Africa Oil Third Quarter of 2013 Financial and Operating Results

22.11.2013 | Marketwired

VANCOUVER, BRITISH COLUMBIA--(Marketwired - Nov 22, 2013) - **Africa Oil Corp.** **(TSX VENTURE:AOI)(OMX:AOI)** ("Africa Oil", "the Company" or "AOC") is pleased to announce its financial and operating results for the three and nine months ended September 30, 2013.

- Africa Oil ended the quarter with cash of $133.3 million and working capital of $77.6 million. Subsequent to the end of the quarter, the Company completed a brokered private placement issuing an aggregate of 56,505,217 common shares at a price of 51.75 Swedish Kronas ("SEK") per common share for net proceeds of $440 million significantly improving the Company's liquidity and capital resource position.
- In September, the Company announced details of an updated independent assessment of the Company's contingent and prospective resources on its Kenyan and Ethiopian exploration properties. The effective date of this assessment was 31 July 2013 and it was carried out in accordance with the standards established by the Canadian Securities Administrators in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The assessment confirmed that the discovered basin in Northern Kenya contains gross contingent resources of 368 million barrels of oil, an increase of 557% over the assessment conducted in mid 2012. In addition, gross risked prospective resources of 1,213 million barrels of oil are estimated for the discovered basin in Northern Kenya. Net Contingent Resources for the Company are estimated at 231 million barrels of oil. Net Unrisked Prospective Resources for the Company are estimated at 9,647 million barrels of oil (excluding Puntland) and Net Risked Prospective Resources at 1,294 million barrels of oil (excluding Puntland).
- The Company has increased the pace of exploration significantly and expects to exit the year with five drilling rigs and one testing and completion rig operating in the region. It is anticipated that eight exploration wells and two multi-zone well tests will have been completed during 2013, and the Company will exit the year with four wells drilling and two wells under test.
- All operations in Block 10BB and Block 13T in Northern Kenya were temporarily suspended on October 28, 2013 as a precautionary measure following demonstrations by members of local communities. Operations resumed on November 8, 2013 after successful discussions relating to the operating environment with central and regional government and local community leaders. These discussions led to the signing of a Memorandum of Understanding which clearly lays out a plan for the Government of Kenya, county government, local communities in Northern Kenya and the Tullow-Africa Oil joint venture to work together inclusively over the long-term and to ensure operations can continue without disruption in the future.
- During the first half of the year, the Company completed a series of well tests at both Twiga South-1 and Ngamia-1 on Blocks 13T and 10BB in Kenya, respectively. These successful well tests confirmed over 5,000 barrels of oil per day ("bopd") flow potential per well and a doubling of our previous estimates of net oil pay. Transient Pressure Analysis has been conducted on the Twiga South-1 and Ngamia-1 well tests. No pressure depletion was recorded over the duration of the tests. Flow periods ranged from 0.5 to 2.5 days and build up periods ranged between three to twelve days.
- In July, the Company announced a new major oil discovery at Etuko-1. Etuko-1 is located 14 kilometers east of Twiga South-1 in Block 10BB and is the first test of the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya. The well encountered approximately 40 meters of net oil pay in the Auwerwer and Upper Lokhone targets and approximately 50 meters of additional potential net pay in the Lower Lokhone interval. Well testing will commence later in November utilizing one of the recently mobilized Tullow-Africa Oil joint venture rigs. Following testing operations, an appraisal well will be drilled from the same well pad to test a shallow Auwerwer zone that was not able to be properly evaluated in the Etuko-1 discovery well.
- In September, the Company announced a new oil discovery at Ekales-1 located in the Basin Bounding Fault Play between the Ngamia-1 and Twiga South-1 discoveries. Logs indicate a potential pay zone of 60 to 100 meters which will be confirmed by flow testing. Well testing will commence later in November utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.

- In November, the Company announced a new oil discovery at Agete-1 located seven kilometers north of the Twiga South-1 discovery along the Basin Bounding Fault Play in Block 13T. The Agete-1 well is the fifth consecutive oil discovery by the Tullow-Africa Oil joint venture in the Northern Kenyan basin. Logs indicate a significant oil column with an estimated 100 meters of net oil pay in good quality sandstone reservoirs. Well testing will commence early in 2014 utilizing the recently mobilized Tullow-Africa Oil joint venture testing and completion rig.
- The Amosing-1 exploration well, located south of the Ngamia discovery and also along the Basin Bounding Fault Play, is scheduled to commence later this month.
- The Ewoi-1 exploration is scheduled to commence before the end of the year, and will be the second exploration well drilled by the Tullow-Africa Oil joint venture in the Basin Flank Play in the eastern part of the discovered basin in Northern Kenya.
- The excellent results to date onshore Kenya are an important step towards understanding the overall potential and commerciality of the discovered basin in Northern Kenya. Resources discovered to date are of a scale that the Tullow-Africa Oil joint venture will initiate discussions with the Government of Kenya and other relevant stakeholders to consider development options. These discussions include consideration of a "start-up phase" oil production system with potential to deliver significant production rates with oil export via road or rail in advance of a full-scale pipeline development. It is understood that discussions are ongoing between the Governments of Kenya, Uganda and Sudan regarding a regional crude oil pipeline export system to Lamu in Kenya and the Government of Kenya has indicated that it will issue an Expression of Interest within the next few months seeking parties willing to fund, build and operate the pipeline system.
- To facilitate development activities in Blocks 13T and 10BB in parallel with exploration and appraisal, an "Area of Interest" (AOI) encompassing the Basin discoveries and further prospects in Blocks 13T and 10BB, was agreed with the Government of Kenya in February 2013. This agreement allows a multiple field approach to development of the resources while permitting the continued focus on exploration to increase the resource base while concurrently appraising discoveries.
- In the first quarter of 2013, the Company and its operating partners on Block 10A completed drilling the Paipai-1 exploration well. The Paipai-1 well tested a large four-way closed structure with Cretaceous-age sandstone targets at multiple depths. Paipai-1 spudded in September 2012 and completed drilling in the first quarter of 2013 to a total depth of 4,255 meters. Light hydrocarbons were encountered while drilling a 55 meter thick gross sandstone interval. Attempts to sample the reservoir fluid were unsuccessful and the hydrocarbons encountered while drilling were not recovered to surface. The Company and its partners were unable to test the well at the time due to the unavailability, in country, of testing equipment capable of handling the higher reservoir pressures encountered at this depth. As a result, the well has been temporarily suspended pending further data evaluation. A well test for Paipai-1 is being scheduled for 2014.
- In July, the Company reported that the Sabisa-1 well on the South Omo Block in Ethiopia, the most northerly well drilled on the Tertiary rift trend to date, had confirmed a viable hydrocarbon system with oil and heavy gas shows. Based on the encouragement of the results, the decision was made to drill Tultule-1 as the next well on the South Omo Block. This well is currently drilling and results are expected in December. Preparations are also underway to drill two exploration wells in the Chew Bahir basin, located to the east of the South Omo Block, in 2014.The Company and its partner are currently drilling the Bahasi-1 exploration well in Block 9, and expect to complete the well in November. Block 9 is in the Cretaceous rift basin on trend with the South Sudan oil fields and the play concept was confirmed by the recent Paipai-1 well drilled in Block 10A.
- The Company and its joint operating partners on Blocks 7/8 are currently drilling the El Kuran-3 appraisal well which is expected to complete around end November. Should the well show encouragement, a multi-zone acid fracture stimulation well test is planned during 2014.
- The Company and its partners plan to continue to actively acquire, process and interpret an extensive 2D seismic program totaling approximately 2,648 kilometers during 2013 over Blocks 10BA, 10BB, 12A, 13T in Kenya and the South Omo Block in Ethiopia with two onshore and one offshore 2D seismic crews operating throughout the remainder of the year. A third onshore 2D seismic crew operating in the South Omo Block was released in May 2013 after completing 1,174 kilometers of 2D seismic. In addition, the Company and its partner in Blocks 10BB and 13T have mobilized a 3D seismic crew to begin a 550 square kilometer 3D seismic survey over the Ngamia-1 and Twiga South-1 discoveries.

Keith Hill, President and CEO, commented, "Africa Oil is very optimistic regarding the potential of the discovered basin in Northern Kenya given our early exploration success. Completion of the recent private placement will enable Africa Oil to focus on the growth of its existing contingent resource base in the discovered basin in Northern Kenya, but also to drill potential basin-opening wells in the Turkana, Chew Bahir, Kerio, and Anza basins within Kenya and Ethiopia which could generate significant shareholder value."

Third Quarter 2013 Financial and Operating Highlights

Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss)

(Thousands of United States Dollars)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Operating expenses				
Salaries and benefits	$ 472	$ 404	$ 1,512	$ 981
Stock-based compensation	2,847	2,572	10,632	3,789
Travel	441	347	1,168	810
Office and general	375	212	835	717
Donation	-	-	100	-
Depreciation	15	11	40	37
Professional fees	130	411	324	3,655
Stock exchange and filing fees	297	77	659	351
Impairment of intangible exploration assets	-	-	-	3,115
	4,577	4,034	15,270	13,455
Finance income	(1,233)	(17,895)	(3,929)	(5,502)
Finance expense	5	10	1,543	151
Net income (loss) and comprehensive income (loss)	(3,349)	13,851	(12,884)	(8,104)
Net income (loss) and comprehensive income (loss) attributable to non-controlling interest	(98)	12,483	1,504	5,139
Net income (loss) and comprehensive income (loss) attributable to common shareholders	(3,251)	1,368	(14,388)	(13,243)
Net income (loss) attributable to common shareholders per share				
Basic	$ (0.01)	$ 0.01	$ (0.06)	$ (0.06)
Diluted	$ (0.01)	$ 0.01	$ (0.06)	$ (0.06)
Weighted average number of shares outstanding for the purpose of calculating earnings per share				
Basic	252,960,247	220,952,010	252,623,459	217,566,174
Diluted	252,960,247	226,664,381	252,623,459	217,566,174

Operating expenses increased $0.5 million for the three months ended September 30, 2013 compared to the prior year. The increase occurred for all operating expense categories, with the exception of professional fees, and can be attributed to increased headcount and operational activity. Professional fees decreased in the third quarter of 2013 from the same period in 2012, as professional fees were incurred the third quarter of 2012 in respect of previously completed farmout transactions.

Operating expenses increased $1.8 million for the nine months ended September 30, 2013 compared to the prior year due mainly to an increase of $6.8 million in stock-based compensation relating to the 5,673,500 options granted in the current period. The increase was offset by a decrease of $3.3 million in professional fees and $3.1 million in impairment of intangible exploration assets relating to the abandonment of Blocks 7 and 11 in Mali during the prior period. Professional fees were high in the nine months ended September 30, 2012 due to shares issued in respect of previously completed farmout transactions. The remaining $1.4 million increase can be mainly attributed to increased salary, travel and office related costs associated with increased headcount and operational activity.

Financial income and expense is made up of the following items:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Loss on marketable securities	-	-	-	(124)
Fair value adjustment - warrants	205	17,279	3,087	3,516
Interest and other income	161	66	842	301
Bank charges	(5)	(10)	(18)	(27)
Foreign exchange gain (loss)	867	550	(1,525)	1,685
Finance income	1,233	17,895	3,929	5,502
Finance expense	(5)	(10)	(1,543)	(151)

The loss on revaluation of marketable securities is the result of a decrease in the value of 10 million shares held in Encanto Potash Corp. which were acquired as part of the acquisition of Lion. These shares were sold during the first quarter of 2012.

At September 30, 2013, nil warrants were outstanding in AOC and 9.5 million warrants were outstanding in Horn. AOC holds 2.2 million of the warrants outstanding in Horn. The Company recorded a $3.1 million gain on the revaluation of warrants for the nine months ended September 30, 2013 due to a reduction in the volatility of the shares of Horn combined with a reduction in the remaining life of the warrants. The Company will record fair market value adjustments on the Horn warrants until they are exercised or they expire (9,375,000 expire June 8, 2014, 156,248 expire June 11, 2014, and 15,000 expire June 18, 2014).

Interest income increased in the first quarter of 2013 due to a significant increase in cash late in the fourth quarter of 2012 as a result of cash received from the non-brokered private placement in December of 2012. Interest income decreased since the first quarter of 2013 due to a reduction in cash in cash held throughout 2013.

The foreign exchange gains and losses are the direct result of changes in the value of the Canadian dollar in comparison to the US dollar. The Company has recorded foreign exchange gains when the Canadian dollar has strengthened versus the US dollar, and has recorded losses when the Canadian dollar has weakened versus the US dollar.

Consolidated Balance Sheets
(Thousands United States Dollars)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 133,316	$ 272,175
Accounts receivable	1,574	2,848
Prepaid expenses	1,336	1,124
	136,226	276,147
Long-term assets		
Restricted cash	1,625	1,119
Property and equipment	111	82
Intangible exploration assets	439,577	282,109

		441,313		283,310
Total assets	$	577,539	$	559,457
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	58,578	$	36,188
Current portion of warrants		29		2,288
		58,607		38,476
Long-term liabilities				
Warrants		-		828
		-		828
Total liabilities		58,607		39,304
Equity attributable to common shareholders				
Share capital		560,059		558,555
Contributed surplus		22,282		12,123
Deficit		(112,464)		(98,076)
		469,877		472,602
Non-controlling interest		49,055		47,551
Total equity		518,932		520,153
Total liabilities and equity	$	577,539	$	559,457

The increase in total assets from December 31, 2012 to September 30, 2013 is primarily attributable to intangible asset expenditures incurred during the year in Kenya, Ethiopia and Puntland (Somalia).

Consolidated Statement of Cash Flows
(Thousands United States Dollars)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash flows provided by (used in):				
Operations:				
Net income (loss) and comprehensive income (loss) for the period	$ (3,349)	$ 13,851	$ (12,884)	$ (8,104)
Items not affecting cash:				
Stock-based compensation	2,847	2,572	10,632	3,789
Share-based expense	-	465	-	3,763
Depreciation	15	11	40	37
Loss on marketable securities	-	-	-	124
Impairment of intangible exploration assets	-	-	-	3,115
Fair value adjustment - warrants	(205)	(17,279)	(3,087)	(3,516)

Unrealized foreign exchange (gain) loss	(2,547)	158	(312)	245
Changes in non-cash operating working capital	(66)	(487)	(862)	(1,271)
	(3,305)	(709)	(6,473)	(1,818)
Investing:				
Property and equipment expenditures	(28)	(9)	(69)	(73)
Intangible exploration expenditures	(62,898)	(30,144)	(157,468)	(90,289)
Farmout proceeds	-	1,127	-	1,127
Proceeds from sale of marketable securities	-	-	-	2,442
Changes in non-cash investing working capital	17,487	(5,040)	24,314	4,225
	(45,439)	(34,066)	(133,223)	(82,568)
Financing:				
Common shares issued	26	4,366	1,031	28,599
Deposit of cash for bank guarantee	-	-	(1,250)	(375)
Release of bank guarantee	-	900	744	2,175
	26	5,266	525	30,399
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency	2,547	(108)	312	(155)
Decrease in cash and cash equivalents	(46,171)	(29,617)	(138,859)	(54,142)
Cash and cash equivalents, beginning of period	179,487	85,033	$ 272,175	$ 109,558

Cash and cash equivalents, end of period	133,316	$	55,416	$	133,316	$	55,416
Supplementary information:							
Interest paid	Nil		Nil		Nil		Nil
Income taxes paid	Nil		Nil		Nil		Nil

The decrease in cash for the three and nine months ended September 30, 2013 is mainly the result of intangible exploration expenditures and cash-based operating expenses.

Consolidated Statement of Equity
(Thousands United States Dollars)

		September 30, 2013		September 30, 2012
Share capital:				
Balance, beginning of period	$	558,555	$	306,510
Exercise of w arrants		-		14,340
Shares issued in lieu of professional fees		-		3,763
Exercise of options		1,504		7,330
Balance, end of period		560,059		331,943
Contributed surplus:				
Balance, beginning of period	$	12,123	$	8,425
Exercise of Horn w arrants		-		1,148
Stock based compensation		10,632		3,789
Exercise of options		(473)		(2,351)
Balance, end of period		22,282		11,011
Deficit:				
Balance, beginning of period	$	(98,076)	$	(75,283)
Net loss and comprehensive loss attributable to common shareholders		(14,388)		(13,243)
Balance, end of period		(112,464)		(88,526)
Total equity attributable to common shareholders	$	469,877		254,428
Non-controlling interest:				
Balance, beginning of period	$	47,551	$	36,296
Non-controlling interest on issuance of Horn shares		-		8,579
Net income and comprehensive income attributable to non-controlling interest		1,504		5,139
Balance, end of period		49,055		50,014
Total equity	$	518,932	$	304,442

The Company's consolidated financial statements, notes to the financial statements, management's discussion and analysis for the three and nine months ended September 30, 2013 and the 2012 Annual Information Form have been filed on SEDAR (www.sedar.com) and are available on the Company's website (www.africaoilcorp.com).

Outlook

The Company has recently increased the pace of exploration significantly, and at a point in the fourth quarter of the year, it will have seven rigs operating. Completion of the recent brokered private placement has increased the Company's liquidity and capital resource position by approximately $440 million which is expected to fund the Company's portion of exploration, appraisal and development activities until mid 2015.

The near term focus of exploration is to continue drilling and testing wells in the discovered basin in Northern Kenya improving on recent cost efficiencies realized while continuing to grow the Company's contingent resource base, and to drill potential basin-opening wells in the Turkana, Chew Bahir, Kerio, and Anza basins within Kenya and Ethiopia.

The excellent results to date onshore Kenya are an important step towards understanding the overall potential and commerciality of the discovered basin in Northern Kenya. Resources discovered to date are of a scale that the Tullow-Africa Oil joint venture will initiate discussions with the Government of Kenya and other relevant stakeholders to consider development options. These discussions include consideration of a "start-up phase" oil production system with potential to deliver significant production rates with oil export via road or rail in advance of a full-scale pipeline development. It is understood that discussions are ongoing between the Governments of Kenya, Uganda and Sudan regarding a regional crude oil pipeline export system to Lamu in Kenya and the Government of Kenya has indicated that it will issue an Expression of Interest within the next few months seeking parties willing to fund, build and operate the pipeline system.

By mid 2015, the Company expects to have drilled wells in five new basins, drilled all key prospects in the discovered basin in Northern Kenya, fully appraised the Ngamia and Twiga discoveries, and have a defined understanding of development.

Africa Oil Corp. is a Canadian oil and gas company with assets in Kenya and Ethiopia as well as Puntland (Somalia) through its 45% equity interest in Horn Petroleum Corp.. Africa Oil's East African holdings are in within a world-class exploration play fairway with a total gross land package in this prolific region in excess of 250,000 square kilometers. The East African Rift Basin system is one of the last of the great rift basins to be explored. Five new significant discoveries have been announced in the Northern Kenyan basin which the Company holds a 50% interest along with operator Tullow Oil Plc The Company is listed on the TSX Venture Exchange and on First North at NASDAQ OMX-Stockholm under the symbol "AOI".

FORWARD-LOOKING STATEMENTS

Certain statements made and information contained herein constitute "forward-looking information" (within the meaning of applicable Canadian securities legislation). Such statements and information (together, "forward looking statements") relate to future events or the Company's future performance, business prospects or opportunities. Forward-looking statements include, but are not limited to, statements with respect to estimates of reserves and or resources, future production levels, future capital expenditures and their allocation to exploration and development activities, future drilling and other exploration and development activities, ultimate recovery of reserves or resources and dates by which certain areas will be explored, developed or reach expected operating capacity, that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

All statements other than statements of historical fact may be forward-looking statements. Statements concerning proven and probable reserves and resource estimates may also be deemed to constitute forward-looking statements and reflect conclusions that are based on certain assumptions that the reserves and resources can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect, "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements". Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. The Company does not intend, and does not assume any obligation, to update these forward- looking statements, except as required by applicable laws. These forward-looking statements involve risks and uncertainties relating to, among other things, changes in oil prices, results of exploration and development activities, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government or other regulatory approvals, actual performance of facilities, availability of financing on reasonable terms, availability of third party service providers, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements.

ON BEHALF OF THE BOARD "Keith C. Hill", President and CEO

Africa Oil's Certified Advisor on NASDAQ OMX First North is Pareto Öhman AB.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Contact

Africa Oil Corp.
Sophia Shane
Corporate Development
(604) 689-7842
(604) 689-4250
africaoilcorp@namdo.com
www.africaoilcorp.com