Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Oando Energy Resources Inc. is responsible for the preparation of the consolidated financial statements. The accompanied consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

Management is responsible for the integrity of the consolidated financial statements. Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the consolidated financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded from loss or unauthorized use.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed to audit the consolidated financial statements of the Company and to provide an independent professional opinion. PricewaterhouseCoopers LLP was appointed to hold such office until the next such annual meeting of the shareholders of the Company.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and PricewaterhouseCoopers LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

(signed)"Olapade Durotoye"

Chief Executive Officer

March 31, 2014

(signed) "Adeola Ogunsemi"

Chief Financial Officer

March 31, 2014

Independent Auditor's Report

To the Shareholders of Oando Energy Resources Inc.

We have audited the accompanying consolidated financial statements of Oando Energy Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oando Energy Resources Inc. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Oando Energy Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2014

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Oando Energy Resources Inc. (formerly Exile Resources Inc.)

Consolidated Statements of Financial Position

As at December 31, 2013 and December 31, 2012

All dollar balances in thousands of US dollars

		As at December 31, 2013	Revised, Note 8 & 33 As at December 31, 2012
Current assets			
Cash and cash equivalents		12,677	4,698
Trade and other receivables	21	37,738	30,620
Inventory	22	1,478	1,015
Derivative financial instruments	15	-	150
		51,893	36,482
Non-current assets			
Property, plant and equipment	10	249,388	189,630
Interest in Qua Ibo	11	40,485	18,634
Exploration and evaluation assets	9	345,457	338,837
Goodwill	23	6,794	6,794
Deferred tax assets	26	14,590	6,638
Deposit paid for acquisition	24	450,000	435,000
Other long term receivables	25	135,969	78,500
Restricted cash		4,846	16,534
		1,247,529	1,090,567
Total Assets		1,299,422	1,127,050
Current liabilities			
Borrowings, current	13	496,099	452,263
Trade and other payables	27	213,169	128,817
Derivative financial instruments	15	2,555	6,355
Current tax payable	20	1,074	6,856
		712,897	594,291
Non-current liabilities			
Decommissioning obligations	12	27,197	22,288
Borrowings, non-current	13	124,776	52,737
Other long term payables	30	47,272	47,272
Retirement benefit obligations		1,947	1,192
Deferred tax liability	26	74,003	54,210
		275,195	177,699
Total liabilities		988,092	771,990
Shareholders' equity			
Share capital	16	5,714	5,714
Share capital of combined entity	8	-	128
Share issue cost reserve		(7,302)	-
Share based payment reserve		4,953	1,843
Contribution from parent		628,129	629,309
Retained deficit		(321,639)	(283,102)
		309,855	353,892
Non-controlling interests		1,475	1,168
Total shareholders' equity		311,330	355,060
Total Liabilities and Shareholders' equity		1,299,422	1,127,050

The notes on pages 7 to 63 are an integral part of these consolidated financial statements. Refer to Going Concern at Note 1.

(signed)"Olapade Durotoye" Director

Director

(signed) "Christopher J. F. Harrop" Director

Director

		Year ended December 31, 2013	Revised, Note 8 & 33 Year ended December 31, 2012
Revenue	17	127,211	135,200
Production expenses		(29,962)	(25,071)
General and administrative costs	18	(42,583)	(17,791)
Depletion, depreciation and amortization		(31,513)	(23,991)
		(104,058)	(66,853)
Financing income	19	5,037	1,945
Financing expense	19	(55,402)	(18,187)
Net financing expense		(50,365)	(16,242)
Income (loss) before income tax		(27,212)	52,105
Income tax (expense) recovery	20	(11,018)	(36,084)
Net income/(loss) for the year		(38,230)	16,021
Comprehensive income/(loss) attributable to:			
Owners of the parent		(38,537)	17,157
Non-controlling interests		307	(1,136)
		(38,230)	16,021
Net income/(loss) per share			
Basic	16.5	(0.36)	0.16
Diluted	16.5	(0.36)	0.16

The notes on pages 7 to 63 are an integral part of these consolidated financial statements.

Oando Energy Resources Inc. (formerly Exile Resources Inc.)

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and December 31, 2012

All amounts in thousands of US dollars

	Attributable to shareholders of parent								
	Share capital	Share capital of combined entity	Share based payments reserve	Deferred share issuance cost	Contribution from parent	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
Balance, January 1, 2012	454,167	-	-	-	-	(300,260)	153,907	2,304	156,211
Net income (loss) for the year	-	-	-	-	-	17,158	17,158	(1,136)	16,022
Total comprehensive income	-	-	-	-	-	17,158	17,158	(1,136)	16,022
Transferred on completion of Oando reorganization	(454,167)	-	-	-	454,167	-	-	-	-
Transaction with owners	-	-	-	-	175,142	-	175,142	-	175,142
Value of employee services	-	-	1,843	-	-	-	1,843	-	1,843
Acquisition of subsidiary	5,714	128	-	-	-	-	5,842	-	5,842
Total contributions recognized directly in equity	5,714	128	1,843	-	629,309	17,158	199,985	(1,136)	198,849
Balance, December 31, 2012	5,714	128	1,843	-	629,309	(283,102)	353,892	1,168	355,060
Balance, January 1, 2013	5,714	128	1,843	-	629,309	(283,102)	353,892	1,168	355,060
Net income (loss) for the year	-	-	-	-	-	(38,537)	(38,537)	307	(38,230)
Total comprehensive loss	-	-	-	-	-	(38,537)	(38,537)	307	(38,230)
Acquisition of subsidiary	-	(128)	-	-	(1,180)	-	(1,308)	-	(1,308)
Share issue costs	-	-	-	(7,302)	-	-	(7,302)	-	(7,302)
Value of employee services	-	-	3,110	-	-	-	3,110	-	3,110
Total contributions recognized directly in equity	-	(128)	3,110	(7,302)	(1,180)	(38,537)	(44,037)	307	(43,730)
Balance, December 31, 2013	5,714	-	4,953	(7,302)	628,129	(321,639)	309,855	1,475	311,330

The notes on pages 7 to 63 are an integral part of these consolidated financial statements.

	Year ended December 31, 2013	Revised, Note 8 & 33 Year ended December 31, 2012
Net income before tax for the year	(27,212)	52,106
Non-cash items:		
Depreciation, depletion and amortization	31,513	23,991
Decommissioning liabilities: Unwinding of discount	2,075	807
Finance expenses	52,288	(1,906)
Fair value gain on financial instruments	(3,650)	6,565
Net foreign exchange gain	(344)	-
Gain on disposal of Property plant and equipment	(4)	-
Share based payments	3,110	1,843
Income taxes paid	(5,144)	(32,806)
Net changes in working capital (note 28)	24,777	(26,609)
Cash flows from operating activities	77,409	23,991
Equity issuance cost	(7,302)	-
Reduction (Increase) in restricted cash	11,688	(1,534)
Proceeds from borrowings	165,579	460,000
Interest payments	(15,462)	(4,323)
Repayments of borrowings	(49,704)	(18,248)
Cash flows from financing activities	104,800	435,895
Property, plant and equipment expenditures	(91,484)	(38,296)
Qua Ibo capital expenditures	(21,851)	(29,251)
Exploration and evaluation asset expenditures	(6,620)	-
Proceeds on sale of Property plant and equipment	217	-
Acquisition of Exile, net of cash acquired	-	41
Increase in deposit for acquisition	(15,000)	(435,000)
Net changes in working capital (note 28)	(39,492)	29,850
Cash flows from investing activities	(174,230)	(472,656)
Net increase (decrease)	7,979	(12,770)
Cash and cash equivalents, beginning of year	4,698	17,468
Cash and cash equivalents, end of year	12,677	4,698

The notes on pages 7 to 63 are an integral part of these consolidated financial statements.

1. REPORTING ENTITY AND GOING CONCERN

1.1 General Information

Oando Energy Resources Inc. (the "Company") is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "OER". The Company was incorporated in British Columbia and is domiciled in Alberta, Canada, with a registered address at 3400, First Canadian Center, 350 7th Avenue SW, Calgary AB, T2P 3N9, Canada and head office located at 1230, 112 4th Avenue SW, Calgary, AB, T2P 0H3, Canada. The Company and its subsidiaries (together, the "Group" or "OER") is involved in the acquisition of petroleum and natural gas rights, the exploration for and development and production of oil and natural gas primarily focused in Nigeria, and São Tomé and Príncipe. The ultimate parent company is Oando Plc ("Oando"), who owns 94.6% of the share capital of the Group and is the ultimate controlling party.

On October 13, 2011, Exile Resources Inc. ("Exile") and the Upstream Exploration and Production Division ("OEPD") of Oando announced that they had entered into a definitive master agreement dated September 27, 2011 providing for the previously announced proposed acquisition by Exile of certain shareholding interests in Oando subsidiaries via a Reverse Take Over ("RTO") in respect of Oil Mining Leases and Oil Prospecting Licenses of Oando first announced on August 2, 2011. The acquisition closed on July 24, 2012. Immediately prior to completion of the acquisition, Oando and the Oando Exploration and Production Division entered into a reorganization transaction (the "Oando Reorganization") with the purpose of facilitating the transfer of the OEPD interests to the Group.

1.2 Going Concern

These financial statements have been prepared using International Financial Reporting Standards that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

For the year ended December 31, 2013, the Group has a working capital deficiency of $661 million, a net loss of $38.2 million and an accumulated deficit of $321.6 million as at December 31, 2013. In addition to its on-going working capital requirements, the Group must secure sufficient funding to repay the $496.1 million in borrowings that were current at December 31, 2013, repay additional debt drawn down since year end, as well as meet purchase commitments under the COP Acquisition agreements and fund the working capital requirements of the current operations.

The Company has undertaken significant levels of borrowings to finance on-going operations and the acquisition of ConocoPhillips's Nigerian oil and gas business ("COP Acquisition"). This acquisition has not yet closed. The purchase price of the acquisition is $1.65 billion subject to working capital adjustments and as at December 31, 2013, the Group had paid deposits of $450 million. A deposit of $435 million was paid on December 20, 2012, followed by an additional $15 million paid on December 6, 2013. In the event that the transaction does not close due to failure of the Group to perform or observe its covenant or agreements under the relevant sale and purchase agreement or because of failure to obtain the required approvals, COP has no obligation to return the deposit to the Group. See Note 24 for further details. These circumstances lend significant doubt as to the ability of the Group to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

On February 26, 2014, the Group exercised the conversion option on borrowing agreements with Oando, this resulted in the settlement of $401 million of the existing Oando Loan Facility and another $200 million extended to the Group by Oando subsequent to year end, through issuance of 432,565,768 common shares of the Company. This has reduced the Group's reliance on debt financing to continue operations. Further details are disclosed at Note 34. However, the Group's borrowings remain significant and are expected to increase on close of the COP Acquisition. The transaction currently has an outside close date of April 30, 2014. It will be funded through a $450 million Senior Secured Facility, $350 million Corporate Finance Loan Facility and the remaining $599 million capacity available under the $1.2 Billion Oando Loan Facility, all for which the Group has secured firm commitments. In addition, the Group secured equity financing in the form of a $50 million private placement completed on February 26, 2014 for which the proceeds will be used to assist in the close of the COP Acquisition and fund on-going working capital requirements. Further details of these sources of funding have been included at Note 34, *Events occurring after the reporting period*.

There can be no assurance that additional equity or debt financing will be available or sufficient to meet the Group's commitments, or if equity or debt financing is available, that it will be on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material adverse impact on the Group's financial condition, results of operations and prospects.

These undertakings are not sufficient in and of themselves to enable the Group to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Group's commitments and operations so it can continue as a going concern. Management plans to secure the necessary financing through the issue of new equity or debt instruments. Nevertheless, there is no assurance that these initiatives will be successful.

The Group's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Group were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

1.3 Foreign Operations

The entire Group's producing crude oil properties and operations are located in Nigeria. As such, the Group is subject to significant political, economic and other uncertainties relating to foreign operations conducted in Nigeria. There can be no assurance that the Group will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Group financial position, results of operations and cash flows.

The Group operations may be affected by varying degrees of political instability. These risks and uncertainties include military repression, political, and labor unrest, military coups, terrorism, hostage taking and expropriation. Any changes in regulations or shifts in political conditions are beyond the control of the Group and may adversely affect its business and its interests. Operations may be affected by varying degrees of government regulations with respect to restrictions on production, price controls, export controls, expropriation of property, environmental legislation, safety factors and other risk factors common to developing countries.

1.4 Subsidiaries

The consolidated financial statements include financial information of Oando Energy Resources Inc. and its subsidiaries including a proportionate share of its investments in joint operations.

Principal operating subsidiaries within the Group include the following entities:

Entity	Place of business[3]	Nature of business	Proportion of ordinary shares held directly by the Group (%)	Proportion of ordinary shares held directly by Oando (%)	Proportion of ordinary shares held by other non-controlling interests (%)
Oando Akepo Limited	Nigeria	The subsidiary holds a working interest in the Akepo Marginal field in OML 90, an offshore oil and gas property in the development stage located in Nigeria.	40%[1]	60%[1]	-
Oando Production and Development Company Limited	Nigeria	The subsidiary holds a working interest in the Ebendo Marginal field OML 56, an onshore oil and gas property in the production stage located in Nigeria.	38%[2]	57%[2]	5%

Entity	Place of business[3]	Nature of business	Proportion of ordinary shares held directly by the Group (%)	Proportion of ordinary shares held directly by Oando (%)	Proportion of ordinary shares held by other non-controlling interests (%)
Equator Exploration Limited	Nigeria	The subsidiary indirectly holds working interests in OML 323, OML 122, OPL 321 and JDZ Block 2, all onshore oil and gas property in the production stage located in Nigeria.	81.5%	0%	18.5%
Oando OML 125&134 Limited	Nigeria	The subsidiary holds working interests in OML 125 and OML 134. OML 125 is an offshore oil and gas property in the production stage located in Nigeria. OML 134 is an offshore oil and gas property in the exploration stage, located in Nigeria.	40%[1]	60%[1]	0%
Oando Qua Ibo Limited	Nigeria	The subsidiary holds a working interest in the Qua Ibo marginal field OML 13. OML 13 is an onshore oil and gas property in the development stage located in Nigeria.	40%[1]	60%[1]	0%
Oando Reservoir and Production Services Limited	Nigeria	The subsidiary provides reservoir and production services to oil and gas companies. It operates in Nigeria.	40%[1]	60%[1]	0%

[1]The Group controls this entity through a shareholder agreement. Details of the shareholder arrangements are included in Note 29. Refer to note 4.2, "Consolidation of operating associates" for critical accounting judgments regarding these entities.

[2]The interest in Oando Production and Development Company Limited is indirectly held through a holding company, Oando Netherlands Holdco 3 BV, which is subject to a shareholder agreement signed between Oando and the Group. Details of this arrangement are included in Note 29.

[3]The country of incorporation for Equator Exploration Limited is the British Virgin Islands. All other operating entities are incorporated in Nigeria.

2. BASIS OF PRESENTATION

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee's ("IFRS IC") Interpretations as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where accounting estimates and judgments are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements for the year ended December 31, 2013 were authorized for issuance by the Board of Directors on March 31, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3.1 Changes in accounting policies and disclosures

The Group has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Group assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The other amendments to IAS 28 did not affect the Group. The Group has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12, *Disclosure of Interests in Other Entities*, sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, Investments in Associates. The Group adopted IFRS 12 on January 1, 2013 on a prospective basis. The adoption of IFRS 12 did not result in any measurement adjustments as at January 1, 2013.

IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Group adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013.

IAS 19, '*Employee benefits'* was revised in June 2011.The changes required entities to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The adoption of IAS 19 did not result in any measurement adjustments as at January 1, 2013.

Amendments to IAS 36, *'Impairment of assets'*, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until January 1, 2014, however, the Group has decided to early adopt the amendment as of January 1, 2013.

3.2 New accounting standards and amendments issued but not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. Those with the potential to effect the consolidated financial statements of the Group are set out below:

IFRS 9, *'Financial instruments',* addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value

and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact.

IFRIC 21, *Accounting for levies imposed by governments* clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Group is yet to assess IFRIC 21's full impact and intends to adopt IFRIC 21 no later than the accounting period beginning on or after January 1, 2014.

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

3.3 Consolidation

The Oando Reorganization and the reverse acquisition of Exile Resources Inc. were completed on July 24, 2012. On this date, the Group consolidated the individual entities within Oando's Exploration & Production Division (OPDC, Oando OML 125&134, Oando Akepo and the consolidated financial statements of EEL) into a single set of financial statements, Oando Exploration and Production Division, under the principles of predecessor accounting (note 6), whereby an acquirer is not required to be identified and all entities are included at their pre-combination carrying amounts.

In preparing the financial information up to July 24, 2012, the financial statements of the individual entities were combined on a line-by-line basis by adding together like items of assets, liabilities, equity and income and expenses. Balances, transactions and unrealized gains or losses on transactions between the combined and consolidated entities, including their subsidiaries, were eliminated in full.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Principal operating subsidiaries have been disclosed at Note 1.

Business combinations

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Inter-company transactions, balances, income and expenses on transactions between subsidiaries are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Acquisition of entities under common control

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Group has elected to apply predecessor accounting to the transaction under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction.

Predecessor accounting may lead to differences on consolidation; these differences are typically recognized in equity in a separate reserve, contribution from parent.

In the consolidated financial statements, the acquired entities' financial results and balance sheets have been incorporated as though the entities had always been combined. Consequently, the consolidated financial information reflects the financial results of the combined entities for both the comparative and current periods and has been marked as revised.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of January 1, 2012. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses in the consolidated financial statements.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

3.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars ("USD"), which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

When cash or cash equivalents are externally restricted for use, they are separately disclosed on the statement of financial position.

3.6 Financial Instruments

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized or settled within 12 months of the end of the reporting period, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables include trade and other receivables, other long term receivables and cash and cash equivalents in the consolidated Statements of Financial Position.

(c) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

Interest income is recognized on a time proportion basis using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

Impairment of financial assets

(a) Financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as

available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

Financial Liabilities

The Group classifies its financial liabilities in the following categories:

(a) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities initially measured at fair value and subsequently measured at amortized cost using the effective interest method. The Group's other financial liabilities include trade and other payables, and borrowings.

Derivative financial instruments

A derivative is a financial instrument or contract whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and is settled at a future date.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gains or losses are recognized as financial income or expense in the statement of comprehensive income

Certain contracts contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative. An embedded derivative is only separated and reported at fair value with gains and losses being recognized in the profit and loss component of the statement of comprehensive income when the following requirements are met:

- where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract;
- the terms of the embedded derivative are the same as those of a stand-alone derivative; and
- the combined contract is not held for trading or designated at fair value through profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3.7 Production Underlift and Overlift

The Group receives lifting schedules for oil production generated by the Group's working interest in certain oil and gas properties. These lifting schedules identify the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). The initial measurement of the overlift liability and underlift asset is at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Overlift balances are subsequently measured at current market value, while Underlift balances are carried at lower of carrying amount and current market value.

3.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of inventory comprises materials, direct labor, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

3.9 Exploration and evaluation assets

Recognition and measurement:

Costs that are incurred prior to obtaining the legal right to explore, develop or extract resources are expensed in the statement of income loss as incurred.

Exploration and evaluation ("E&E") assets represent expenditures incurred on exploration properties for which technical feasibility and commercial viability have not been determined. E&E costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired, these costs include acquisition of rights to explore, exploration drilling, carrying costs of unproved properties, and any other activities relating to evaluation of technical feasibility and commercial viability of extracting oil and gas resources. The Group will expense items that are not directly attributable to the exploration and evaluation asset pool.

Costs that are capitalized are recorded using the cost model with which they will be carried at cost less accumulated impairment. Costs that are capitalized are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Once technical feasibility and commercial viability of extracting the oil or gas is demonstrable, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within Property Plant and Equipment ("PP&E") referred to as oil and gas development assets and oil and gas assets (see Note 3.11). If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Impairment of Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development assets or oil and gas producing assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units of production fields that are located in the same geographical region.

3.10 Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repair and maintenance costs are charged to the statement of comprehensive income in the period in which the cost is incurred.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Furniture and fixtures	3 years
Equipment and software	3 years
Motor vehicle	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.11 Oil and gas assets

When technical feasibility and commercial viability is determinable, costs attributable to those reserves are reclassified from E&E assets (see Note 3.9) to a separate category within Property Plant and Equipment ("PP&E") referred to as oil and gas properties under development or oil and gas producing assets.

These oil and gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Oil and gas assets are grouped into CGU's for impairment testing.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

The Group holds 40% working interest in the Qua Ibo field in OML 13 located as a result of a Farm-in agreement. Although the asset is in the development stage, it has been disclosed separately as the Group is waiting on consent from the Nigerian government on the arrangement, all other necessary approvals have been obtained. See further details in note 11.

Depletion

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

3.12 Impairment of non-financial assets

Property, plant and equipment, including oil and gas assets, including those under development, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored for impairment; goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Impairment of other non-financial assets, other than property, plant and equipment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets' fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that were impaired are reviewed for indicators of possible reversal of the impairment at each reporting date.

3.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period end.

Borrowing costs are recognized as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset. These are included as part of additions to property, plant and equipment. A qualifying asset is an asset that takes a substantial period of time, generally greater than a year, to get ready for its intended use or sale.

Where borrowing costs are capitalized to a qualifying asset, the interest cash flows associated are presented within the relevant expenditures line on the statement of cash flows.

3.14 Finance expenses

Finance expenses include interest expenses and other costs in association to borrowing funds as well as an expense relating to accretion incurred in relation to the Group's decommissioning liabilities, derivative gains and losses and foreign exchange gains/losses.

3.15 Decommissioning obligations

The Group records a liability for the fair value of legal obligations associated with the decommissioning of oil and gas assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time using the risk free rate, with the interest charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

3.16 Current and deferred income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Petroleum Profit Tax Act (PITA). Education tax is provided at 2% of assessable profits of Companies operating within Nigeria. Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Current and deferred income tax is determined using tax rates and laws enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

3.17 Retirement benefit obligations

Defined contribution plan

The Group participates in a defined contribution retirement benefit schemes for its employees in Nigeria in line with the Pension Reform Act of 2004. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year to which they relate. The Group contributed $0.7 million (2012: $ 0.4 million) to defined contribution plans for the year ended December 31, 2013

Other post-employment obligations

Oando, the ultimate parent of the Group, operates a defined benefit gratuity scheme in Nigeria, where employees who have spent three years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on a final emolument of staff and length of service. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of gratuity benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The defined benefit gratuity scheme is unfunded. The scheme was curtailed at December 31, 2011 and no additional employees are entitled to participate.

The liability is recognized in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows, using the market rates on government bonds that have terms to maturity approximate to the term of the related obligation. The Group recognizes its share of the expenses in the income statement in the period it is incurred. The Group increased its liability to staff with respect to defined benefits plans by $0.8 million ($0.6 million) for the year ended December 31, 2013.

3.18 Share-based compensation

The Group operates a number of equity settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options and restricted share units) of the Group. The fair value of the employee services received in exchange for the grant of the option/awards is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimates of the number of options that are expected to vest are revised based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the statement of comprehensive income, with a corresponding adjustment to equity. When the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital.

The Group has recognized the value of the share options scheme in the statement of comprehensive income with a corresponding adjustment to equity.

3.19 Share capital

Ordinary shares are classified as equity. Share issue costs net of tax are charged to share capital account. Share issues costs relating to ongoing fund raising is included in a reserve account until the equity is received at which point it is charged net of taxes to the proceeds of the equity raise.

3.20 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and services, in the ordinary course of the Group's activities and is stated net of value-added tax, rebates and discounts and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below:

Revenue from sales of oil and gas is recognized at the fair value of consideration received or receivable, after deducting sales taxes, excise duties and similar levies, when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

The Group experiences a significant amount of crude oil losses due to theft/sabotage of crude oil pipelines, accordingly revenue is recognized based on production net of crude oil losses. Refer to note 4.1 which discusses accounting estimates for crude oil losses.

Revenue resulting from the production of oil and natural gas properties in which the Group has an interest with other producers is recognized on the basis of the Group's working interest. The Group receives lifting schedules that identify the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). In the normal course of operations, production overlift and underlift are accounted for as a sale of oil at the point of lifting by the underlifter to the overlifter and the criteria for revenue recognition is considered to have been met. In situations where a partner has overlifted and receipt of the proceeds is not certain, revenue is not recognized.

Revenue for which receipt of proceeds is not certain is not recognized in the income statement until the amounts are deemed to be collectible i.e. on a change in the circumstances of the counter party or on the receipt of cash.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Accounting estimates for crude oil losses

Production from the Ebendo marginal field (OML 56) is transported using the Umusadege pipeline and export facility operated by Nigerian Agip Oil Company Limited ("NAOC").This pipeline experiences a significant amount of crude oil losses due to theft of crude oil and/or sabotage of crude oil pipelines. Oil theft in Nigeria occurs through a variety of different means, including by using small cargo canoes that navigate the shallow waters of the Niger Delta where pipelines are punctured to siphon oil into small tanks; stealing crude directly from the wellhead or filling tankers at export terminals. Revenue is recognized on oil production net of crude oil losses.

Total net crude oil deliveries into the export pipeline from the Ebendo marginal field for the year ended December 31, 2013 was approximately 330,515 bbls before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to OER for the year ended December 2013 was 82,629 bbls (2012: 36,485 bbls), or 25% (2012: 17%) of total crude oil deliveries into the export pipeline for the year. This resulted in approximately $9.3 million (2012: 3.1 million) of oil production not being recognized in revenue for the year ended December 31, 2013 on the basis that it is not probable that the economic benefits will flow to the Group.

NAOC has been unable or unwilling to provide the marginal field companies that produce through the Umusadege export facility with an explanation for the basis for the pipeline and export facility losses or for the reasons for the fluctuations in allocated pipeline losses. The Group has used the existing allocations provided by NAOC as their best estimate of crude oil losses. As such, the resulting crude loss estimate may not be equal the related actual results. Total revenue recognized for production from the Ebendo field net of crude oil losses, was $26.7 million for the year ended December 31, 2013 (2012 - $19.9 million). If the percentage of crude oil losses experienced was 5% higher, this would results in a reduction of sales volumes by 16,527 bbls and revenue by $1.8 million.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As of the balance sheet date, no liability in respect of pending tax issues has been recognized in the financial statements. The Group has included income tax disclosures in Note 20 and 26 of the financial statements. Refer to these notes for the carrying amount of income tax assets and liabilities at period end.

Provision for decommissioning obligations

The provision for decommissioning obligations is calculated based on the best estimate of the expenditure required to settle the present obligations at the end of the reporting period, discounted using a rate that reflects the current market assessment of the time value of money. The calculations can be complex, involve subject judgments and significant measurement uncertainties as the calculations are based on estimates of oil and gas reserves, future cost estimates and timing estimates. These estimates are reviewed at each reporting date and revised, if necessary. Refer to note 12 for the carrying amount of decommissioning liabilities at year end.

The Group has used inflation rates and discount rates that reflect the country risk associated with operations in Nigeria. If the discount rate was increased by 2%, this would result in a decrease in the decommissioning obligation of $4.3 million (2012 - $1.3 million).

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. See details in Note 15 for their carrying amount at the end of the year.

Estimation of oil and gas reserves

Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as the determination of recoverable amount for impairment testing purposes, depreciation, depletion and amortization charges, and decommissioning obligations) that are based on estimates of proved and probable reserves are also subject to measurement uncertainty.

Estimation of share based compensation

The Group has granted options for the purchase of common shares to its directors and selected employees. The fair value of the employee services received in exchange for the grant of the options or awards is recognized as an expense in the income statement. The fair value of share based compensation requires significant estimates of inputs into the Black - Scholes options pricing model, which include, the expected dividend yield, the expected volatility, risk free interest rates and the expected life of the options. Refer to note 16.3 which describes the Group's estimates associated with share based compensation.

4.2 Critical accounting judgments in applying the Group's accounting policies

The Group's ability to continue as a going concern

Due to the financial condition of the Group at December 31, 2013 and the significant level of contractual commitments that are outstanding, judgment has been exercised in applying the assumption that the Group will continue as a going concern for the foreseeable future. Refer to Note 1 of the financial statements for further disclosure.

Consolidation of operating associates

The Group structure includes a number of operating associates that hold the Group's oil and gas interests in OML 13, OML 56, OML 90, OML 125, OML 134 and ORPSL. The operating associates have Class A and Class B shares. The Group owns the Class B shares in each operating associate, which represent 40% of the voting rights in each operating associate. Oando owns the Class A shares, which represent 60% of the voting rights in each operating associate.

However, the Group has entered into shareholder agreements with Oando, most recent of which are dated December 4, 2013. The shareholder agreements require that the Board of Directors of each operating associate to be composed of four directors. Two directors are required to be appointed by the Group and two directors are appointed by Oando. The Group is entitled to appoint the Chairman of the Board and the Chairman has a casting vote. The shareholder agreement cannot be terminated at the direction of Oando. The Group has the right to elect the purchase of the Class B shares from Oando for a nominal amount.

The Group has assessed the accounting for the operating associates under IFRS 10. The Group is considered to control such entities because it has the power to direct the relevant activities of such entities through its casting vote on the board of directors, pursuant to the aforementioned shareholder agreements, and because it has rights to variable returns through distributions and can affect those distributions through the exercise of its power over relevant activities.

The Group's control over the operating associates arises from the ability to direct the affairs of the operating associate using the power it has to obtain variable returns. Due to the shareholder's agreements Oando exercises power over the operating associates indirectly through its controlling interest in the Company and therefore the Company is the entity considered to have control over such operating

associates. As such, the Group has the responsibility for consolidating the financial information of its operating subsidiaries into the consolidated financial statements of the Group.

Although, Oando nominally has a 60% interest in the operating associates, its direct economic interest in the operating associates is nominal. The class A shares that Oando holds do not participate in distributions and participate in liquidation of the entity at a nominal amount. Accordingly, there is no non-controlling interest recorded for the shares in excess of the nominal amount they would be entitled to on liquidation, as such shares do not participate in the earnings of the operating associates.

Accounting for crude oil over lift by Nigerian National Petroleum Corporation ("NNPC")

In 2008, the Group acquired a 15% working interest in a production sharing contract between NAOC and NNPC in OML 125. OML 125 is operated by NAE, an affiliate of NAOC, under a joint operating agreement between the Group and NAE. OML 125 is an offshore license for production of oil and the oil produced from the license is offloaded from a Floating Production, Storage and Offloading Unit ("FPSO") by tanker.

The Group receives lifting schedules that identify the order and frequency with which each partner can lift. The amount of oil lifted by each partner at the balance sheet date may not be equal to its working interest in the field. Some partners will have taken more than their share (overlifted) and others will have taken less than their share (underlifted). In normal operating conditions, these imbalances are short term in nature. Under normal operating conditions, overlift and underlift are accounted for as a sale of oil at the point of lifting by the underlifter to the overlifter as the criteria for revenue recognition is considered to have been met.

The Group is currently in a dispute with the Nigerian National Petroleum Company ("NNPC") in relation to overlifting by the NNPC between 2008 and 2013 and which, in the view of the partners, exceeded the NNPC's entitlements. Further information relating to this dispute is included in note 25. For the year ended December 31, 2013, the NNPC has continued to lift production volumes that exceed their entitlement, despite arbitration rulings that have found in favor of the Group. As a result of this dispute, the circumstances experienced by the Group with respect to the lifting from OML 125 are outside normal operating conditions and the underlift receivable balance owed by the NNPC represents $87.2 million at December 31, 2013 (2012 - $54.5 million). In preparation of the financial statements, it was determined that the revenue recognition should be deferred for oil production subject to overlifting by the NNPC. As such, the Group has deferred revenue recognition for these transactions from the period commencing October 1, 2013. From October 1, 2013, revenue is recognized on lifting of the crude by the Group from the field as this is the point at which it is probable that the economic benefits resulting from the sale will flow to the Group.

Revenue recognized in relation to the interest in OML 125 was $99.2 million for the year ended December 31, 2013 (2012: $113.5 million).

Capitalization of borrowing costs

Management exercises judgment when determining which assets are qualifying assets, taking into account, among other factors, the nature of the asset. An asset that normally takes more than a year to be ready for use will usually be a qualifying asset. Management determined that exploration and evaluation assets are qualifying assets and are therefore eligible for capitalization of borrowing costs. Refer to Note 9, 10 and 11 for further disclosure.

Combinations with entities under common control

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Group has elected to apply predecessor accounting to the transaction under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction.

Predecessor accounting may lead to differences on consolidation; these differences are typically recognized in equity in a separate reserve, contribution from parent.

In the consolidated financial statements, the acquired entities' financial results and balance sheets have been incorporated as though the entities had always been combined. Consequently, the consolidated financial information reflects the financial results of the combined entities for both the comparative and current periods.

Impairment of exploration and evaluation assets

The Group follows the guidance in IFRS 6 to determine whether exploration and evaluation assets are impaired. This determination requires significant judgment. Impairment indicators relevant for exploration and evaluation properties include the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed, substantive expenditure of further exploration and evaluation is not planned or budgeted, the activities have not lead to a discovery of commercial reserves and the Group has decided not to continue such activities in the area of interest or deteriorating local conditions such that it may become unsafe to continue operations. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the exploration and evaluation assets is less than the carrying amount, an impairment loss would be recorded in the financial statements. Refer to note 9 for further details of the Group's exploration and evaluation assets.

Impairment of oil and gas assets

The Group follows the guidance in IAS 36 to determine whether oil and gas assets, including the interest in Qua Ibo, are impaired. This determination requires significant judgment.

Impairment indicators relevant for the petroleum sector include declining market prices for oil and gas, significant downward reserve revisions, increased regulation or tax changes, or deteriorating local conditions such that it may become unsafe to continue operations. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the oil and gas assets is less than the carrying amount, an impairment loss would be recorded in the financial statements. Refer to Note 10 for further details of the Group's oil and gas assets.

Determination of Cash Generating Units (CGUs)

Oil and gas assets, including exploration and evaluation assets and the interest in Qua Ibo, are grouped into cash generating units (CGUs) for the purpose of impairment testing. A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUS requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, similarity in the exposure to market risk, shared infrastructure and the way in which management monitors the operations.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effect on its financial and operational performance.

5.1 Market Risk

(a) Foreign exchange risk

Foreign exchange risk is the risk that future cash flows will fluctuate as a result of changes in market foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk. However, the Group's transactions are predominantly in US dollars, hence its functional currency. The Group incurs less significant operating transactions denominated in Nigerian Naira ("NGN"), Euro ("EUR"), the Canadian Dollar ("CAD") and the Pound sterling ("GBP"). If exchanges rates on the foreign currencies noted above increased by 10% against the US dollar, there would be a negligible effect on net income. The Group does not currently hedge its exposure to foreign currency risk.

(b) Price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Fluctuations in the international prices of crude oil would have corresponding effects on the results of operations of the Group. The Group has adopted certain development mitigation strategies to counteract these risks.

In order to mitigate the risk of fluctuation in international crude oil prices, the Group manages its exposure to fluctuations in the price of the commodity by entering into derivative contracts for minimum volumes and prices in US$ per barrel of oil. The Group has managed its exposure to fluctuations in the price of oil by entering into derivative contracts with respect to specified yearly production volumes that set minimum floor prices. Details of the commodity contracts are included in note 15 – The existing commodity contracts held by the Group expired on December 31, 2013. The Company has issued a letter to one of its lenders (First Bank of Nigeria plc) committing to maintaining a hedging position, this bank is a part of the consortium providing the corporate facility to the Group and an arrangement is in process to maintain commodity contracts which minimize the price risk associated with repaying the debt. See further details in Note 13.

If the prices of crude oil decreased by 10% assuming all other variables remain constant, the impact on net income from the changes in the fair value of derivative commodity contracts would be nil (2012 - negligible).

(c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group's interest rate risk arises from borrowings. Although the Group's borrowings are primarily at fixed rates, except for variable rate borrowings held with Ecobank, Nigerian banks reserve the right to change interest rates without recourse to the customer, thus the Group is exposed to some interest rate risk on its Nigeria borrowings.

If interest rates increase by 1%, assuming all other variables remain constant, it would reduce net income by $2.2 million (2012 - $1.4 million). The Group does not currently hedge its exposure to changes in interest rates.

5.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk arises primarily from cash and cash equivalents, trade and other receivables, other long term receivables. The maximum exposure to credit risk is the carrying value of each class of financial asset included in the table below. The Group does not hold any collateral as security.

	Note	As at December 31, 2013	As at December 31, 2012
Current financial assets			
Cash and cash equivalents	(a)	12,677	4,698
Trade and other receivables	(b)	37,738	30,620
		50,415	35,318
Non-current financial assets			
Other long term receivables	(c)	135,969	78,500
Restricted cash	(a)	4,846	16,534
		140,815	95,034

(a) Cash and cash equivalents

The Group is exposed to credit risk on cash and cash equivalents deposited with various financial institutions. Credit risk associated with cash and cash equivalent balances, including restricted cash balances, can be assessed by reference to external credit ratings of these financial institutions. The following table discloses the credit ratings of banks and financial institutions where the Group holds its cash and cash equivalents.

	As at December 31, 2013	As at December 31, 2012
AA-	56	94
A	-	197
B+	12,598	17,451
B	4,457	3,317
Non-rated	412	173
	17,523	21,232
Less: Restricted cash[1]	(4,846)	(16,534)
Cash and cash equivalents	12,677	4,698

[1] *Restricted cash balances have been separately disclosed in the statement of financial position.*
Source – Fitch ratings

(b) Trade and other receivables

	As at December 31, 2013	As at December 31, 2012
Trade receivables	8,357	10,196
Other receivables	29,381	20,424
	37,738	30,620

For trade receivables, the Group analyzes the credit risk for each customer before standard payment and delivery terms and conditions are offered. Trade receivables are due for payment with 30 days terms. At December 31, 2013, there was no provision for impairment relating to trade receivables and no trade receivables were past due. The Group's credit risk is concentrated for trade receivables as the Group currently sells its crude to only one customer, whose external credit rating is currently an A rating. The carrying amount of the Group's trade receivables are denominated in US dollars.

For other receivables, the carrying amount represents the maximum exposure to credit losses.

This is made up of $18.6 million due from subsidiaries of Oando for expenses, provision of staff and expenses incurred on behalf. $7.0 million is due from the OML 90 joint venture for expenses incurred on activities at OML 90. Also, $3.7 million of this amount relates to cash call for the Ebendo Marginal field.

(c) Other long term receivables

	As at December 31, 2013	As at December 31, 2012
Underlift receivable	72,720	54,527
Joint venture receivables (NEPN)	58,456	23,973
Debt financing cost	4,793	-
	135,969	78,500

Underlift receivable

Underlift receivable represents balances due from the Nigerian National Petroleum Corporation ("NNPC") as a result of production overlift from OML 125. The balance is greater than 180 days past due. Of the balance, $47.3 million of the receivable balance relates to crude oil entitlements due to the Group from a period prior to the completion of the Oando Reorganization on July 24, 2012. The Group is currently in dispute with the NNPC in relation to the receivable. Refer to additional information included at note 25.

On completion of the Oando Reorganization on July 24, 2014, the Group retained the contractual rights to receive the cash flows associated with $47.3 million of the underlift receivable. However, the Group assumed a contractual obligation to pay a portion of those cash flows to Oando and recognized a long term payable of $47.3 million on the statement of financial position. As part of the terms of the payable, the Group has no obligation to pay amounts to Oando unless it collects the equivalent amounts from the original receivable. Therefore, the net credit risk exposure relating to this portion of the receivable is $nil (2012 - $nil).

Since the completion of the Oando Reorganization on July 24, 2012, the NNPC has continued to lift production volumes that exceed their entitlement. This has resulted in an additional $39.9 million in under lift receivable at December 31, 2013. The maximum credit exposure is equal to the carrying amount of the additional overlift. Due to the dispute, the Group has deferred revenue recognition on overlifted amounts from October 1, 2013 until collectability is assured. As such, $14.5 million of production overlift is not recognised as revenue, until such a time as collectability is assured.

Due to the uncertainty associated with the timing of collectability and the related dispute, the Group has classified the balance as non-current on the statement of financial position.

Joint venture receivables (NEPN)

In addition, a receivable balance of $58.4 million relates to a cash call receivable from NEPN for development of the Qua Ibo Marginal Field. This receivable amount is subject to a financing agreement between the Group and NEPN. The financing agreement provides for a $60 million initial facility. Repayments are due on commencement of first oil production from the Qua Ibo interest and the Group has the contractual right to 90% of the cash flows attributable to NEPN's 60% ownership interest until the facility amount is repaid. The maximum exposure to credit risk is the carrying amount of the receivable. The property is in the development stage. However, if commercial production does not commence, there is a risk that the balance will not be recoverable. See further discussion on the Qua Ibo interest in Note 11.

Due to the uncertainty associated with the timing of commencement of production, the Group has classified the balance as non-current on the statement of financial position.

Deferred financing costs

In raising the financing required to close the COP Acquisition, the Group incurred $4.8 million in raising needed debt financing. This amount has been included in other receivables pending the receipt of the funds from the lenders. These amounts will be offset against the debt and amortized over the life of the debt when the proceeds are received.

5.3 Liquidity risk

Cash flow forecasting is performed by management on a regular basis. Cash flow forecasts are monitored to ensure that the Group has sufficient cash to meet operational needs while also ensuring that the Group has sufficient cash resources to meet future contractual commitments. The Group has significant commitments as a result of the COP Nigeria acquisition, which has not yet closed. In order to generate additional liquidity the Group has completed a number of debt and equity transactions since year end. Refer to Note 34 for further details.

On February 26, 2014, the Group exercised the conversion option on borrowing agreements with Oando. This resulted in the settlement of the $401 million in loans due to Oando through the issuance of 432,565,768 common shares of the Company. This has reduced the Group's reliance on debt financing to continue operations. Further details are disclosed at Note 34. However, the Group borrowings remain significant and are expected to increase on close of the COP Nigeria acquisition. The outside close date on COP Nigeria transaction has been extended to April 30, 2014 and it will be funded through a $50 million private placement, completed on February 26, 2014, a $450 million Senior Secured Facility and a $350 million Corporate Finance Loan Facility, both for which the Group has secured firm commitments, as well as an additional $599 million still available on the $1.2 billion facility from Oando. Further details of these financing activities have been included at Note 34.

Subsequent to March 31, 2014, the $450 million Senior Secured Facility will not be considered a firm commitment as the availability period will have expired. The Group is in the process of seeking an extension to the availability period of the facility, has obtained confirmation from the Mandated Lead Arrangers under the facility that all the banks in the syndicate have agreed to extend the availability period of the facility from March 31, 2014 to May 3, 2014, has paid the agreed commitment fee for the extension and is awaiting settlement and execution of formal documentation by the banks and the Group evidencing the extension.

There can be no assurance that equity or debt financing will be available or sufficient to meet those commitments, or if equity or debt financing is available, that it will be on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material adverse impact on the Group's financial condition, results of operations and prospects. These circumstances lend significant doubt as to the ability of the Group to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Refer to additional disclosure at Note 1.

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2013:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	665,967	496,823	93,141	76,003	-
Trade and other payables	213,169	213,169	-	-	-
Other long term payables	76,415	-	47,272	1,947	27,197
Derivative financial instruments	2,555	770	1,785	-	-
	958,107	710,762	142,198	77,950	27,197

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2012:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	547,925	490,705	50,710	6,510	-
Trade and other payables	128,817	128,817	-	-	-
Other long term payables	47,272	-	47,272	-	-
Derivative financial instruments	6,355	3,067	3,288	-	-
	730,369	622,589	101,270	6,510	-

[1]*The cash out flows associated with borrowings include interest expense based on the interest rates included in the underlying agreements. Where interest rates are floating, the rate applicable at December 31, 2013 has been used.*

5.4 Capital management

The Group manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern and provide returns for shareholders; and

(b) to facilitate the acquisition or development of oil and gas projects consistent with the growth strategy of the Group.

The Group is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, in addition to preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results.

The Group funds its share of expenditures of all commitments from existing cash and cash equivalent or restricted cash balances received primarily from issuances of shareholders' equity or debt financing. The Group is required to maintain a debt service reserve account on two its existing facilities with Diamond Bank plc. and First Bank of Nigeria plc, for which during the period, the requirements have been met.

The Board of Directors regularly reviews the Group's cash flow analysis and assesses the timing and need for additional equity or debt financing. The Group's results will impact its ability to access the capital necessary to meet expenditure commitments. There can be no assurance that equity or debt financing will be available or sufficient to meet those commitments, or if equity or debt financing is available, that it will be on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material adverse impact on the Group's financial condition, results of operations and prospects. Refer to note 1. There have been no changes in the Group's approach to capital management from the previous year.

	As at December 31, 2013	As at December 31, 2012
Total borrowings (Note 13)	620,875	505,000
Less: cash and cash equivalents	(12,677)	(4,698)
Net debt	608,198	500,302
Total equity	311,330	355,060
Total capital	**919,528**	**855,362**

5.5 Fair value estimation

IFRS requires that the Group disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of cash, trade and other receivables, and trade and other payable and accrued liabilities reflected in the consolidated balance sheets approximate fair value due to the short term to maturity of these instruments.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the group's financial assets and liabilities that are measured at fair value at December 31, 2013.

Recurring measurements	Level 1	Level 2	Level 3	Total
Commodity contracts	-	-	-	-
Warrants	-	(1,785)	-	(1,785)

Conversion feature on borrowings	-	-	(770)	(770)
	-	(1,785)	(770)	(2,555)

The following table presents the group's financial assets and liabilities that are measured at fair value at December 31, 2012

Recurring measurements	Level 1	Level 2	Level 3	Total
Commodity contracts	-	150	-	150
Warrants (note 15)	-	(5,906)	-	(5,906)
Conversion feature on borrowings	-	-	(449)	(449)
	-	(5,756)	(449)	(6,205)

As at December 31, 2013, the Group had warrants with a fair value of $1.8 million (December 31, 2012 - $5.9 million) and a conversion feature valued at $770,833 (2012 - $448,539). The commodity contracts held by the Group have a negligible value as at December 31, 2013. The commodity contracts and warrants were allocated to Level 2 of the fair value hierarchy, while the conversion feature on the borrowing was allocated to Level 3 of the hierarchy.

The following table presents the changes in Level 3 instruments for the year ended December 31, 2013.

Conversion feature on borrowings	December 31, 2013	December 31, 2012
Opening balance	449	-
Issuance of convertible loan	-	449
Gains and losses recognized in the income statement	321	-
	770	449

6. COMMON CONTROL TRANSACTION – OANDO REORGANISATION

Immediately prior to completion of the Exile Resources Inc acquisition (refer Note 7), Oando and the Oando Exploration and Production Division ("OEPD") first entered into a reorganization transaction (the "Oando Reorganization") with the purpose of facilitating the transfer of the OEPD interests to the Group. As such, on July 24, 2012, the Group acquired the individual entities within Oando's Exploration & Production Division.

As the transaction was a common control transaction, the Group elected to apply predecessor accounting to the transaction. As such, all assets and liabilities are incorporated by the Group at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction.

In completing the Oando reorganization, intercompany receivable and payable balance with Oando were settled as an equity contribution to the Group. In addition, the Group retained the contractual rights to receive the cash flows associated with an under lift receivable from OML 125. However, the Group assumed a contractual obligation to pay a portion of those cash flows to Oando and recognized a long term payable of $47.3 million on the statement of financial position. Refer to note 30 for further details. Refer to table included below.

The difference between consideration given and the aggregate book value of the assets and liabilities of the acquired entities at the date of the transaction has been recognized as a capital contribution from parent in equity.

Consideration at July 24, 2012	
Equity interests transferred	454,167
Recognition of additional payable to Oando (under lift)	47,272

Related party receivables settled with Oando	232,485
Related party payables settled with Oando	(104,615)
Total consideration given	629,309
Book value of the assets and liabilities received on July 24, 2012	454,167
Excess over book value acquired and consideration transferred	175,142

7. BUSINESS COMBINATION – ACQUISITION OF EXILE RESOURCES INC.

On October 13, 2011, Exile Resources Inc. ("Exile") and Oando announced that they had entered into a definitive master agreement dated September 27, 2011 providing for the previously announced proposed acquisition (the "Acquisition") by Exile of certain shareholding interests in Oando subsidiaries via a Reverse Take Over ("RTO") in respect of Oil Mining Leases ("OMLs") and Oil Prospecting Licenses ("OPLs") (the "Upstream Assets") of Oando's upstream division, Oando Exploration and Production Division ("OEPD"), as first announced on August 2, 2011. The Acquisition was completed on July 24, 2012.

The transaction has been accounted for as the reverse acquisition of Exile by OEPD using the principles of IFRS 3, Business Combinations, as OEPD is deemed to have obtained control over the operations of Exile. As such, the financial statements of the Group include the acquisition of Exile.

Purchase consideration

Pursuant to the plan of arrangement (the "Arrangement"), all of the outstanding common shares of Exile were consolidated on the basis of one new common share (the "post-Consolidated Common Shares") for every 16.28 old Common Shares then outstanding (the "Consolidation"). Exile issued 100,339,052 post-Consolidated Common Shares to Oando, resulting in Oando obtaining control over Exile. The fair value of 5,714,276 shares issued to as part of the consideration paid for Exile was $5,714,276 and the fair value was based on the published share price ($1.00) of July 30, 2012, the first trading day after the close of the acquisition.

Also pursuant to the Arrangement, two share purchase warrants of Exile for every 16.28 Common Shares of Exile held immediately prior to the Arrangement, one share purchase warrant exercisable to acquire one post Consolidated Common Share of Exile at an exercise price of Cdn$1.50 per share for a period of 12 months (the "Cdn$1.50 warrants"), and the second share purchase warrant exercisable to acquire one post Consolidated Common Share of Exile at an exercise price of Cdn$2.00 per share for a period of 24 months (together with the Cdn$1.50 warrants, the "Warrants").

The fair value of warrants, determined using the Black Scholes valuation model, was $2.29 million. The significant inputs to the model were a share price of $1.00, at the close date, exercise price of $1.50 and $2.00 respectively, volatility of 78%, dividend yield of $nil, expected warrant life of 1 and 2 years respectively and a risk free rate of 1.14% and 0.2% respectively.

Net assets and liabilities acquired

The assets and liabilities acquired consist of cash, accounts receivable, accounts payable, a 10% interest in the Akepo (Nigeria, OML 90) oil and gas assets and exploration and evaluation assets located in Zambia and Turkey. The fair value of the assets and liabilities acquired approximates $1.4 million.

The following table summarizes the consideration paid for Exile, the fair values of the assets acquired and liabilities assumed, and the resulting goodwill upon acquisition recognized at the acquisition date:

Consideration at July 24, 2012	
Shares issued	5,714
Warrants issued	2,290
Total consideration transferred	8,004

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	41
Trade and other receivables	64
Property, plant and equipment	4,480
Exploration and evaluation assets	750
Trade and other payables	(2,005)
Borrowings	(549)
Deferred tax liability	(1,319)
Decommissioning liabilities	(77)
Total identifiable net assets	1,385
Goodwill	6,619

The goodwill arising from the transaction represents the expected synergies from acquiring the additional 10% interest in the Akepo oil and gas assets.

The amounts of revenue, net of royalties, since the acquisition date included in the statement of income for the year ended December 31, 2012 was $nil, as the oil and gas properties acquired are in the development or exploration phase.

The group concluded that it is impractical to determine the net income for 2012 had this transaction closed on January 1, 2012. The effect of retrospective application of IFRS policies is not determinable and requires significant estimates of the amounts and information that are not readily available to the Group.

8. COMMON CONTROL TRANSACTION - QUA IBO AND ORPSL

On July 24, 2012, Oando and OER entered into a Referral and Non-Competition Agreement. Under the terms of the agreement, Oando agreed that if it acquired any interest in upstream oil and gas assets between September 27, 2011 and July 24, 2012, it would provide OER with a right of first offer to acquire such interests at a purchase price to be calculated at the price paid or to be paid by Oando pursuant to any written agreement it has entered into to acquire the interest, together with Oando's reasonable costs and expenses relating to such acquisition and a margin of 1.75 percent.

On April 30, 2013, the Group acquired the Class B shares of Oando Qua Ibo Limited ("Qua Ibo") and Oando Reservoir and Production Services Limited ("ORPSL") at the purchase price described below under "Purchase Consideration" from Oando as part of a common control transaction.

As a result of this acquisition, the Group owns a 40% participating interest in the Qua Ibo Marginal Field within Oil Mining Lease 13 located onshore Nigeria. The 40% participatory interest was a result of a farm in agreement, signed by the previous owners of the interest. The farm in agreement was subject to the receipt of consent of the parties to the farm in agreement dated April 27, 2004, as well as the consent of the Government of the Federal Republic of Nigeria. Approval from the Nigerian Department of Petroleum Resources was obtained in October 2012. The Group is seeking approval from the Nigerian Minister of Petroleum Resources. In the event that the consent of the Nigerian Minister of Petroleum Resources is not obtained, the Group shall be entitled to certain economic interests in the Qua Ibo Marginal Field. ORPSL was assigned the role of technical partner for the Qua Ibo Marginal Field.

The following table shows the share capital of the companies included in OER's share capital as at April 30, 2013:

	Number of shares	Amount ($'000)
Oando Qua Ibo Limited	10,000,000	64
Oando Reservoir and Production Limited	10,000,000	64
Balance, April 30, 2013	20,000,000	128

Management has elected to apply predecessor accounting to the Qua Ibo Acquisition. As such, all assets and liabilities of Qua Ibo and ORPS are incorporated by the Group at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction. In accordance with the Group accounting policy, the comparative financial statements (December 31, 2012) have been adjusted to reflect the combined the results of the Group and the acquired entities. No adjustment was required as at January 1, 2012 as both acquired entities were incorporated subsequent to January 1, 2012. Refer to Note 33.

Purchase Consideration

The purchase price for the Qua Ibo Acquisition consists of all of the properly documented and commercially reasonable expenses incurred by Oando until April 30, 2013 plus an administrative fee of 1.75%, plus completion cash, less certain payables owing by Qua Ibo and ORPSL on such date (including a loan to Diamond Bank plc plus interest and fees).

Consideration at April 30, 2013	
Cash to be paid	9,260
Total consideration transferred	**9,260**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	17,352
Inventory	3
Trade and other receivables	38,217
Receivable from related party	11,291
Interest in Qua Ibo	31,339
Trade and other payables	(23,392)
Borrowings	(62,631)
Decommissioning liabilities	(4,741)
Total identifiable net assets	**7,438**
Contribution from parent	**1,822**

Borrowings represent a loan from Diamond Bank which was assumed by the Group as part of the common control transaction. Refer to Note 11 for further details.

The difference between consideration paid and the aggregate book value of the assets and liabilities of the acquired entities at the date of the transaction has been recognized as a capital contribution to parent in equity. The cash purchase consideration has not been paid at December 31, 2013 and is presented in Trade and other payables at year end.

9. EXPLORATION AND EVALUATION ASSETS

	Exploration and evaluation assets
At January 1, 2012	
Cost	326,811
Accumulated impairment	(18,835)
Net book amount	307,976
Year ended December 31, 2012	
Opening net book amount	307,976
Additions	30,111
Acquisition of entity	750
Closing net book amount	338,837
At January 1, 2013	
Cost	357,672
Accumulated impairment	(18,835)
Net book amount	338,837
Year ended December 31, 2013	
Opening net book amount	338,837
Additions	6,620
Closing net book amount	345,457
At December 31, 2013	
Cost	364,292
Accumulated impairment	(18,835)
Net book amount	345,457

The above exploration and evaluation assets represent expenditures arising from the exploration and evaluation of oil and gas interests. The costs relate to oil and gas properties primarily located in Nigeria. The technical feasibility and commercial viability of extracting oil and gas has not yet been determined in relation to the above properties, and therefore, they remain classified as exploration and evaluation assets at December 31, 2013.

In accordance with the Group's accounting policies, borrowing costs are capitalized on exploration and evaluation assets as they are considered to meet the definition of qualifying assets. For the year ended December 31, 2013, there were no borrowing costs directly attributable to exploration and evaluation assets capitalized (2012 - $25.8 million).

Impairment of exploration and evaluation assets

As at December 31, 2013, no impairment was identified with respect to exploration and evaluation assets (2012 – no indicators of impairment).

Exploration and evaluation properties

The following table lists the exploration and evaluation properties currently held by the Group:

Subsidiary	License	Operator	Nature	License type	Expiration date
Oando OML 125 & 134 Ltd	OML 125	NAE[1]	15% working interest	PSC[2]- Offshore	July 4, 2023
Oando OML 125 & 134 Ltd	OML 134	NAE[1]	15% working interest	PSC[2]- Offshore	July 4, 2023
Equator Exploration JDZ Block 2 Limited	JDZ Block 2	Sinopec	9% non-operator participatory interest	PSC[2]- Offshore	March 13, 2034
Equator Exploration (OML 122) Limited	OML 122	Peak	Finance and service agreement with operator	PSC[2]- Offshore	September 13, 2021
Equator Exploration Nigeria 323 Limited	OPL 323	Korean National Oil Company	30% non-operator participatory interest	PSC[2]- Offshore	March 10, 2006[3]
Equator Exploration Nigeria 321 Limited	OPL 321	Korean National Oil Company	30% non-operator participatory interest	PSC[2]- Offshore	March 10, 2006[3]

[1] *Nigerian Agip Energy ("NAE")*

[2] *Production Sharing Contract ("PSC")*

[3]*The license arrangements for OPL 323 and OPL 321 are currently subject to dispute. Refer to note 32.*

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Oil and gas properties under development	Other fixed assets	Total
At January 1, 2012				
Cost	204,837	50,646	2,727	258,210
Accumulated depletion, depreciation and impairment	(107,700)	-	(900)	(108,600)
Net book amount	**97,137**	**50,646**	**1,827**	**149,610**
Year ended December 31, 2012				
Opening net book amount	97,137	50,646	1,827	149,610
Additions	39,710	6,824	1,152	47,686
Acquisition of entity	-	4,480	-	4,480
Disposals	-	-	(17)	(17)
Change in decommissioning liability	9,309	2,553	-	11,862
Depletion and depreciation	(23,239)	-	(752)	(23,991)
Closing net book amount	**122,917**	**64,503**	**2,210**	**189,630**
At December 31, 2012				
Cost	253,856	64,503	3,879	322,238
Accumulated depreciation, depletion and impairment	(130,939)	-	(1,669)	(132,608)
Year ended December 31, 2012	**122,917**	**64,503**	**2,210**	**189,630**
At January 1, 2013				
Opening net book amount	122,917	64,503	2,210	189,630
Additions	69,005	17,272	1,334	87,611
Disposals	-	-	(213)	(213)
Depletion and depreciation	(30,821)	-	(692)	(31,513)
Change in decommissioning liability	3,873	-	-	3,873
Closing net book amount	**164,974**	**81,775**	**2,639**	**249,388**
At December 31, 2013				
Cost	326,734	81,775	4,983	413,492
Accumulated depreciation, depletion and impairment	(161,760)	-	(2,344)	(164,104)
Year ended December 31, 2013	**164,974**	**81,775**	**2,639**	**249,388**

For the year ended December 31, 2013, no borrowing costs directly attributable to development oil and gas assets were capitalized (2012 - $0.9 million).

In calculating depletion expense for the year ended December 31, 2013, $91.3 million of future development costs were included in the cost base subject to depletion (December 31, 2012 - $112.4 million).

Impairment of oil and gas assets

As at December 31, 2013, no impairment was identified with respect to property, plant and equipment (2012 – no indicators of impairment).

Oil and gas properties

The following table lists the oil and gas licenses currently held by the Group:

Subsidiary	License	Operator	Nature	License type	Expiration date
Oando OML 123 & 134	OML 125	NAE[1]	15% working interest	PSC – Offshore[2]	July 4, 2023
Oando Production and Development Company Ltd.	OML 56	Energia	45% participatory interest	JV – Onshore[3]	January 31, 2026
Oando Akepo Limited	OML 90	Sogenal	40% participatory interest	JV – Offshore[3]	March 14, 2015
Oando Qua Ibo Limited	OML 13	Network Exploration and Production[4]	40% working interest	JV – Onshore[3]	March 31, 2023

[1] *Nigerian Agip Energy ("NAE")*
[2] *Production Sharing Contract ("PSC")*
[3] *Joint venture ("JV")*
[4] *Although NEPN is the operator, OER is providing the technical and financial support to carry the asset to first oil.*

11. INTEREST IN QUA IBO

On April 30, 2013, the Group acquired a 40% participatory interest in the Qua Ibo field, located on OML 13 in a common control transaction with Oando Further details are included in note 6.

	Interest in Qua Ibo
Cost	
Balance, January 1, 2012	-
Additions	18,634
At December 31, 2012	**18,634**
Net book amount	
Cost	18,634
Accumulated depreciation	-
Closing balance	**18,634**
Balance, January 1, 2013	18,634
Additions	21,851
Balance, December 31, 2013	**40,485**

In connection with the common control transaction, the Group acquired a 40% participating interest in the Qua Ibo Marginal Field within Oil Mining Lease 13 located onshore Nigeria. The oil and gas property is in the development phase. The acquisition is subject to the consent of the Nigerian Minister of Petroleum Resources, which the Group has not yet obtained. In the event that the consent of the Nigerian Minister of Petroleum Resources is not obtained, the Group shall be entitled to certain economic interests in the Qua Ibo Marginal Field. These are as follows:

- Farmee's "Economic Rights". In the event that the Minister's consent to the assignment of the Participating Interest of 40% is not given or is delayed unreasonably, the Farm In Agreement shall remain in full force and effect, and all references to "Participating Interests" shall be read to mean "Economic Interests", and the Farm-In Agreement shall continue to guide and govern the relationship of the Parties.

- Re-imbursement Rights. If the Economic Interests referred are unenforceable for any reason whatsoever, NEPN (a Qua Ibo joint venture partner) shall have an obligation to reimburse the Group of all the disbursements, costs and contributions made by the Group in respect of the development and operation of the Field.

- Farmee's Call Option. If the Economic Interests referred are unenforceable for any reason whatsoever, the Group shall have the option and right to acquire up to 40% of the entire issued capital of NEPN by subscribing for such number of shares of NEPN which when aggregated with all outstanding issued shares of NEPN will amount to 40% of the aggregate issued shares of NEPN at a subscription price of US$1.00.

As at December 31, 2013, the consent of the Nigerian Minister of Petroleum Resources has not yet been obtained. Therefore, the Group has presented the interest as a separate item on the statement of financial position as an "Interest in Qua Ibo".

As disclosed in Note 5, the Group also carries a receivable balance relating to NEPN's share of costs associated with the development of the Qua Ibo Marginal Field.

For the year ended December 31, 2013, the Group capitalized $2.3 million in borrowing costs associated with the interest (December 31, 2012 - $nil).

Impairment of Qua Ibo Interest

The Group performed an assessment of impairment at December 31, 2013 and noted no impairment.

12. DECOMMISSIONING OBLIGATIONS

The Group has decommissioning obligations in respect of its oil and gas interests in the Nigeria. The following table presents a reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of oil and gas properties:

	December 31, 2013	December 31, 2012
Balance, beginning of year	22,288	5,061
Liabilities incurred	12,121	5,760
Increase (Decrease) in estimate	(9,287)	10,662
Accretion expense	2,075	805
Balance, end of year	**27,197**	**22,288**

The total future decommissioning obligation is estimated based on the Group's net ownership interest in all wells and facilities relating to continuing operations, the estimated costs to abandon and reclaim these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The key assumption upon which the carrying amount of the decommissioning obligation is based is a discount

rate of 13% (2012 - 13%) and an inflation rate of 8.5% (2012: 12%) These obligations are expected to be settled over the next five to twenty years.

13. BORROWINGS

The following table summarizes borrowings outstanding at December 31, 2013:

	Note	As at December 31, 2013	As at December 31, 2012
Oando Loan - Facility A	13.1	362,000	345,000
Oando Loan - Facility B1	13.1	24,000	-
Oando Loan - Facility B2	13.1	15,000	-
First Bank of Nigeria (Loan #1)	13.3	32,944	45,000
First Bank of Nigeria (Loan #2)	13.4	70,000	70,000
First Bank of Nigeria (Short term loan)	13.5	7,779	-
Ecobank Nigeria Loan	13.6	20,000	20,000
Diamond Bank Loan	13.7	59,152	25,000
Enterprise Bank	13.8	30,000	-
		620,875	505,000
Less: Borrowings, current		(496,099)	(452,263)
Borrowings, non-current		124,776	52,737

The carrying amounts of all Group borrowings are denominated in US dollars.

13.1 Oando Loan

On December 20, 2012, Oando extended a $345 million loan to the Group to assist in financing the deposit required for the COP Nigeria acquisition. This agreement was subsequently modified by a new loan arrangement entered into on May 30, 2013 and amended on December 16, 2013. The new loan arrangement provides for three facilities, including Facility A, Facility B1 and Facility B2 (and collectively, the “Oando Loan”). The details of each facility are as follows:

- Facility A is a $362 million loan. The purpose of Facility A was to refinance the $345 million loan (together with accrued interest of approximately $17 million) extended by Oando as part of the $435 million required to be paid as the deposit for the COP Nigeria acquisition (refer to Note 24). The annual interest rate is 5% and interest is calculated on a quarterly basis. Facility A was originally required to be repaid in full (plus interest) by September 30, 2013. However, this was extended first to December 31, 2013 and then subsequently to February 28, 2014. The Group is not subject to any financial covenants under this loan agreement.

- Facility B1 is a $24 million loan and its purpose is to finance working capital requirements of the Group. The annual interest rate is 5% and interest is payable on a quarterly basis. OER is entitled to elect to repay the Oando Loan by the issuance of shares of OER, subject to certain conditions. Facility B1 was due to be repaid by December 31, 2013, but this was subsequently extended to February 28, 2014. The Group is not subject to any financial covenants under this loan agreement.

- Facility B2 is a $15 million loan and its purpose is required to be paid as part of the deposit for the COP Acquisition. The annual interest rate is 5% and interest is calculated on a quarterly basis. The Company is entitled to elect to repay the Oando Loan by the issuance of shares of OER, subject to certain conditions. Facility B agreement was signed on December 16, 2013 and it was due to be repaid by December 31, 2013, but subsequently extended to February 28, 2014. The Group is not subject to any financial covenants under this loan agreement.

Based on review of the Oando Loan Agreement and the impact of the changes on the remaining contractual cash flows, the Group determined that the new Oando Loan Agreement, entered into on May 30, 2013 and amended on December 16, 2013 does not substantially modify the terms of the original Oando loan entered into on December 20, 2012, and therefore, the changes have been accounted for as a modification of an existing loan arrangement. At December 31, 2013, $401 million was outstanding under the Oando Loan.

The election to repay the Oando Loan by the issuance of common shares of OER could originally be exercised no later than five business days prior to September 30, 2013 for Facility A and December 31, 2013 for Facility B. The exercise date was first extended to December 31, 2013 for Facility A and then subsequently extended to February 28, 2014 for all three facilities. The Oando Loan Agreement provided that in the event that the election by OER to repay the Oando Loan by the issuance of common shares of OER would result in Oando having an ownership interest in OER that is higher than Oando's current ownership interest of 94.6% (on a non-diluted basis), the number of common shares of the Company to be issued will be reduced so as to ensure that Oando's stake in the Company does not exceed such current ownership interest and the balance, if any, of amounts owing under the Oando Loan will be payable in cash. The conversion feature represented an embedded derivative that was required to be split out from the host contract and measured at fair value through profit and loss. As at December 31, 2013, the fair value of the conversion feature was $770,833.

On February 10, 2014, the Oando Loan was incorporated into a new facility, the Oando $1.2 billion Loan Facility. The new facility contained the same conversion feature as disclosed above. Refer to Note 34.6 for further details. On February 26, 2014, the conversion feature was exercised and the new facility was converted into shares of the Company. Refer to Note 34.7 for further details.

13.2 Oando $200 Million Loan Facility

On December 24, 2013, the Group signed a new agreement with Oando for a $200 million facility. The facility was obtained to fund payments due to ConocoPhillips in relation to the COP Nigeria acquisition. Interest on the facility is charged at 5% and the amount was to be available for draw down from December 24, 2013 to February 27, 2014. There was no facility amount drawdown at December 31, 2013; however, the total facility of $200 million was drawn down in two tranches of $100 million on February 7, 2014 and February 14, 2014. The Company is entitled to elect to repay the Oando Loan by the issuance of shares of OER, subject to certain conditions. The loan was is required to be repaid on February 28, 2014.

On February 10, 2014, the Oando $200 Million Loan Facility was incorporated into a new facility, the Oando $1.2 billion Loan Facility. The new facility contained the same conversion feature as disclosed above. Refer to Note 34.6 for further details. On February 26, 2014, the conversion feature was exercised and the new facility was converted into shares of the Company. Refer to Note 34.7 for further details.

13.3 First Bank of Nigeria (Loan #1)

The First Bank of Nigeria (Loan #1) was entered into on June 24, 2011 with First Bank of Nigeria Plc. The loan is a $60 million facility bearing an interest rate of 10.5% per annum with repayments to be made over 60 months to December 30, 2017. The loan was entered into to support the further development of OML 125 &134. On December 12, 2013, the Group signed an agreement with First Bank of Nigeria, modifying the principal of the loan amount to $48 million. The balance of this loan as at December 31, 2013 was $32.9 million (December 31, 2012 – $45 million).

The Group is required to maintain a minimum deposit of $15 million in a Debt Service Reserve Account ("DSRA") until which time the outstanding balance of the loan is $15 million or less. This amount has been classified as restricted cash (non-current asset) on the statement of financial position. The amount in the DSRA is available for paying cash calls in the event that the Group has no other means of financing it obligations to the operators of its assets. This was the case for the year ended December 31, 2013, and $11.7 million was utilized in financing cash calls to the operator of OML 125 & 134.This amount will be replenished as cash is generated from the Group's operations. The balance on the DSRA as at December 31, 2013 is $3.3 million. The facility is secured with the Group's interest in OML 125 & 134.

13.4 First Bank of Nigeria (Loan #2)

On December 17, 2012, the Group entered into a $70 million loan agreement with First Bank of Nigeria ("FBN") to fund part of the initial $435 million required as deposit for the COP Nigeria Acquisition. The annual interest rate is 10.5% and the principal amount is repayable after 180 days from December 17, 2013, up to the consummation of the COP transaction.

On January 17, 2014, the Group obtained a letter of commitment from FBN for $109 million of the $350 million corporate finance loan facility being arranged to finance the acquisition of COP. As part of the corporate facility agreement, the Group negotiated the conversion of the loan into a 60 month loan, due January 30, 2018, with a 6 months principal repayment moratorium.

The FBN (Loan #2) is expected to be repaid from this corporate facility, which is a 5 year term loan. The facility is secured with the Group's interest in OML 125 & 134.

13.5 First Bank of Nigeria (Short term loan)

On October 7, 2013, the Group signed an offer letter obtained from First Bank of Nigeria plc. for a temporary loan facility of $7.8 million. Interest on the facility is charged at 10.5% per annum. The facility is available to supplement the Group's working capital requirements. The facility is due for repayment 30 days after draw down. The loan was re-paid on January 24, 2014.

13.6 Ecobank Loan

On December 17, 2012, the Group secured a $20 million loan from Ecobank Nigeria to fund part of the $435 million required as deposit for the acquisition of ConocoPhillips' Nigerian businesses (COP) (see "Acquisition of Conoco Phillips Nigerian operation" under Commitments below). The interest rate is 90 day LIBOR plus 11% per annum. The interest rate can be changed at the discretion of the bank. The maturity date for the loan was originally 180 days from the signing date of December 17, 2012. However, on December 10, 2013, Ecobank extended the repayment date under this loan to March 12, 2014, and subsequently to June 12, 2014 on March 10, 2014. The loan is secured on the assets of the Group and the Group is not subject to any financial covenants under this loan agreement.

13.7 Diamond Bank Medium Term Facilities Agreement

Following the Qua Ibo Acquisition, the Group granted a share charge over the shares in OQIL, a wholly owned subsidiary of the Group in connection with the Diamond Bank Loan. The purpose of the Diamond Bank Loan is to finance working capital requirements and capital expenditures with respect to the development of the Qua Ibo Field. The Diamond Bank Loan consists of two facilities:

- Facility A is a medium term facility of $25 million dollars, denominated in US dollars. The facility was entered into on April 12, 2012. Facility A's first utilization date was October 18, 2012. Repayments on the Facility A loan amount commenced six months after the first utilization date and the final repayment date is 5 years after the first utilization date. The interest rate is 10% per annum.

- Facility B is a medium term facility of $40 million dollars, denominated in US dollars. The facility was entered into on January 22, 2013. Facility B's first utilization date was January 25, 2013. Repayments to commence six months after Facility A's first utilization date and the final repayment date is 5 years after Facility A's first utilization date. The interest rate is 10% per annum.

As at December 31, 2013, the Group had $59.1 million outstanding under the agreement (December 31, 2012 - $25 million). The Group is required to maintain a debt service reserve account with Diamond Bank. At December 31, 2013, $1.5 million has been included in restricted cash which reflects the amount required to be maintained in the debt service reserve account. Both facilities are being repaid in line with the contractual terms. The interest rate on both facilities is subject to change at the lender's discretion. On January 17, 2014, the Group drew an additional $6 million on this facility.

13.8 Enterprise Bank Loan

On August 1, 2013 the Group secured a $30 million loan from Enterprise Bank to fund part of its working capital and capital expenditure requirements on the Ebendo Marginal field. The loan is secured by a charge on crude oil proceeds from the Akepo field, irrevocable domiciliation of the proceeds of sales of crude oil from the Akepo field and the corporate guarantee of the Group. The interest rate is 10% per annum. The interest rate is subject to change at the lender's discretion. The loan is repayable at the earlier of 180 days from August 27, 2013 or the drawdown date for the $350 million corporate finance loan facility, however the lender reserves the right to call back the facility at any time it may deem necessary and therefore, the balance has been classified as current on the statement of financial position. The facility has since been extended for another 90 days to May 27, 2014.

13.9 Fair value of borrowings

The carrying amount and fair value of the non-current borrowings are as follows:

	As At December 31, 2013		As at December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current borrowings	124,776	104,228	52,737	43,438
	124,776	104,228	52,737	43,438

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 10.5% (2012: 10.5%) and are within level 2 of the fair value hierarchy.

The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of 5% (2012 - 10%). The fair values are within level 2 of the fair value hierarchy.

14. FINANCIAL INSTRUMENTS

A summary of the financial assets, by classification, is as follows:

	December 31, 2013			December 31, 2012		
	FVTPL	Loans and Receivables	Total	FVTPL	Loans and Receivables	Total
Cash and cash equivalents	-	12,677	12,677	-	4,698	4,698
Restricted cash	-	4,846	4,846	-	16,534	16,534
Trade and other receivables	-	37,738	37,738	-	30,620	30,620
Derivative financial instruments	-	-	-	150	-	150
Other long term receivables	-	135,969	135,969	-	77,365	77,365

[1]*Fair value through profit or loss is referenced as "FVTPL"*

A summary of the financial liabilities, by classification, is as follows:

	December 31, 2013			December 31, 2012		
	FVTPL[1]	Other financial liabilities	Total	FVTPL[1]	Other financial liabilities	Total
Trade and other payables	-	213,169	**213,169**	-	128,817	**128,817**
Derivative financial instruments	2,555	-	**2,555**	6,355	-	**6,355**
Long term payables	-	47,272	**47,272**	-	47,272	**47,272**
Borrowings	-	620,875	**620,875**	-	505,000	**505,000**

[1]Fair value through profit or loss is referenced as "FVTPL"

15. DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31, 2013	As at December 31, 2012
Commodity contracts	-	150
Derivative financial instruments – assets	**-**	**150**
Conversion feature on borrowings	(770)	(449)
Warrants	(1,785)	(5,906)
Derivative financial instruments – liabilities	**(2,555)**	**(6,355)**

15.1 Warrants

Upon closing of the RTO, on July 24, 2012, 11,428,552 warrants were issued as purchase consideration. The warrants are denominated in a currency (Canadian dollars –"Cdn") other than the functional currency (US dollars). The warrants are classified as financial liabilities because the exercise price is not fixed in the functional currency of the Group. The warrants are therefore required to be initially recognized at fair value and subsequently measured at fair value through profit or loss.

On 24 July 2013, 5,713,984 of the 11,428,260 warrants expired. As of July 24, 2013, the exercise price of the warrants was higher than the share price of CAD$1.27. The liability recognized with respect to these expired warrants has been derecognized.

The fair value of remaining 5,714,276 warrants, determined using the Black Scholes option pricing model, was $1.8 million at December 31, 2013. The significant inputs to the model were the share price of $1.70 (2012: $1.70), exercise price of $2.00 (2012: $1.50), volatility of 93% (2012: 86%), dividend yield of $nil (2012: Nil), expected warrant life of 7 months and a risk free rate of 1.16% (2012: 0.22%).

	December 31, 2013		December 31, 2012	
	Number of warrants	Average exercise price in Cdn per warrant	Number of warrants	Average exercise price in Cdn per warrant
As at January 1,	11,428,352	$1.75	-	-
Granted	-	-	11,428,552	$1.75
Exercised	(92)	$1.50	(200)	$1.50
Expired	(5,713,984)	$1.50	-	-
As at December 31,	**5,714,276**	**$2.00**	**11,428,352**	**$1.75**

A summary of the outstanding warrants as at December 31, 2013 is as follows:

				December 31, 2013
	Expiry date	Exercise price Cdn	Warrants Outstanding	Fair value of warrants
$2.00 Warrants	July 24, 2014	$2.00	5,714,276	1,785
			5,714,276	1,785

A summary of the outstanding warrants as at December 31, 2012 is as follows:

				December 31, 2012
	Expiry date	Exercise price Cdn	Warrants Outstanding	Fair value of warrants
$1.50 Warrants	July 24, 2013	$1.50	5,714,076	2,618
$2.00 Warrants	July 24, 2014	$2.00	5,714,276	3,288
			11,428,352	5,906

As at December 31, 2013, 5,714,276 (2012 – 5,714,076) warrants were exercisable.

For the year ended December 31, 2013, $4.1 million (2012 - $3.62 million (loss)) was recognized as a derivative gain in the income statement. Refer to note 5 for risk assessment with respect to financial instruments.

15.2 Commodity Contracts

The Group is currently negotiating new hedging arrangement for its crude. These arrangements are currently being discussed as part of the covenants for the corporate facility and reserve based lending. The contracts should be in compliance with the terms of the facilities. See note 13 for further details. In addition, refer to note 5 for risk assessment with respect to financial instruments.

15.3 Conversion feature on borrowings

The Group signed an agreement to obtain a $362 million term loan facility as well as a $24 million working capital facility from Oando. The Group also entered into the Repayment Deed, Refer to note 13 for further details. Pursuant to the Repayment Deed, the Group is permitted to elect to repay the Oando Facility by the issuance of shares, provided that all regulatory approvals have been obtained, at the earliest of the following events:

a) a receipt has been issued for a final prospectus in respect of an offering of shares (or securities convertible into Shares at no additional cost to the subscriber thereof);

b) signing of a Private Funding Agreement for the COP Acquisition (as defined in Note 24 below);

c) completion of the the COP Acquisition (as defined in Note 24 below); and

d) termination of the COP Acquisition.

If the Group elects to repay the Oando Facility by the issuance of shares, the conversion price per share will be:

a) the price per share (or security convertible into a share at no additional cost to the subscriber) identified in the final prospectus filed by the Group (as adjusted, if necessary, to comply with maximum discount rules of the TSX), provided that the COP Acquisition has not been terminated; or

b) the price per common share of OER (or security convertible into a common share of OER at no additional cost to the third party) agreed between the borrower and the third party in the private funding agreement, provided that a final prospectus has not been filed or the acquisition terminated.

c) in all other circumstances, the 5-day volume weighted average price at the time of election by OER that it wishes to repay the Oando Loan by the issuance of common shares of OER. The election to repay the Oando Facility by the issuance of shares can be exercised no later than five business days prior to the earliest of the following events:

(i) a receipt has been issued for a final prospectus in respect of an offering of shares (or securities convertible into Shares at no additional cost to the subscriber thereof);

(ii) signing of a Private Funding Agreement for the COP Acquisition

(iii) completion of the COP Acquisition; or

(iv) termination of the COP Acquisition.

In the event that the election by the Group to repay the Oando Facility by the issuance of shares would result in Oando having an ownership interest in the Group that is higher than Oando's current ownership interest of 94.6% (on a non-diluted basis), the number of shares to be issued by the Group will be reduced so as to ensure that Oando's stake in the Group does not exceed such current ownership interest and the balance, if any, of amounts owing under the Oando Facility will be payable in cash. The conversion feature represents an embedded derivative that is required to be split out from the host contract. The derivative is required to be initially recognized at fair value and subsequently measured at fair value through profit and loss. On September 30, 2013, the Group signed an agreement with Oando to extend the repayment date on Facility A to December 31, 2013. This was subsequently extended to February 28, 2014. On February 26, 2014, the conversion option was exercised and the loan was converted to shares. Refer to Note 34.

As at December 31, 2013, the fair value of the conversion feature was $770,833 (December 31, 2012: $448,539). The fair value of the conversion feature was established with reference to a binominal option pricing model. The assumptions used to value the convertible loan and embedded derivatives included the stock price of the underlying shares at the date the contract was entered into, and the subsequent reporting dates (December 31, 2013 - C$1.70), the underlying stock volatility (93%), US dollar risk free rate and credit spread of the Group (10%). The following assumptions were used to determine the value of the convertible option at December 31, 2012; Share price (C$1.70), the underlying stock volatility (37.8%), US dollar risk free rate and credit spread of the Group (11.27%). Refer to note 5 for risk assessment with respect to financial instruments.

16. SHARE CAPITAL

16.1 Authorized

The Company has authorised share capital of a unlimited number of common shares, without par value.

16.2 Common shares issued

The following table discloses the movement in share capital for the year:

	December 31, 2013		December 31, 2012	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	106,053,528	5,714	489,239,000	454,167
Transferred on completion of Oando Reorganization	-	-	(489,239,000)	(454,167)
Issued to Oando	-	-	100,339,052	-
Issued for acquisition of Exile	-	-	5,714,276	5,714
Issued on exercise of warrants	92	-	200	-
Balance, end of year	**106,053,620**	**5,714**	**106,053,528**	**5,714**

All shares are issued and fully paid.

On completion of the Oando re-organization and the acquisition of Exile, the following occurred:

- On July 24, 2012, the Group completed the Oando Reorganization. As a result, the Group commenced consolidation of the individual entities within the Oando Exploration and Production Division into a single set of consolidated financial statements. As such, the share capital previously recognized in the combined consolidated financial statements has been transferred to the capital contribution from parent reserve, in the consolidated financial statements for the year ended December 31, 2012. This transfer reflects the capital contribution made by Oando on completion of the Oando Reorganization. Refer to further disclosure included in note 6. The table below summarizes the share capital as at July 24, 2012:

	Number of shares	Amount
Oando Production and Development Company	10,000,000	79
Oando OML 125 and 134 BVI Limited	100,987,000	100,987
Oando Akepo Limited	2,500,000	19
Equator Exploration Limited	375,752,000	353,082
Balance, July 24, 2012	**489,239,000**	**454,167**

- On July 24, 2012, the Group also completed the acquisition of Exile. As part of this transaction, the Group issued 100,339,052 shares to Oando in exchange for the net assets of the Oando Exploration and Production Division. The 100,339,052 shares were issued for an aggregated amount of one dollar. An additional 5,714,276 shares were issued to Exile's shareholders in exchange for the shares held in Exile up till the RTO. The shares were valued at $1.00 each and therefore recorded in share capital for the aggregate amount of $5,714,276.

16.3 Stock-based compensation

The Group has granted options for the purchase of common shares to its directors and selected employees. The aggregate number of shares that may be issuable pursuant to options granted under the Group's Stock Option Plan will not exceed 10% of the issued common shares of the Group at the date of grant. No more than 5% of the issued shares of the Group may be granted to any one optionee. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the

options may not be less than the greater of $0.10 and the market price, subject to all applicable regulatory requirements. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	December 31, 2013		December 31, 2012	
	Number of options ('000)	Weighted Average exercise price[1]	Number of options ('000)	Weighted Average exercise price[1]
Balance, beginning of year	8,155	1.12	9,388	1.11
Forfeitures	(345)	1.08	(1,233)	1.08
Balance, end of year	7,810	1.12	8,155	1.12

[1]*Exercise price is denominated and presented in Canadian dollars*

Out of 7,810,000 outstanding options, 2,603,333 options were exercisable at December 31, 2013 (2012 – Nil). No options were exercised in the course of 2013.

In 2012, the fair value of each option granted was determined at their respective grant date, using the Black-Scholes option pricing model and the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 84.3%, risk-free interest rate of 0.62%, and an expected life of 5 years. In 2012, the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 78%, risk-free interest rate of 0.57% were utilized in valuing the option. Options granted vest in three tranches with one third vesting in each of as outlined in the table below and there are no market performance conditions attached to the share option grants. The volatility was estimated considering the historical volatility of the Group' share price over the most recent period that is commensurate with the expected option term. Where the Group does not have sufficient information on its own historical volatility, due to it being a newly listed entity, the historical volatility of similar peer companies is also considered.

Grant to Vest	Expiry date	Exercise price[1]	Number of options	
			2013	2012
2012 – 2015	July 24, 2017	1.12	7,810,000	8,155,000

[1]*Exercise price is denominated and presented in Canadian dollars*

For the share options outstanding at the end of the period, the range of exercise prices is between $1.08 and $1.60 in Canadian dollars and the weighted average contractual life of the share options outstanding is 3.6 years.

During the year ended December 31, 2013, the Group recorded $2.2 million related to stock based compensation expense (2012 – $1.3 million).

16.4 Restricted share units

On July 24, 2012, 2,000,000 Restricted Share Units ("RSUs") were granted to an officer of the Group. The restricted share units vest as follows:

- 1/3 vested on July 24, 2013;
- 1/3 will vest on the July 24, 2014 provided that the closing price on the TSX of the Group's shares, during any consecutive five (5) trading day period during the year between July 24, 2013 and July 24, 2014, exceeds Cdn$2.50;
- and all of the RSUs not already vested will vest on July 24, 2015 provided that the closing price on the TSX of the Group's shares, during any consecutive five (5) trading day period during the year between July 24, 2014 and July 24, 2015, exceeds Cdn$3.50.

The above vesting condition represents a market performance condition and as such, the valuation of the share units at grant date considered the impact of this market performance condition. The fair value of restricted share units at the grant date was $2,000,000 and the fair value was established by reference to the close price of the shares on the date of grant. The market performance condition did not have a significant impact on the valuation.

During the year ended December 31, 2013, 666,667 restricted share units vested. The shares have not been issued as at December 31, 2013. Movements in the number of restricted share units outstanding are as follows:

	December 31, 2013	December 31, 2012
	Number of restricted share units	Number of restricted share units
Balance, beginning of year	2,000,000	2,000,000
Exercised	-	-
Balance, end of year	2,000,000	2,000,000
Balance, exercisable	666,667	-

The fair value of the restricted share units will be recognized over the vesting period, which resulted in $0.9 million in expense being recognized for the year ended December 31, 2013 (2012 - $0.5 million).

16.5 Earnings per share

For the year ended December 31, 2013, the basic earnings per share was calculated by dividing the Group's net income by the weighted average number of ordinary shares outstanding during the period. The weighted average was calculated as the basic earnings per share for the comparative period was calculated by dividing the Group's profit or loss attributable to ordinary shareholders by the Group's historical weighted average number of ordinary shares that were outstanding multiplied by the exchange ratio established in the business combination agreement.

The following table presents the basic and diluted earnings per share:

	December 31, 2013			December 31, 2012		
	Net income	Average number of shares	Earnings per share (in dollars)	Net income	Average number of shares	Earnings per share (in dollars)
Basic earnings per share	(38,230)	106,053,620	(0.36)	16,021	106,053,528	0.16
Diluted earnings per share	(38,230)	106,053,620	(0.36)	16,021	106,053,528	0.16

In determining the diluted EPS of the Group in 2013, the impact of the warrants, the stock based compensation and the convertible loan have not been considered as their impact is antidilutive. The Group exercised the option to convert the loan obtained from Oando subsequent to year end. This resulted in the issue of 432,565,768 shares and 216,282,884 warrants. Refer to Note 34.7 for further information.

17. REVENUE

	For the year ended December 31, 2013	For the year ended December 31, 2012
Oil and gas sales	137,952	145,548
Less: Royalties	(10,741)	(10,348)
Revenue	127,211	135,200

The Group sells 100% of their revenue to one customer. The customer is not a related party.

Crude oil losses - OML 56 (Ebendo Marginal Field)

As disclosed at Note 4.1 and Note 4.2, the Group experiences production losses due to crude oil theft. For the year ended December 31, 2013, crude oil losses represented approximately $9.3 million, which equates to 25% of oil production for the year ended December 31, 2013 (2012: 17%; $3.1 million). Revenue has not been recognized for crude oil losses on the basis that the economic benefits will not flow to the Group. Crude oil losses are estimated using allocations provided to the Group by NAOC.

Crude Overlift by NNPC - OML 125 (Abo Field)

As disclosed at Note 4.1 and Note 4.2, and Note 25, the Group is in dispute with the NNPC in relation to overlifting by the NNPC between 2008 and 2013. For the year ended December 31, 2013, the NNPC has continued to lift production volumes that exceed their entitlement. Although the Group believes it has legal entitlement to the production overlift amounts, the level of production overlift is outside the normal course of business and there is uncertainty as to whether the amounts associated will be collected from the NNPC.

As such, as of October 1, 2013, it was determined that the revenue recognition should be deferred for oil production that is subject to overlift by the NNPC. As a result, $14.5 million of oil production at the Abo field has not been recognised in revenue.

18. GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of significant cost categories included in general and administrative expense is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Office and administrative expenses	3,943	3,412
Consulting and professional fees	21,545	3,138
Employee benefit expenses	8,412	6,571
Share based payment expenses	3,110	1,843
Travel expenses	3,483	1,483
Other expenses	2,091	1,344
	42,583	17,791

19. NET FINANCING INCOME (EXPENSE)

The breakdown of net financing income (expense) is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Foreign exchange gain	508	1,946
Interest income	754	-
Fair value gains on financial instruments	3,771	-
Other income	4	-
Financing income	5,037	1,946
Interest expense	(55,360)	(37,421)
Decommissioning liabilities: Unwinding of discount	(2,075)	(805)
Foreign exchange loss	(164)	(60)
Fair value losses on financial instruments	(121)	(6,565)
Less: Borrowing costs capitalized on qualifying assets	2,318	26,663
Finance expenses	(55,402)	(18,188)
Net financing expense	(50,365)	(16,242)

20. INCOME TAXES

The breakdown of current and deferred income tax expense is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Current tax expense	(638)	34,331
Deferred tax expense	13,160	1,753
	12,522	36,084

The movement in the current tax payable balance is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Balance, beginning of year	6,856	-
Provisions made during the year	5,854	35,101
Adjustments in respect of prior years	(6,492)	4,561
Payments made during the year	(5,144)	(32,806)
	1,074	6,856

Application of Pioneer status

The Group applied for, and obtained a tax holiday for its activities at the Ebendo Marginal Field based on the Nigerian Investment Promotion Act. The impact of the tax holiday was applied in the course of 2013, leading to a reversal of income tax provisions of $6.5 miilion and recognition of deferred tax assets of $3.8 million. Oando Production and Development Company (OPDC) a subsidiary of OER granted the tax holiday, remains in a tax holiday till June 30, 2015.

The tax on the Group's income (loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entity as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Income (loss) before income tax	(27,212)	52,106
Domestic tax rate	56.25%	56.25%
Tax calculated at domestic tax rates applicable to profits in the respective countries	(15,307)	29,309
Tax effects of:		
Education tax	31	2,512
Losses not subject to income tax	26,294	4,263
Tax losses for which no deferred tax was recognized	-	-
	11,018	36,084

The weighted average tax rate for the year ended December 31, 2013 was 25% (2012 – 25%).

Equator Exploration Limited (EEL) is domiciled in the British Virgin Islands and is not subject to tax. EEL has not recognized deferred tax assets of approximately $35.3 million (2012 - $40.5million) arising on carried forward trading losses of its subsidiary entities.

21. TRADE AND OTHER RECEIVABLES

	As at December 31, 2013	As at December 31, 2012
Trade receivables	8,357	10,196
Related party receivables	18,582	12,215
Other receivables	10,799	8,209
	37,738	30,620

Further disclosure on related party receivables is included in Note 29.

22. INVENTORY

The following are the values for crude oil inventory held as at December 31, 2013 and 2012

	As at December 31, 2013	As at December 31, 2012
Crude oil inventory	1,478	1,015
	1,478	1,015

For the year ended December 31, 2013, the Group recognized $350,546 (2012 - $248,000) in production costs relating to consumables and spare parts.

23. GOODWILL

At January 1, 2012	-
Cost	175
Accumulated impairment	-
Net book amount	175
Year ended December 31, 2013	
Opening net book amount	175
Acquisition of entity	6,619
Closing net book amount	6,794
At December 31, 2013	
Cost	6,794
Accumulated impairment	-
Net book amount	6,794

Management reviews the business performance based on geography and type of business. It has identified Nigeria as the main geography of operations. The only business is oil and gas exploration, development and production. Goodwill is monitored at the operating segment level. The entire balance of goodwill has been allocated to the Nigerian oil and gas operations.

The recoverable amount of the aggregated cash generating units has been determined based on fair value less costs of disposal calculations. Fair value less costs of disposal was calculated based on a discounted cash flow analysis. The discount rate applied to the cash flows was 13%. At December 31, 2013, there is no impairment loss required to be recorded in relation to goodwill (2012 - $nil).

24. DEPOSIT PAID FOR ACQUISITION

On December 20, 2012, the Group entered into 4 separate sale and purchase agreements (together, the acquisition agreements) with ConocoPhillips to acquire ConocoPhillips' Nigerian businesses ("COP Nigeria Acquisition") for a total cash consideration of approximately $1.79 billion. The following entities are to be acquired:

- Phillips Oil Company Nigeria Limited
- Phillips Deepwater Exploration Nigeria Limited
- Conoco Exploration and Production Nigeria Limited
- Phillips Brass Limited (terminated on September 13, 2013).

On signing of the acquisition agreements, the Group paid a deposit of $435 million to ConocoPhillips. The payment of the deposit was originally financed by a $345 million loan from Oando and $90 million funded through secured bridge loans from Nigerian banks.

This transaction was initially expected to close on or before September 19, 2013 but the acquisition agreement was subsequently amended several times (amendment dates of September 13, 2013, December 16, 2013 and February 28, 2014), to extend the outside close date till April 30, 2014. As part of the terms of the extension agreed on December 16, 2013, the Group was required to pay an additional $15 million deposit. The total deposit paid at December 31, 2013 was $450 million (2012 - $435 million). Subsequent to the year end, an additional deposit of $50 million was paid to COP and the outside close date was extended to April 30, 2014. The Group would increase its deposit to $525 million if the required consent is not obtained by April 11, 2014. Refer to Note 34 further details.

On September 13, 2013, the Group signed a termination agreement with respect to the acquisition of Phillips Brass Limited. The purchase price was reduced to $1.65 billion as a result. The Group had initially paid a $35 million deposit in relation to the Phillips Brass Limited acquisition. AS part of the termination agreement, this deposit amount was transferred against the other acquisition agreements for the COP Nigeria acquisition. Subsequent to this termination, Oando signed an agreement to acquire Phillips Brass Limited.

If closing of the COP Acquisition does not occur due to a failure of the Group to perform or observe its covenants or agreements under the relevant sale and purchase agreements or because of a failure to obtain all approvals or consents required by Law from any Governmental Authority under the applicable petroleum laws of Nigeria, including the Petroleum Act, COP has no obligation to refund the deposit to the Group.

25. OTHER LONG TERM RECEIVABLES

The breakdown of other long term receivables is as follows:

	As at December 31, 2013	As at December 31, 2012
Under lift receivable	72,720	54,527
Joint venture receivables (NEPN)	58,456	23,973
Financing costs associated with debt yet to be issued	4,793	-
	135,969	78,500

Underlift receivable

Under lift receivables represent the Group's crude oil entitlements as a result of operations on OML 125. These balances are owed by the Nigerian National Petroleum Corporation (NNPC). The NNPC is the state oil corporation through which the federal government of Nigeria regulates and participates in the Country's petroleum industry. The Group is currently in a dispute with the NNPC in relation to certain liftings done by the NNPC in 2008 and 2009 and which, in the view of the Group and Nigeria Agip Exploration Limited ("NAE"), the operator of OML 125, exceeded the NNPC's entitlements due to a dispute between the Group and the NNPC in relation to the Group's tax obligations associated with oil production from OML 125. This dispute was referred to arbitration by NAE and the Group and, in October 2011, the arbitral tribunal issued an award which was in favor of NAE and the Group.

Later in October 2011, NNPC filed a lawsuit in the Nigerian Federal High Court challenging the award and it obtained an injunction restraining further action in the arbitration. The NNPC also filed an action requesting the court to retain an injunction pending final determination of the case before the Federal High Court. In response to the NNPC law suit, NAE and the Group filed an application to discharge the injunction. The case is still pending before the Nigerian Federal High Court.

Although not a party to the arbitration proceedings described above, in October 2011, the Federal Inland Revenue Service ("FIRS") began an action in the Federal High Court challenging the jurisdiction of the arbitral tribunal to determine tax issues in the proceedings between the NNPC, NAE and the Group. In response to this, in October 2011, NAE and the Group filed a jurisdictional challenge against the FIRS on the ground that the FIRS lacked the ability to demonstrate sufficient connection to the matter between NNPC and NAE/OER.

On February 28, 2014, the injunction obtained by the NNPC restraining the arbitration was set aside by the Court of Appeal. NAE and the Group have subsequently communicated the value of final award expected to the arbitration panel. The award has not been granted neither has NNPC appealed the setting aside of the injunction to date.

On completion of the Oando Reorganization, the Group retained the contractual rights to receive the cash flows associated with the under lift receivable. However, the Group also assumed a contractual obligation to pay a portion of those cash flows to Oando and recognized a long term payable of $47.3 million on the statement of financial position. As part of the terms of the payable, the Group has no obligation to pay amounts to Oando unless it collects the equivalent amounts from the original under lift receivable. Refer to note 30 for further details.

Since the completion of the Oando Reorganization in July 2012, the NNPC has continued to lift production volumes that exceed their entitlement. This has resulted in an additional $39.9 million in under lift receivable at December 31, 2013.

Joint venture receivables (NEPN)

The Group has a receivable balance of $58.4 million relating to cash calls that are receivable from NEPN for development of the Qua Ibo Marginal Field. This balance is arising from the farm-in arrangement between OER and NEPN. The amount is expected to be recovered from proceeds of sale of production from OML 13. OER will receive 90% of proceeds NEPN's share of sales of crude oil from OML 13 along with its share of 40% share of the proceeds until the amount is repaid.

Financing costs associated with debt yet to be issued

In financing the COP Acquisition, the Group has incurred $4.8 million in raising debt financing. This has been included in long term receivables and will be offset against the proceeds of the debt financing and amortized over the life of the debt when they are received.

26. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	As at December 31, 2013	As at December 31, 2012
Deferred tax assets to be recovered after more than 12 months	14,590	6,638
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets	**14,590**	**6,638**

Deferred tax liabilities to be recovered after more than 12 months	74,003	54,210
Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities	74,003	54,210

Consolidated deferred income tax assets and liabilities, deferred income tax charge/(credit) in the statement of comprehensive income and deferred income tax charge/(credit) in equity are attributable to the following items:

	As at January 1, 2013	Charged through income	Acquisition	As at December 31, 2013
Property, plant and equipment	54,210	19,793	-	74,003
Deferred tax liability	54,210	19,793	-	74,003
Exchange losses	164	-	-	164
Share based payments	40	-	-	40
Tax losses	6,479	7,907	-	14,386
Deferred tax asset	6,683	7,907	-	14,590

	As at January 1, 2012	Charged through income	Acquisition	As at December 31, 2012
Property, plant and equipment	47,905	4,986	1,319	54,210
Borrowings and other payables	3,047	(3,047)	-	-
Deferred tax liability	50,952	1,939	1,319	54,210
Exchange losses	164	-	-	164
Share based payments	40	-	-	40
Tax losses	5,667	812	-	6,479
Deferred tax asset	5,871	812	-	6,683

27. TRADE AND OTHER PAYABLES

	As at December 31, 2013	As at December 31, 2012
Trade payables	3,453	4,088
Related party payables	67,418	26,073
Other payables and accrued expenses	142,298	98,656
	213,169	128,817

Further disclosure on related party payables is included in note 29.

28. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the changes in non-cash working capital:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Trade and other receivables	(5,983)	(460,314)
Inventory	(464)	(249)
Other long term receivables	(58,604)	(446,952)
Trade and other payables	84,352	606,333
Long term payables	755	69,710
Consideration for OQI and ORPSL (non-cash)	(1,180)	-
Less: Non-cash items included in working capital	(33,591)	234,713
Changes in non-cash working capital	**(14,715)**	**3,241**
Operating activities	24,777	(26,609)
Investing activities	(39,492)	29,850
Changes in non-cash working capital	**(14,715)**	**3,241**

	For the year ended December 31, 2013	For the year ended December 31, 2012
Interest paid	15,462	4,323
Income taxes paid	(5,144)	32,806

29. RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Oando, incorporated in Nigeria. At December 31, 2013, Oando owned 94.6% of the Company's share capital. There are other companies that are related to Oando through common shareholdings or common directorships with Oando The operations of the Group have historically been financed by Oando and recognized as intercompany transactions.

Prior to the Oando Reorganization, the Oando E&P Division entered into transactions with related parties in the course of its business. These transactions included, but were not limited to, the receipt of management and technical services, investment advisory services, logistics support, personnel support and the purchase of certain products. The Oando E&P Division was charged these services through intercompany billings. For the year ended December 31, 2013, the Group did not incur any expenses as a result of intercompany transactions (2012 - $3.4 million).

Immediately prior to completion of the Oando Re-organization, these arrangements were cancelled and new agreements were entered into between the Group and certain related parties. These agreements are as follows:

(i) Shareholder Agreements dated July 24, 2012 between Oando and Oando Netherlands Holding 2 BV (Holdco 2) in respect of Oando Akepo Limited (Oando Akepo); Oando and Oando Netherlands Holding 3 BV (Holdco 3) in respect of Oando Petroleum Development Company Limited ("OPDC2") (which owns 95% of the shares of OPDC); Oando and Oando OML 125 & 134 BVI in respect of Oando OML 125&134, as well as shareholder agreements dated April 30, 2013 between Oando and Oando Netherlands Holding 4 BV (Holdco 4) and Oando Netherlands Holding 5 BV (Holdco 5) in respect of Oando Qua Ibo Limited (OQIL) and Oando reservoir and Production Services Limited (ORPSL), respectively. Oando owns Class A shares and each of Holdco 2, Holdco 3, Oando OML 125&134 BVI, Holdco 4 and Holdco 5 (together the "Holdco Associates") owns Class B shares, in each of Oando Akepo, OPDC2, Oando OML 125&134, OQIL and ORPSL (the "Operating Associates"), respectively. Ownership of the Class A shares by Oando provides it with 60% voting rights but no rights to receive dividends or distributions from the applicable Operating Associate, except on liquidation or winding up. Ownership of the Class B shares entitles the Holdco

Associates (each an indirectly wholly-owned subsidiary of the Group) to 40% voting rights and 100% dividends and distributions, except on liquidation or winding up. Pursuant to each of these agreements, Oando, on the one hand, and the respective Holdco Associates, on the other hand, agreed to exercise their respective ownership rights in accordance with the manner set forth in the shareholder agreements. Pursuant to the shareholder agreements, each of Oando and the respective Holdco Associate is entitled to appoint two directors to the board of Oando Akepo, OPDC2, Oando OML 125&134, OQIL and ORPSL respectively, with the Holdco Associate being entitled to appoint the Chairman, who has a casting vote. In addition, the applicable Holdco Associate has the power to compel Oando to sell its Class A shares for nominal consideration. The shareholder agreements in respect of most of the Operating Associates are filed on www.sedar.com under "Oando Energy Resources Inc.". No amounts have been paid or are due to be paid by either party to the other under the shareholder agreements.

(ii) Right of First Offer Agreement ("ROFO Agreement") dated September 27, 2011, as amended, between Oando and the Group. Pursuant to the ROFO Agreement, the Group has the right to make an offer to Oando in respect of certain assets owned by Oando in accordance with the terms of the ROFO Agreement. No amounts have been paid or are due to be paid under the ROFO Agreement. However, refer to note 6 regarding the acquisition of the Qua Ibo Marginal Field. On September 27, 2013, the ROFO agreement between OER and Oando was amended. The amendment terminates the ROFO agreement on the first date on which Oando no longer holds, directly or indirectly, at least 20% of the issued and outstanding common shares of OER. Prior to the amendment, the right of first offer in the ROFO would have terminated on September 27, 2013. The Group has $9.3 million due to Oando under this agreement for the OQIL and ORPSL acquisition (2012: nil)

(iii) Referral and Non-Competition Agreement dated July 24, 2012 between Oando and the Group. Pursuant to this agreement, Oando is prohibited from competing with the Group except in respect of the assets referred to in the ROFO Agreement until the later of July 25, 2014 and such time as Oando owns less than 20% of the shares of the Group. Oando is also required to refer all upstream oil and gas opportunities to the Group pursuant to this agreement. In addition, in the event that Oando acquired any upstream assets between September 27, 2011 and July 24, 2012, Oando is required to offer to sell these assets to the Group at a purchase price consisting of the amount paid by Oando for the assets, together with all expenses incurred by Oando to the date of the acquisition by the Group, plus an administrative fee of 1.75%. The Group has $7.6 million due to Oando under this agreement in respect of the COP acquisition (2012: $7.6 million).

(iv) Cooperation and Services Agreement dated July 24, 2012 between Oando and the Group. Pursuant to this agreement, Oando agreed, until the later of July 24, 2017 and such time as Oando owns less than 20% of the shares of the Group, to provide certain services to the Group, including in respect of legal services in Nigeria, corporate secretariat and compliance services in Nigeria, corporate finance, procurement, corporate communications, internal audit and control, information technology, human capital management, environment, health, safety, security and quality and administrative services. These services are to be provided to the Group on the basis of the cost to Oando plus a margin of 10%. The independent directors of the Group are entitled to approve all such cost allocations. As part of the costs incurred under the agreement, the Group incurred $2.1 million in aviation costs to an entity that is owned by a director of the Group. The Group has $6.8 million due to Oando under this agreement in respect of the COP acquisition (2012: $ nil).

(v) Transitional Services Agreement dated July 24, 2012 between the Group, Oando Servco Nigeria and OEPL. OEPL is a related entity of the Group. Pursuant to this agreement, the Group and Oando Servco agreed that Servco would provide services to OEPL until January 24, 2014 for no more than 10% of the employees' normal working hours per month. OEPL is required to pay Oando Servco's costs of providing such services. The Group has $7.3 million due from OEPL, a subsidiary Oando under this agreement in respect of services provided.

As at December 31, 2013, the Group had the following outstanding related party balances with Oando:

Accounts receivable

	As at December 31, 2013	As at December 31, 2012
Accounts receivable from Oando	18,582	-
	18,582	**-**

Accounts payable

	As at December 31, 2013	As at December 31, 2012
Under lift payable to Oando (note 30)	47,272	47,272
Loan payable to Oando (note 13)	401,000	345,000
Payable to Oando (Equator loan)	9,914	7,211
Payable to Oando for COP acquisition	7,612	7,612
Oando Energy Services	1,228	-
Oando (Payments on behalf of the Group)	37,463	-
Payables to Oando (QI and ORPSL acquisition)	9,260	-
Related party payables	513,749	407,095

(a) Payable to Oando (Equator loan)

This balance represents a loan amount of $9.9 million (inclusive of accrued interest) owed to Oando by Equator Exploration Limited, a subsidiary of the Group. The money was loaned to Equator to fund ongoing operations and remains outstanding at December 31, 2013.

(b) Payable to Oando for COP acquisition

The Group recorded a liability payable in 2012 to Oando in the amount of $7.6 million for services provided by Oando under the Right of First Offer Agreement.

(c) Payable to Oando for QI and ORPSL acquisition

The acquisition of OQIL and ORPSL required the Group to pay Oando the sum of $9.2 million in cash consideration. As such, the Group has recorded a liability payable to Oando for the amount. The consideration was determined in accordance with the Sale and Purchase Agreement for the Class B share of OQIL and ORPSL. Refer to note 6 on business combination for the basis of the consideration.

Termination of purchase of Phillips Brass Limited

On September 13, 2013, the Group signed an agreement with ConocoPhillips to terminate the purchase of Phillips Brass Limited ("PBL"). The deposit of $35 million, previously paid to COP for the acquisition of PBL, was applied against the purchase price of Phillips Oil Company Nigeria Limited. Subsequent to this, Oando has entered into an agreement to purchase PBL from ConocoPhillips. On February 28, 2014, Oando terminated its agreement with ConocoPhillips for the purchase of PBL.

Key Management Personnel Compensation

	For the year ended December 31, 2013	For the year ended December 31, 2012
Salaries and other short term employment benefits	2,566	1,961
Restricted share units	840	539
Share based payments	2,270	1,304
Key management personnel compensation	5,676	3,804

Key management includes the Board of Directors and Officers of the Group, (Chief Executive Officer, Chief Financial Officer, Chief Technical Officer and Chief Operating Officer).

30. OTHER LONG TERM PAYABLES

Other long term payables represent an amount payable to Oando in relation to crude oil under lifts occurring prior to the Oando re-organization completed on July 24, 2012. On completion of the Oando reorganization, the Group retained the contractual rights to receive the cash flows associated with an under lift receivable (refer note 25). However, as part of the terms of the Oando reorganization, the Group also assumed a contractual obligation to pay a portion of those cash flows to Oando

Therefore, the Group has recognized a long term payable of $47.3 million (2012: $47.3million) on the statement of financial position. As part of the terms of the payable, the Group has no obligation to pay amounts to Oando unless it collects the equivalent amounts from the original under lift receivable.

31. COMMITMENTS

The following table represents the contractual commitments of the Group at December 31, 2013:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings and Interest Payable[1]	665,967	496,823	93,141	76,003	-
Trade and other payables	213,169	213,169	-	-	-
Other long term payables	76,416	-	47,272	1,947	27,197
Derivative financial instruments	2,555	770	1,785	-	-
Purchase commitments	15,772	15,772	-	-	-
Budgeted capital expenditure[2]	115,430	115,430	-	-	-
Acquisition of COP[5]	1,194,000	1,194,000	-	-	-
	2,283,309	2,035,964	142,198	77,950	27,197

[1]Interest payable is expected to be $45.1 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at year end.

[2]The capital expenditure budget represents the estimated level of required funding to support the planned growth, development and maintenance of the oil and gas field

[5]Acquisition of COP includes estimated $74 million transaction costs and assumes working capital adjustments of $270 million Subsequent to year end, the Group paid an additional deposit of $50 million to COP. This reduced the purchase commitment on the COP Acquisition to $1.14 billion.

The commitments for the next five years will be funded from cash flow from operations of the Group, as well as debt financing from Oando and external parties. Refer to Note 34 *Subsequent event* for details of financing obtained since the reporting date.

32. CONTINGENCIES

32.1 OML 122

In September 2007, the Group transferred, under the Bilabri Settlement Agreement, the full responsibility for completing the OML 122 "Bilabri" development to Peak Petroleum Industries (Nigeria) Limited ("Peak"), who specifically assumed responsibility for the project's future funding and historical unpaid liabilities. In the event that Peak fails to meet its obligations to the projects creditors, it remains

possible that the Group may be called upon to meet the debts. Therefore, a contingent liability of $21.7 million exists at December 31, 2013 (2012 – $21.7 million). The Group has assessed the likelihood that cash outflows will be required to settle the obligation as remote, and therefore, no liability has been recorded in the financial statements at December 31, 2013 (2012 – $Nil).

32.2 OPL 321 and OPL 323

In January 2009, the Nigerian government voided the allocation of OPL 323 and OPL 321 to the operator, Korea National Oil Company (KNOC) and allocated the blocks to the winning group of the 2005 licensing round which includes ONGC Videsh and Equator. KNOC brought a lawsuit against the government and a judgment was given in their favor. The government has appealed the judgment. In 2009, the government refunded the signature bonus paid by the Group. The Group has not recognized a liability to the government for the blocks subsequent to the refund of the signature bonus. This is due to the uncertainty surrounding the timing of the settlement of the ongoing dispute as well as to the amount to be paid upon settlement. Also, there is no legal obligation to pay the signature bonus as the Group can opt in or out once the legal dispute is settled. The Group has declared its intention to continue to invest in the blocks. The Group currently carries both assets at $1.9 million (2012 - $1.9 million).

The Group bid as part of a consortium for OPL 321 and 323. It was granted a 30% interest in the PSCs but two of its bidding partners were not included as direct participants in the PSCs, as a result, the Group granted those bidding partners 3% and 1% carried economic interests respectively in recognition of their contribution to the bidding group. During 2007, it was agreed with the bidding partners that they would surrender their carried interests in return for warrants in the Group and payments of $4 million and 1 million. The Warrants were used immediately but it was agreed that the cash payments would be deferred. In the first instance, payment would be made within 5 days after the closing of a farm out of a 20% interest in OPL 323 to Bilbray Gas (BG). However, BG has terminated the farm out agreement. Under the successor obligation, the Group has issued loan notes with an aggregate value of $5 million which are redeemable out of the first $5 million of proceeds received on the occurrence of any one of the following events related to OPL 321 or OPL 323:

- A farm out with another party;
- A sale or partial sale of the interests; and
- A sale or partial sale of subsidiaries holding the relevant PSCs.

During 2010, one bidding partner successfully sued the Group in an arbitration tribunal for $1 million. This has been paid in full. On the advice of legal counsel, the Group maintains that the remaining $4 million owed is not yet due and that any second arbitration hearing can be successfully defended. If none of the above events occur, it is assumed that the Group will not need to settle the $4 million loan note and can defer payment indefinitely. The above contingencies are based on the best estimates of the Board.

33. ADJUSTMENT OF COMPARATIVE FINANCIAL STATEMENTS

As disclosed at Note 8, the Group completed a common control acquisition of Qua Ibo and ORPSL on April 30, 2013. In accordance with the Group accounting policy, the acquired entities' financial results have been incorporated as though the entities had always been combined. As such, the comparative information has been adjusted to reflect the financial results of the combined entities for December 31, 2012, the comparative period. No adjustment was required to the balance sheet at January 1, 2012, as both acquired entities were incorporated subsequent to January 1, 2012. The below tables reconcile the previously reported financial information to the adjusted financial information.

33.1 Adjusted Consolidated Statement of Comprehensive Loss for the year ended December 31, 2012

	Previously reported Year ended December 31, 2012	Adjustment for common control transaction		Adjusted Year ended December 31, 2012
		Qua Ibo	ORPSL	
Revenue	133,708	-	1,492	135,200
Production expenses	(25,071)	-	-	(25,071)
General and administrative costs	(17,159)	(323)	(308)	(17,791)
Depletion and depreciation amortization	(23,991)	-	-	(23,991)
	(66,221)	(323)	(308)	(66,853)
Financing income	1,906	-	39	1,945
Financing expense	(17,733)	(394)	(60)	(18,187)
Net financing expense	(15,827)	(394)	(21)	(16,242)
Income (loss) before income tax	51,660	(717)	1,162	52,105
Income tax (expense) recovery	(36,105)	385	(364)	(36,084)
Net income/(loss) for the year	15,555	(332)	798	16,021
Comprehensive income/(loss)				
Owners of the parent	16,691	(332)	798	17,157
Non-controlling interests	(1,136)	-	-	(1,136)
	15,555	(332)	798	16,021
Net income/(loss) per share				
Basic	0.15			0.16
Diluted	0.15			0.16

33.2 Adjusted Consolidated Statement of Financial Performance as at December 31, 2012

	Previously reported	Adjustment for common control transaction		Elimination of intercompany balances	Adjusted
	As at December 31, 2012	Qua Ibo	ORPSL		As at December 31, 2012
Current assets					
Cash and cash equivalents	2,915	1,736	47	-	4,698
Trade and other receivables	17,891	21,412	25,436	(34,119)	30,620
Inventory	1,011	4	-	-	1,015
Derivative financial instruments	150	-	-	-	150
	21,967	23,151	25,483	(34,119)	36,482
Non-current assets					
Property, plant and equipment	189,630	-	-	-	189,630
Interest in Qua Ibo	-	18,634	-	-	18,634
Exploration and evaluation assets	338,837	-	-	-	338,837
Goodwill	6,794	-	-	-	6,794
Deferred tax assets	6,253	385	-	-	6,638
Deposit paid for acquisition	435,000	-	-	-	435,000
Other long term receivables	54,527	-	23,973	-	78,500
Restricted cash	15,000	1,534	-	-	16,534
	1,046,041	20,553	23,973	-	1,090,567
Total Assets	1,068,008	43,705	49,456	(34,119)	1,127,050
Current liabilities					
Borrowings, current	447,000	5,263	-	-	452,263
Trade and other payables	100,294	14,412	48,230	(34,119)	128,817
Derivative financial instruments	6,355	-	-	-	6,355
Current tax payable	6,492	-	364	-	6,856
	560,141	19,675	48,594	(34,119)	594,291
Non-current liabilities					
Decommissioning obligations	17,728	4,560	-	-	22,288
Borrowings, non-current	33,000	19,737	-	-	52,737
Other long term payables	47,272	-	-	-	47,272
Retirement benefit obligations	1,192	-	-	-	1,192
Deferred tax liability	54,210	-	-	-	54,210
	153,402	24,297	-	-	177,699
Total liabilities	713,543	43,972	48,594	(34,119)	771,990
Shareholders' equity					
Share capital	5,714	-	-	-	5,714
Share capital of combined entity	-	64	64	-	128
Share based payment reserve	1,843	-	-	-	1,843
Contribution from parent	629,309	-	-	-	629,309
Retained deficit	(283,569)	(331)	798	-	(283,102)
	353,297	(267)	862	-	353,892
Non-controlling interests	1,168	-	-	-	1,168
Total Shareholders' equity	354,465	(267)	862	-	355,060
Total Liabilities and Shareholders' Equity	1,068,008	43,705	49,456	(34,119)	1,127,050

34. EVENTS OCCURRING AFTER THE REPORTING PERIOD

34.1 Closing Date of COP Nigeria Acquisition

On February 14, 2014, an additional deposit of $50 million was made to ConocoPhillips, bringing the total deposit to $500 million. On March 27, 2014, the Group signed an amendment to the COP Nigeria acquisition agreement and extended the outside closing date of the transaction to April 30, 2014. In the event that the required approvals are not obtained by April 11, 2013, the Group would deposit an additional $25 million of the acquisition cost.

34.2 OER Private Placement of $50 million

On February 26, 2014, the Group completed a private placement offering for $50 million. The Offering consisted of 35,070,063 common shares of the Group and 17,535,031 common share purchase warrants for gross proceeds of $50,000,000 (each Common Share and half-Warrant, a "Unit") at a price of C$1.57 per Unit. Each whole warrant will entitle the holder thereof to acquire one common share of the Group at a price of C$2.00 per common share for a period of 24 months from the date of the closing of the COP Acquisition (as defined in note 24). If, after a period of six months from the closing of the COP Acquisition, the common shares of the Group trade on the Toronto Stock Exchange at a price greater than C$3.50 for a period of at least 10 consecutive trading days, the warrants will expire on the date which is 30 days following the last day of such 10 consecutive trading days.

34.3 $450 Million Senior Secured Facility

The Group entered into a $450 million Senior Secured Facility agreement on January 31, 2014. The purpose of the facility is to finance the close of the COP Acquisition. The agreement consists of two facilities – Facility A and Facility B.

- Facility A provides for a loan amount of $181.7 million. Facility A is required to be repaid one business day subsequent to the completion of the COP Acquisition upon receipt of the funds from, or on behalf of, the COP shareholder loan.

- Facility B provides for a loan amount of $268.3 million. The facility can be draw down until the earlier of (i) two days before the COP acquisition closes or (ii) May 30, 2014. Once drawn down, the loan is repayable in quarterly installments in accordance with a repayment schedule.

Interest will be charged on the loans at LIBOR plus 8.5% per annum and interest payments are due at the end of each quarterly period. Loan B will be repaid each calendar quarter using the proceeds from sales of the Group's share of crude oil from its various operations. In addition to regular repayments, 25% of any excess cash observable from proceeds of sales of crude oil would also be applied against outstanding principal. The loan has a final maturity date of June 30, 2019.

The $450 million Senior Secured Facility obtained by OER from a syndicate of banks to finance the close of the COP Acquisition and entered into by OER on January 31, 2014 has an expiry date of March 31, 2014. OER has obtained confirmation from the Mandated Lead Arrangers ("MLAs") under the Senior Secured Facility that all banks in the syndicate have received confirmation that all the banks to extend the availability period of the RBL Facility from March 31, 2014 to May 3, 2014. OER has paid the agreed commitment fee for the extension to the MLAs and OER has been advised by the MLAs that formal documentation reflecting the amendments have been circulated to all syndicate banks and that it is expected that formal documentation reflecting the amendment will be executed promptly following confirmation by the syndicate banks of their agreement with the formal documentation. As of the date hereof, OER has been advised that all syndicate banks (except one) have approved the terms of the formal documents evidencing the extension.

34.4 $350 Million Corporate Finance Loan Facility

On January 31, 2014, the Group signed an agreement with a consortium of lenders led by FBN Capital Markets Limited and FCMB Capital Markets Limited to secure a Corporate Finance Loan Facility for $350 million. The loan will be applied to fund the repayment of the existing loans of the Group as well as to finance a portion of the COP Acquisition. Interest will be charged from draw down at LIBOR plus 9.5% per annum for the first fifty-seven months of the facility, with an increase of 1% for the remaining life of the facility. The loan will be available for

draw down for 12 months from January 31, 2014. The loan will be repaid quarterly using the proceeds of sales of the Group's share of crude oil from its various operations.

34.5 $1.2 Billion Oando Loan facility

On February 10, 2014, the Group signed an agreement with Oando for a $1.2 billion facility. This facility, includes the $401 million (Oando loan) availed to the Group as at December 31, 2013, the $200 million (Tranche A) availed and drawn down by the Group in February 2014, as well as an additional $599 million (Tranche B), all to fund the closure of the COP Acquisition and other general corporate requirements. The facility is expected to be repaid on December 31, 2015. Interest on the loan will be charged at 4% per annum.

The Group elected to convert the Oando loan ($401 million) and Tranche A of the facility $1.2 billion facility ($200 million) to shares on February 26, 2014 on signing of a Private Funding Agreement for the COP Acquisition; the shares were converted at C$1.57.

34.6 Intent to acquire 5% interest in OML 131

On February 10, 2014, the Group announced its intention to acquire a 5% interest in OML 131 held by Medal Oil Company Limited for a purchase price of $5 million. This acquisition will be settled with the issuance of an additional 3,491,082 shares to Medal Oil Company Limited. This transaction is contingent upon the closure of the COP Acquisition.

34.7 Conversion of Oando loans

On February 26, 2014, the Group converted its borrowings from Oando into shares and warrants as allowed by the First and Second Facility agreements. This resulted in an issue of 432,565,768 shares and 216,282,884 warrants to Oando. This event resulted in a dilution of Oando's shareholding in the Company from 94.6% to 92.9%.