*This Management's Discussion and Analysis (**"MD&A"**) should be read in conjunction with the audited Consolidated Financial Statements of Oando Energy Resources Inc. (the **"Company"**) and its subsidiaries (together, **"OER"** or the **"Group"**) as at and for the year ended December 31, 2013 (the **"Consolidated Financial Statements"**), as well as the audited Consolidated Financial Statements for the year ended December 31, 2012.*

*The Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**). All financial information is presented in US dollars, unless otherwise noted. Production volumes are presented on a working interest basis, before royalties, unless otherwise noted. Natural gas volumes have been converted to barrels of oil equivalent (**"boe"**) using a conversion ratio of six thousand cubic feet (**"mcf"**) of natural gas to one boe. This MD&A is dated March 31, 2014.*

Readers should also read the Advisory section located at the end of this document, which provides information on Forward-Looking Statements, Foreign Operations, Oil and Gas Information and Currency.

1. Description of Business

Oando Energy Resources Inc. (previously known as Exile Resources Inc.) is a publicly traded company that is listed on the Toronto Stock Exchange ("**TSX**") under the symbol "OER". The Group 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 controlling shareholder and parent company of the Group is Oando Plc. The Group holds interests in 11 licences for the exploration, development and production of oil and gas fields or blocks located onshore on land or swamp, and offshore in shallow or deep waters.

For the year ended December 31, 2013, a total production of 1.46 million barrels (**"mmbbls"**) of crude oil (or an average of 3,991 barrels per day (**"bbl/d"**)) was attributable to the Group's working interests in OML 125 and the Ebendo Marginal Field (also known as OML 56).

The Company was incorporated under the Canada Business Corporation Act on August 9, 2005 as "Exile Resources Inc." and subsequently, on conclusion of the reverse takeover acquisition on July 24, 2012, the Company's name was changed to Oando Energy Resources Inc. (**"OER"**). The Group's registered office is located at 3400 First Canadian Center, 350-7th Avenue SW, Calgary AB, Canada T2P 3N9. The Group's head office is located at Suite 1230, Sunlife Plaza, 112 4th Avenue SW, T2P 0H3, Calgary, Canada. The Group also has a branch office in Toronto, located at Suite 1210, 333 Bay Street, Bay-Adelaide Centre, Toronto, M5H 2R2 Canada.

The Group's operations are carried out of its Lagos office located at 8th Floor, 2, Ajose-Adeogun Street, Victoria Island, Lagos Nigeria.

2. Acquisitions

Proposed Acquisition – COP Nigeria

On December 20, 2012, the Group entered into share purchase agreements (the "**Acquisition Agreements**") to acquire certain Nigerian onshore and offshore assets owned indirectly by ConocoPhillips Company ("**COP**"), as well as COP's interest in Phillips (Brass) Limited (**"Phillips"**), with an effective date of January 1, 2012 (the **"COP Acquisition"**). At the time of execution of the Acquisition Agreements, the total consideration was estimated to be approximately $1.79 billion (including an initial deposit of $435 million), subject to customary adjustments related to working capital and interest on the balance purchase commitment for the COP acquisition.

The Group believes that the COP Acquisition will increase its scale of operations significantly, adding interests in: (i) four producing offshore licenses from which COP's attributable production was approximately 36,500 boe/d during 2013; (ii) two non-producing offshore licenses; (iii) related oil and gas processing facilities and transportation infrastructure; and (iv) a power plant.

On signing of the Acquisition Agreements, the Group paid a deposit of $435 million to ConocoPhillips. The payment of the deposit was financed by a $345 million loan from Oando Plc the ultimate parent of the Group, 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 Agreements were subsequently amended several times (amendment dates of September 13, 2013, December 16, 2013, February 28, 2014 and March 27, 2014), to extend the closing date to 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 to COP at December 31, 2013 was $450 million (2012 - $435 million).

The Group paid an additional deposit of $50 million from proceeds received from the Group's February 26, 2014 completed private placement offering for $50 million thereby bringing up total deposit to $500 million as at March 31, 2014. The Group will increase its deposit to COP by $25 million in the event that ministerial consent is not received by April 11, 2014.

On September 13, 2013, the Group signed a termination agreement with respect to the acquisition of Phillips. 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 acquisition. As part of the termination agreement, this deposit amount was transferred against the other Acquisition Agreements for the COP Acquisition. Subsequent to this termination, Oando Plc signed an agreement to acquire Phillips. This agreement was subsequently terminated on February 28, 2014.

Closing of the COP Acquisition is subject to customary conditions, including the receipt approvals or consents from Nigerian governmental authorities (including the Honourable Minister of Petroleum Resources in Nigeria). The Group is in the process of obtaining these approvals and consents.

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.

Assuming a completion date of April 30, 2014, the net purchase price payable for the COP Acquisition and related expenses, net of the $500 million deposit paid to date and after taking into account the amendments described above and various adjustments of $270 million, is currently expected to be approximately $1.14 billion.

The Group has undertaken significant levels of borrowings to finance on-going operations and the COP Acquisition. This acquisition has not yet closed. The Group currently plans to finance the remaining acquisition cost through debt financing. Refer to Section 5 *Liquidity* and Section 6 *Capital Resources* for a detailed discussion of the Group's financing plans to facilitate the close of the COP Acquisition and the related liquidity risks.

Acquisition of Oando Qua Ibo Limited and Oando Reservoir and Production Services Limited

On April 30, 2013, the Group acquired two subsidiaries, Oando Qua Ibo Limited (**"OQL"**) and Oando Reservoir and Production Services Limited (**"ORPSL"**), from Oando Plc for a purchase price of $9.3 million (the **"Qua Ibo Acquisition"**).

As a result of these acquisitions, the Group owns a 40% participating interest in the Qua Ibo Marginal Field within Oil Mining Lease 13 (also referred to as **"OML13"**) located onshore Nigeria. For accounting purposes, management has elected to apply predecessor accounting to the OQL Acquisition. As such, all assets and liabilities of OQL and ORPSL are incorporated by the Group at their predecessor carrying values into the consolidated financial statements. 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. Refer to Note 33 of the Consolidated Financial Statements.

Oando Reorganisation and Reverse Takeover of Exile Resources Inc.

Most of the business currently being conducted by the Group has been carried on by Oando E&P Division since 2003. On July 24, 2012, the Group acquired the Oando Exploration and Production Division in connection with the reverse takeover and acquisition of Exile Resources Inc. (the **"Acquisition and Reorganisation"**). Consideration for the Acquisition was the issuance to Oando Plc of 100,339,052 common shares of OER, resulting in Oando Plc owning approximately 94.6% of the outstanding common shares of OER, on a non-diluted basis immediately following closing. Following implementation of the Reorganisation, on July 30, 2012, OER's common shares ceased trading on the TSX Venture Exchange and commenced trading on the TSX.

The Reorganisation was completed pursuant to a plan of arrangement (the "**Arrangement**") which involved, among other things:

a) the consolidation of all of the outstanding common shares ("**pre-Arrangement Common Shares**") of Exile Resources Inc. on the basis of one new common share for every 16.28 pre-Arrangement Common Shares then outstanding;

b) the issuance to the shareholders of Exile Resources Inc. of record as of the close of business on July 23, 2012 of two share purchase warrants of OER for every approximate 16.28 pre-Arrangement Common Shares of Exile Resources Inc. held immediately prior to the Arrangement. This resulted in the issuance of (i) 5,714,276 warrants with an exercise price of Cdn$1.50 per share and an expiry date of July 24, 2013 (of which 200 warrants were exercised in 2012 and 92 warrants were exercised in 2013 and 5,713,984 expired unexercised) and (ii) 5,714,276 warrants with an exercise price of Cdn$2.00 per share and an expiry date of July 24, 2014 (none have been exercised as at March 31, 2014);

c) the change of name of "Exile Resources Inc." to "Oando Energy Resources Inc."; and

d) the reduction of the stated capital of the issued and outstanding Common Shares to CDN$1.

3. Financial and Operational Results

Selected Annual and Fourth Quarter Information

The table below represents a summary of the Group's selected financial and operating results for the three-month periods ended December 31, 2013 and 2012 and the years ended December 31, 2013, 2012 and 2011:

			Year ended December 31		**Three months ended December 31**
	2013	**2012**	**2011**	**2013**	**2012**
Revenue	127,211	135,200	157,268	23,976	27,746
Barrels of oil produced (bbl) [(1)]	1,456,818	1,482,522	1,797,651	406,029	326,819
Average sales price per barrel (Gross)	110.3	110.2	110.78	111.4	111
Average sales price per barrel (Net)[(2)]	87.32	91.20	87.49	59.05	84.90
Cash flows from operating activities	77,409	23,991	54,797	34,523	(10,938)
Comprehensive income/(loss)	(38,230)	16,021	(2,596)	(41,008)	(9,625)
Net income/(loss) per share: Basic	(0.36)	0.16	(0.03)	(0.32)	(0.08)
Net income/(loss) per share: Diluted[(3)]	(0.36)	0.16	(0.03)	(0.32)	(0.08)
Total assets	1,299,422	1,127,050	947,593	1,299,422	1,127,050
Total non-current financial liabilities	275,195	177,699	113,947	275,194	177,699

[(1]) Values differs from Form 51-1-1F1 "Statement of Reserves Data and Other Oil and Gas Information" February 28, 2014, as a result of ownership which provides data for Oando Petroleum Development Company, with a legal ownership of 42.75% working interest in Ebendo (OML 56). Total share of production based on legal ownership reported in Form 51-1-1F1 is 0.23 mmbbls. However, Group consolidates 45% revenue of Ebendo (OML56) which is OPDC ownership interest in the field and recognises a minority interest of 5% in OPDC.

[(2)] Price excludes royalties (8% on OML 125 and 5% on the Ebendo Marginal Field), the Nigerian Government profit share of profit oil in the production sharing contract in respect of OML 125, crude losses, and unrecognised revenues related to increased underlift receivables on OML 125.

***[(3)]** 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.*

Financial and Operational Highlights

- The Group has entered into share purchase agreements with ConocoPhillips to acquire certain Nigerian onshore and offshore oil and gas assets for a purchase price of $1.65 billion, less working capital adjustments. The share purchase agreements were effective as of January 1, 2012 but the transaction has not yet closed. As at March 31, 2013 the Group's commitments under the Corporate Finance Loan Facility and the remaining $599 million capacity available under the Oando Plc Loan Facility remains firm. Subsequent to March 31, 2014, the Group's $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. The Group is now actively seeking the required government approvals and consents in order to close the COP Acquisition.

- For the year ended December 31, 2013, the Group had a working capital deficiency of $661.0 million and a comprehensive loss of $38.2 million. In addition to financing its on-going working capital requirements, the Group must secure sufficient funding to repay a significant level of borrowings that are due during 2014, as well as meet purchase commitments under the Acquisition Agreements. Refer to Section 5, *Liquidity* and Section 6 *Capital Resources*.

- Revenue for 2013 declined by $7.99 million, due to crude oil losses at OML 56 and the Group's decision to defer revenue recognition on excessive liftings by the Nigerian National Petroleum Commission (**"NNPC"**) at OML 125.

- Production for 2013 was 1,456,818 bbls compared to 1,482,522 bbls for 2012.

- Average net sales price of $87.32/bbl for 2013 declined by 4.3% from $91.20/bbl in 2012, due to non-recognition of $14.5 million of underlift receivables on OML 125.

- Cash flows from operating activities for 2013 were $77.4 million, compared to $24.0 million in 2012.

- Capital expenditures for 2013 were $120.0 million, compared to $67.5 million for 2012.

- Tax expense was reduced by $25.1 million in 2013 compared to 2012, primarily due to the Group receiving confirmation of approval of the Pioneer Status Incentive for the interest in the Ebendo Margin Field (also referred to as **"OML 56"**) field on OML 56 and investment tax credits received on capital expenditures at OML 125 and applied against current year taxable profits.

- Finance costs increased by $34.1 million due to borrowings related to the COP Acquisition.

Results of Operations

The following provides an analysis of the Group's financial condition, results of operations and cash flows for the year ended December 31, 2013. Results have been compared to the Group's financial performance for the year ended December 31, 2012. The Group has only one reportable segment which consists of the Group's oil and gas operations in Nigeria.

Revenues

	For the year ended December 31, 2013	For the year ended December 31, 2012
Total Production, net WI (bbls)	1,456,818	1,482,522
Crude oil net sale price (average $ / bbl)	110.3	110.2
Total Revenue ($'000)	127,211	135,200

Revenue is generated by the production and sale of crude oil produced from the Group's working interest in OML 125 (offshore) and OML 56 (Ebendo marginal field, onshore). Both oil licenses are located in Nigeria. The Groups sells 100% of its oil production to ENI Trading and Shipping S.P.A., a subsidiary of Nigeria Agip Exploration (**"NAE"**).

Compared with the year ended December 31, 2012, the Group experienced relatively stable production and oil prices for the year ended December 31, 2013. In the first quarter of 2013, the Kwale-Akri pipeline was closed due to crude oil losses as a result of sabotage activities and production from OML 56 was required to be shut in. The Group experienced similar pipeline issues in 2012 and therefore, the shut in did not have a significant impact on year over year production levels.

However, revenue decreased due to increasing levels of crude oil losses at OML 56 and overlift disputes with the NNPC at OML 125.

For the year ended December 31, 2013, average production of 3,991bbls/d was attributable to the Group, compared with an average of 4,062 bbl/d for the year ended December 31, 2012.

Crude Oil Losses (OML 56)

During the year, the Group lost approximately 25% of its oil production from OML 56 to crude oil pipeline losses as a result of theft and sabotage (2012 – 17%).

Production from 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.

Total gross crude oil deliveries into the export pipeline from the Ebendo Marginal Field for the year ended December 31, 2013 were approximately 330,515 bbls before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to the Group for the year ended December 2013 were 82,629 bbls or 25%, (2012 – 36,485 bbls or 17%) of total crude oil deliveries into the export pipeline for the year. This resulted in approximately $9.3 million of oil production not being recognized as revenue for the year ended December 31, 2013 (2012 – $3.1 million, 17%).

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 Company is working with its partners to construct the Umugini pipeline as an alternative evacuation route in an attempt to reduce the impact of crude oil losses.

Excessive lifting activity by NNPC (OML 125)

The Group receives lifting schedules for OML 125 that identify the order and frequency with which each partner can lift its share of production. In 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 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 of the Consolidated Financial Statements.

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

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. As such, the Group has deferred revenue recognition for approximately $14.5 million of crude oil production for the period commencing October 1, 2013. In the fourth quarter of 2013, revenue going forward is recognized when crude oil is lifted by the Group from the field and cash collection is assured as this is the point at which it is that the economic benefits resulting from the sale will flow to the Group.

Commodity 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 have corresponding effects on the results of operations of the Group.

In the past, 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. The existing commodity contracts held by the Group expired at December 31, 2013. However, as part of the loan covenants set out in the $450 Million Corporate Loan Facility and the $350 Million Senior Secured Facility the Group will be required to have a hedging arrangement in place prior to drawdown.

Production expenses

	For the year ended December 31, 2013	For the year ended December 31, 2012
Production expenses	29,962	25,071

Production expenses consist of direct operating expenditures relating to lifting, handling, transportation and production maintenance and operators' general and administrative (**"G&A"**) cost.

For the year ended December 31, 2013, production expenses were approximately $30.0 million compared to 2012 when they were $25.1 million. Over the course of the year, 66% of the cost arose from OML 125 (2012: 75%), with the rest being incurred in operations on OML 56. The increase in production expenses was largely driven by a $1.6 million increase in the operators' personnel costs in OML 125. Also, in OML 56, production expenses increased as a result of $0.9 million increase in Community and Niger Delta Development Commission (**"NDDC"**) trust funds for community development, $1.3 million increase in maintenance expenditures, and personnel costs increase of $0.8 million as a result of increased production activities. Production expense per barrel of oil equivalent for the year ended December 31, 2013 was $20.57/bbl compared with $16.91/bbl in 2012.

General and administrative costs

	For the year ended December 31, 2013	For the year ended December 31, 2012
General and administrative costs	42,583	17,791

General and administrative costs for the year ended December 31, 2013 were $42.6 million compared to $17.8 million for 2012. The increase in general and administrative costs was driven by the COP Acquisition and integration related activities of $20.4 million, an increase of $1.27 million attributable to share options and restricted share units held by directors and employees of OER and an increase in employee benefit expenses of $2.0 million.

Depletion, depreciation and amortization

	For the year ended December 31, 2013	For the year ended December 31, 2012
Depletion, depreciation and amortisation	31,513	23,991

Depletion, depreciation and amortization charges for the year ended December 31, 2013 were $31.5 million compared to $24.0 million for the prior year. The depletion, depreciation and amortization expense per barrel for the year ended December 31, 2013 was $21.6/bbl compared to $16.2/bbl for the year ended December 31, 2012. The increase in depletion, depreciation and amortization expense was as a result of higher production levels at OML 56 and a higher depletable asset base due to capital expenditures on OML 125 as a result of drilling activities on its Abo 4 producing wells and Abo 3 Side track and increases in the estimated future development costs of $42.9 million compared to the previous period.

Net financing expenses

	For the year ended December 31, 2013	For the year ended December 31, 2012
Net financing expenses	50,365	16,242

Net financing expenses for the year ended December 31, 2013 was $50.4 million compared to $16.2 million over prior year. For the year ended December 31, 2013, the Group incurred additional interest expense of $40.7 million in relation to borrowings undertaken to finance the deposit paid for the COP Acquisition.

Income tax expense

	For the year ended December 31, 2013	For the year ended December 31, 2012
Income tax expense	11,018	36,084

The Group pays income tax on profits earned from oil production at OML 125 and OML 56. OML 125 is governed by a production sharing contract and petroleum profits are taxed at 50%. Prior to being granted Pioneer Status Incentive, while OML 56 was subject to the marginal field tax regime and taxed at 65.75%.

Tax expense declined by $25.1 million, primarily due to the Group receiving confirmation of approval of the Pioneer Status Incentive for its interest in OML 56. Pioneer Status Incentive is an investment incentive offered by the Nigerian government and entitles the Group to a waiver of Petroleum Profit Tax from July 1, 2010 until June 30, 2015 on assessable profits in its interest on OML 56. The Group's income tax provision for 2013 was prospectively adjusted for the benefit of the Pioneer Status Incentive. In addition, the Group also benefited from tax savings due to investment tax credits earned on capital expenditures at OML 125.

Net income/ (loss) for the year

	For the year ended December 31, 2013	For the year ended December 31, 2012
Net income/loss for the year	(38,230)	16,021

For the year ended December 31, 2013, a net loss of $38.2 million was incurred compared to a net income of $16.0 million earned in 2012. The decline in net income compared to the prior year was as a result of decreased operating revenues, increased production expenses, increased general and administrative costs and increased financing expenses, which were partially offset by reduced taxes as explained above.

Capital expenditures

	For the year ended December 31, 2013	For the year ended December 31, 2012
Capital expenditures	119,955	67,547

In 2013, the Group spent $120 million on capital expenditures for oil and gas assets and exploration and evaluation assets. Capital expenditures in 2013 included the following:

- OML 125 capital expenditures of $67.6 million were incurred on Abo 9 well work over completed in Q1 2013 and in developing wells on the Abo Phase 3 and the completion of the side track of Abo 4 well, Abo 3 well and Abo 8 well drilling.

- OML 56 capital expenditures of $22.9 million were incurred, which included $3.72million representing the Group's share of expenditure on the Umugini pipeline project and $19.1million of capital expenditure on the completion of wells Ebendo 5 and Ebendo 6. These wells have been suspended pending the completion of the Umugini pipeline.

- OML 13 capital expenditures of $21.9 million were incurred as a result of drilling and completing Qua Ibo 4 and Qua Ibo 3 ST1 wells. Both wells are currently shut in, pending finalisation of the evacuation plan for Oil produced from OML 13.

- OML 134 Capital expenditures of $7.3 million were incurred on exploratory activities on the drilling of the Mindiogoro prospect.

Further details on capital expenditures and commitments has been included in Section 6 *Capital Resources* of this MD&A.

Cash flows from operating activities

	For the year ended December 31, 2013	For the year ended December 31, 2012
Cash flows from operating activities	77,409	23,991

- For the year ended December 31, 2013, the Company generated approximately $77.4 million cash flow from operating activities compared to $24.0 million for 2012. The increase in cash flows from operating activities was driven by higher working capital cash flows of $51.3 million as a result of increased payables offset by higher production expenses and lower revenues.

Summary of Fourth Quarter Results

- Total production of 406,029 bbl was achieved for operating fields OML 125 and OML 56 for the three months ended December 31, 2013 compared with 326,819 bbl in the comparative prior period. Average production on OML 125 for the three months ended December 31, 2013 was 3,618 bbl/d (2012 - 3,057 bbl/d); On OML 56 average production for the three months ended December 31, 2013 was 844 bbl/d (Dec 31, 2012 - 534 bbl/d). This increase was as a result of reduced period of shut down on both assets in the last quarter of the year compared to the previous year, offset by natural declines in production levels at OML 125 and increased crude oil losses at OML 56 experienced during the three months ended December 31, 2013.

- Average realised sales price of $111.4/bbl for the three months ended December 31, 2013 is in line with the three months average realised price of $111/bbl recorded in the comparative prior period.

- For the three months ended December 31, 2013, revenue was $24.0 million compared with $27.7 million in the comparative prior period. Although production increased, the decrease in revenue was as a result of a deferral of revenue recognition on crude oil overlifting in excess of NNPC entitlements at OML 125, representing approximately $14.5 million of oil production for the period.

- Cash flow from operating activities of $98.7 million for the three months ended December 31, 2013 compared with a negative cash flow from operating activities of $10.9 million for the comparative prior period. The increase

in cash flows from operating activities of $109.6 million largely driven by increased working capital cash flows from accounts payables and accrued liabilities.

- Net financing expense for the three months ended December 31, 2013 was $17.0 million compared with $12.7 million over the comparative prior period. The increase in financing expenses was as a result of additional interest expense incurred in relation to borrowings undertaken to finance the deposit paid for the COP Acquisition.

- Net loss of $41.0 million for the three months ended December 31, 2013 compared with a net loss of $9.60 million over the prior year comparable period due to increased financing costs, lower revenues and higher administrative and depreciation expense.

- For the three months ended December 31, 2013, capital expenditures of $45.6 million were incurred compared with $35.9 million for the three months ended December 31, 2012. The increase in capital expenditure was driven by development work on Abo 3 and Abo 8 on OML 125 and Ebendo Well 6 drilling and completions.

4. Summary of Quarterly Results

The following table presents a summary of financial information for the last eight quarters. Information has been derived from the Group's consolidated financial statements:

	For the year ended	For the three months ended			
	December 31 2013	December 31 2013	September 30 2013	June 30 2013	March 31 2013
Production (bbls)	1,456,818	406,029	363,032	353,145	334,612
Total Revenue	127,211	23,976	37,461	36,072	29,702
Net Income for the Year	(38,230)	(41,008)	11,645	(1,167)	(7,699)
Earnings Per Share	(0.36)	(0.32)	0.12	(0.01)	(0.07)
Diluted Earnings Per Share	(0.36)	(0.32)	0.12	(0.01)	(0.07)
Capital Expenditures	119,955	45,573	29,684	36,353	8,345
Total Assets	1,299,422	1,299,422	1,223,808	1,193,585	1,079,899
Total Non-Current Liabilities	275,195	275,194	206,150	207,981	156,457

	For the year ended	For the three months ended			
	December 31 2012	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Production (bbls)	1,482,522	326,819	370,928	388,028	396,747
Total Revenue	135,200	27,746	38,546	33,472	35,436
Net Income for the Year	16,021	(9,625)	4,841	8,375	12,430
Earnings Per Share	0.16	(0.09)	0.05	0.08	0.12
Diluted Earnings Per Share	0.16	(0.09)	0.05	0.08	0.12
Capital Expenditures	67,547	37,752	684	10,694	18,417
Total Assets	1,127,050	1,127,050	657,203	1,021,050	953,912
Total Non-Current Liabilities	177,699	177,699	154,232	114,580	115,219

The Group's quarterly financial information can be significantly impacted by fluctuations in commodity prices, production volumes, interest rates, the timing of and access to crude oil lifting entitlements at OML 125 and the occurrence of crude oil losses due to theft and sabotage at OML 56.

Net earnings over the last eight quarters were impacted by the following factors:

- In the fourth quarter of 2013, the Group deferred revenue recognition associated with crude oil overlift at OML 125. As discussed above, under *Revenues*, the NNPC has continued to lift crude oil production significantly in excess of their entitlement. Due to uncertainty as to whether the economic benefits associated with these production amounts will ever flow to the Group, management deferred revenue recognition in relation to approximately $14.5 million worth of oil production for the fourth quarter of 2013.

- In the fourth quarter of 2013, the Group expensed $16.3 million of debt and equity financing costs related to the Group's efforts to source the required financing to close the COP Acquisition. The Group has subsequently obtained debt financing to assist in the close of the COP Acquisition, which is now expected to close on April 30, 2014.

- In the first quarter of 2013, the Kwale-Akri pipeline was closed due to pipeline losses and production from OML 56 was required to be shut in. OML 56 currently relies on this pipeline to evacuate production to the Brass export terminal. The pipeline was closed, or operating at limited capacity, from February 13, 2013 to April 24, 2013. This resulted in a reduction of revenue for the period.

- In the fourth quarter of 2012, the Kwale-Akri pipeline was closed by the operator due to evidence of leakages on the oil delivery line. OML 56 currently relies on this pipeline to evacuate production to the Brass export terminal. As such, production from OML 56 was temporarily shut in for the period from October 31, 2012 and December 24, 2012. This resulted in a reduction of revenue for the period.

- In the fourth quarter of 2012, the Group's financial liabilities increased significantly due to additional borrowing agreements signed to finance the deposit for the COP Acquisition. The initial deposit was financed through a $345 million loan from Oando Plc and $90 million from various Nigerian banks.

- In the third quarter of 2012, the decline in capital expenditures was as a result of more focus on exploitation of existing operations and producing wells with work programs continuing in the fourth quarter of 2012.

- For the year ended December 31, 2012, net income declined over the period as a result of increased financing costs related to the COP Acquisition compared to the prior year comparative period. Financing costs incurred relating to the COP Acquisition over the four quarters in 2013 was $40.7 million compared to $1.35 million in the prior year comparative periods.

5. Liquidity

For the year ended December 31, 2013, the Group had a working capital deficiency of $661.0 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 Acquisition Agreements and the working capital requirements of current operations. These circumstances lend significant doubt as to the ability of the Group to meet its obligations as they come due. Subsequent to the year end, the Group elected to settle $601 million of borrowings plus accrued interest of $13.4 million owed to Oando Plc with shares and warrants of the Company.

The Group has undertaken significant levels of borrowings to finance on-going operations and the COP Acquisition. Refer to Note 13 of the Consolidated Financial Statements. The purchase price of the COP Acquisition is $1.65 billion subject to working capital adjustments and the Group paid non-refundable deposits of $450 million as at December 31, 2013. As at the date hereof, total deposits paid for the COP Acquisition is $500 million, as an additional deposit of $50 million was made in February, 2014. Of the remaining commitment of $1.2 billion, $25 million becomes due on

April 11, 2014 should ministerial consent not be received from the Nigerian government, while the remaining $1.13 billion subject to working capital adjustments, is due on closing of the COP acquisition.

On February 26, 2014, the Group exercised the conversion option on loans from Oando Plc this resulted in the settlement of $401 million plus interest owed to Oando Plc at December 31, 2013 and settlement of an additional $200 million extended to the Group by Oando Plc subsequent to year end. Both these balances had been transferred under the $1.2 Billion Oando Plc Loan Facility on February 10, 2014. Further details of the conversion are disclosed at Note 34 of the Consolidated Financial Statements.

Despite the conversion of $601million plus interest of $13.4 million to shares and warrants, the Group's borrowings remain significant and are expected to increase on close of the COP Acquisition. The transaction is currently expected to close on April 30, 2014 and be funded through a $450 million Senior Secured Facility, $350 million Corporate Finance Loan Facility and the remaining $599 million capacity available under the Oando Plc Loan Facility. As at March 31, 2013 the Group's commitments under the Corporate Finance Loan Facility and the remaining $599 million capacity available under the Oando Plc Loan Facility remains firm. Subsequent to March 31, 2014, the Group's $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. The Oando Plc Loan Facility includes a conversion feature which will allow the Group to settle the debt in equity, subject to certain conditions. Refer to Note 34 in the Consolidated Financial Statements. In addition, the Group obtained equity financing in the form of a $50 million private placement completed in February, 2014 from which the proceeds will be used to assist in the close of the COP Acquisition. Assuming that the COP Acquisition closes on April 30, 2014 and the Group is able to satisfy certain conditions and exercise the conversion feature on the Oando Plc Loan Facility, it is expected that the Group will have raised $1.25 billion in equity and liability financing and have total borrowings outstanding of $800 million on close of the COP Acquisition.

Although the Group has secured various loans to assist with financing the COP Acquisition and to finance on-going working capital requirements, there can be no assurance that equity or debt financing will continue to 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 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. As described below, 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.

Payments Due by Period

The following table represents a summary of the obligations of the Group as 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[3]	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 course of the commitment life span, 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*

[3]*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.*

Sources of Funding

The following sources of funding are expected to assist the Group in generating sufficient cash and cash equivalents to execute the Group's business plans:

- Cash inflows from sales of production of crude oil from OML 125 and OML 56;
- Cash inflows from sales of production of crude oil from Qua Ibo and the Akepo Marginal Field (also referred to as **"OML90"**). Both fields are currently in the development stage and the Group expects that these fields will commence production during the third quarter of 2014;
- Cash inflows from producing oil properties to be acquired on close of the COP Acquisition;
- Proceeds from a $450 million Senior Secured Facility, $350 million Corporate Loan Facility and the $1.2 Billion Oando Plc Loan Facility will be used to finance the remaining purchase commitment for the COP Acquisition and to fund ongoing operations of the Group. However, of the $1.2 billion Oando Plc Loan Facility, $601 million plus accrued interest of approximately $13.4 million has been drawn down and converted to shares and warrants (432,565,768 Common Shares and 216,282,884 Warrants) as at March 31, 2014, and is no longer available under the $1.2 billion Oando Plc Loan Facility.
- Subject to market conditions and financing being available on terms acceptable to the Group, additional proceeds from additional debt and equity financing will be sought.

6. Capital Resources

The Group's capital resources consist primarily of debt financing, cash inflows from operations and cash and cash equivalents. The Company 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 to safeguard the Group's ability to continue as a going concern and provide returns for shareholders; and to facilitate the acquisition or development of oil and gas projects consistent with the growth strategy of the Group.

As noted in Section 5 *Liquidity*, the Group does not currently have sufficient capital resources to fund planned commitments for the coming year. In order to finance on-going operations and the close of the COP Acquisition, the Group will require additional financing, either in the form of debt or equity. There can be no assurance that equity or debt financing will continue to be available or sufficient to meet the Group commitments, or if equity or debt financing is available, that it will be on terms acceptable to the Group.

BORROWINGS

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

	As at December 31, 2013	**As at December 31, 2012**
Oando Plc Loan - Facility A	362,000	345,000
Oando Plc Loan - Facility B1	24,000	-
Oando Plc Loan - Facility B2	15,000	-
First Bank of Nigeria (Loan #1)	32,944	45,000
First Bank of Nigeria (Loan #2)	70,000	70,000
First Bank of Nigeria (Short term loan)	7,779	-
Diamond Bank Loan	59,152	25,000
Ecobank Nigeria Loan	20,000	20,000
Enterprise Bank	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 Company borrowings are denominated in US dollars. Refer to Note 13 in the Consolidated Financial Statements for details of borrowings existing at December 31, 2013.

Oando Plc Loan

On December 20, 2012, Oando Plc. extended a $345 million loan to the Group to assist in financing the deposit required for the COP Acquisition. Amounts owing under this loan were subsequently refinanced by a new loan arrangement entered into on May 30, 2013 and amended in September, November and December 2013 (the **"2013 Oando Plc. Loan"**). The 2013 Oando Loan documentation provided for three facilities, including Facility A, Facility B1 and Facility B2 (and collectively, the **"2013 Oando Plc. 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 Plc. as part of the $435 million required to be paid as the deposit for the COP Acquisition. The annual interest rate is 5% and interest repayable on maturity. 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 January 31, 2014.
- Facility B1 was a $24 million loan and its purpose is to finance working capital requirements of the Group. The annual interest rate was 5% and interest was repayable on maturity. OER was entitled to elect to repay the 2013 Oando Plc. 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 January 31, 2014.
- Facility B2 was 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 was 5% and interest repayable on maturity. The Company is entitled to elect to repay the Oando Plc. 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 January 31, 2014.

Based on review of the 2013 Oando Plc. Loan Agreement and the impact of the changes on the remaining contractual cash flows, the Group determined that the new 2013 Oando Plc. Loan Agreement, entered into on May 30, 2013 and amended on December 16, 2013 does not substantially modify the terms of the original Oando Plc. 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 2013 Oando Plc. Loan.

The election to repay the 2013 Oando Plc. 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 January 31,, 2014 for all three facilities. The 2013 Oando Plc. Loan Documentation provided that in the event that the election by OER to repay the 2013 Oando Plc. Loan by the issuance of common shares of OER would result in Oando Plc. having an ownership interest in OER that is higher than Oando Plc's current ownership interest of 94.6% (on a non-diluted basis), the number of common shares of the Company to be issued would be reduced so as to ensure that Oando Plc's stake in the Company did not exceed such current ownership interest and the balance, if any, of amounts owing under the 2013 Oando Plc. Loan would 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 2013 Oando Plc. Loan was incorporated into a new facility, the Oando Plc. $1.2 billion Loan Facility. The new facility contained the same conversion feature as disclosed above. On February 26, 2014, the new facility was converted into equity securities of the Company.

Oando Plc $200 Million Loan Facility

On December 24, 2013, the Group signed a new agreement with Oando Plc. for a $200 million facility (the**"$200 million Loan Facility"**).The facility was obtained to fund payments due to ConocoPhillips in relation to the COP Acquisition. Interest on the facility was 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 loan was required to be repaid on February 28, 2013.

On February 10, 2014, the Oando Plc. $200 Million Loan Facility was incorporated into a new facility, the Oando Plc. $1.2 billion Loan Facility. On February 26, 2014, the conversion feature was exercised and the new facility was converted into equity securities of the Company.

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 (**"FBN"**), 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 June 30, 2016. The loan was entered into to support the further development of OMLs 125 &134. On December 12, 2013, the Group signed an agreement with FBN, 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.

First Bank of Nigeria (Loan #2)

On December 17, 2012, the Group entered into a $70 million loan agreement with FBN to fund part of the initial $435 million required as deposit for the COP Acquisition. The annual interest rate is 10.5% and the principal amount is repayable after 180 days from December 17, 2013 or of the date of closing of the COP Acquisition, whichever is earlier.

On January 17, 2014, the Corporation obtained a letter of commitment from FBN for $109 million of the $350 million Corporate Facility. As part of the agreements establishing the Corporate Facility, FBN Loan #2 was converted into a 60 month loan, due January 30, 2018, with a 6 month moratorium on principal repayments.

First Bank of Nigeria (Short term loan)

On October 7, 2013, the Group signed an offer letter obtained from FBN 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.

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 COP Acquisition. The interest rate is 90 day LIBOR plus 11% per annum and was originally repayable 180 days from the signing date of December 17, 2012. That date of repayment has been extended twice. First, on December 10, 2013 the loan was extended to March 12, 2014 and then maturity date was extended to June 12, 2014 on March 10, 2014.

Diamond Bank Medium Term Facilities Agreement

Following the OQI Acquisition, the Group granted a charge over the shares in OQL, in connection with a loan from Diamond Bank (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. 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. The facility was entered into on January 22, 2013. Facility B's first utilization date was January 25, 2013. Repayments will commence six months after Facility B's first utilization date and the final repayment date is 5 years after Facility B'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. On January 17, 2014, the Group drew an additional $6 million on this facility.

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 existing operations. The loan is secured by a charge on crude oil proceeds from the Akepo field, an irrevocable domiciliation of the proceeds of sales of crude oil from the Akepo field and the corporate guarantee of the Company. The interest rate is 10% per annum and the loan is repayable at the earlier of 180 days from August 27, 2013 or the drawdown date for the corporate 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 and is due for repayment May 27, 2014.

Financing Activities

The Group's capital resources consist primarily of debt financing. On February 26, 2014, the Group elected to convert $601 million in borrowings owed to Oando Plc into shares and warrants. The following table reconciles borrowings outstanding as at December 31, 2013 to borrowings outstanding as at the date of this MD&A:

Borrowings, current	496,099
Borrowings, non-current	124,776
Total Borrowings, December 31, 2013	**620,872**
Proceeds from borrowings – Oando Plc $200 million Loan Facility	200,000
Repayment of borrowings – First Bank of Nigeria Short Term Loan	(7,800)
Settlement of borrowings – Conversion under the Oando Plc $1.2 billion Facility	(601,000)
Total Borrowings, March 31, 2014	**212,072**

COP Acquisition

The estimated purchase price under the COP Acquisition, net of the $500 million deposit, transaction costs of $74 million and estimated adjustments of $270 million, is $1.14 billion as shown in the table below.

	$'000
Purchase Price	1,650,000
Working Capital Adjustments	190,000
Transaction Costs	74,000
Less	
Net Purchase Price Adjustments	(270,000)
December 2012 Acquisition Deposit	(435,000)
December 2013 Acquisition Deposit	(15,000)
February 2014 Acquisition Deposit	(50,000)
Outstanding Purchase Price	**1,144,000**

Assuming that the transaction closes prior to the current outside date of April 30, 2014, the $1.14 billion purchase commitment is expected to be financed as follows:

Proceeds from share issuance - $50 Private Placement	(a)	50,000
Proceeds from debt financing – $450 Million Senior Secured Facility	(b)	450,000
Proceeds from debt financing – $350 Million Corporate Loan Facility	(c)	132,000
Proceeds from debt financing – $1.2 Billion Oando Plc Loan Facility	(d)	512,000
		1,144,000

(a) The Group completed a private placement of 35,070,063 common shares of the Group and 17,535,031 common share purchase warrants (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. The private placement generated gross proceeds of $50 million. The private placement closed on February 26, 2014 and the funds will be used to finance a portion of the purchase commitment in relation to the COP Acquisition.

The Group entered into a $450 million Senior Secured Facility agreement on January 31, 2014. The purpose of the facility is to finance the purchase price of the COP Acquisition. The agreement consists of two facilities – Facility A and Facility B. This agreement expired as at March 31, 2014 and the Group is in the process of seeking an extension to the availability period of the facility, and 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.

- 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 drawn down until the earlier

of (i) two days before the COP acquisition closes or (ii) May 3, 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 Group will be subject to financial covenants as follows:

- Interest coverage ratio is equal or greater than 4.0:1;
- Leverage ratio is equal to or less than 3.0:1; and
- Current ratio as at each reporting date is equal to or greater than 1.1:1.

(b) $132 million borrowed under a corporate loan facility (the "**Corporate Loan Facility**") established by a consortium of lenders on January 17, 2014 as amended on January 31, 2014. The total amount of the loan will be $350 million, which will be applied to fund the repayment of approximately $218 million outstanding under existing loans of the Group and $132 million 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 until January 31, 2015. The loan will be repaid quarterly using the proceeds of sales of the Group's share of crude oil from its various operations.

(c) On February 10, 2014, the Group signed an agreement with Oando Plc for the Oando Plc $1.2 Billion Loan Facility. This facility, incorporates $401 million owed by the Group as at December 31, 2013 and the Oando Plc $200 Million Loan Facility which was drawn down in February 2014 (together, Tranche A), as well as an additional $599 million (Tranche B), all to fund the purchase price for the COP Acquisition and ongoing working capital requirements of the existing business. The Group was entitled to elect to repay the Facility by the issuance of shares of OER, subject to certain conditions. On February 26, 2014, the conversion feature was exercised and approximately $601 million principal plus accrued interest of approximately $13 million was converted into shares of the Company. All amounts due under the Oando Plc $1.2 billion loan facility are due for repayment on December 31, 2015. Interest on the loan will be charged at 4% per annum.

The Group plans to use $599 million of Tranche B and a private equity investment of $50 million to fund the remaining purchase commitment of the COP acquisition. In addition, the Group will be required to deposit approximately $40 million into Debt Service Reserve Accounts ("**DSRA**") to satisfy obligations under the $350 million Corporate Loan Facility and $450 million Senior Secured Facility. Once these obligations are satisfied, the Group will have a remaining $97 million available from the facility to fund on-going operations of the Group.

Commitments and Capital Expenditures

In December 2013, the Group entered into negotiations with its partners with respect to capital expenditure budgets for the year ended December 31, 2014 and beyond. 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. The Group's share of budgeted expenditure is funded by the Group through cash calls paid to the operator. The Group is required to make these payments in order to ensure that the Group's interest in these fields remains in good standing. The Group plans to finance these expenditures through the use of debt or equity financing, as discussed above.

Historically, the Group has experienced significant variability in the actual costs incurred and timing of expenditure, as compared to initial estimated budgeted amounts and timing. This section of the capital resources discussion contains

forward-looking information. Refer to *Advisory – Forward-Looking Information* section of this MD&A for material risks and assumptions underlying this forward-looking information.

OML 125 – Abo Field

Background

The Group owns a 15% participatory interest in Abo Field (**"OML's 125 and 134"**), which it acquired in 2008 from NAE. The blocks are operated by NAE and are located in Nigeria's deep offshore segment with acreage sizes of 1,983 km^2 (OML 125) and 1,132 km^2 (OML 134) respectively. Water depths for OMLs 125 and 134 range from 550m to 1,100m.

Production from the Abo field within OML 125 averaged 3,321 bbl/d light oil (net WI) in 2013 as against 3,473bbl/d, representing an 11% decline compared to the previous year. The Group's total production attributable for its interest was 1.21 mmbbls. The Abo field produces through a floating production, storage and offloading (**"FPSO"**) vessel with oil capacity of 40,000 bbls/d, gas production capacity of 114 MMscf/d and a water production capacity of 9 Mbbls/d. The FPSO also has capacity to re-inject up to 30 Mbbls/d of water and 12 MMscf/d of gas and a total storage capacity of 993,000 bbls.

Capital Projects

In the first quarter of 2013, NAE and the Group completed the work-over of Abo-9 well that was started in 2012. Abo-9 is a gas injection well that will provide pressure support for the Anom01 and Anom02 producing reservoirs. Gas injection was successfully restored in the first quarter of 2014, after resolving issues with one of the gas compressors on the FPSO.

The Abo Phase 3 development commenced in January 2013 with the side track of Abo-4 well. Abo-4 was drilled and completed in the second quarter of 2013 on the B207 reservoir. Abo 4ST was producing light oil at a rate of 1,380 bbls/d (gross, WI) on December 31, 2013.

In June 2013, an up-dip side track of Abo-3 on B200 reservoir was completed, which only flowed for 72 hours (approximately) during testing before production ceased. Production ceased due to a sand blockage in the flow line to the Abo FPSO. The Group expects production to re-commence from Abo3-ST in the second quarter of 2014 on clearance of the sand blockage in the flow line.

Finally, the Abo-8 well was re-entered in December 2013 and completed as an oil producer on the Anom01 and Anom02 reservoirs in the first quarter of 2014. Production has not commenced from Abo-8 as the required flow line is a long lead item, delivery of which is expected to be in the third quarter of 2014.

Budgeted Capital Expenditure

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. The following expenditures are budgeted for 2014 and beyond:

- As noted above, additional capital expenditure is required prior to commencing production from Abo 8. As such, budgeted expenditure of $5.1 million has been agreed to fund the purchase of the flow line. This expenditure was initially expected to be incurred in 2013. However, due to long lead times, this expenditure has been delayed and is now expected to be completed by the third quarter of 2014.

- The capital expenditure budget includes $7.5 million to be spent on the initial drilling of Abo 12. Abo 12 is a

development well with an exploration tail. The well is expected to be drilled during the second quarter of 2014. The well is planned to further drain the Anom02 reservoir and explore the shallow A197 reservoir and the deeper Anom3 reservoir.

- The capital expenditure budget also includes an additional $19 million to fund the completion of both the Abo 8 and Abo 12 wells and $5.9 million to extend the life of the existing FPSO unit. Both capital projects are expected to be completed by the end of 2014.

- Until the re-processed seismic data for OML 125 has been reviewed by NAE, and prospectively re-assessed, there are no further plans to drill exploration wells on any of the other prospects in OML 125.

OML 134

Background

The Group owns a 15% participatory interest in OML 134, which it acquired in 2008 from NAE. The block is in the exploration phase and is operated by NAE. The block is located in Nigeria's deep offshore segment with acreage sizes of 1,132 km^2 respectively. Water depths for OML 134 range from 550m to 1,100m.

Capital Projects

The Group acquired seismic data in 2010 and processing of this data was completed in the fourth quarter of 2012. Based on results of the seismic interpretation an exploration well was drilled into the Minidiogboro prospect in the fourth quarter of 2013. A number of shallow (H245, H310, H350, H355) and intermediate (H520, H522, H524) sands were targeted by the drilling, with an average probability of success of 26%. Four of the target sands in the shallow zone were found to be gas-bearing while two were found to be water-bearing. In the intermediate zone, only one water-bearing sand was penetrated before the well had to be suspended due to increasing pressures. The well has been suspended as a gas discovery, whilst the field undergoes further appraisal. The capital expenditure incurred in drilling the well was $7.8 million.

Budgeted Capital Expenditure

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. The following expenditures are budgeted for 2014 and beyond:

- Based on results from the drilling of the exploration well into the Minidiogboro prospect, the Group plans to continue exploration and evaluation activities throughout the course of 2014. Budgeted expenditure associated with the project is estimated to be $7.4 million.

OML 56 - Ebendo Marginal Field

Background

The Group holds a 45% working interest in the Ebendo field area with acreage size of 65 km^2 carved out from OML 56. The field was awarded by the Federal Government of Nigeria during the marginal field allocation round in 2003. The asset is operated by Energia Ltd.

Production (gross, WI) from the Ebendo Field in 2013 averaged at 679 bbl/d, representing a 54% increase in production over 2012 due to additional well capacity and the optimisation of crude storage and injection.

As at December 31, 2013, there were four production wells on the Ebendo Field. Three wells were active producers in 2013. OER's total production attributable to its working interest for 2013, net of crude oil losses was 247,886 bbls.

Capital Projects

Ebendo oil production is currently evacuated to a third party gathering facility at Umusadege and then, via the Kwale-Akri pipeline, to the NAOC JV crude oil transportation infrastructure for export at the Brass River Terminal. The asset experienced notable downtime in 2013 and 2012 due to incidents of sabotage and crude oil theft on the export pipeline. In 2013, NAOC allocated crude oil losses of 25% to the production from the Ebendo Field (2012 – 17%).

In addition to losses experienced due to crude oil theft and sabotage, the current evacuation route through the 7,000 bbls/d Kwale-Akri pipeline is subject to capacity restrictions on the volumes of oil that can be transported. In an effort to increase pipeline capacity, evacuation options and to reduce losses from theft and sabotage, the Group is involved in the construction of an alternative 45,000 bbls/d, 51km pipeline. The Umugini pipeline will provide an alternative evacuation route through the Trans Forcados export pipeline. The Trans Forcados export pipeline will deliver crude oil to the Forcados export terminal operated by Shell. To date the Group has contributed $3.72 million for its share of costs. Construction was suspended at the start of the third quarter of 2013 due to rising water levels in the seasonally flooded areas of the terrain over which the pipeline is being constructed. The pipeline is now expected to be completed in the fourth quarter of 2014. It is expected that capital expenditures of $4.33 million will be required from the Group to complete the pipeline. Negotiations regarding the crude handling agreement with the pipeline and export terminal operators are ongoing.

In addition to the pipeline construction, the Group spent $19.1 million on completing wells Ebendo 5 and Ebendo 6 on OML 56. The well discovered two shallow reservoirs (XIIa and XIII sands) and encountered five hydrocarbon bearing reservoirs (XV, XVI, XVII, XVIIIa and XVIIIb). The Ebendo 6 well was perforated on levels XV and XVI respectively, completed as a dual string on both sands. Both wells have been suspended pending the completion of the Umugini pipeline.

Budgeted Capital Expenditure

The capital expenditure budget of $22.73 million represents the estimated level of required funding to support the planned growth, development and maintenance of the oil and gas field. The following expenditures are budgeted for 2014 and beyond:

- The capital expenditure budget includes additional costs of $4.33 million associated with the construction of the Umugini Pipeline. The pipeline is expected to be completed in the fourth quarter of 2014.

- The capital expenditure budget also includes $8.7 million for drilling of Ebendo 7, which is expected to occur during the second quarter of 2014. In addition, $9.7 million is to be spent throughout the course of 2014 on other capital construction commitments on various completion works and maintenance.

Akepo Field (OML 90)

Background

The Group holds a 40% working interest in the Akepo field ("**OML 90")**. Sogenal is currently the operator of the field and OER is the technical partner. The Akepo field is located in shallow water in the Niger Delta, on an area of 26 km^2 carved out of OML 90. The original discovery wells on the Akepo field (Akepo 1 and 1st) were drilled in 1993 by Chevron. The Akepo 1 ST well was later successfully re-entered and completed in December, 2009.

Capital Projects

The Group, with its partner, successfully re-entered and tested the suspended Akepo-1 ST well. Drill stem tests proved flowing hydrocarbons in all the three targeted reservoirs. The Akepo-1 ST was completed as a two-string multiple on two of the three zones, with the third zone selective on the long string. Following the completion, the Akepo-1 ST was successfully flow tested on D6 sand. The well is now suspended, awaiting completion of field development.

The Group, with the operator, had originally commenced negotiations with the Nigerian Agip Oil Company ("**Agip**") to evacuate the oil to Agip's Benigboye facility through a 5km onshore and 10km offshore pipeline that was required to be newly constructed. As a result of unforeseen issues with the contractor selected to construct the pipeline (insolvency of contractor), the Group revised its field development plan to include the use of barges to transport crude oil production to the Chevron export terminal at Escravos rather than through the pipeline to the Agip Beneboye facility.

Budgeted Capital Expenditure

The capital expenditure budget of $2.0 million represents the estimated level of required funding to support the planned growth, development and maintenance of the oil and gas field. The following expenditures are budgeted for 2014 and beyond:

- The capital expenditure budget includes $2.0 million to develop an evacuation route for crude production from OML 90. As mentioned above, the evacuation plan includes the use of barges to transport crude oil production to the Escravos facility. It is expected that these costs will be incurred by the third quarter of 2014.

OML 13 - Qua Ibo Field

Background

The Group owns a 40% participating interest in the Qua Ibo Field (**"OML 13"**). The license covers an area of 14 km^2, carved out from OML 13. The transfer of the Group's interest remains subject to third party and Nigerian governmental consent. Approval of the Nigerian Department of Petroleum Resources was obtained in October 2012 and the Group awaits approval from the Nigerian Minister of Petroleum Resources. The field is operated by Network Exploration and Production Nigeria Limited ("**NEPN**").

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 Field. If the economic interests are for any reason unenforceable, then the Group is entitled to be reimbursed by NEPN in respect of all the disbursements, costs and contributions made by the Group in respect of the development and operation of the Qua Ibo Field. Separately, pursuant to the terms of a farm-in agreement, the Group has the option and right to acquire up to a 40% interest in the share capital of NEPN at an aggregate subscription price of $1 which, so long as the economic interests are valid and effective, bear no economic rights or obligations and shall, if the economic interests become invalid and ineffective, entitle the Group to 40% of the economic rights and benefits in all distributions of NEPN.

Capital Projects

There are two main reservoirs targeted for development, namely D5 and C4. D5 reservoir contains light oil while C4 reservoir contains heavy oil. A successful production test was conducted on D5 reservoir. A drill stem test was attempted on C4 but the well was unable to flow because the screens plugged-up with sand during the well-test. The well was subsequently completed with sand exclusion screens and an electrical submersible pump, the latter is an artificial lift device that will enhance production of the heavy crude.

Qua Ibo Marginal Field development phase 1 started with a drilling campaign in September 2012 and two (2) wells have been successfully drilled and completed; namely Qua Ibo-4 & Qua Ibo-3 ST1. Oil production from D5 reservoir is expected to commence in the third quarter of 2014 after the commissioning of the OER/NEPN crude processing facility which is currently under construction and should be finalized in the second quarter of 2014. Production from the C4 reservoir is expected to commence in the first quarter of 2015.

Budgeted Capital Expenditure

The capital expenditure budget of $40.6 million represents the estimated level of required funding to support the planned growth, development and maintenance of the oil and gas field. The following expenditures are budgeted for 2014 and beyond:

- $23.4 million expected to be spent in the second quarter of 2014 drilling and completions works on Qua Ibo 5; and

- $17.2 million to be spent on construction of the OER/NEPN crude processing facility, which is expected to be completed in the second quarter of 2014.

Blocks 5 & 12, EEZ of São Tomé & Príncipe

In February 2010, in accordance with agreements signed in 2001 and 2003, the government of São Tomé & Príncipe awarded the Group Blocks 5 and 12, located within the Country's large Exclusive Economic Zone ('EEZ'). For Block 5, negotiations of satisfactory Production Sharing Contracts ('PSCs') with the government were completed during 2011 and the agreements were signed on April 18th 2012. Negotiations for Block 12 are on-going.

During 2011, existing 2D seismic surveys were used to complete the evaluation of the blocks and identify a number of prospects. In order to manage the exposure to the risks of high cost exploration in a frontier province in ultra-deep water, the Group is considering farm outs. A number of world class oil companies have visited the data room in order to assess the opportunity, though there have been no firm commitments from any of them to farm into the block.

The Company owns an 81.5% interest in Equator Exploration Limited. As at December 31, 2013, the Group had a total commitment of $5.2 million related to the provision of a performance guarantee and commitment to a four year work programme of 2D and 3D seismic acquisition and studies. If justified by the results of the seismic surveys, the Group can elect (for an additional cost to be determined) to drill the first exploration well in the following period of two years. The Group committed to a performance bond of $5.2 million, during the first quarter of 2014.

A summary table of budgeted capital expenditures is included below:

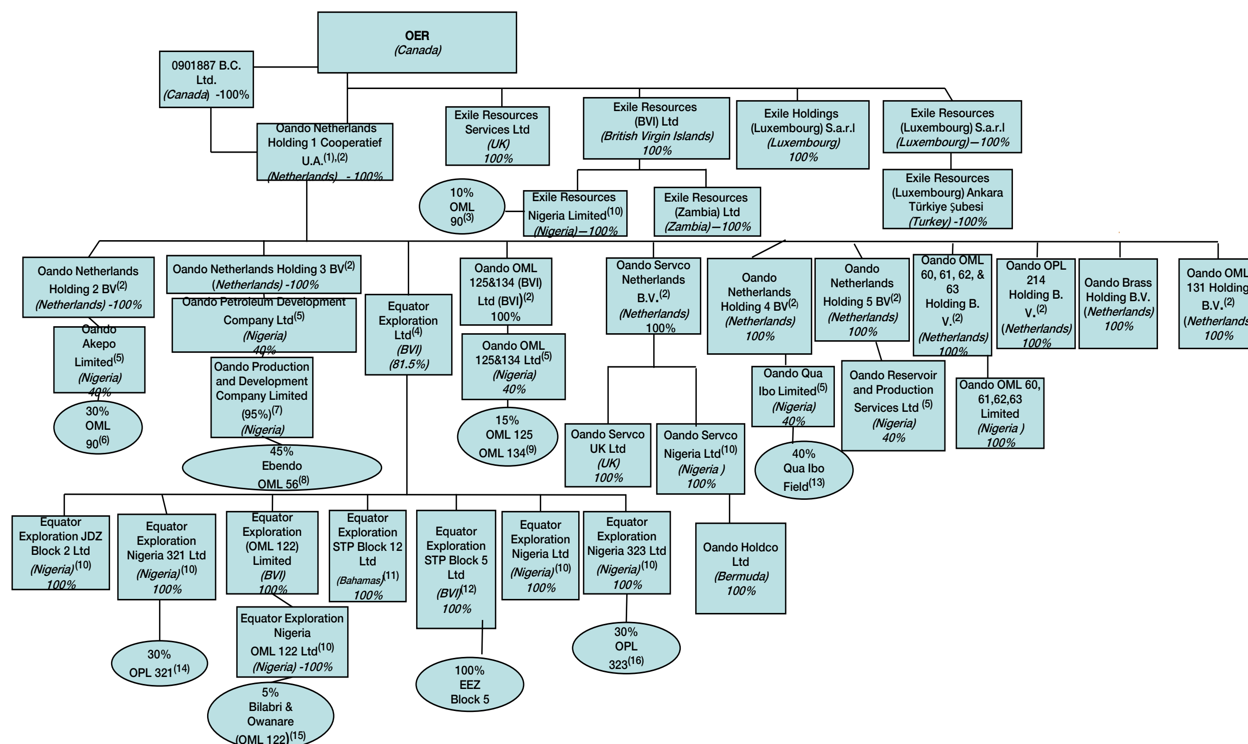
OML 56 (Ebendo)	22,730
OML90 (Akepo)	2,000
OML13 (Qua Ibo)	40,600
OML125 (Abo)	37,500
OML134 (Oberan)	7,400
EEL (Block 5)	5,200
Budgeted Capital Expenditure	**115,430**

Purchase Commitments

As at December 31, 2013, the Group had contracted to receive goods and services of an aggregate amount of $15.8 million which had not been delivered as at such date.

7. Related Party Transactions

The majority shareholder of the Group is Oando Plc, incorporated in Nigeria. There are other companies that are related to Oando Plc through common shareholdings or common directorships. The operations of the Group have historically been financed by Oando Plc and recognized as intercompany transactions.



Prior to the Restructuring, the Oando Plc 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 Plc E&P Division was charged these services through intercompany billings. For the year ended December 31, 2013, the Group incurred nil in expenses as a result of these intercompany transactions (2012 - $3.4 million).

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

Shareholder Agreements

Shareholder Agreements dated July 24, 2012, between Oando Plc, Holdco 1 and Holdco 2 in respect of Oando Akepo Limited (**"Oando Akepo"**); Oando Plc and Holdco 3 in respect of Oando Petroleum Development Company Limited ("**OPDC2**"), (which owns 95% of the shares of OPDC); and Oando Plc and OML 125 and OML 134 Limited (Oando 125 and 134") and OML 125&134 BVI in respect of Oando OML 125&134, as well as shareholder agreements dated April 30, 2013 between Oando Plc and Holdco 4 and Holdco 5 in respect of OQL and ORPSL, respectively. Oando Plc 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, OQL and ORPSLL (the **"Operating Associates"**), respectively. Ownership of the Class A shares by Oando Plc 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 Plc 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 Plc and the respective Holdco Associate is entitled to appoint two directors to the board of Oando Akepo, OPDC2, Oando OML 125&134, OQL and ORPSL respectively, with the Holdco Associate being entitled to appoint the Chairman, who has a casting vote in the event of deadlock. In the event of a conflict between a Holdco Associate – nominated director in respect of a matter to be approved by the respective company as a result of such director being a director or otherwise connected with Oando Plc, an independent director of OER is deemed to be appointed as an alternate director. In addition, the applicable Holdco Associate has the power to compel Oando Plc to sell its Class A shares for nominal consideration. No amounts have been paid or are due to be paid by either party to the other under the shareholder agreements. The business purpose of the shareholder agreements is to allow OER to be a public company without the need to impose residency restrictions on its shareholders in order to be considered an indigenous company and thereby enjoy preferential status under Nigerian laws.

Transfer of the Class A shares by Oando Plc is subject to: (i) pledges of the Class A shares which Oando Plc has granted in favour of certain of its lenders; (ii) the approval of the Nigerian Securities Exchange Commission (the "**NSEC**") which is required for changes of control of companies (subject to certain exemptions); and (iii) the consent of the Nigerian Minister of Petroleum which is required for changes of control of companies which have interests in OMLs or OPLs.

Right of First Offer Agreement

Right of First Offer Agreement ("**ROFO Agreement**") dated September 27, 2011, as amended, between Oando Plc and the Group. Pursuant to the ROFO Agreement, the Group has the right to make an offer to Oando Plc in respect of certain assets owned by Oando Plc 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 of the Audited Consolidated Annual Financial Statements regarding the acquisition of the Qua Ibo Marginal Field. On September 27, 2013, the ROFO agreement between OER and Oando Plc was amended. The amendment terminates the ROFO agreement on the first date on which Oando Plc no longer holds, directly or indirectly, at least 20% of the issued and outstanding common shares of OER. The Group has $9.3 million due to Oando Plc under this agreement for the OQL and ORPSL acquisition (2012: nil)

Referral and Non-Competition Agreement

(i) Referral and Non-Competition Agreement dated July 24, 2012 between Oando Plc and the Group. Pursuant to this agreement, Oando Plc 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 Plc owns less than 20% of the shares of the Group. Oando Plc 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 Plc acquires any upstream assets between September 27, 2011 and July 24, 2012, Oando Plc was required to offer to sell these assets to the Group at a purchase price consisting of the amount paid by Oando Plc for the assets, together with all expenses incurred by Oando Plc 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 Plc under this agreement in respect of the COP acquisition (2012: $7.6 million).

Cooperation and Services Agreement

Cooperation and Services Agreement dated July 24, 2012 between Oando Plc and the Group. Pursuant to this agreement, Oando Plc agreed, until the later of July 24, 2017 and such time as Oando Plc 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 Plc plus a margin of 10%. The independent directors of the Group are entitled to approve all such cost allocations. For the year ended December 31, 2013, the Group was charged $6.8 million.

Transitional Services Agreement

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 of Oando Plc for services rendered during the year ended December 31, 2013.

Related Party Details

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

Accounts receivable

	As at December 31, 2013	As at December 31, 2012
Account Receivable from Oando Plc	18,582	-
	18,582	-

Accounts payable

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

(a) Payable to Oando Plc (Equator loan)

This balance represents a loan amount of $9.9 million owed to Oando Plc 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 Plc for COP acquisition

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

(c) Payable to Oando Plc for QI and ORPSL acquisition

The acquisition of OQL and ORPSL required the Group to pay Oando Plc the sum of $9.2 million in cash consideration. As such, the Group has recorded a liability payable to Oando Plc for the amount. The consideration was determined in accordance with the Sale and Purchase Agreement for the Class B share of OQL 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 COP to terminate the purchase of Phillips. The deposit of $35 million, previously paid to COP for the acquisition of Phillips, was applied against the purchase price of POCNL Subsequent to this, Oando Plc has entered into an agreement to purchase Phillips from COP. On February 28, 2014, Oando Plc has terminated its agreement to purchase Phillips from COP

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).

8. Outstanding Share Data

As at December 31, 2013, the Company had outstanding: (i) 106,053,620 common shares; (ii) options exercisable to acquire up to 7,810,000 common shares of OER, (ii) 5,714,276 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $2.00 per share until July 24, 2014; and (iii) 2,000,000 restricted share units outstanding, each entitling the holder to acquire one common share of OER at no additional cost. In addition, as at December 31, 2014 the aggregate principal and interest amount outstanding under the 2013 Oando Plc Loan was $430.2 million. The 2013 Oando Plc Loan was convertible into common shares.

As at the date of this MD&A the Company had outstanding: (i) 573,705,160 common shares; (ii) options exercisable to acquire up to 7,761,666 common shares of OER, (ii) 5,714,276 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $2.00 per share until July 24, 2014; (iii) 2,000,000 restricted share units outstanding, each entitling the holder to acquire one common share of OER at no additional cost; and (iv) 233,817,915 warrants exercisable at a price of C$2.00 per common share a period of 24 months from the date of the closing of the COP Acquisition. The aggregate principal and interest amount outstanding under the Oando Plc $1.2 billion Loan Facility of approximately $1 million and fees in the amount of $48 million may be capitalized in the future and thereafter converted. The Oando Plc $1.2 billion Loan Facility is convertible into common shares.

9. Internal Controls over Financial Reporting and Disclosure Controls

In accordance with applicable securities laws, the Company must establish and maintain disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). DC&P are intended to provide reasonable assurance that material information required to be disclosed by the Company under securities legislation, particularly during the period in which the filings are being prepared, is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's ICFR includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect the additions to and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements. Management of OER is responsible for establishing and maintaining adequate internal controls over financial reporting. Management has designed and maintains a system of internal control over financial reporting, including a program of internal audits to evaluate the effectiveness of Internal Control over Financial Reporting and DC&P. Any system of ICFR, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Internal control over financial reporting may not prevent or detect all misstatements.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the disclosure controls and procedures for the year to December 31, 2013 and concluded that the design and operations of these controls were not effective as at December 31, 2013. The material weaknesses and actions taken to date to remediate those weaknesses are discussed below:

- Disclosure relating to the Company's liquidity, capital commitments and work program expenditures were not described in the Company's interim MD&A to the level of detail as prescribed by Canadian securities laws. Lack of expertise regarding financial reporting disclosure may impact the understandability of the Company's financial disclosure and adversely impact the ability of a reader to understand, from management's perspective, the Company performance during the relevant period and its financial condition and future prospects. Beginning in February 2014, the Company has implemented a training program to assist existing employees in meeting

these disclosure requirements in the future. The Company is in the process of hiring employees and consultants who have the appropriate level of experience, including experience in Canadian financial reporting and continuous disclosure matters, to mitigate these issues. The Company is also forming a multi-disciplinary team of employees and consultants who will be involved with the preparation of the Company's annual disclosure documents and be responsible for the fulsome disclosure of relevant financial, legal and operational information.

- Certain governance policies exist to ensure the Company press releases are reviewed by the Company's Corporate Governance Committee. However, these policies were not effectively communicated to ensure that all employees understood them and certain press releases, not relating to the Company's financial results, were issued without review by the Corporate Governance Committee. While none of these press releases contained any misrepresentation, the failure to comply fully with these policies could lead to material information not being properly disclosed. The Company is undertaking a review of its disclosure policies and will provide an education program to ensure that its disclosure policies are followed in the future.

None of the DC&P deficiencies identified as of December 31, 2013 resulted in any material misrepresentation.

Internal Control over Financial Reporting ('ICFR')

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal controls over financial reporting based on the framework in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO – 1992 Framework) and in compliance with the companion policy to the National Instrument 52-109.

Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer, concluded that the design and operating effectiveness of internal control over financial reporting as at December 31, 2013 was not effective. The material weaknesses and actions taken to date to remediate those weaknesses are discussed below:

- The control assessment for 2013 revealed that the procedures for consolidating the financial statements was still not effective, due to the extent of manual intervention and reporting that is done outside of the Company's ERP accounting system . The amount of manual intervention and reporting may result in inaccurate and untimely reporting of financial information. In addition, a lack of expertise regarding complex financial reporting requirements may compound the risks associated with manual intervention and potentially affect the reliability of the Company's financial reporting. In January 2014, the Company began to implement an updated version of the Company's ERP accounting system, which is expected to reduce the level of manual intervention required to prepare consolidated financial statements. It is expected that this will be implemented during the fourth quarter of 2014. Pending implementation of this updated system, this weakness is mitigated by the fact that the Company has hired employees and consultants with relevant experience and management relies heavily on manual procedures and detection controls, and quarterly reviews of financial statements by management and by the Audit Committee.

Efforts to remediate the material weakness reported in Q4 2012 are:

- We have remediated all the material weaknesses that were identified in our 2012 MD&A, except for the implementation of a consolidation module for preparation of our financial statements stated above.

- Management has embedded all IFRS adjustments that relate to companies which are consolidated into Company's financial reporting system. Therefore, all reports relating to all such companies produced from the Company's financial reporting system are in IFRS format, thereby eliminating the requirement for manual adjustments to make the numbers IFRS-compliant.

- Commencing in February 2014, OER began to hire additional staff with significant and relevant experience with Canadian financial reporting and continuous disclosure obligations to ensure all future filings of the Group meet regulatory requirements and corporate policies.

None of the ICFR deficiencies identified as of December 31, 2012 or 2013 resulted in any restatement of the Company's financial statements.

To mitigate the risks, the CEO and CFO oversee all material transactions. In addition, the Audit Committee of the Board of Directors reviews on a quarterly basis the financial statements and key risks of the Corporation and queries management about significant transactions, and senior management perform daily oversight over the accounting records of the organization.

10. Contingencies

Crude oil under lift receivable (OML 125)

Under lift receivables represent the Group's crude oil entitlements as a result of operations on OML 125. These balances are owed by the 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 lifting done by the NNPC in 2008 and 2009 and which, in the view of the Group and 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 favour 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 completion of the Restructuring, 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 Plc 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 Plc unless it collects the equivalent amounts from the original under lift receivable. Refer to note 30 in the Consolidated Financial Statements.

Since the completion of the Restructuring 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. Due to the uncertainty around collection of the receivables the Group in Q4 2013, has deferred revenue recognition in relation to approximately $14.5 million of the oil production from this field. The Group recognises revenue when lifting occurs and collectability of the economic benefits is assured. The Group has assessed the underlift receivable for impairment at December 31, 2013, but based on the current status of litigation and findings in favor of the Group, management continues to believe that the underlift receivable is collectible.

On February 25, 2014, the Nigerian Court of appeal delivered judgement in favour of NAE and Oando Plc vacating the injunction granted by the Federal High Court. In light of this development, the Claimants are now able to continue with arbitration process towards final award, although NNPC has the right to appeal this decision even though they have not done so as at the date of this MD&A.

OML 131 Acquisition

On February 10, 2014, the Group announced its intention to acquire a 5% interest in OML 131 held by Medal Oil Limited for a purchase price of $5 million. The proposed 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.

Bilabri & Owanare (OML 122)

The Group owns a 10.2% interest in gas and 4.1% interest in oil from OML 122. The operator of the field, Peak Petroleum Industries (Nigeria) Limited ("**Peak**") owns the remaining interest. OML 122 is located in the offshore Niger Delta, 40 km from the coastline of southern Nigeria, at a water depth of between 40 m and 300 m and covers an area of 1,599 km2 (395,122 acres). The License contains two discoveries (Bilabri and Orobiri) and one prospect (Owanare).The License is currently subject to a dispute between Peak and the Group.

There has been no production from OML 122 to date. In the event that control of the asset is regained, the Group expects to resume activities on the Field Development Plan for the Bilabri Oil Field. This calls for the chartering of a FPSO system and the completion of three sub-sea wells, two with horizontal completions.

OML 122

In September 2007, the Group transferred, under the Bilabri Settlement Agreement, the full responsibility for completing the development of OML 122 "Bilabri" to Peak , which 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 project's 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 not recorded a liability for this amount as there is only a remote possibility of Peak failing to meet their obligations to the project's creditors.

OPL 321 and OPL 323

Equator Exploration Limited holds a 30% participating interest in each of deep water blocks, OPL 321 and OPL 323, awarded in the Nigerian 2005 licensing round.

During 2011, the Federal Government of Nigeria continued to appeal a high court judgment in favour of the operator, the Korean National Oil Corporation ("**KNOC**"). The judgment, granted in August 2009, had ruled that the government had acted unlawfully in January 2009 when it voided the allocations of OPL 321 and OPL 323 to KNOC (but not to Equator), nearly three years after the PSC's had been executed.

Despite requesting and receiving a refund of its share of the signature bonuses of $161.7 million in September 2009, the Group vigorously maintains its interests in the two blocks. In 2011, the Group campaigned for a settlement among the government and industry stakeholders. These efforts continue with the aim of achieving a resumption of exploration activities on these highly prospective blocks. A high quality 3D seismic survey has already been used to evaluate and identify a number of large prospects and to select the well locations.

In January 2009, the Nigerian government voided the allocation of OPL 323 and OPL 321 to the operator, KNOC, and re-allocated the blocks in favour of the ONGC consortium (which includes the Group and Owel Petroleum Services (Nigeria). KNOC brought a lawsuit against the government and a judgment was given in its favour. 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 with respect to

the amount to be paid upon settlement. In addition, there is no legal obligation to pay the signature bonus; 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 bid as part of a consortium for OPL 321 and 323. The Group was granted a 30% interest in the production sharing contracts, but two of its bidding partners were not included as direct participants in the production sharing contracts. In recognition of the bidding partners' contribution to the bidding group, the Group granted them 3% and 1%, respectively, carried economic interests in the OPLs. 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, respectively. The warrants were issued immediately, but it was agreed that the cash payments would be deferred. In the first instance, payment is to be made within five days of 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 production sharing contracts.

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 Group has not recorded a liability for this amount as there is only a remote possibility of settlement. The above contingencies are based on the best estimates of the Board.

11. Revised Comparative Financial Information

Revision of December 31, 2012 comparatives – Acquisition of Oando Qua Ibo Limited (OQL) and Oando Reservoir and Production Limited (ORPSLL)

The Qua Ibo Acquisition was accounted for as a common control transaction. OQL and ORPSLL were subsidiaries of Oando Plc for the year ended December 31, 2012. As a result of the share purchase agreements dated March 27, 2013, as amended and which closed on April 30, 2013, the Class B shares of OQL and ORPLS were transferred to OER at a purchase price as described in the share purchase agreements, which included calculating the commercially reasonable expenses incurred by Oando Plc to April 30, 2013 in respect of OQL and ORPSLL, plus cash in OQL and ORPLS, less certain payables, plus an administrative fee of 1.75%. In line with IFRS, the Qua Ibo Acquisition has been accounted for using predecessor accounting. The application predecessor accounting resulted in the incorporation of OQL and ORPSLL results as if they had always been combined in the consolidated financial statements of the Group. No adjustment was required to the balance sheet at January 1, 2012, as both acquired entities were incorporated subsequent to January 1, 2012.

The comparatives include the historical numbers of OQL and ORPSLL. Below are a summary statement of financial position as at December 31, 2012 and the income statement for the year ended December 31, 2012:

Revised 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**
		OQL	**ORPSLL**	
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	(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

Revised Consolidated Statement of Financial Position as at December 31, 2012

	Previously reported **As at December 31, 2012**	Adjustment for common control		Intercompany elimination	Adjusted **As at December 31, 2012**
		OQL Ibo	**ORPSL**		
Current assets					
Cash and cash equivalents	2,915	1,736	47	-	4,698
Trade and other receivables	17,891	21,412	26,571	(34,119)	31,755
Inventory	1,011	4	-	-	1,015
Derivative financial instruments	150	-	-	-	150
	21,967	**23,151**	**26,618**	**(34,119)**	**37,618**
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	-	22,838	-	77,365
Restricted cash	15,000	1,534	-	-	16,534
	1,046,041	**20,553**	**22,838**	-	**1,089,432**
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**

12. Accounting Policies and Critical Accounting Estimates and Judgements

The principal accounting policies applied in the preparation of the Consolidated Financial Statements are set out at Note 3 to the Consolidated Financial Statements.

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.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. 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. 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 not recognized on oil production subject to theft as it does not meet the IFRS revenue recognition criteria as the future economic benefits will not flow to the Group.

Total net crude oil deliveries into the export pipeline from the Ebendo marginal field for the year ended December 31, 2013 was approximately 330,552 bbls before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to OER for the year ended December 2013 was 82,638 bbls, or 25% of total crude oil deliveries into the export pipeline for the year. This resulted in approximately $9.3 million of oil production not being recognized in revenue for the year ended December 31, 2013 on the basis that the economic benefits will not 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 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.

Accounting for crude oil over lift by 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 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 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 30 of the Consolidated Financial Statements. 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 favour 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 associated with these transactions from the period commencing October 1, 2013. From October 1, 2013, revenue is recognized when the crude oil is lifted by the Group which 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)

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 Consolidated Financial Statements.

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.

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 of the Consolidated Financial Statements.

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.

Critical accounting judgments in applying the Group's accounting policies

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 ORPSLL. 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 Plc 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 Plc, 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 Plc. The Group is entitled to appoint the Chairman of the Board and the Chairman has a casting vote in the event of deadlock. The shareholder agreement cannot be terminated at the direction of Oando Plc. The Group has the right to elect to purchase of the Class A shares from Oando Plc 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 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 Plc exercises power over the operating associates indirectly through its controlling interest in OER and therefore OER 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.

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 of the Consolidated Financial Statements for further disclosure.

Material uncertainty exists relating to events or conditions that may cast significant doubt on 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 Consolidated Financial Statements 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 of the Consolidated Financial Statements 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 of the Audited Consolidated Annual Financial Statements 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 the Qua Ibo Marginal Field, 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.

13. Advisory

Forward Looking Statements

Certain information contained in management's discussion and analysis of the Group's financial condition and results of the Group's operations constitute forward-looking statements. This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities and the impact on OER, future operating costs, future transportation costs, expected change in royalty rates and interest rates may constitute forward-looking statements

under applicable securities laws and necessarily involve risks including, without limitation to, the ability to complete the COP Acquisition (defined below) on the terms publicly described if at all; the ability to successfully integrate the assets to be acquired under the COP Acquisition; statements with respect to the Group's development potential and program; the Group's ability to raise required capital or draw down on existing loans, the future price of oil and gas; the continuing impact of the change of management; the estimation of oil and gas reserves; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital and operating expenditures; success of exploration activities; currency exchange rates; the impact of illegal bunkering and overlifting; potential and stability of foreign jurisdictions; government relations and regulation; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the potential of the Group's properties in Nigeria are based on the Group's understanding of regional geology and neighbouring properties and the continued development of the regions. Capital and operating cost estimates are based on terms of the Group's agreements with its partners, regulatory authorities, and extensive research of the Group, proposed budgets and programs under the agreements, recent estimates of exploration costs and other factors that are set out herein. Production estimates are based on past experience and plans and production schedules that have been developed by personnel and independent consultants of the Group and its business partners. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Group to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to: unexpected events and delays during exploration, development and construction; revocation of government approvals and contracts; timing and availability of external financing on acceptable terms; actual results of exploration activities; changes in project parameters as plans continue to be refined; future prices of oil and gas; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes; risks inherent in foreign operations of the oil and gas industry. Although management of OER has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Group's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at the Group's website (www.oandoenergyrresources.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Group does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Foreign Operations

The majority of the Group's focus is related to Nigeria. As such, the Group is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with the Nigerian government, expropriation of property without fair compensation, adverse determinations or rulings by governmental authorities, changes in energy policies or in the personnel administering them, nationalization, currency fluctuations and devaluations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, potential implementation of exchange controls and royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which OER's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

As such, the Group's operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the Group's control. This includes, but is not limited to, changes in legislation in the aforementioned regions, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development, forced abandonment of fields and/or facilities or changes in crude oil or natural gas pricing policy.

Oil and Gas Information

National Instrument 51-101 of the Canadian Securities Administrators imposes oil and gas disclosure standards for Canadian public companies engaged in oil and gas activities.

In this document, certain oil and NGL volumes have been converted to Bcfe on the basis of one bbl to six Mcf.

Cubic feet equivalent may be misleading, particularly if used in isolation. A conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead.

Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Currency and References to OER

All information included in this document and the Consolidated Financial Statements and comparative information is shown in US dollars, after royalty basis, unless otherwise noted. The Group's financial results are consolidated in US dollars and the Group has adopted the US dollars as its reporting currency to facilitate a more direct comparison to other North American oil and gas companies.

For convenience, references in this document to "OER", the "Group", "we", "us", "our" and "its" may, where applicable, refer only to or include any relevant direct and indirect subsidiary corporations and partnerships ("Subsidiaries") of Oando Energy Resources Inc., and the assets, activities and initiatives of such Subsidiaries.

Additional Information

Further information regarding Oando Energy Resources Inc., including its Annual Information Form, can be accessed under the Group's public filings found on SEDAR at www.sedar.com, and on the Group's website at http://www.oandoenergyresources.com.