



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 and nine months ended September 30, 2018 and 2017

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 and nine months ended September 30, 2018 and 2017 and also should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and 2016 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 November 13, 2018.

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. The Company has also made equity investments in a number of international oil and gas exploration companies and has announced a proposed transaction to acquire an interest in a Company holding interests in producing and developing oilfields in deep-water Nigeria (see Proposed Transaction below).

AOC's long-range plan is to increase shareholder value through the acquisition, exploration, development and production associated with oil and gas assets. The Company has actively explored on multiple onshore exploration blocks in various under explored 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 are ongoing with the goal of sanctioning development of the oil fields in the South Lokichar Basin. Africa Oil will continue to consider acquisition and merger opportunities, focusing on Africa.

PROPOSED TRANSACTION

On 31st October 2018, The Company announced that it had, in conjunction with Vitol Investment Partnership II Ltd. ("Vitol") and Delonex Energy Ltd. ("Delonex") (collectively, the "Consortium") entered into a share purchase agreement to acquire a 50% ownership interest in Petrobras Oil and Gas B.V.. The Consortium members incorporated a company for the purposes of the transaction which is owned by Vitol (50%), Delonex (25%) and Africa Oil (25%). A wholly-owned subsidiary of Petrobras is the Seller. The transaction is subject to customary conditions precedent, including Nigerian government consent.

The primary assets of POGBV are an indirect 8% interest in Oil Mining Lease ("OML") 127, which contains the producing Agbami Field, operated by affiliates of Chevron Corporation, and an indirect 16% interest in OML 130, operated by affiliates of TOTAL S.A., which contains the producing Akpo Field and the Egina Field, which is expected to commence production by the end of 2018. Both OMLs are located in deep water offshore Nigeria.

The three fields in these two OMLs are all giant fields, located over 100 km offshore Nigeria, and are some of the largest and highest quality in Africa. Two of these fields, Agbami and Akpo, have been on production since 2008 and 2009, respectively, and in 2017 averaged a combined gross production rate of approximately 368,000 barrels of oil per day. Lifting costs in 2017 were well below \$10/bbl. The Total-operated Egina development project in OML 130 is the largest investment project currently ongoing in the oil and gas sector in Nigeria. The Egina FPSO, with a 200,000 barrel of oil per day capacity is currently on station and is being hooked up to existing wells. Egina first oil is expected before the end of 2018 and quickly ramp up to plateau production of approximately 200,000 barrels of oil per day during the first half of 2019. The fields all have high quality reservoirs and produce light sweet crude oil with state of the art Floating Production, Storage and Offloading ("FPSO") facilities.

The agreed base purchase price of \$1.407 billion, is on a cash and debt free basis as of the effective date of 1st January 2018 (the "Effective Date"). A deferred payment of up to \$123 million may be due to the Seller depending on the date and ultimate OML 127 tract participation in the Agbami Field, which is subject to a redetermination process. The Consortium's funding required to ultimately close the transaction will be reduced by any leakage paid to the Seller by POGBV, including dividends, and increased by any contributions made to POGBV by the Seller during the period between the Effective Date and completion. POGBV has an existing reserve-based lending facility, with a syndicate of international banks and commitments of \$1.245 billion, which POGBV and the Consortium believe may be increased. Africa Oil will be responsible for its proportionate share of the adjusted purchase price at completion and expects to fund its share of the acquisition with cash on hand.

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 December 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). Please refer to the Company's press release dated May 10, 2016 for details of the contingent resources by field. The Company intends to have an updated independent resource evaluation completed, following completion of the ongoing water injectivity and associated production testing activities in Block 10BB.

MAERSK FARMOUT

During the second quarter of 2017, the Company and Maersk (who has subsequently been acquired by Total S.A.) 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. Three quarterly payments were received during the period ended September 30, 2018. These proceeds were initially recognized in accounts receivable and intangible exploration assets during 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.

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%
Ethiopia	Rift Basin Area	AOC	100%

⁽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.

OPERATIONS UPDATE

Tertiary Rift – Kenya

Exploration and Appraisal (Blocks 10BB and 13T)

Operational activity is focused in the South Lokichar basin. Work has continued in both the Amosing and Ngamia fields, with water injection testing ongoing at Ngamia-11 and continued oil production from the Ngamia-8 well. The Ngamia-3 well also successfully started production in June 2018. The produced oil from testing has been stored in the field. A comprehensive review of results from this program commenced in the third quarter of 2018. To date, the results are positive.

Following the agreement of the terms of The Petroleum Bill, the transfer of stored crude oil from Turkana to Mombasa by road commenced on 3 June 2018. This milestone was marked by a ceremony attended by President H.E. Uhuru Kenyatta, Deputy President H.E. William Ruto, the Turkana County Governor, Turkana MPs as well as many other Government Ministers and officials.

The transfer of stored crude oil from Turkana to Mombasa by road continues, with four trucks continuing to be dispatched every two days, transporting approximately 600 bopd. To date, approximately 30,000 barrels of oil has been transported to Mombasa. The volume of oil transported by truck is expected to increase to 2,000 bopd once the Early Oil Production System is fully operational and production testing commences from the Amosing production facility. The first lifting of sweet Kenyan crude oil stored in Mombasa is expected in the second quarter of 2019.

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

Field Development (Blocks 10BB and 13T)

Since January 2018, work to deliver on the agreed development plan has been underway with strong alignment between the Government of Kenya and the Joint Venture Partners. The project continues to target FID in 2019. The initial development is planned to include a 60,000 to 80,000 barrels of oil per day (bopd) Central Processing Facility (CPF) and an export pipeline to Lamu, some 750 kilometers from the South Lokichar basin on the Kenyan coast. This approach is expected to bring significant benefits as it enables an early Final Investment Decision (FID) of the Amosing, Ngamia and Twiga fields, taking full advantage of the current low-cost environment for both the field and infrastructure development, as well as providing the best opportunity to deliver first oil in a timeline that meets the Government of Kenya

expectations. The installed infrastructure can then be utilized for the optimization of the remaining and yet to be discovered South Lokichar oil fields, allowing the incremental development of these fields to be completed in an efficient and low cost manner post first oil. Additional stages of development are expected to increase plateau production to 100,000 bopd or greater.

Front End Engineering and Design (“FEED”) and Environmental and Social Impact Assessment (“ESIA”) work on the upstream are now underway, following the award of the upstream FEED and Integrated Project Management contracts to WorleyParsons in May 2018.

A Joint Development Agreement (“JDA”), setting out a structure for the Government of Kenya and the Kenya Joint Venture Partners to progress the development of the export pipeline, was signed on 25 October, 2017. The associated FEED and ESIA have commenced, with the pipeline FEED contract awarded to Wood Group, as well as studies on pipeline financing and ownership, which are expected to continue throughout 2018.

The Joint Venture Partners continue to negotiate key commercial Heads of Terms (“HOT’s”) with the Government of Kenya, related to agreements expected to establish the commercial structure associated with field development.

Exploration Block 10BA

During 2017, the Joint Venture Partners entered the Second Additional Exploration Period on Block 10BA.

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 a 12-month extension to the initial exploration period, which will expire in February 2019.

Cretaceous Anza Rift – Kenya

During the second quarter of 2018, the Company submitted a notice to the Government of Kenya relinquishing its interest in Block 9 (Kenya) resulting in a \$44.7 million impairment of previously capitalized intangible exploration assets.

EQUITY INVESTMENTS

The Company currently holds the following equity investments:

	September 30,	December 31,
	2018	2017
Investment in Africa Energy	\$ 22,730	\$ 5,976
Investment in Eco	10,946	11,077
Investment in Impact	25,935	-
Total Investment	\$ 59,611	\$ 17,053

Africa Energy Corp. ("Africa Energy")

During the second quarter of 2018, Africa Energy (AFE:TSXV) completed a private placement, in which the Company invested \$18.0 million, increasing the Company's ownership interest in Africa Energy from 28.5% to 34.5%. Africa Energy is an international oil and gas exploration company that holds a 90% participating interest in the offshore Exploration Right for Block 2B in the Republic of South Africa ("Block 2B"), an effective 10% participating interest in offshore Petroleum License 37 in the Republic of Namibia ("PEL 37"), and upon closing, an effective 4.9% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa ("Block 11B/12B").

Eco (Atlantic) Oil and Gas Ltd. ("Eco")

On November 13, 2017 the Company announced that it has entered into a strategic partnership with Eco (TSXV:EOG or AIM:ECO) for exploration in West Africa and Guyana. Under the terms of an investment agreement (the "Investment Agreement"), AOC acquired 29.2 million common shares at CAD\$0.48 per share for a total consideration of \$11.0 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, has joined the Eco board of directors as of November 29, 2017. 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. The Company currently holds an 18.3% shareholding interest in Eco. Eco holds working interests in four exploration blocks offshore Namibia and one exploration block offshore Guyana.

Impact Oil and Gas Limited ("Impact")

During March 2018, the Company acquired 129.8 million shares and 45.4 million share purchase warrants providing the Company with an approximate 25.1% equity ownership interest in Impact. Impact is an oil and gas exploration company with assets located offshore South Africa and West Africa. The interest was acquired by completing the following transactions:

The Company entered into a subscription agreement (the "Subscription Agreement") with inter alia Impact providing for the purchase by AOC of 59,681,539 ordinary shares (the "Shares") and 29,840,769 ordinary share purchase warrants (the "Warrants") for an aggregate subscription price of approximately \$15.0 million. The Warrants have an exercise price of £0.25 per Share and an expiry date of April 27, 2021, subject to early expiration in the event of a liquidity event in respect of Impact. The Warrants are subject to customary adjustment provisions in respect of anti-dilution matters. The Subscription Agreement also provides that during the nine (9) month period after closing of the transactions contemplated by the Subscription Agreement, AOC may acquire, at the election of either AOC or Impact, an additional 9,946,923 Shares and 4,973,461 Warrants for an aggregate subscription price of approximately \$2.5 million. Impact is a private UK company.

The Company also entered into a share purchase agreement (the "Helios SPA") with Helios Natural Resources 2 Ltd. ("Helios") to acquire 70,118,381 Shares and 15,529,731 warrants held by Helios in the capital of Impact (the "Helios Warrants") in exchange for 13,946,545 common shares of AOC (the "AOC Shares"). The Helios Warrants have an exercise price of £0.18 per Share for a 12 month period, and if not exercised during such period, £0.25 thereafter and the same expiry date as the Warrants. The Helios Warrants are also subject to customary adjustment provisions in respect of anti-dilution matters.

Finally, the Company entered into an investors agreement ("Investors' Agreement") with Impact and certain other shareholders of Impact. The Investors' Agreement provides AOC with the right to nominate up to two members of the board of directors of Impact (which may consist of a maximum of nine (9) members) based on certain share ownership thresholds and consent rights with respect to certain fundamental matters in respect of Impact, including the future issuance of securities of Impact. The rights pursuant to the Investors' Agreement will cease upon AOC holding less than 10% of the Shares. Keith Hill, Africa Oil's President and CEO, has joined Impact's board.

Impact acquired its first asset, the Tugela South Exploration Right, offshore South Africa in 2011 and has subsequently expanded its asset base across the offshore margins of South and West Africa. It has since partnered with ExxonMobil and Statoil (South Africa), CNOOC (AGC - between Senegal and Guinea Bissau) and Total S.A. (Namibia and South Africa). Impact's portfolio covers a combined area of over 90,000 km² (gross).

RECENT DEVELOPMENTS

Kenya Revenue Authority

The Company's Kenyan Branch, of its wholly owned subsidiary, Africa Oil Kenya B.V., has been assessed corporate income tax and value added tax by the Kenya Revenue Authority ("KRA") relating to farmout transactions completed during the period 2012 to 2017.

The Company has objected to the assessment and is prepared to appeal any further claims made by the KRA in regard to this matter. Management has determined that based on the facts and Kenya tax law that the probability of paying the assessed tax is low. The KRA assessed tax is \$51.5 million.

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 all of these proceedings, and in appealing unfavorable decisions. Most recently, in light of the Company's successful appeal of a High Court decision relating to Judicial Review Number 1 of 2012, the Kenyan High Court in Kitale approved the Company's application for the release of certain funds that had been posted as security for costs in respect of that appeal.

Because IPL and its related parties continue to make applications to the courts in Kenya in respect of matters that have already been decided, the Company will, going forward, be taking the position that the matters are Res Judicata and that the applications are an abuse of the court process. The Company has also initiated a process to have one of the Applicants declared a vexatious litigant as provided under under Kenyan law. In the interim, it continues to pursue both the awards of costs made in favor of the Company by the Kenyan courts and the winding-up proceedings previously initiated against IPL by the Company.

SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Sep 2018	30-Jun 2018	31-Mar 2018	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016
Operating expenses (\$)	2,358	48,416	2,575	2,442	2,309	1,892	2,411	12,094
Interest income (\$)	2,035	1,592	1,287	1,723	1,288	802	769	804
Net loss attributable to common shareholders (\$)	(323)	(46,843)	(1,326)	(796)	(944)	(1,150)	(1,641)	(11,322)
Weighted average shares - Basic	470,568	465,482	460,339	456,617	456,617	456,617	456,562	456,417
Weighted average shares - Diluted	470,568	465,482	460,339	456,617	456,617	456,617	456,562	456,417
Basic loss per share (\$)	(0.00)	(0.10)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.02)
Diluted loss per share (\$)	(0.00)	(0.10)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.02)
Oil and gas expenditures (\$)	8,845	10,360	10,986	13,790	15,861	16,201	14,871	16,946

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 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.

Decreased operating expenses, recorded during the second quarter of 2017, primarily relate to a \$0.9 million reduction in donations to the Lundin Foundation which were offset by a \$0.2 million increase in equity-based compensation and a \$0.1 million increase in professional fees relating to fees associated with the settlement of the advance development carry with Maersk.

Increased operating expenses, recorded during the third quarter of 2017, primarily relate to an increase of \$0.1 million relating to travel as well as an increase in office and general expenses of \$0.3 million which primarily relates to an increase in corporate consulting fees.

Increased operating expenses, recorded during the second quarter of 2018, primarily relate to the recognition of a \$44.7 million impairment of intangible exploration assets related to the Company's decision to relinquish its interest in Block 9 in Kenya. In addition, there was an increase of \$0.3 million in equity-based compensation relating to the Long Term Incentive Plan and a \$0.5 million increase in the loss related to the revaluation of Impact warrants acquired during the first quarter of 2018.

Equity-based compensation

Three months ended (thousands, except per share amounts)	30-Sep 2018	30-Jun 2018	31-Mar 2018	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016
Options granted	-	-	-	1,192	-	-	-	1,611
Performance share units granted	-	-	2,152	-	-	-	848	-
Restricted share units granted	-	-	1,119	-	-	-	1,083	-
Exercise price per share (\$CAD)	-	-	-	1.38	-	-	-	2.12
Equity-based compensation expense (\$)	802	504	233	122	740	676	455	1,074

The Company recognized a total of \$0.8 million and \$1.5 million in equity-based compensation expense relating to the Long Term Incentive Plan ("LTIP") and Stock Option Plan during the three and nine months ended September 30, 2018, respectively (\$0.7 million and \$1.9 million for the three and nine months ended September 30, 2017, respectively).

Of the amounts recognized in equity-based compensation expense, \$0.2 million and \$0.5 million, relating to Performance Share Units ("PSUs") and Stock Options, were recorded in contributed surplus during the three and nine months ended September 30, 2018, respectively (\$0.2 million and \$0.4 million for the three and nine months ended September 30, 2017, respectively). Equity-based compensation related to Restricted Share Units ("RSUs") amounting to \$0.5 million and \$0.7 million for the three and nine months ended September 30, 2018, respectively (\$0.4 million and \$1.0 million for the three and nine months ended September 30, 2017, respectively) were recorded as a liability. As at the end of the period, \$0.9 million of short term liabilities (December 31, 2017: \$0.6 million) and \$0.5 million of long term liabilities are recorded related to RSUs (December 31, 2017: \$0.6 million).

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. The Company recognized \$0.08 million and \$0.3 million in equity-based compensation during the three and nine months ended September 30, 2018, respectively (\$0.1 million and \$0.5 million during the three and nine months ended September 30, 2017, respectively), related to share purchase options. The decrease in equity-based compensation expense can be mainly attributed to the decrease in the number and fair value of stock options granted. 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 nine months ended September 30, 2018 or 2017.

On April 19, 2016, the shareholders of the Company approved a new LTIP. Under the terms of the LTIP, eligible plan participants may be granted PSUs and 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. It is anticipated that settlements will be made by issuing shares from treasury.

The Company's PSUs outstanding are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	1,729,000	1,024,000
Granted	2,151,500	848,000
Forfeited	-	(143,000)
Exercised	-	-
Balance, end of the period	<u>3,880,500</u>	<u>1,729,000</u>

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 \$0.5 million during the three and nine months ended September 30, 2018, 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, 2017, respectively).

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:

	September 30, 2018	December 31, 2017
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	1,916,357	1,270,000
Granted	1,118,700	1,083,024
Forfeited	-	(95,333)
Vested	(576,335)	(341,334)
Balance, end of the period	2,458,722	1,916,357

During the first quarter of 2018, 401,600 RSUs (2017 – 235,024) were granted to Non-Executive Directors and 717,100 RSUs (2017 – 848,000) were granted to other plan participants. The Company accounts for RSUs as cash settled awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period. The Company recognized \$0.5 million and \$0.7 million for the three and nine months ended September 30, 2018, respectively, in equity-based compensation relating to the RSUs (\$0.4 million and \$1.0 million during the three and nine months ended September 30, 2017, respectively). As at September 30, 2018, \$0.9 million of short term liabilities are recorded related to RSUs (December 31, 2017: \$0.6 million) and \$0.5 million of long term liabilities are recorded related to RSUs (December 31, 2017: \$0.6 million). These liabilities are revalued quarterly.

During the first quarter of 2018, 576,335 RSUs had vested and were settled for a cash payment of \$0.6 million compared to 341,334 RSUs vested and settled for a cash payment of \$0.6 million during the first quarter of 2017.

Donations

Three months ended (thousands)	30-Sep 2018	30-Jun 2018	31-Mar 2018	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016
Donation expense	-	-	-	-	-	-	850	300

The Company made \$ nil in donations for both the three and nine months ended September 30, 2018, to the Lundin Foundation, compared to \$ nil and \$0.9 million during the three and nine months ended September 30, 2017, respectively. 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. Interest rates on short-term U.S. dollar deposits have been increasing during the second half of 2017 and the nine months ended September 30, 2018.

RESULTS OF OPERATIONS

(thousands)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Salaries and benefits	\$ 400	\$ 419	\$ 1,249	\$ 989
Equity-based compensation	802	740	1,539	1,871
Travel	292	262	985	576
Office and general	221	353	653	442
Project evaluation	300	-	982	-
Donation	-	-	-	850
Depreciation	26	26	80	78
Professional fees	156	76	421	455
Stock exchange and filing fees	178	161	480	467
Fair market value adjustment of warrants	427	-	1,067	-
Share of (gain)/loss from equity investment	(444)	272	1,205	884
Impairment of intangible exploration assets	-	-	44,689	-
Operating expenses	\$ 2,358	\$ 2,309	\$ 53,350	\$ 6,612

Operating expenses were consistent during the third quarter of 2018 compared to the same period in 2017. Project evaluation increased \$0.3 million during the third quarter of 2018 due to costs associated with assessing potential Africa-related investment opportunities. The Company recognized \$0.4 million in losses relating to the revaluation of Impact warrants acquired during the first quarter of 2018. The Company recognized a gain \$0.4 million during the three months ended September 30, 2018 compared to a loss of \$0.3 million during the same period in 2017. This is due to the Company recognizing losses from its investments in Africa Energy and Eco which was offset by the recognition of a gain from its investment in Impact. The Eco investment was completed during November 2017 and the Impact investment was completed in March 2018.

Operating expenses increased \$46.7 million during the nine months ended September 30, 2018 compared to the same period in 2017. The Company recognized a \$44.7 million impairment of intangible exploration assets during the nine months ended September 30, 2018 relating to the relinquishment of Block 9 in Kenya. Salaries and benefits increased \$0.3 million during the nine months ended September 30, 2018 compared to the same period in 2017 due to the recovery of costs relating to the secondment of an employee during 2017 as well as the addition of an employee during the second quarter of 2018. Equity-based compensation decreased \$0.3 million which can be mainly attributed to the decrease in the number and fair value of stock options granted at the end of 2017. Travel increased \$0.4 million due to an increase in activities relating to business development and current operations. Office and general increased \$0.2 million during the nine months ended September 30, 2018 compared to the same period in 2017 which is primarily due to increased activity related to current operations. Project evaluation increased \$1.0 million during the nine months ended September 30, 2018 due to costs associated with assessing potential Africa-related investment opportunities. Donations decreased as the Company made a donation of \$0.9 million during the nine months ended September 30, 2017 compared \$ nil during the same period in 2018. The Company recognized \$1.1 million in losses relating to the revaluation of Impact warrants acquired during the first quarter of 2018. The share of loss from equity

investment increased \$0.3 million during the nine months ended September 30, 2018 compared to the same period in 2017. This is due to the Company recognizing losses from its investments in Africa Energy and Eco which was offset by the recognition of a gain from its investment in Impact. The Eco investment was completed during November 2017 and the Impact investment was completed in March 2018.

INTANGIBLE EXPLORATION ASSETS

(thousands)	September 30, 2018	December 31, 2017
Intangible exploration assets	\$ 506,154	\$ 520,652

During the nine months ended September 30, 2018, intangible exploration assets decreased by \$14.5 million. Expenditures of \$30.2 million were incurred during the period, which was offset by an impairment charge of \$44.7 million relating to Block 9 in Kenya. 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, 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 nine months ended (thousands)	September 30, 2018			September 30, 2017		
	Kenya	Ethiopia	Total	Kenya	Ethiopia	Total
Drilling and completion	\$ 7,466	\$ 9	\$ 7,475	\$ 23,256	\$ 87	\$ 23,343
Development studies	13,219	-	13,219	13,464	-	13,464
Exploration surveys and studies	137	79	216	1,048	179	1,227
PSA and G&A related	8,408	873	9,281	7,664	1,235	8,899
Total	\$ 29,230	\$ 961	\$ 30,191	\$ 45,432	\$ 1,501	\$ 46,933

Africa Oil incurred \$29.2 million of intangible exploration expenditures in Kenya during the nine months ended September 30, 2018. Drilling and completion expenditures primarily relate to the waterflood pilot test being performed on the Ngamia-11 appraisal well as well as extended well testing on the Ngamia field. Development study expenditures are associated with studies aimed at progressing towards project sanction for the South Lokichar Basin.

The Company incurred \$1.0 million of intangible exploration expenditures in Ethiopia for the nine months ended September 30, 2018, 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 September 30, 2018, the Company had cash of \$380.1 million and working capital of \$371.5 million as compared to cash of \$392.3 million and working capital of \$436.3 million at December 31, 2017. It is anticipated that the Company will have adequate cash available to complete the proposed acquisition of an effective 12.5% ownership interest in POGBV (refer to Proposed Transaction above).

Until detailed engineering is completed and a final South Lokichar Basin development and financing 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 Kenyan Joint Venture Partners to focus efforts on advancing the South Lokichar Basin development in Blocks 10BB and 13T (Kenya). Good progress continues to be made on the Kenya development project. The upstream and pipeline Front End Engineering and Design (FEED) work is progressing to plan and is expected to be completed in the first quarter of 2019. Environmental and Social Impact Assessments are also on schedule for submission to the regulators in the second quarter of 2019. Following the completion of all field work, including the production and water injection trials, and further subsurface analysis, the decision has also been taken to include the Twiga field alongside the Ngamia and Amosing fields in the Foundation Stage development. The Kenyan Joint Venture Partners and the Government of Kenya remain focused on achieving FID in 2019.

Africa Oil, will continue to work alongside our fellow Consortium members (Vitol and Delonex) to complete the proposed acquisition of an effective 12.5% ownership interest in Petrobras Oil and Gas B.V., providing the Company with exposure to multiple high quality, free cash flowing, fields located over 100 kilometres offshore Nigeria.

The Company also continues to evaluate potential acquisitions and mergers, focusing on Africa.

RELATED PARTY TRANSACTIONS

Transactions with Africa Energy

During May 2018, the Company invested \$18.0 million in a non-brokered private placement to acquire 144,956,250 common shares in Africa Energy at a price of CAD \$0.165 per share, increasing the Company's ownership interest in Africa Energy to 34.5% from 28.5% at December 31, 2017.

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, 2018 (nine months ended September 30, 2017 – \$0.1 million). At September 30, 2018, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2017 – \$ 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, 2018, the Company invoiced Africa Energy \$ nil for reimbursable expenses paid by the Company on behalf of Africa Energy (nine months ended September 30, 2017 - \$0.1 million). At September 30, 2018, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2017 – \$ nil).

COMMITMENTS AND CONTINGENCIES

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

Kenya:

Under the terms of the Block 10BB PSC, during 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, 2018, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, 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, 2018, the Company's working interest in Block 13T was 25%.

Under the terms of the Block 10BA PSC, the Company and its partners fulfilled the minimum work and financial obligations of the first additional exploration period and entered into the second additional exploration period which expires in October 2019. During the second additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 500 kilometers of 2D seismic or 25 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 \$19.0 million. At September 30, 2018, the Company's working interest in Block 10BA was 25%.

Ethiopia:

Under the terms of Rift Basin Area PSA, during March 2018, the Company received approval from the Ministry of Mines, Petroleum and Natural Gas for Ethiopia, for an extension to the initial exploration period which expires in February 2019. 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, 2018, 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	470,567,619
Outstanding share purchase options	8,900,000
Outstanding performance share units	3,880,500
Outstanding restricted share units	2,458,722
Full dilution impact on common shares outstanding	485,806,841

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 three and nine months ended September 30, 2018.

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, derivative financial instruments 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 of grant 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 estimated fair value of the RSUs is initially determined at the time of grant and is revalued on a quarterly basis, recorded as a liability in the balance sheet and expensed evenly throughout 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.

NEW ACCOUNTING STANDARDS

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

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 September 30, 2018, 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 September 30, 2018, 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.

Climate Change Legislation

The oil and natural gas industry is subject to environmental regulation pursuant to applicable legislation within each of the Company's countries of operation. A breach of such legislation may result in the imposition of fines against the Company or the issuance of clean up orders in respect of its oil and gas assets, some of which may be material. Furthermore, management of the Company believes the political climate appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is a risk that any such programs, laws or regulations, if proposed and enacted, will contain emission reduction targets which the Company cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets.

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Implementation of strategies by any level of government within the countries in which the Company operates, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

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 constitute forward-looking information or forward-looking statements under applicable securities law (collectively "forward-looking statements"). Forward-looking statements are statements that relate to future events or the Company's future performance or business prospects. Any statements that express or involve discussions with respect to expectations, beliefs, projections, plans, future events or performance (often, but not always, identified by words such as "believes", "anticipates", "expects", "estimates", "pending", "intends", "plans", "will", "would have" or similar words suggesting future outcomes) are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements 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. 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.

Forward-looking statements include, but are not limited to, statements concerning:

- 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;
- proposed development plans;
- timing to FID;
- future development costs and the funding thereof;
- anticipated future financing requirements;
- future crude oil, natural gas or chemical prices;
- future sources of funding for the Company's 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 explored or developed or will come on stream or reach expected operating capacity;
- the Company's ability to comply with future legislation or regulations;
- future staffing level requirements; 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.

These 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;
- production and development costs and capital expenditures;
- the imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids;
- changes in oil prices;
- uninsured risks;
- regulatory changes;
- defects in title;
- availability of materials and equipment;
- timelines of government or other regulatory approvals;
- ultimate effectiveness of design or design modification to facilities;
- the results of exploration, appraisal and development drilling and related activities;
- short term well test results on exploration and appraisal wells do not necessarily indicated the long term performance or ultimate recovery that may be expected from a well;
- pipeline or delivery constraints;
- volatility in energy trading markets;
- incorrect assessments of value when making acquisitions;
- 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;
- political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict; and
- internal conflicts within states or regions.

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 its assessment of all information at that time. Although management believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements were made, no assurances can be given that these expectations will prove to be correct, and such forward-looking statements included in, or incorporated by reference into, this AIF should not be unduly relied upon.

The forward looking statements are made as of the date hereof or as of the date specified in the documents incorporated by reference into this AIF, as the case may be, and except as required by law, the Company undertakes 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.