



AFRICA OIL CORP.

Management's Discussion and Analysis

Prepared by Management

AFRICA OIL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts expressed in United States dollars unless otherwise indicated)
For the three months ended March 31, 2017 and 2016

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, 2017 and 2016 and also should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015 and related notes thereto.

The financial information in this MD&A is derived from the Company's 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 11, 2017.

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

PROFILE AND STRATEGY

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

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

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

UPDATED ASSESSMENT OF CONTINGENT RESOURCES

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

MAERSK FARMOUT

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

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

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

WORKING INTERESTS

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

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

Footnotes:

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

² The Company's joint venture partners have provided notification of their intent to withdraw from the joint venture. Accordingly, the Company's effective working interest in the Block is 100%.

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

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

OPERATIONS UPDATE

Tertiary Rift - Kenya

During the fourth quarter of 2016, exploration and appraisal drilling activities recommenced in the South Lokichar Basin (Blocks 10BB and 13T, Tertiary Rift, Kenya). Following the drilling of the successful Erut-1 (Block 13T) exploration well in January 2017, which extended the proven oil limits to the northernmost end of the South Lokichar basin, the Amosing-6 and Ngamia-10 appraisal wells in Block 10BB have now been drilled.

The Erut-1 well discovered a gross oil interval of 55 meters with 25 meters of net oil pay at a depth of 700 meters. The overall oil column for the field is between 100 and 125 meters. The well drilled a structural trap at the northern limit of the South Lokichar Basin, 10 kilometers north of the Etom-2 well and shares important characteristics. Fluid samples and wireline logging indicate the presence of oil, demonstrating oil migration to the northern limit of the South Lokichar Basin and has de-risked multiple prospects in the area.

The Amosing-6 was drilled near the basin bounding fault and encountered 35 metres of net gas and oil pay and Ngamia-10 was drilled in an untested fault compartment and encountered 65 metres of net oil pay. The data from these appraisal wells will be incorporated into the ongoing field development planning activities.

Following the completion of the Ngamia-10 well, the rig was moved to the previously drilled Etom-2 well to prepare the well for a Drill Stem Test. The rig is currently drilling the fourth well of this campaign, the Emekuya exploration well, which will target the north-eastern flank of the Etom Complex.

The Block 10BB and 13T Joint Venture partners have decided to extend the current exploration and appraisal campaign by a further three wells. The additional wells will explore further the Greater Etom complex, test an undrilled fault block adjacent to the Ekaes field and drill the Ngamia-11 well which will be used for an extended water flood pilot test in conjunction with the Early Oil Pilot Scheme (EOPS).

Water injection testing on the Amosing-2A, Amosing-3, and Ngamia-5 wells has been successfully concluded, achieving good water injection rates and proving the feasibility of water injection for the development of these fields. This success has enabled the Ngamia-11 water flood pilot to be incorporated into the EOPS activities which, along with the dynamic data collected from previous tests, will be used to finalise reservoir characteristics for the Field Development Plan.

Africa Oil Corp. has a 25% working interest in Blocks 10BB and 13T with Tullow Oil plc (50% and Operator) and Maersk Olie og Gas A/S (25%) holding the remaining interests.

Field Development

In addition to the drilling and operational activities to support the South Lokichar Final Investment Decision for the Kenya Full Field Development by the end of 2018, engineering studies and contracting activities are underway in preparation for the start of Front End Engineering Design (FEED), which is expected in the second half of 2017. In parallel to the upstream development work, the Kenya Joint Venture (Blocks 10BB and 13T) and the Government of Kenya continue to progress the export pipeline commercial and finance studies and preparations are under way for the Environmental Social Impact Assessment and FEED which are also planned for the second half of 2017. The Kenya crude export pipeline is expected to run from South Lokichar to the Kenyan port of Lamu.

The Early Oil Pilot Scheme (EOPS) Agreement between the Kenya Joint Venture and the Government of Kenya was signed on 14 March 2017 allowing all EOPS upstream contracts to be awarded. The first stage of the EOPS will be the evacuation of the stored crude oil, which was produced during extended well testing in 2015, to Mombasa by road. This will be followed by EOPS production of 2,000 bopd in the fourth quarter of 2017. The EOPS will provide important information which will assist in full field development planning.

Cretaceous Anza Rift – Kenya

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

Tertiary Rift – Ethiopia

During the third quarter of 2015 in the Rift Basin Area Block, a 2D seismic program was completed, which consisted of approximately 600 kilometers of land and lake seismic. Source rock outcrops and oil slicks on the lakes have been identified in the block where there was previously no existing seismic or wells. The Government of Ethiopia has granted an additional twelve month extension to the initial exploration period, which will now expire in February 2018.

RECENT DEVELOPMENTS

Court Proceedings

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

To date, the Company has ultimately been successful in defending these proceedings, or in appealing unfavorable decisions. Most recently, on July 29, 2016, the Kenyan Court of Appeal ruled in favor of the Company, allowing the Company's appeal in respect of a High Court decision in Judicial Review Number 1 of 2012, and set aside the previous Court decision which had allowed the Applicants to institute the proceedings.

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

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015	30-Sep 2015	30-Jun 2015
Operating expenses (\$)	2,411	12,094	2,505	2,314	3,672	79,288	3,584	3,333
Interest income (\$)	769	804	925	845	366	106	99	80
Net loss attributable to common shareholders (\$)	(1,641)	(11,322)	(1,593)	(1,485)	(3,362)	(79,323)	(3,681)	(3,375)
Weighted average shares - Basic	456,562	456,417	456,417	456,417	456,417	456,417	435,412	391,130
Weighted average shares - Diluted	456,562	456,417	456,417	456,417	456,417	456,417	435,412	391,130
Basic loss per share (\$)	0.00	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)	(0.01)	(0.01)
Diluted loss per share (\$)	0.00	(0.02)	(0.00)	(0.00)	(0.01)	(0.17)	(0.01)	(0.01)
Oil and gas expenditures (\$)	14,871	16,946	8,395	10,969	12,266	24,521	48,693	69,272

⁽¹⁾ AOC currently owns approximately 28.5% of Africa Energy Corp. (“Africa Energy”) and accounts for its share of Africa Energy as an equity investment.

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

Operating expenses

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

Decreased operating expenses, recorded during the second quarter of 2016, primarily relate to the decreased professional fees, which were being incurred during 2015 and the first quarter of 2016 relating to the Company's farmout efforts.

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

Equity-based compensation

Three months ended (thousands, except per share amounts)	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015	30-Sep 2015	30-Jun 2015
Options granted	-	1,611	-	-	-	2,579	-	-
Performance share units granted	848	-	-	-	1,024	-	-	-
Restricted share units granted	1,083	-	-	-	1,270	-	-	-
Exercise price per share (\$CAD)	-	2.12	-	-	-	1.99	-	-
Equity-based compensation expense (\$)	455	1,074	774	786	690	1,741	1,243	1,148

The Company uses the fair value method of accounting for stock options granted to eligible plan participants whereby the fair value of all stock options granted is recorded as a charge to operations. The estimated fair value is recognized over the applicable vesting period. All options granted vest over a two-year period, of which one-third vest immediately, and expire three to five years after the grant date. Equity-based compensation relating to the issuance of stock options for the three months ended March 31, 2017 was \$0.18 million compared to \$0.62 million during the same period in 2016. The decrease in equity-based compensation expense can be mainly attributed to the decrease in the number of stock options granted in prior periods and the vesting of costs associated with options granted during 2014 being fully amortized by the end of 2016. As one-third of the fair value of the stock options is expensed immediately upon grant, the remaining expense is expected to decrease over the remaining vesting period. There were no stock options granted during the first quarter of 2017 or 2016.

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

The Company's PSUs outstanding are as follows:

	March 31, 2017	December 31, 2016
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	1,024,000	-
Granted	848,000	1,024,000
Cancelled	(143,000)	-
Vested	-	-
Balance, end of the period	1,729,000	1,024,000

During the three months ended March 31, 2017, the Company recognized \$0.02 million in equity-based compensation relating to the PSUs (three months ended March 31, 2016 - \$0.03 million).

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:

	March 31, 2017	December 31, 2016
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	1,270,000	-
Granted	1,083,024	1,270,000
Cancelled	(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. During the three months ended March 31, 2017, the Company recognized \$0.25 million in equity-based compensation relating to the RSUs (three months ended March 31, 2016 - \$0.05 million).

During the three months ended March 31, 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.

During the three months ended March 31, 2017, the Company recognized a total of \$0.45 million in equity-based compensation relating to the LTIP and Stock Option Plan (three months ended March 31, 2016 - \$0.69 million).

Donations

Three months ended (thousands)	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016	31-Dec 2015	30-Sep 2015	30-Jun 2015
Donation expense	850	300	350	100	550	980	500	785

During the three months ended March 31, 2017, the Company made \$0.9 million in donations to the Lundin Foundation compared to \$0.6 million during the three months ended March 31, 2016. While the Company is committed to certain in-country expenditures on community development projects under the terms of our PSAs, the Company's approach has always been that community and economic development funding is a required investment. The Company's engagement with the Lundin Foundation is a key component of the Company's wider Corporate Social Responsibility strategy in East Africa. The contributions made are a long-term investment that underpins the essential good corporate responsibility that the Company believes is required in developing, new resource rich countries in which the Company operates.

Interest income

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

RESULTS OF OPERATIONS

(thousands)	Three months ended March 31, 2017	Three months ended March 31, 2016
Salaries and benefits	\$ 250	\$ 459
Equity-based compensation	455	690
Travel	197	184
Office and general	57	33
Donation	850	550
Depreciation	25	2
Professional fees	110	1,276
Stock exchange and filing fees	187	137
Share of loss from equity investment	280	341
Operating expenses	\$ 2,411	\$ 3,672

Operating expenses decreased \$1.3 million during the first quarter of 2017 compared to the same period in 2016. The \$1.1 million decrease in professional fees relates to the completion of the farmout transaction with Maersk during the first quarter of 2016. Salaries and benefits decreased \$0.2 million during the first quarter of 2017 compared to the same period in 2016 due to the recovery of costs relating to the secondment of an employee. These decreases were offset by a \$0.9 million donation to the Lundin Foundation during the first quarter of 2017 compared to a \$0.6 million donation during the first quarter of 2016.

INTANGIBLE EXPLORATION ASSETS

(thousands)	March 31, 2017	December 31, 2016
Intangible exploration assets	\$ 549,800	\$ 534,929

During 2017, intangible exploration assets increased by \$14.9 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, water injection testing, development studies and related general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments.

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

For the three months ended (thousands)	March 31, 2017			March 31, 2016		
	Kenya	Ethiopia	Total	Kenya	Ethiopia	Total
Drilling and completion	\$ 7,665	\$ 16	\$ 7,681	\$ 5,332	\$ (2)	\$ 5,330
Development studies	1,885	-	1,885	3,228	-	3,228
Exploration surveys and studies	379	14	393	1,535	63	1,598
PSA and G&A related	4,593	319	4,912	1,878	232	2,110
Total	\$ 14,522	\$ 349	\$ 14,871	\$ 11,973	\$ 293	\$ 12,266

AOC incurred \$14.5 million of intangible exploration expenditures in Kenya for three months ended March 31, 2017. Drilling and completion expenditures primarily relate to the drilling of Erut-1 in Block 13T, the drilling of the Ngamia-10 and Amosing-6 appraisal wells in Block 10BB as well as the completion of the water injection testing on the Amosing-2A, Amosing-3, and Ngamia-5 wells in Block 10BB. Development study expenditures are associated with studies aimed at progressing towards project sanction for the South Lokichar Basin. Exploration studies costs continue to be incurred in Kenya in conjunction with exploration and appraisal drilling campaign which recommenced in the fourth quarter of 2016.

The Company incurred \$0.3 million of intangible exploration expenditures in Ethiopia for the three months ended March 31, 2017, which consists of license fees and general and administrative costs.

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

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2017, the Company had cash of \$450.1 million and working capital of \$419.0 million as compared to cash of \$463.1 million and working capital of \$435.0 million at December 31, 2016.

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

OUTLOOK

The Company continues to work closely with its joint venture partners to focus efforts on advancing the South Lokichar Basin development in Blocks 10BB and 13T (Kenya) by undertaking activities aimed at increasing resources and resource certainty while progressing development studies and planning.

The vast resource potential of the South Lokichar Basin has been highlighted by our recent independent assessment of contingent resources. We are pleased to have recommenced drilling activities in the South Lokichar Basin during the fourth quarter of 2016 and to have agreed with our Joint Venture Partners to extend the ongoing exploration and drilling campaign.

In addition to the drilling and operational activities to support the South Lokichar Final Investment Decision for the Kenya Full Field Development by the end of 2018, engineering studies and contracting activities are underway in preparation for the start of Front End Engineering Design (FEED), which is expected in the second half of 2017. In parallel to the upstream development work, the Kenya Joint Venture (Blocks 10BB and 13T) and the Government of Kenya continue to progress the export pipeline commercial and finance studies and preparations are under way for the Environmental Social Impact Assessment and FEED which are also planned for the second half of 2017. The Kenya crude export pipeline is expected to run from South Lokichar to the Kenyan port of Lamu.

The Early Oil Pilot Scheme (EOPS) Agreement between the Kenya Joint Venture and the Government of Kenya was signed on 14 March 2017 allowing all EOPS upstream contracts to be awarded. The first stage of the EOPS will be the evacuation of the stored crude oil, which was produced during extended well testing in 2015, to Mombasa by road. This will be followed by EOPS production of 2,000 bopd in the fourth quarter of 2017. The EOPS will provide important information which will assist in full field development planning.

RELATED PARTY TRANSACTIONS

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

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

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy \$0.03 million during the three months ended March 31, 2017 (March 31, 2016 – \$0.04 million). At March 31, 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 three months ended March 31, 2017, the Company invoiced Africa Energy \$0.01 million for reimbursable expenses paid by the Company on behalf of Africa Energy (March 31, 2016 - \$0.01 million). At March 31, 2017, the outstanding balance receivable from Africa Energy was \$0.07 million (at December 31, 2016 – \$0.06 million).

COMMITMENTS AND CONTINGENCIES

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

Kenya:

Under the terms of the Block 10BB PSC, the Company and its partners fulfilled the minimum work and financial obligations for the second additional exploration period in Kenya which was originally scheduled to expire in July 2017. During July 2016, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in September 2020. During the extension to the second additional exploration period, the Company and its partners are required to drill a minimum of four exploration wells between Blocks 10BB and 13T. At March 31, 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 March 31, 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. During May 2015, the Company received approval for an eighteen-month extension to the second additional exploration period which will expire on June 30, 2017. Under the terms of the PSC, AOC and its partner were required to drill one additional exploratory well to a minimum depth of 1,500 meters with a minimum gross expenditure of \$3.0 million. In addition, the Company is required to, in consultation with the Ministry of Energy in Kenya, determine how much 2D or 3D seismic, if any, is required. At March 31, 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. 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 March 31, 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 functional obligations to the end of the first additional exploration period have been satisfied. During February 2017, the Company notified its Partners of its decision to withdraw from its 20% working interest in Block 12A.

Ethiopia:

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

Under the Rift Basin Area PSA, during the initial exploration period which has been extended by 12 months to expire in February 2018, the Company and its partners are obligated to complete G&G operations (including the acquisition of 8,000 square kilometers of full tensor gravity and 400 kilometers of 2D seismic) with a minimum gross expenditure of \$5.0 million. At March 31, 2017, the Company's working interest in the Rift Basin Area Block was 100%.

OUTSTANDING SHARE DATA

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

Common shares outstanding	456,617,074
Outstanding share purchase options	9,114,500
Outstanding performance share units	1,729,000
Outstanding restricted share units	1,916,357
Full dilution impact on common shares outstanding	465,731,574

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's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2016.

Use of Estimates

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

Intangible Exploration Assets

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

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

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

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

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

Equity Based Compensation

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

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

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

Income Tax

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

INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of March 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting

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

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of March 31, 2017, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

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

RISK FACTORS

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

International Operations

AOC participates in oil and gas projects located in emerging markets, including Ethiopia and Kenya. Oil and gas exploration, development and production activities in these emerging markets are subject to significant political and economic uncertainties that may adversely affect AOC's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, civil unrest, expropriation, civil unrest, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls. These uncertainties, all of which are beyond AOC's control, could have a material adverse effect on AOC's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by AOC, AOC could be subject to the jurisdiction of courts other than those of Canada. AOC's recourse may be very limited in the event of a breach by a government or government authority of an

agreement governing a concession in which AOC acquires an interest. AOC may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that AOC will be able to obtain all necessary licenses and permits when required.

Different Legal System and Litigation

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

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

Financial Statements Prepared on a Going Concern Basis

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

Shared Ownership and Dependency on Partners

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

Uncertainty of Title

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

Risks Relating to Concessions, Licenses and Contracts

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

Competition

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

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

Risks Inherent in Oil and Gas Exploration and Development

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

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical

conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

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

Well-flow Test Results

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

Capital Requirements

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

Foreign currency exchange rate risk

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

Interest rate risk

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

Liquidity risk

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

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

Credit risk

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

Forward Looking Statements

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

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

Any statements regarding the following are forward-looking statements:

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

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

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

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

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

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

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