### 3) New accounting standards:

There are no new standards or amendments to existing standards effective January 1, 2017.

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements.

#### *IFRS 9: Financial instruments*

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

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## *IFRS 15: Revenue from contracts with customers*

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

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

## 4) Accounts receivable:

	September 30, 2017			December 31, 2016		
	Short term	Long term	Total	Short term	Long term	Total
Advance development carry	\$ 56,250	\$ 18,750	\$ 75,000	\$ -	\$ -	\$ -
Other	152	-	152	213	-	213
	\$ 56,402	\$ 18,750	\$ 75,152	\$ 213	\$ -	\$ 213

Please refer to Note 6 for details relating to the Advance development carry receivables.

## 5) Property and equipment:

	September 30, 2017	December 31, 2016
Cost, beginning of the period	\$ 597	\$ 398
Additions	13	199
Cost, end of the period	610	597
Accumulated depreciation, beginning of the period	(400)	(366)
Depreciation	(78)	(34)
Accumulated depreciation, end of the period	(478)	(400)
Net carrying amount, beginning of the period	\$ 197	\$ 32
Net carrying amount, end of the period	\$ 132	\$ 197

As at September 30, 2017, the Company has recorded \$0.1 million of property and equipment (December 31, 2016 - \$0.2 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).

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## 6) Intangible exploration assets:

	September 30, 2017	December 31, 2016
Net carrying amount, beginning of the period	\$ 534,929	\$ 934,293
Intangible exploration expenditures	46,933	48,576
Impairment of intangible exploration assets	-	(8,470)
Advance development carry	(75,000)	-
Farmout proceeds	-	(439,470)
Net carrying amount, end of the period	\$ 506,862	\$ 534,929

As at September 30, 2017, \$506.9 million of exploration expenditures have been capitalized as intangible exploration assets (December 31, 2016 - \$534.9 million). These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: geological and geophysical studies, exploratory and appraisal drilling, well testing, development studies and related general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments. At September 30, 2017, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

On February 4, 2016, the Company completed the Kenyan portion of the farmout with Maersk whereby Maersk acquired 50% of the Company's interests in Blocks 10BB, 13T and 10BA in Kenya. At completion, AOC received \$426.6 million (inclusive of the deposit of \$52.5 million previously received) from Maersk. This amount represents \$343.6 million of reimbursed past costs incurred by AOC prior to the agreed March 31, 2015 effective date of the farmout and \$83.0 million representing Maersk's share of costs incurred between the effective date and December 31, 2015, including a carry reimbursement of \$15.0 million of exploration expenditures. During the second quarter of 2017, the Company and Maersk agreed to payment terms related to the \$75.0 million advance development carry. Africa Oil is due to receive equal quarterly payments of \$18.75 million at the end of each calendar quarter during 2018. These proceeds were recognized in accounts receivable (\$56.2 million current and \$18.8 million long term) and credited against intangible exploration assets during the second quarter of 2017. Upon Final Investment Decision ("FID") of the South Lokichar development project, Maersk may be obligated to carry the Company for an additional amount of up to \$405.0 million dependent upon meeting certain thresholds of resource growth and timing of first oil.

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

During the nine months ended September 30, 2017, the Company capitalized \$6.5 million of general and administrative expenses related to intangible exploration assets (nine months ended September 30, 2016 - \$5.5 million).

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

During February 2017, the Company notified its Partners of its decision to withdraw from Block 12A (Kenya). The Company wrote off \$2.0 million of previously capitalized intangible exploration assets related to Block 12A during the fourth quarter of 2016.

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:

	Note	September 30, 2017		December 31, 2016	
		Shares	Amount	Shares	Amount
Balance, beginning of the period		456,417,074	\$ 1,290,389	456,417,074	\$ 1,290,389
Exercise of options	8	200,000	407	-	-
Balance, end of the period		456,617,074	\$ 1,290,796	456,417,074	\$ 1,290,389

## 8) Equity-based compensation:

a) Share purchase options

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

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

	September 30, 2017		December 31, 2016	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the period	14,748,500	4.58	18,452,500	5.20
Granted	-	-	1,610,500	2.12
Expired	(6,200,667)	7.79	(5,314,500)	5.97
Exercised	(200,000)	1.99	-	-
Balance, end of the period	8,347,833	2.26	14,748,500	4.58

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Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

(Unaudited)

During the nine months ended September 30, 2017, 0.2 million share purchase options were exercised in which \$0.1 million in contributed surplus was transferred to share capital. No share purchase options were exercised during the year ended December 31, 2016.

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 nine months ended September 30, 2017 and the year ended December 31, 2016 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2017	2016
Number of options granted	-	1,610,500
Fair value of options granted (CAD\$ per option)	-	0.75
Risk-free interest rate (%)	-	0.69
Expected life (years)	-	3.00
Expected volatility (%)	-	52
Expected dividend yield	-	-

The following table summarizes information regarding the Company's share purchase options outstanding at September 30, 2017:

Weighted Average Exercise price (CAD\$/share)	Number outstanding	Weighted average remaining contractual life in years
2.48	3,885,000	2.32
2.25	600,000	2.45
2.12	1,538,333	4.21
1.99	2,174,500	3.23
1.98	150,000	3.14
2.26	8,347,833	2.93

As at September 30, 2017, 6,535,331 share purchase options were exercisable.

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. The Company recognized \$0.1 million and \$0.5 million in equity-based compensation during the three and nine months ended September 30, 2017, respectively, (\$0.3 million and \$1.3 million for the three and nine months ended September 30, 2016, respectively), related to share purchase options.

## b) Performance share units ("PSUs")

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

# AFRICA OIL CORP.

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

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to determine the ultimate vested number of PSUs. PSUs may be settled in shares issued from treasury or cash, at the discretion of the Board of Directors.

The non-market performance conditions include:

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

The Company's PSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	1,024,000	-
Granted	848,000	1,024,000
Forfeited	(143,000)	-
Vested	-	-
Balance, end of the period	1,729,000	1,024,000

The Company accounts for PSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. The Company recognized \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2017, respectively, in equity-based compensation relating to the PSUs (\$0.2 million and \$0.4 million during the three and nine months ended September 30, 2016, respectively).

## c) Restricted share units ("RSUs")

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

The Company's RSUs outstanding are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	1,270,000	-
Granted	1,083,024	1,270,000
Forfeited	(95,333)	-
Vested	(341,334)	-
Balance, end of the period	1,916,357	1,270,000

During the first quarter of 2017, 235,024 RSUs (2016 – 246,000) were granted to Non-Executive Directors and 848,000 RSUs (2016 – 1,024,000) were granted to other plan participants. The Company accounts for RSUs as equity based awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. The Company recognized \$0.4 million and \$1.0 million during the three and nine months ended

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September 30, 2017, respectively, in equity-based compensation relating to the RSUs (\$0.3 million and \$0.6 million for both three and nine months ended September 30, 2016, respectively).

During the first quarter of 2017, 341,334 RSUs had vested and were settled for a cash payment of \$0.5 million. No RSUs had vested during 2016. The Company does not intend to settle any future vested RSUs in cash.

The Company recognized a total of \$0.7 million and \$1.9 million in equity-based compensation relating to the LTIP and Stock Option Plan during the three and nine months ended September 30, 2017, respectively (\$0.8 million and \$2.3 million for the three and nine months ended September 30, 2016, respectively).

## 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 operates in a number of geographical areas based on location of operations, being Kenya and Ethiopia.

<b>At September 30, 2017</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
Total assets	\$ 594,695	\$ 7,915	\$ 411,047	<b>\$ 1,013,657</b>
Intangible exploration assets	504,363	2,499	-	<b>506,862</b>
Property and equipment	-	-	132	<b>132</b>

  

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

  

<b>Three months ended September 30, 2017</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 15,192	\$ 669	\$ -	<b>\$ 15,861</b>
Property and equipment	-	-	1	<b>1</b>
	\$ 15,192	\$ 669	\$ 1	<b>\$ 15,862</b>
<b>Statement of operations</b>				
Expenses	\$ 28	\$ 4	\$ 2,277	<b>\$ 2,309</b>
Finance income	-	-	(1,371)	<b>(1,371)</b>
Finance expense	-	-	6	<b>6</b>
Segmented loss	\$ 28	\$ 4	\$ 912	<b>\$ 944</b>

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

(Unaudited)

<b>Three months ended September 30, 2016</b>	Kenya	Ethiopia	Corporate	<b>Total</b>
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 8,244	\$ 151	\$ -	\$ 8,395
Property and equipment	-	-	23	23
	\$ 8,244	\$ 151	\$ 23	\$ 8,418
<b>Statement of operations</b>				
Expenses	\$ 7	\$ 4	\$ 2,494	\$ 2,505
Finance income	-	-	(925)	(925)
Finance expense	-	-	13	13
Segmented loss	\$ 7	\$ 4	\$ 1,582	\$ 1,593
<b>Nine months ended September 30, 2017</b>				
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 45,432	\$ 1,501	\$ -	\$ 46,933
Property and equipment	-	-	13	13
	\$ 45,432	\$ 1,501	\$ 13	\$ 46,946
<b>Statement of operations</b>				
Expenses	\$ 47	\$ 12	\$ 6,552	\$ 6,612
Finance income	-	-	(2,904)	(2,904)
Finance expense	-	-	27	27
Segmented loss	\$ 47	\$ 12	\$ 3,675	\$ 3,735
<b>Nine months ended September 30, 2016</b>				
<b>Capital expenditures</b>				
Intangible exploration assets	\$ 30,723	\$ 907	\$ -	\$ 31,630
Property and equipment	-	-	27	27
	\$ 30,723	\$ 907	\$ 27	\$ 31,657
<b>Statement of operations</b>				
Expenses	\$ 25	\$ 11	\$ 8,455	\$ 8,491
Finance income	-	-	(2,136)	(2,136)
Finance expense	-	-	85	85
Segmented loss	\$ 25	\$ 11	\$ 6,404	\$ 6,440

## 10) Commitments and contingencies:

### a) Contractual obligations

#### i) Kenya:

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between

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Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in September 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At September 30, 2017, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 9 PSC, the Company and its partner entered into the second additional exploration period in Kenya which was to expire on December 31, 2015. The Ministry of Energy and Petroleum for the Republic of Kenya approved the Company's extension to the second additional exploration period which expires in June 2018. Under the terms of the PSC, AOC is required to reprocess 300 line kilometers of 2D seismic data, conduct geological and geophysical studies and re-evaluation of the identified prospects in the block, and undertake engineering and well design for re-evaluation and testing of Bogal-1 well. In addition, the Company must undertake a gas development and commercialization study in the block. At September 30, 2017, the Company's working interest in Block 9 was 100%.

Under the terms of the Block 10BA PSC, the Company and its partners entered into the first additional exploration period in Kenya which was set to expire in April 2016. During March 2016, the Company received approval for an eighteen-month extension to the first additional exploration period which expires in October 2017. The partnership has informed the Government of Kenya of its intention to enter the second additional exploration period. During the first additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 1,000 kilometers of 2D seismic or 50 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is \$17.0 million. At September 30, 2017, the Company's working interest in Block 10BA was 25%.

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

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ii) Ethiopia:

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2018, the Company is obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million. At September 30, 2017, the Company's working interest in the Rift Basin Area Block was 100%.

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

b) Title disputes:

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

## 11) Finance income and expense:

Finance income and expense for three and nine months ended September 30, 2017 and 2016 is comprised of the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest and other income	\$ 1,288	\$ 925	\$ 2,859	\$ 2,136
Bank charges	(6)	(10)	(27)	(27)
Foreign exchange gain (loss)	83	(3)	45	(58)
Finance income	\$ 1,371	\$ 925	\$ 2,904	\$ 2,136
Finance expense	\$ (6)	\$ (13)	\$ (27)	\$ (85)

## 12) Related party transactions:

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

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

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changed from a position of control to significant influence, the transactions between the Company and Africa Energy were eliminated upon consolidation.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy \$0.1 million during the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 – \$ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

During the nine months ended September 30, 2017, the Company invoiced Africa Energy \$0.1 million for reimbursable expenses paid by the Company on behalf of Africa Energy (nine months ended September 30, 2016 - \$0.1 million). At September 30, 2017, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2016 – \$0.06 million).

## 13) Equity investment:

The Company owns 28.5% of the issued and outstanding shares of Africa Energy Corp and accounts for its investment in Africa Energy as an equity investment.

	<b>September 30, December 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of the period	\$ 7,330	\$ 6,262
Share of loss from equity investment	(884)	(1,312)
Additional investment through private placements	-	2,380
Balance, end of the period	\$ 6,446	\$ 7,330

The Company recognized losses of \$0.3 million and \$0.9 million during the three and nine months ended September 30, 2017, respectively, related to its investment in Africa Energy (\$0.3 million and \$1.1 million for the three and nine months ended September 30, 2016, respectively).

As a result of the value attributed to the Company's investment in Africa Energy during 2015 and the value of additional investments made in Africa Energy and the Company's share of losses recognized since the change to a position of significant influence, \$6.4 million is recorded as an equity investment as at September 30, 2017 (December 31, 2016 - \$7.3 million).

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## 14) Net loss per share:

For the three months ended	September 30, 2017			September 30, 2016		
	Earnings	Weighted Average		Earnings	Weighted Average	
Number of shares		Per share amounts	Number of shares		Per share amounts	
Basic earnings per share						
Net loss attributable to common shareholders	\$ 944	456,617,074	\$ 0.00	\$ 1,593	456,417,074	\$ 0.00
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 944	456,617,074	\$ 0.00	\$ 1,593	456,417,074	\$ 0.00

For the nine months ended	September 30, 2017			September 30, 2016		
	Earnings	Weighted Average		Earnings	Weighted Average	
Number of shares		Per share amounts	Number of shares		Per share amounts	
Basic earnings per share						
Net loss attributable to common shareholders	\$ 3,735	456,599,041	\$ 0.01	\$ 6,440	456,417,074	\$ 0.01
Effect of dilutive securities	-	-	-	-	-	-
Dilutive loss per share	\$ 3,735	456,599,041	\$ 0.01	\$ 6,440	456,417,074	\$ 0.01

For the nine months ended September 30, 2017, 8,347,833 options, 1,729,000 PSUs and 1,916,357 RSUs were anti-dilutive and were not included in the calculation of dilutive loss per share (nine months ended September 30, 2016, 13,138,000 options, 1,024,000 PSUs and 1,270,000 RSUs).

## 15) Financial instruments:

Assets and liabilities at September 30, 2017 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

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

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## 16) Supplementary information:

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Changes in non-cash working capital				
Accounts receivable <sup>(1)</sup>	\$ 189	\$ (2,719)	\$ 61	\$ (3,353)
Prepaid expenses	(47)	185	(5)	(110)
Due from related party	16	(22)	57	13
Accounts payable and accrued liabilities	2,658	(3,691)	8,828	(16,584)
	2,816	(6,247)	8,941	(20,034)
Relating to:				
Operating activities	\$ 7	\$ 171	\$ 190	\$ (99)
Investing activities	2,809	(6,418)	8,751	(19,935)
Changes in non-cash working capital	\$ 2,816	\$ (6,247)	\$ 8,941	\$ (20,034)

The change in accounts receivable excludes a non-cash component relating to the advance development carry of \$56.3 million included in accounts receivable at September 30, 2017 (Note 4).

## 17) Donation:

As part of the Company's Community Social Responsibility commitment, the Company made donations to the Lundin Foundation of \$ nil and \$0.9 million for the three and nine months ended September 30, 2017, respectively (\$0.4 million and \$1.0 million for the three and nine months ended September 30, 2016). The Lundin Foundation is a registered Canadian non-profit organization that provides grants and risk capital to organizations dedicated to alleviating poverty in developing countries.

## 18) Subsequent events:

On 13 November 2017 the Company announced that it has entered into a strategic partnership with Eco (Atlantic) Oil and Gas Ltd. (TSXV:EOG or AIM:ECO) for exploration in West Africa and Guyana. Under the terms of an investment agreement (the "Investment Agreement"), AOC has agreed to acquire a 19.77% shareholding in ECO through the purchase, by way of private placement, of 29.2 million common shares at CAD\$0.48 per share for a total consideration of CAD\$14.0 million (approximately \$10.9 million). The Investment Agreement also provides the Company with the right to participate in any future ECO equity issuances, on a pro rata basis, and to appoint one nominee to ECO's board of directors. Keith Hill, President and CEO of AOC, will join the ECO board of directors as soon as practicable. As part of the Investment Agreement, the parties have also entered into a Strategic Alliance Agreement (the "SAA"), whereby they will jointly pursue new exploration projects. Pursuant to the terms of the SAA, AOC will be entitled to bid jointly on any new assets or ventures proposed to be acquired by ECO, on the same terms as ECO and for an interest at least equal to the Company's percentage holding of the common shares in ECO from time to time. Additionally, under the terms of the SAA, AOC will also have a right of first offer on the farmout of exploration properties currently held by ECO.