Oando Energy Resources

Management's Discussion and Analysis

For the years ended December 31, 2014 and 2013

*This Management's Discussion and Analysis (**"MD&A"**) should be read in conjunction with the audited Consolidated Financial Statements of Oando Energy Resources Inc. (**"OER"**) and its subsidiaries (together, the **"Corporation"**) for the year ended December 31, 2014 (the **"Consolidated Financial Statements"**), as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2013.*

*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. For the purposes of this document assets held by OER prior to the acquisition of the Nigerian upstream oil and gas business of ConocoPhillips Company (**"COP Acquisition"**), are referred to as "**Legacy Assets**" and assets acquired pursuant to the COP Acquisition are referred to as "**Acquisition Assets**". This MD&A is dated March 31, 2015.*

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. Oando Energy Resources

OER is a publicly traded company with common shares and warrants listed on the Toronto Stock Exchange ("**TSX**") under the symbols "OER" and "OER.WT", respectively. The Corporation 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 Corporation is Oando PLC. The Corporation holds interests in 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.

The Corporation's strategy is to continually grow reserves through the development of existing assets and the acquisition of new assets. As international oil and gas companies shift their focus to offshore projects, they are divesting their onshore assets, offering opportunities for indigenous independents, like OER, to acquire reserves and resources.

For the year ended December 31, 2014, the Corporation produced 9.1 million boe (**"MMboe"**) of crude oil, natural gas, and natural gas liquids ("**NGLs**"). On July 30, 2014, the Corporation completed the acquisition of the Nigerian upstream oil and gas business of ConocoPhillips Company, which added 50,226 boe/day of production in the fourth quarter of 2014. Total daily production in the fourth quarter of 2014 averaged 54,721 boe/day, which was comprised of 21,748 bbl/day of crude oil, 178,802 mcf/day (29,800 boe/day) of natural gas, and 3,173 boe/day of NGLs.

2. Financial and Operational Highlights

- On July 30, 2014, the Corporation completed the COP Acquisition for total consideration of $1.5 billion, which included substantial production, significant reserves and resources, and a considerable base of development and exploration opportunities.
- 2014 production increased to 9.1 MMboe (average 24,945 boe/day) from 1.5 MMboe (average 3,991 boe/day) in 2013. Fourth quarter average production increased to 54,721 boe/day in 2014 from 4,413 boe/day in 2013 and included 50,226 boe/day from Acquisition Assets.
- From July 30 to December 31, 2014, the Acquisition Assets contributed $136.8 million to net income before taxes including $299.0 million in revenue net of royalties, $116.5 million of production expenses, and $45.7 million in depreciation, depletion and amortization ("**DD&A**") expense.
- Net revenue was $421.4 million in 2014, an increase of $294.2 million over $127.2 million earned in 2013, primary as a result of the COP Acquisition. The Corporation had hedged 10,223 bbl/day of crude oil production between $91 and $97 bbl until July 2017 and January 2019, respectively, with further upside available if certain price targets were met. The hedges represent 47% of the fourth quarter production rates of crude oil. In February 2015, the hedges were restructured which reset the average hedge price to $65/bbl (the bbl/day or timeframe of the hedges were not changed); $234 million was received due to the restructuring and was used to repay debt.
- The Corporation incurred a net loss of $320.0 million during 2014, as compared to a net loss of $38.2 million in 2013. The key drivers of the 2014 net loss were the non-cash asset impairment charges of $462.8 million that were partially offset by the $288.3 million net gain on financial instruments.
- Recognized impairments on property, plant and equipment ("**PP&E**") of $61.4 million and impairments on exploration & evaluation assets ("**E&E**") of $401.4 million, as a result of lower oil prices and reserve revisions.
- Production expenses increased by $122.9 million to $152.9 million from $30.0 million in 2013. The increase was primarily due to additional production expenses from the Acquisition Assets of $116.5 million of which $38.6 million related to the sale of inventory recorded at fair value on the COP Acquisition. Production expenses improved to $16.66/boe in 2014 from $20.57/boe in 2013.
- G&A costs for 2014 increased by $47.9 million to $70.0 million from $22.1 million in 2013. The increase was due primarily to increased office and administrative expenses. Acquisition costs of $84.9 million incurred in 2014 related to consulting and professional fees associated with the COP Acquisition and a $41.2 million government consent fee. Bad debt expenses incurred in 2014 of $48.6 million related to an allowance of $18.8 on a JV receivable for OML 13, $25.4 million impairment loss on OML 125 receivables due from the Nigerian National Petroleum Corporation ("**NNPC**") and other write offs of joint venture and trade receivables of $4.4 million.
- Cash flows from operating activities were $116.1, an increase of $38.7 million from $77.4 million in 2013, primarily as a result of increased cash flow generated by the Acquisition Assets.
- The COP Acquisition added $1,099 million of PP&E and E&E assets in 2014. In addition, total capital expenditures of $161.0 million were incurred in 2014. The capital expenditures consisted of $38.1 million for enhancing the Acquisition Assets and $122.9 million for Legacy Assets' drilling and completion activities, construction of gathering systems and the Qua Ibo crude oil processing facilities, completion of the Umugini pipeline, and capital maintenance projects.
- At year end OER had a working capital deficiency of $567.2 million, an accumulated deficit of $638.1 million. The Corporation has taken measures to improve liquidity by converting debt to equity, equity financing, focusing on projects with highest short-term cash flow returns and by restructuring hedges and repaying debt as described above. As at December 31, 2014 the Corporation had breached loan covenants due to not meeting the current ratio test. The Corporation has since received notices from lenders agreeing to waive the debt covenant breach.

All tabular amounts are in thousands of US dollars unless otherwise noted

3. Financial and Operational Results

The table below summarizes selected annual financial and operational information for the years ended December 31, 2014, 2013, and 2012 and for the three months ended December 31, 2014 and 2013.

	Selected Annual Information			Fourth Quarter	
	2014	**2013**	**2012**	**2014**	**2013**
Financial:					
Revenue	421,422	127,211	135,200	174,042	23,976
Cash flows from operating activities	116,087	77,409	23,991	63,652	34,523
Comprehensive income/(loss)	(320,041)	(38,230)	16,021	(199,595)	(41,008)
Net income/(loss) per share: Basic	(0.53)	(0.36)	0.16	(0.40)	(0.32)
Net income/(loss) per share: Diluted(1)	(0.53)	(0.36)	0.16	(0.40)	(0.32)
Total assets	3,242,791	1,299,422	1,127,050	3,242,791	1,299,422
Total non-current liabilities	1,088,996	275,195	177,699	1,088,996	275,195
Operational:					
Production (2)					
Crude oil (bbl)	4,092,973	1,456,818	1,482,522	2,000,821	406,029
NGL (boe)(3)	475,053	-	-	291,907	-
Natural Gas (mcf)	27,221,832	-	-	16,449,778	-
Total production (boe)(3)	9,104,998	1,456,818	1,482,522	5,034,358	406,029
Boe/day – Legacy assets(4)	4,273	3,991	4,051	4,495	4,413
Boe/day – Acquisition assets(4)	20,672	-	-	50,226	-
Boe/day – total	24,945	3,991	4,051	54,721	4,413
Gross realized prices (5)					
Crude oil ($/bbl)	95.72	110.30	110.20	81.29	111.40
NGL ($/boe)	11.77	-	-	10.91	-
Natural gas ($/mcf)	2.54	-	-	2.46	-
Net realized prices (6)					
Crude oil ($/bbl)	87.81	87.32	91.20	66.83	59.05
NGL ($/boe)	10.95	-	-	10.14	-
Natural gas ($/mcf)	2.33	-	-	2.21	-

(1) In determining the diluted EPS antidilutive instruments have been excluded.

(2) Barrels abbreviated to "bbl", barrels of oil equivalent abbreviated to "boe", thousand cubic feet abbreviated to "mcf".

(3) Natural gas volumes are converted to boe using at six mcf of natural gas to one boe.

(4) Legacy assets production means production from OML 125 and OML 56; Acquisition assets production means production from OMLs 60 to 63 that were acquired on July 30, 2014. Calculation of boe/day used 365 days and 92 days for the annual and quarterly periods, respectively. Actual production from Acquisition assets from July 30 to December 31, 2014 was 49,316 boe/day.

(5) Before royalties, the Government share of profit oil, oil losses and unrecognised revenue from excessive NNPC liftings at OML 125.

(6) After royalties, the Government share of profit oil losses, and unrecognised revenues from excessive NNPC liftings at OML 125. In 2014, net realized prices were $87.81/bbl annually and $66.83/bbl in the fourth quarter without unrecognized revenues incorporated.

All tabular amounts are in thousands of US dollars unless otherwise noted

Results of Operations

The following provides an analysis of the Corporation's results of operations for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The Corporation's only reportable segment is its oil and gas operations in Nigeria.

Revenue

	2014	**2013**
Oil and gas sales	461,931	137,952
Less: royalties	(55,592)	(10,741)
Oil and natural gas sales, net of royalties	406,339	127,211
Oil transportation tariffs	4,932	-
Kwale-Okpai power sales	10,151	-
Revenue, net of royalties	**421,422**	**127,211**
Attributable to:		
Legacy assets	122,471	127,211
Acquisition assets[1]	298,951	-

[1] *From July 30, 2014 to December 31, 2014.*

Oil and gas revenue is generated by the production and sale of crude oil, natural gas, and NGLs from the Corporation's interest in OMLs 60 to 63 (onshore), OML 125 (offshore) and OML 56 (Ebendo marginal field, onshore), all located in Nigeria. The Corporation also generates oil transportation tariff revenue from third parties by the Corporation's interest in various pipelines and revenues through the sale of power generated at the Kwale-Okpai independent power plant ("**Kwale-Okpai IPP**"). The Corporation's major customers include subsidiaries of international oil and gas companies, Nigerian government organizations and joint venture businesses.

In 2014, the Corporation generated $421.4 million in revenue, net of royalties, compared to $127.2 million in 2013. The $294.2 million increase was a result of $299.0 million of new revenues earned between July 30 and December 31, 2014 by the Acquisition Assets, offset by a $4.7 million reduction in revenue from the Legacy Assets. The $299.0 million earned on the Acquisition Assets from July 30 to December 31, 2014, consisted of $286.1 million of crude oil, natural gas, and NGL sales, $10.2 million in power generation revenues at the Kwale-Okpai IPP, and $4.9 million from oil transportation tariffs. The $4.7 million decline in revenue from the Legacy Assets was primarily a result of lower revenue from OML 125 and OML 56 due to lower crude oil prices and Management's decision not to recognize the revenue related to amounts overlifted by NNPC, which was partially offset by increased production levels.

Pricing

The Company's financial results are significantly influenced by fluctuations in global commodity prices. The following table shows select world market benchmark prices that directly affects OER's pricing:

	2014	**2013**
Brent UK average oil price ($/Bbl)	99.51	108.52

The Dated Brent oil benchmark price is a benchmark for the price received by the Corporation for its Nigerian oil production. The Corporation's gross sales price for oil decreased 13.7% to $95.22/bbl in 2014 from $110.30/bbl in 2013, as compared to an 8.3% decrease of Dated Brent oil price to $99.51/bbl from $108.52/bbl in the prior year. The difference is related to a large portion of the Corporation's crude oil sales being in the second half of the year after the COP Acquisition when global prices had significantly decreased, otherwise the pricing changes would have been consistent.

Natural gas pricing for OER is primarily influenced by contracts and local conditions and therefore is not directly comparable to a recognized world benchmark for natural gas prices. The Acquisition Assets are where the majority of the Corporation's natural gas production originates, with approximately 80% of that production being committed to a long-term liquefied natural gas ("**LNG**") contract with pricing based on the end-use LNG sales product. The remaining production is sold at under arrangements with pricing based on a combination of local market prices and inflation-adjusted prices.

Production

In 2014, the Corporation produced 9.1 MMboe (average 24,945 boe/day) compared to 1.5 MMboe (average 3,991 boe/day) in 2013. The increase of 7.6 MMboe was a result of the Acquisition Assets contributing 7.5 MMboe (average 20,672 boe/day) of production, along with a 0.1 MMboe increase in Legacy Assets production. Acquisition Asset average production from July 30 to December 31, 2014 was 49,316 boe/day, consisting of 16,557 bbl/day of crude oil, 3,105 boe/day of NGLs and 177,920 mcf/day (29,653 boe/day) of gas. Legacy Asset average crude oil production increased to 4,273 bbl/day in 2014 from 3,991 bbl/day in 2013, primarily from increased production realized at OML 56 as a result of lower crude oil losses.

Crude oil losses (OML 56)

Production from OML 56 is transported to the Brass Terminal from Kwale through a Pipeline operated by Nigerian Agip Oil Company Limited ("**NAOC**"). Historically, this pipeline has experienced a significant amount of crude oil losses through crude oil thefts and pipeline sabotage. In 2014, pipeline and export facility losses reported by NAOC and allocated to the Corporation were 75,421 bbls or 18% (2013 – 82,629 bbls or 25%) of total crude oil deliveries from OML 56. Total net crude oil deliveries into the export pipeline from the Ebendo marginal field in 2014 were 429,506 bbls, before pipeline losses. The Corporation estimated 2014 crude oil transportation revenue losses were $7.9 million (2013 - $8.6 million) as a result of the crude oil thefts and pipeline sabotage.

In the fourth quarter of 2014, the Corporation and its partners completed the construction of the Umugini pipeline and commenced final testing in readiness for commercial injection of crude oil into the pipeline. The Umusadege pipeline will still be available as an alternative crude oil delivery route.

Excessive lifting activity by NNPC (OML 125)

The Corporation receives lifting schedules for OML 125 (Abo field) that identify the order and frequency that each partner can lift its share of production. In normal operating conditions the overlift and underlift are accounted for as a sale of crude oil at the point of lifting by the underlifter to the overlifter, as the criteria for revenue recognition is considered to have been met. Nigeria Agip Exploration ("**NAE**"), the operator of OML 125, and the Corporation are in a dispute with the NNPC in relation to over lifting by the NNPC between 2008 and 2014, which in the view of the NAE and Corporation, NNPC's exceeded their entitlements. During 2014 and into 2015, the NNPC has continued to lift production volumes that exceed their entitlement, despite an arbitration award in favour of the Corporation.

As a result of the over lifting dispute, on October 1, 2013 the Corporation began to defer the recognition of revenue for crude oil production that is subject to overlift by the NNPC. In 2014, $21.0 million (2013 – $14.5 million) has not been recognized in revenue in relation to crude oil production from the Abo field. The Corporation continues to defer the recognition of revenue for crude oil production that is subject to overlift by the NNPC and will do so until it is determined that the economic benefits of the overlifted amounts will accrue to the Corporation.

All tabular amounts are in thousands of US dollars unless otherwise noted

Production expenses

	2014	2013
Production expenses	**152,932**	**29,962**
$/boe	$16.66	$20.57
Attributable to:		
Legacy assets	36,385	29,962
Acquisition assets[1]	116,547	-
	152,932	29,962
Fair value adjustments[2]	*(38,614)*	-
Net of adjustments[2]	*114,318*	*29,962*

[1] From July 30, 2014 to December 31, 2014.

[2] Acquisition Assets' production expenses include additional non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments for Purchase Price Adjustments (PPA) calculations; inventory with an original cost basis of $11.3 million was recognized at its fair value of $49.9 million on July 30, 2014 in accordance with acquisition accounting rules; the inventory was subsequently sold resulting in a $49.9 million expense being recognized which included the $38.6 million non-recurring acquisition accounting fair value adjustment.

Production expenses consist of direct operating expenditures relating to lifting, handling, transportation, production maintenance and operators' general and administrative costs.

In 2014 production expenses were $152.9 million compared to $30.0 million in the comparative period. The $122.9 million increase was primarily a result of additional production expenses of $116.5 million attributed to the Acquisition Assets that were purchased on July 30, 2014. Included in the Acquisition Assets production expenses was non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments for inventory sold during the period. Excluding the impact of acquisition accounting fair value adjustments, net production expenses on Acquisition Assets were $77.9 million or $10.33/boe. In addition, production expenses on Legacy Assets increased $6.4 million, as a result of increased lifting and pipeline expenses, resulting in an increased cost per boe of $23.33/boe, compared to $20.57/boe in 2013.

G&A costs, acquisition costs, and bad debt expense

	2014	2013
General and administrative costs	**69,953**	**22,146**
Acquisition costs	**84,860**	**20,437**
Bad debt expense	**48,593**	**-**

During 2014 general and administrative costs were $70.0 million compared to $22.1 million in 2013. The $47.9 million increase is due primarily to increased office and administrative expenses. Acquisition costs incurred in 2014 were $84.9 million and included a $41.2 million government consent fee for the COP Acquisition; the remainder of acquisition costs incurred in 2014 related to consulting and professional fees associated with the COP Acquisition. Bad debt expense in 2014 was $48.6 million due to an allowance of $18.8 on a JV receivable for OML 13, an impairment loss on the OML 125 net receivable due from the NNPC of $25.4 million, $3.7 million write off of other joint venture receivables, and $0.7 million write off of trade receivable balances.

All tabular amounts are in thousands of US dollars unless otherwise noted

Depletion, depreciation and amortization

	2014	2013
Depletion, depreciation and amortization	**88,672**	**31,513**
$/boe	$9.74	$22.93
Attributable to:		
Legacy assets	43,001	31,513
Acquisition assets[1]	45,671	-

[1] *From July 30, 2014 to December 31, 2014.*

In 2014, DD&A charges increased $57.2 million to $88.7 million compared to $31.5 million in 2013. The increase was primarily a result of the purchase of the Acquisition Assets on July 30, 2014 and the resulting increase in depletable PP&E base and associated production volumes. Additionally, DD&A on Legacy Assets increased $11.5 million as an effect of increased capital expenditures and new wells coming on line, thereby increasing the Corporation's depletable PP&E base and production volumes.

Impairment of Assets

	2014	2013
Impairment of PP&E	61,397	-
Impairment of E&E	401,386	-
Impairment of Assets	**462,783**	**-**

In accordance with IFRS, PP&E and E&E assets are tested when an indicator of impairment exists, and goodwill is tested at least annually or when an indication of impairment exists. As at December 31, 2014, indicators of impairment existed for oil and gas assets, including exploration and evaluation assets, as a result of the significant decrease in forecasted crude oil prices and reserve revisions. An impairment test was performed on the PP&E oil and gas assets with $61.4 million (2013 - $nil) being recorded as an impairment on OML 90, as a result of the project being economically unfeasible at this time due to high operating costs. The impairment test conducted for the E&E assets resulted in $401.4 million (2013 - $nil million) recorded as an impairment with the Legacy Assets recognizing $329.4 million on OMLs 125 and 134 and $15.7 million on OML 122 and the Acquisition Assets recognizing impairments of $56.3 million on OMLs 131 and 145. The impairments on E&E assets were primarily the result of downward technical revisions to their contingent reserves and partly related to lower forecasted crude oil prices.

For the year ended December 31, 2014, the Corporation prepared an impairment test for its interest in Qua Ibo that compared the recoverable amount to the carrying value and determined that the carrying value was not impaired (2013 -$nil). In addition, at year end the Corporation tested its goodwill balance of $1,021 million (2013 – $6.8 million) and determined that no impairment existed.

Critical estimates and assumptions associated with the impairment tests performed are discussed in Section 8 below and in Notes 4, 10, 11, and 12 of the consolidated financial statements.

Net gains on financial instruments

	2014	2013
Net gains on financial instruments	**288,254**	**3,650**

During 2014 the Corporation recognized $288.3 million in net gains on financial instruments, as compared to $3.7 million in 2013. The $284.6 million increase was primarily a result of financial commodity contract gains of $324.2 million, partially offset by a fair value loss of $50.6 million on the Oando PLC loan conversion option embedded derivative, and a $14.6 million net fair value gain on warrants. Financial commodity contract gains of $324.2 million included $24.3 million of realized gains in the period from monthly hedge settlements.

All tabular amounts are in thousands of US dollars unless otherwise noted

The Oando PLC loan conversion option has been treated as an embedded derivative for accounting purposes whereby with each drawdown of the Oando PLC loan, a separate derivative is recorded at fair value with changes in fair value recognized in the statement of comprehensive income (loss) until the debt is converted or repaid. In 2014, fair value losses of $50.6 million were recorded prior to the conversion/repayment of the debt (refer to Borrowings section below for further details of Oando PLC loan conversions and repayments).

Warrants issued by the Corporation were initially recognized as derivative liabilities (like the conversion feature, at fair value through profit and loss) as the exercise price was not fixed in the functional currency of the Corporation. In 2014, the strike price was changed to a currency that matches the functional currency of the Corporation (further details below). As a result, the warrants now meet the definition of equity and were reclassified to equity at their fair value on the effective date of the change. Prior to being reclassified to equity, $14.6 million was recorded as a net loss on the warrants.

Net financing income / (expenses)

	2014	2013
Financing income	6,871	1,266
Financing expense	(132,403)	(55,281)
Net financing income / (expense)	**(125,532)**	**(54,015)**

In 2014, net financing expense was $125.5 million compared to a net financing expense of $54.0 million in the comparative period. The $71.5 million increase was the result of increased borrowings required to fund the COP Acquisition and included the recognition of a $48.0 million financing fee on the Oando PLC loan.

Taxes

	2014	2013
Current tax (expense) / recovery	(71,285)	638
Deferred income tax (expense) / recovery	74,893	(11,656)
Deferred income tax (expense) / recovery	**3,608**	**(11,018)**

The Corporation incurred current income taxes of $71.3 million in 2014, as compared to an income tax recovery of $0.6 million in 2013. The significant increase in current taxes is related to additional profits generated by the Acquisition Assets that accounted for $60.3 million of current income tax expense.

Deferred income tax is a non-cash item relating to temporary differences between the accounting and tax basis of the Corporation's assets and liabilities and has no immediate impact on the Corporation's cash flows. In 2014 the deferred income tax recovery was $74.9 million compared to a deferred income tax expense of $11.7 million in the prior year. The $74.9 million increase in deferred tax recovery was a result of a $31.8 million deferred tax recovery on Acquisition Assets between July 30 and December 31, 2014 and a $43.1 million increase in the deferred tax recovery on Legacy Assets. The $43.1 million deferred tax recovery on Acquisition Assets was mainly a result of the $38.6 million recovery derived from the reversal of purchase price accounting fair value adjustments on inventory. The $31.8 million deferred tax recovery on the legacy assets was largely the result of the reduced E&E carrying amounts on the legacy assets due to the impairments recognized in the year.

Originally, an indemnification asset and offsetting tax liability of $62.4 million was recorded as a result of the COP acquisition relating to uncertain tax provisions for which the Corporation was indemnified by the seller. In February 2015, the Corporation won an appeal related to a portion of the uncertain tax provisions which resulted in a $40.9 million reduction in taxes due. The appeal related to litigation which was initiated prior to December 31, 2014 and related to tax years from 2006 to 2011. The successful appeal provided additional clarity on the indemnification asset and uncertain tax provisions recorded. Accordingly, the Corporation reduced the indemnification asset and offsetting tax liability by $40.9 million.

All tabular amounts are in thousands of US dollars unless otherwise noted

Net income / (loss) for the period

	2014	2013
Net income / (loss) for the period	**(320,041)**	**(38,230)**

During 2014 the Corporation incurred a net loss of $320.0 million compared to a net loss of $38.2 million in 2013. The $281.8 million decrease in net income compared to the prior year was as a result of impairment charges, increased G&A costs, partially offset by financial commodity contract gains and increased income from oil and gas production. The Acquisition Assets contributed $136.8 million to net income before taxes including $299.0 million in revenue net of royalties, $116.5 million of production expenses, and $45.7 million in DD&A expense, including the impact of acquisition accounting fair value adjustments of $38.6 million as described in the production expenses section.

Cash flow from operating activities

	2014	2013
Cash flow from operating activities	**116,087**	**77,409**

In 2014 cash flow from operating activities were $116.1 million compared to $77.4 million in the prior year. The $38.7 million increase in cash flow was primarily a result of the new production from the COP Acquisition, which was offset considerably by the non-recurring acquisition costs that included a $41.2 million government consent fee, additional professional fees and reorganization costs.

Capital expenditures

	2014	2013
Capital expenditures	**161,021**	**119,955**

In 2014, the Corporation spent $161.0 million on the development of oil and gas assets and exploration and evaluation activities, as compared to $120.0 million in 2013. In addition to the capital spent on internally generated projects, the Corporation added $1,099.9 million in capital additions through the purchase of the Acquisition Assets on July 30, 2014.

	Actual 2014	Budgeted 2014	Over (Under) Budget 2014	Budget Estimate 2015
OMLs 60 to 63	38,100	Not applicable	Not applicable	59,680
OML 13 (Qua Ibo)	14,744	40,600	(25,856)	550
OML 56 (Ebendo)	10,645	22,730	(12,085)	7,650
OML 125 (Abo)	89,662	37,500	52,162	67,130
Other assets	7,870	14,600	(6,730)	3,670
	161,021	**115,430**	**7,491**	**138,680**

Historically, the Corporation has experienced significant variability in actual costs incurred and timing of expenditures, as compared to original project planning and budgeted amounts. The differences are primarily a result of the availability of services, long lead times in ordering certain oil and gas equipment and other local conditions that can lead to significant variances in project budgeting and timing. Failure to maintain adequate capital expenditures for the development of oil and gas assets could have a material impact on production, revenue, and future cash flows.

The following provides a summary of 2014 focus area capital expenditures for the Acquisition Assets and the Legacy Assets and anticipated capital expenditures in 2015.

Acquisition Assets

OMLs 60 to 63

From July 30 to December 31, 2014 capital expenditures on Acquisition Assets totalled $38.1 million, which was primarily attributed to OMLs 60 to 63 assets. Capital expenditures included $9.9 million spent on development drilling activities in the Ogbogene NE and Ogbainbiri Deep C projects and a number of work-over activities in the area. In addition, the Corporation incurred $28.2 million on facilities related to the Ebocha Oil Centre, production facility enhancements and the repair of gas pipelines.

In 2015 the Corporation will continue developing the Acquisition Assets and estimates that $35.6 million will be expended on crude oil related projects and $24.1 million on gas projects in the OMLs 60 to 63 areas. The anticipated crude oil development expenditures include significant investment in environmental and safety projects, new development drilling, and completions and recompletions of previously drilled wells. Planned natural gas projects consist of drilling and completing new wells, along with enhancements to natural gas facilities and pipelines.

Legacy Assets

OML 13 (Qua Ibo Field)

In 2014, the Corporation incurred capital expenditures of $14.7 million on pipeline, crude processing facility costs and the construction of a flow station, allowing for new crude oil production from the Qua Ibo field's C4 and D5 reservoirs in January 2015. Budgeted capital expenditures for OML 13 were $40.6 million in 2014. The reduction in capital expenditures in 2014 as compared to budget was a result of delaying the drilling of Well 5 to 2015. Subsequent to year end the Corporation realized new production through the pipeline and crude processing facility that were completed in the fourth quarter of 2014.

In 2015, the Corporation has estimated $0.6 million in capital expenditures for facility enhancements.

OML 56 (Ebendo Field)

The Corporation budgeted $22.7 million in capital expenditures for OML 56 in 2014 and actually incurred a total of $10.7 million, which included the drilling of Ebedo 7 and the purchase of additional crude oil storage tanks for the field. The Corporation also completed the Umugini pipeline in the fourth quarter of 2014. The budget variance in capital expenditures was a result of deferring the drilling of a new well, as the Corporation planned to complete construction of the Umugini pipeline prior to that new drill, which was partly offset by higher costs of completing of the Ebendo 7 well.

In 2015, the Corporation has estimated $7.7 million in capital expenditures for facility and pipeline overhauls and enhancements.

OML 125 (Abo Field)

During 2014 the Corporation incurred $89.7 million of capital expenditures primarily on drilling and completions and production infrastructure, compared to budgeted capital expenditures of $37.5 million for OML 125 in 2014. The Corporation drilled and completed ABO 8 and ABO 12 South wells and re-entered the ABO 3 well. Production infrastructure expenditures included enhancements to its floating production storage and offloading vessel ("**FPSO**"), capital maintenance on flowlines and a new phase of gathering systems. The significant increase in actual expenditures as compared to the 2014 budget was primarily the result of the additional project of re-entering the ABO 3 well and higher than anticipated costs to drill and complete ABO 12.

All tabular amounts are in thousands of US dollars unless otherwise noted

In 2015, the Corporations has estimated $67.1 million in capital expenditures on the OML 125 Asset. The planned expenditures include gathering system construction projects, drilling and completion of ABO 12 Upper and ABO 13, along with safety projects and extending the life of the FPSO.

Other assets

The Corporation budgeted $14.6 million on other asset capital expenditures that included OML 90, OML 134 and EEL. The planned spending on these holdings was significantly reduced as the Company continues to assess the geological and geophysical aspects of the project areas, along with the environmental impacts.

In 2015, the Corporation estimates $3.7 million of capital expenditures will be incurred on other projects.

Summary of Quarterly Results

The table below summarizes selected financial and operational information for the last eight quarters. The Corporation's quarterly results have been impacted primarily by acquisitions, fluctuating commodity prices, asset impairments, gains and losses on financial instruments, and borrowing activities. Refer to the relevant sections of the Corporations previously released quarterly MD&A and the discussion of fourth quarter results below.

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Production (boe)	5,035,053	3,248,158	413,985	407,803	406,029	363,032	353,145	334,612
Total Revenue	174,042	184,777	30,440	32,163	23,976	37,461	36,072	29,702
Net Income for the Period	(232,033)	89,541	(137,668)	(39,881)	(41,008)	11,645	(1,168)	(7,699)
Earnings Per Share	(0.40)	0.12	(0.24)	(0.14)	(0.32)	0.12	(0.01)	(0.07)
Diluted Earnings Per Share	(0.40)	0.12	(0.24)	(0.14)	(0.32)	0.12	(0.01)	(0.07)
Capital Expenditures	41,206	52,910	24,355	42,550	45,573	29,684	36,353	8,345
Total Assets	3,242,791	3,693,880	1,662,142	1,689,937	1,299,422	1,223,808	1,193,585	1,079,899
Total Non-Current Liabilities	1,088,996	1,523,019	245,925	274,812	275,195	206,150	207,981	156,457

Fourth Quarter Results of Operations

The following provides an analysis of the Corporation's results of operations for the three months ended December 31, 2014, as compared to the three months ended December 31, 2013.

Production

In the fourth quarter of 2014, the Corporation produced 5.0 MMboe (averaging 54,721 boe/day) compared to 0.4 MMboe (averaging 4,413 boe/day) in 2013. The 4.6 MMboe increase was due to the purchase of the Acquisition Assets with an average daily production of 50,226 boe/day of production, consisting of 17,253 bbl/day of crude oil, 3,173 boe/day of NGLs and 29,800 boe/day (or 178,802 mcf/day) of gas. Legacy Asset average crude oil production increased modestly to 4,495 bbl/day in 2014 from 4,413 bbl/day in 2013.

Revenue, production expenses and DD&A

Revenues in the fourth quarter of 2014 were $174.0 million compared with $24.0 million in the prior year comparative. The $150.0 million increase was the result of additional revenue provided by the Acquisition Assets in 2014. Of the $150.7 million earned on the Acquisition Assets in the fourth quarter of 2014, $170.2 million related to the sale of crude oil, natural gas, and NGLs, $1.8 million related to the sale of power generated by the Kwale-Okpai IPP, and $1.6 million related to oil transportation tariffs.

Production expenses in the fourth quarter of 2014 were $62.8 million compared with $6.0 million in the prior year comparative period. The increase in production expenses of $56.8 million was primarily driven by the additional production from the Acquisition Assets of $49.6 million, with the Legacy asset production expenses increasing to $13.2 million due to increased lifting and personnel overheads costs at OML 125.

In the fourth quarter of 2014, DD&A expense was $27.8 million compared with $10.6 million in the fourth quarter of 2013. The increase in DD&A expense was primarily a result of the increased depletable base and increased production relates to the Acquisition Assets.

General and administrative costs, Acquisition costs and Bad debt expense

G&A in the fourth quarter increased to $39.4 million from $7.1 million in the fourth quarter of 2013. The increase of $32.3 million was primarily a result of the Acquisition Assets increasing the size of the Corporation's operations and the need for additional employees and consultants to manage those assets. Acquisition costs in the fourth quarter were $nil as compared to $20.4 million in the same period of the prior year. The significant change was a result of transaction costs incurred on the initial stages of the COP Acquisition in the fourth quarter of 2013. The bad debts expense was $48.0 million in the fourth quarter of 2014, primarily as a result of recognizing a $25.4 allowance on the under lifting receivable to the extent of the credit exposure on the balance of NNPC overlifts and a $18.8 million allowance on a partner receivable on OML 13.

Asset and goodwill impairment

During the fourth quarter the Corporation determined that indicators of impairment existed for each of PP&E, E&E assets and goodwill, as a result of the significant decrease in forecasted crude oil prices. An impairment test was performed on the PP&E oil and gas assets with $61.4 million (2013 - $nil) being recorded as an impairment. The impairment test conducted for the E&E assets resulted in $401.4 million (2013 - $nil million) recorded as an impairment. The impairments were the result of revisions to reserves due to lower expectations of recoverable crude oil and lower future crude oil price forecasts.

In the fourth quarter the Corporation prepared an impairment test for its interest in Qua Ibo that compared the recoverable amount to the carrying value and determined that the carrying value was not impaired (2013 -$nil).

As at December 31, 2014, the Corporation tested its goodwill balance of $1,021 million (2013 – $6.8 million) and determined that no impairment existed.

Taxes

In the fourth quarter of 2014 the current income tax expense was $36.2 million and the deferred income tax recovery was $9.9 million. The current income tax is derived primarily from crude oil and natural gas income at the Company's primary producing areas of OMLs 60-63. The deferred income tax recovery was predominantly the result of the PP&E and E&E asset impairments that occurred in the fourth quarter.

Financial commodity hedges

In the fourth quarter of 2014, net fair value gains on financial instruments were $295.3 million compared to $0.6 million in the fourth quarter of 2013. The $294.7 million increase was primarily the result of gains on financial commodity contracts. The fair value of the financial commodity contracts at December 31, 2014 were $300 million (2013 – ($2.5 million)). Subsequent to year end the Corporation settled and reset the financial commodity hedges for proceeds of $234.0 million (refer to discussion of early settlements below).

All tabular amounts are in thousands of US dollars unless otherwise noted

Net income / (loss)

The Corporation incurred a net loss of $232.0 million in the fourth quarter of 2014, as compared to a net loss of $41.0 million in the same quarter of 2013. The loss was primarily attributed to the $462.8 million asset impairment charges recognized during the year, which were partially offset by the $295.3 million net fair value gains on financial instruments and increased income from Acquisition Assets production.

Capital expenditures

The corporation had capital expenditures of $41.2 million in the fourth Quarter of the 2014. These capital expenditures consisted of $12.8 million for production facilities for the Acquisition Assets and $28.4 million was expended on the legacy assets for drilling and completion activities at OML 125 on Abo 3, 8 and 12.

4. Acquisitions

COP Acquisition

On July 30, 2014, the Corporation completed the acquisition of the Nigerian upstream oil and gas business of COP for total cash consideration of $1.5 billion after adjustments. On December 20, 2012, the Corporation entered into share purchase agreements for the COP Acquisition as well as COP's interest in Phillips (Brass) Limited ("**Phillips**"). 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 closing adjustments. On September 13, 2013, the Corporation signed a termination agreement with respect to the acquisition of Phillips Brass which reduced the purchase price to $1.65 billion.

The purchase price, net of closing adjustments, was $1.5 billion as summarized in the table below. Prior to closing, the Corporation had paid $550 million in deposits to COP ($450 million in 2013 and prior years and $100 million in 2014). The final cash consideration transferred on closing was $948.4 million.

The acquisition was accounted for as a business combination with the fair value of assets acquired and liabilities assumed at the date of acquisition and summarised in note 5 of the Consolidated Financial Statements. The COP Acquisition was financed by the Oando PLC Loan, the $450 million Senior Secured Facility, the $350 million Corporate Finance Facility, and the $100 million African Export Import Bank Subordinated Debt Facility. Refer to Section 7 *Capital Resources* for further details. Also refer to Section 6 *Liquidity* for a discussion of liquidity risks.

Net Purchase Price:	
Purchase Price	1,650,000
Working Capital Adjustments	189,749
Net Purchase Price Adjustments[(1)]	72,750
Purchase Price Increase[(2)]	30,000
Interest on Unpaid Purchase Price[(3)]	112,923
Dividends Paid[(4)]	(557,000)
Net Purchase Price	**1,498,422**
Deposits	550,000
Final Payment	948,422
Total Cash Consideration	**1,498,422**

[(1)]) Relates to cash advances and receipts (excluding dividends) between COP and its previous owners prior to the closing date.

[(2)] The purchase price of Philips Oil Company Nigeria Limited, an entity acquired in the COP Acquisition, was increased by $30 million.

[(3)] The Corporation was charged interest on the unpaid purchase price from the effective date to the closing date at LIBOR plus 2%.

(4) A total of $557 million in dividends has been paid to the previous owners of COP between the effective date and closing date of the Acquisition. This has been used to offset the final purchase price.

The transaction entailed the acquisition of ConocoPhillips' Nigerian upstream oil and gas businesses consisting of:

a) The Onshore Business:

- Phillips Oil Company Nigeria Limited ("**POCNL**"), which holds a 20% non-operating interest in Oil Mining Leases ("**OMLs**") 60, 61, 62, and 63 as well as related infrastructure and facilities in the NAOC joint venture ("**NAOC JV**"). The other co-venturers are the NNPC with a 60% interest and NAOC (20% and operator).

b) The Offshore Business:

- Conoco Exploration and Production Nigeria Limited ("**CEPNL**"), which holds a 95% operating interest in OML 131 located 70 km offshore in water depths of 500m to 1,200m.; and
- Phillips Deepwater Exploration Nigeria Limited ("**PDENL**"), which holds a 20% non-operating interest in Oil Prospecting Licence ("**OPL**") 214 located 110 km offshore in water depths of 800m to 1,800m. The other co-venturers are ExxonMobil (20% and operator), Chevron (20%), Svenska (20%), Nigerian Petroleum Development Company (15%) and Sasol (5%). In June 2014, the Honorable Minister of Petroleum Resources for Nigeria approved the conversion of OPL 214 to OML 145 for an initial period of 20 years.

Through this transaction, OER acquired all of the issued share capital of POCNL, CEPNL and PDENL. The effective date of the transaction was January 1, 2012

The COP Acquisition added a 20% working interest in the NAOC JV, which includes forty discovered oil and gas fields, of which twenty-four are currently producing, approximately forty identified prospects and leads, twelve production stations, approximately 1,490 km of pipelines, three gas processing plants, the Brass River Oil Terminal, the 480 MW combined cycle gas-fired Kwale-Okpai IPP, and associated infrastructure. Furthermore, the offshore assets include a significant share of six separate discovered fields and eight separate prospects.

Following the completion of the Transaction, OER is positioned as one of the leading E&P players in the Nigerian oil and gas sector. Total production for the three months ended December 31, 2014 was 5,034,358 MMboe which is an average daily production of 54,721 boe/day, gross to OER. Refer to Section 3 *Financial and Operating Results* for details.

Medal Oil Acquisition

On July 11, 2014, the Corporation completed the acquisition of Medal Oil Company Limited ("**Medal Oil**"). The purchase consideration for the Medal Oil acquisition was $5 million United States (**"USD"**), satisfied through the issuance of 3,491,082 units which equates to $1.57/unit Canadian ("**CAD**"). The number of units issued to Medal Oil was determined with reference to the $1.57/unit CAD price established in negotiations with arm's length private placement investors (described below). Each unit consists of one common share of OER and one-half of one warrant to purchase an additional common share of OER at a price of $2.00 CAD per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days. Medal Oil holds a 5% interest in OML 131. With the completion of the COP Acquisition, the Corporation owns a 100% interest in OML 131.

All tabular amounts are in thousands of US dollars unless otherwise noted

5. Liquidity and Capital Resources

Cash Flow Summary

The table below provides a summary of cash flow from operating, financing, and investing activities for the years ended 2014 and 2013.

	2014	2013
Cash flow from (used in):		
Operating activities	116,087	77,409
Financing activities	987,308	104,800
Investing activities	(1,084,709)	(174,230)
Net increase	**18,686**	**7,979**

Cash flow from operating activities

In 2014 cash flow from operating activities were $116.1 million compared to $77.4 million in the prior year. The $38.7 million increase in cash flow was primarily a result of the new production from the COP Acquisition, which was offset by lower crude oil prices that decreased operating profits, along with additional professional fees and reorganization costs. The Corporation's cash flows from operations are highly dependent on global crude oil pricing and to a lesser degree local natural gas spot pricing, all in USD. The Corporation attempts to mitigate some of the pricing risk on cash flows from operating activities through financial commodity contracts and entering into long-term gas pricing contracts.

Cash flow from financing activities

In 2014 cash flow from financing activities increased $882.5 million to $987.3 million as compared to $104.8 million in 2013. The increase was primarily a result of additional net borrowings of $1,098.8 million and $50.0 million in net proceeds from a private placement, offset by transaction costs associated with new debt of $53.1 million, interest payments of $59.4 million due to greater debt levels, and increases in restricted cash of $43.6 million. A summary of borrowing activities in 2014 and the private placement is provided below.

Cash flow used in investing activities

In 2014 cash flow used in investing activities was $1,084.7 million compared to $174.2 million in the comparative period. The $1,084.7 million cash used in investing activities was driven primarily by $942.9 million in asset additions related to the COP Acquisition, $156.1 million in net capital expenditures, and $14.3 million in cash related to working capital management activities.

All tabular amounts are in thousands of US dollars unless otherwise noted

Borrowings

The table below summarizes borrowings outstanding at December 31, 2014 and 2013:

	2014[1]	**2013**[1]
$450 Million Senior Secured Facility	389,848	-
$350 Million Corporate Finance Loan Facility	319,045	-
$100 Million Subordinated Debt Facility	92,713	-
$1.2 Billion Oando PLC Loan Facility	-	401,000
First Bank of Nigeria (Loan #1)	-	32,944
First Bank of Nigeria (Loan #2)	-	70,000
First Bank of Nigeria (Short term loan)	-	7,779
Ecobank Nigeria Loan	-	20,000
Diamond Bank Loan	-	59,152
Enterprise Bank	-	30,000
	801,606	620,875
Less: Borrowings, current	**(551,480)**	**(496,099)**
Borrowings, non-current	**250,126**	**124,776**

([1]) The carrying amounts of all Corporation borrowings are denominated in US dollars.

$450 Million Senior Secured Facility

The Corporation entered into agreements dated January 31, 2014 and July 31, 2014 with major international banks providing for a net aggregate loan of $450 million. As of the close of business on the day after closing of the COP Acquisition, an aggregate amount of $450 million was outstanding. Interest is charged on the loan at 3 month LIBOR plus 8.5% per annum and interest payments are due at the end of each quarterly period. The loan is repayable in quarterly instalments in accordance with a repayment schedule. In addition to regular repayments, 25% of any excess cash from the proceeds of sales of crude oil, natural gas liquids and electric power from POCNL's various operations are also to be applied against outstanding principal. The facilities have a final maturity date of June 30, 2019 and are secured by the Corporation's 20% interest in the NAOC/POCNL/NNPC JV including all fields and facilities and the Kwale-Okpai IPP. The carrying value of the assets pledged as at December 31, 2014 was $923.7 million. The Corporation is required to hedge a certain portion of crude oil production. Refer to Note 8 in the Consolidated Financial Statements on commodity contracts for the details of the hedges executed by management to satisfy this requirement; the financial commodity contracts were executed with the same banks that provided the loan. The loan also requires the Corporation to maintain cash balances with the lenders of $30 million on the date the facility is drawn increasing to $40 million within one year from this date. As at December 31, 2014, the Corporation had cash deposits of $30 million with the lenders.

The full $450 million was drawn on the facility in July 2014 to fund the COP Acquisition. The Corporation incurred $30.0 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan. During 2014, the Corporation recorded $20.7 million in interest expense for the loan. Debt covenants are due to be calculated and submitted to the lenders twice annually. In 2015, the Corporation prepaid $188 million of outstanding principal with proceeds from early settlement and reset arrangements associated with financial commodity contracts.

At December 31, 2014 the Corporation was in breach of the current ratio covenant on the $450 million loan which is required to be not less than 1.1. The current ratio calculated by the Corporation was 0.7. As such, the facility was classified as a current liability. The breach of the loan covenant gave the lenders the ability to accelerate the maturity of the facility on demand. However, the lenders chose not to exercise the rights to exercise their acceleration rights under that facility and the Corporation received a waiver of the current ratio requirement for the December 31, 2014 calculation at March 31, 2015. If there is no further waiver of covenants, the Corporation will need to apply the normal covenant at June 30, 2015. There can be no assurances that the Corporation will not again be in breach its covenants at June 30, 2015.

In addition, the Corporation's $350 million corporate finance loan facility (the "$350 million loan") and the $100 million subordinated debt facility (the "$100 million loan") contain certain cross-default clauses which would be triggered upon acceleration of a debt. Hence, if the $450 million loan lenders had chosen to accelerate payment of the $450 million loan, the lenders associated with the $350 million loan and the $100 million loan would have the right to accelerate payment on these loans. Indirectly, this caused a situation where the Company did not have the unconditional right to defer repayment of the $450 million loan facility for a period of more than 12 months. However, as a result of the waiver received after year-end and the indirect nature of the potential breach of the $350 million loan and the $100 million loan, management determined that it would not classify the $350 million loan as a current liability; the $100 million loan is already classified as current as it is due in less than one year. Had the $350 million loan been classified as current, the impact would be to increase current liabilities by $250.1 million and decrease non-current liabilities by an equivalent amount. There can be no assurances that any subsequent breach of the $450 million loan covenants would not lead to an acceleration of the $350 million loan and $100 million loan facility.

$350 Million Corporate Finance Loan Facility

On January 17, 2014, the Corporation signed an agreement with a consortium of lenders led by FBN Capital Limited (an affiliate of First Bank of Nigeria) and FCMB Capital Markets Limited (an affiliate of First City Monument Bank) to secure a Corporate Finance Loan Facility for $329 million. Pursuant to an amendment agreement executed on January 31, 2014 the facility amount was increased to $350 million. The purpose of the facility was to fund the repayment of the existing loans of the Corporation and to finance the COP Acquisition. Interest is charged 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 facility will be repaid quarterly and has a final maturity date of June 30, 2020. The facility is secured by the Corporation's interest in OML 125, OML 134, OML 56, and OML 90 including all fields and facilities. The carrying value of the assets pledged as at December 31, 2014 was $239.6 million. The Corporation is also required to hedge a certain portion of crude oil production. Refer to Note 8 in the Consolidated Financial Statements for the details of hedges executed by management to satisfy this requirement. As at December 31, 2014, the Corporation had cash deposits of $18.5 million with the lenders.

The full $350 million was drawn in July 2014, the proceeds of which were used to (a) repay existing loans (the First Bank Nigeria Loans, the Ecobank Nigeria Loan, the Diamond Bank Loan, and the Enterprise Bank Loan) and (b) finance the COP Acquisition. The Corporation incurred $21.4 million of transactions costs which have been allocated to the amount drawn. The $21.4 million of transaction costs were used to calculate the interest expense on the facility. During 2014, the Corporation recorded $17.4 million in interest expense for the facility. Debt covenants are due to be calculated and submitted to the lenders quarterly. In 2015, the Corporation prepaid $51 million of outstanding principal with proceeds from early settlement and reset arrangements associated with financial commodity contracts.

$100 Million African Export Import Bank Subordinated Debt Facility

On June 6, 2014, the Corporation signed an agreement with African Export-Import Bank to secure a one year subordinated structured debt facility for $100 million. The loan was designated to fund a portion of the COP Acquisition. Interest is charged at LIBOR plus 7% per annum and was prepaid. The loan is due to be repaid on July 24, 2015. The loan is secured by a letter of credit from Oando PLC.

The full $100 million less prepaid interest was drawn in July 2014 to finance the COP Acquisition. The Corporation incurred $6.5 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan. During the year ended December 31, 2014, the Corporation recorded $6 million in interest expense for the loan.

All tabular amounts are in thousands of US dollars unless otherwise noted

$1.2 Billion Oando PLC Loan Facility

On December 20, 2012, OER borrowed $345 million from Oando PCL to finance a portion of the deposit required in connection with the COP Acquisition. The 2012 Oando Loan was subsequently rolled into the 2013 Oando Loan pursuant to the 2013 Oando Loan Documentation. The purpose of the 2013 Oando Loan was to provide for an aggregate increase in the maximum amount that may be borrowed by OER to $401 million.

On December 24, 2013, OER entered into a loan agreement to borrow $200 million from Oando in order to fund payments in relation to the COP Acquisition. Interest on the facility was charged at 5% per annum and the amount was to be available for draw down from December 24, 2013 to February 27, 2014. The loan was drawn down on February 12, 2014 and was required to be repaid on February 28, 2014.

On February 10, 2014, the $200 million loan and the 2013 Oando Loan were rolled into the 2014 Oando Loan under which OER had the ability borrow up to an aggregate $1.2 billion on or before December 31, 2014. The 2014 Oando Loan comprised $401 million borrowed under the 2013 Oando Loan and the $200 million loan which was drawn down on February 12, 2014 as well as an additional $599 million. The $292 million available capacity on the loan expired on December 31, 2014 and can no longer be utilized by the Corporation.

The annual interest rate was set at 4% calculated quarterly and the facility included a $48 million financing fee. Principal and financing fee payments were due to be repaid on December 31, 2015. The terms of the facility included a conversion feature allowing the Corporation to elect to repay interest, the financing fee, and principal by the issuance of common shares of OER, subject to certain restrictions. The table below summarizes the movement in the loan in 2014.

	2014
Balance, beginning of year	401,000
Drawings	507,000
Converted to shares and warrants	(867,000)
Cash repayment	(41,000)
Balance, end of year	-

In 2014, the facility was drawn by an additional $507 million of which $41 million was repaid. Net drawings were used to fund the COP Acquisition and for other Corporate requirements. Also during this period, $867 million of principal, $14.9 million of accrued interest, and the $48 million financing fee was exchanged for 650,785,739 common shares of OER and 325,392,869 warrants as per the table below. Of the $929.9 million conversion amount, $126.4 million was allocated to the warrants and recorded as a derivative financial liability and the residual amount of $803.5 million was recorded as share capital. The $48 million financing fee was accounted for as a transaction cost and expensed in the period.

	Amount (Thousands of USD)				**Units**	
Conversion Date	**Principal**	**Interest**	**Financing Fee**	**Total**	**Shares**	**Warrants**
February 26, 2014	601,000	11,710	-	612,710	432,565,768	216,282,884
July 9, 2014	168,000	2,900	48,000	218,900	150,075,856	75,037,928
August 20, 2014	98,000	325	-	98,325	68,144,115	34,072,057
Total	**867,000**	**14,935**	**48,000**	**929,935**	**650,785,739**	**325,392,869**

With each conversion noted in the above table, the Corporation issued units (the **"Units"**) comprising, in aggregate, common shares and common shares purchase warrants at a price of $1.57 CAD per Unit. The exchange price of $1.57 CAD per unit established in negotiations with arm's length private placement investors (described below) was also used as the exchange price on the conversions. The exchange price was approved by the independent directors of

OER and the TSX and in effect until August 20, 2014; however it was not extended beyond August 20, 2014 by OER or Oando PLC.

On the date of issue, each whole warrant entitled the holder thereof to acquire one common share of OER at a price of $2.00 CAD per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days. On September 29, 2014 the exercise price on the warrants issued to Oando PLC was changed from $2.00 CAD to $1.80 USD which set the exercise price to a currency that matches the functional currency of the Corporation and resulted in the warrants being reclassified from liabilities to equity (refer to the description of net financing expenses in Section 3 *Financial and Operating Results* for further details). The CAD/USD foreign exchange rate in effect on the date of the private placement, (i.e. February 26, 2014) was used to convert the exercise price from CAD to USD.

As a result of the conversions, Oando PLC currently beneficially owns, or exercises control or direction over, 746,107,838 common shares, representing 93.8% of OER's issued and outstanding common shares and holds 325,392,869 warrants. If Oando PLC (through its subsidiary) exercises its warrants, it would own 1,071,500,708 common shares, representing 95.6% of OER's issued and outstanding common shares; however, Oando PLC is restricted by contract and an undertaking given to the TSX from exercising any warrants that would result in its ownership interest of OER exceeding 94.6%.

Oando Energy Resources private placement

On February 26, 2014, the Corporation concluded a private placement offering with arm's length investors for gross proceeds of $50 million. Under the private placement, the Corporation issued 35,070,063 Units, with each unit comprising one common share and one half common share purchase warrant at a price of $1.57 CAD per Unit. Each whole warrant entitles the holder thereof to acquire one common share of OER at a price of $2.00 CAD per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days, notwithstanding, the warrants expire July 30, 2016.

The proceeds from the private placement were used to fund a portion of the COP Acquisition. The private placement was negotiated and concluded on an arm's length basis. The securities issued were subject to a hold period that expired on June 27, 2014. In 2014 the exercise price on the warrants issued to the arm's length private placement investors was changed from $2.00 CAD to $1.80 USD which set the strike price to the Corporation's functional currency and resulted in the warrants being reclassified from debt to equity (refer to the description of net financing expenses in Section 3 *Financial and Operating Results* for further details). The CAD/USD foreign exchange rate on the issuance date of February 26, 2014 was used to convert the exercise price from CAD to USD.

Liquidity and Sources of Funding

The following funding sources are expected to assist the Corporation in generating sufficient cash to execute the Corporation's business plans:

Cash from producing assets

The Corporation expects to generate positive cash flow from its sales of crude oil, natural gas, and NGLs from OMLs 60 to 63, sales of crude oil production from OML 56 and OML 125, and from the sales of crude oil production associated with Qua Ibo which commenced production in February 2015. Cash generated from non-hedged producing assets fluctuate with commodity prices.

Cash from financial commodity hedges

On February 6, 2015 the Corporation entered into an early settlement and reset arrangement with hedging counterparties which resulted in the receipt of $234 million that was used to reduce outstanding debt and led to a resetting of the Acquisition and Legacy Asset hedges (described below) with a fixed price of $65/bbl and strike of $75/bbl, with no changes to the expiry or volumes in the original contract. As crude oil prices fall below the hedged price the Corporation will generate cash from monthly hedge settlements. Furthermore, the Corporation could pursue further early settlement arrangements to generate cash however this is dependent on crude oil prices falling below the hedged price and the willingness of counterparties to engage in such arrangements.

Debt and equity financing

Subject to market conditions and financing being available on terms acceptable to the Corporation, additional funds may be raised through further debt and equity financings.

Working capital

As at December 31, 2014, the Corporation had a working capital deficiency of $567.2 million. In addition to its on-going working capital requirements, the Corporation must secure sufficient funding to fund ongoing operations and commitments (see section Payments Due by Period below) and repay at least $205.9 million in current borrowings as set out by loan repayment schedules. An additional $345.6 million of borrowings was reclassified to current borrowings as a result of debt covenant breaches (refer the Borrowings Section); the breach of the covenant gave the lenders associated with the $450 million loan the ability to accelerate the maturity of the loan on demand. However, the lenders chose not to exercise the rights to exercise their acceleration rights under that facility and the Corporation received a waiver of the current ratio requirement for the December 31, 2014 calculation at March 31, 2015. If there is no further waiver of covenants, the Corporation will need to apply the normal covenant at June 30, 2015. There can be no assurances that the Corporation will not again be in breach its covenants at June 30, 2015.

In addition to the reclassification mentioned above there was current liabilities inherited from the COP Acquisition. A large portion of those current liabilities relate to a $295.4 million accrued tax liability, of which the Corporation is in dispute and litigation regarding $62.4 million of the balance with the tax authorities in Nigeria. There is an indemnity from the seller on these disputed tax liabilities as they relate to periods before the effective date of the acquisition. In February 2015 the Corporation had paid $21 million of the current tax liability that is not covered by the indemnity. Additional liabilities inherited alongside the tax liabilities in the acquisition include NAOC JV liabilities owed to vendors. These NAOC JV liabilities arose because one of the JV partners, NNPC who owns 60% of the JV, hasn't paid all of its cash calls, hence the JV owes $522 million to vendors. The Corporation's net share of this liability as at December 31, 2014 was $104.4 million. Subsequent to year end, the NNPC paid down part of the liability to the JV. The Corporation also has other liabilities of $44.3 million related to Royalty and third party vendors as part of the working capital deficiency.

In 2014, the Corporation took steps to reduce its working capital deficiency. The Corporation exercised the conversion option on borrowing agreements with Oando PLC which resulted in the settlement of $867 million of principal through the issuance of shares and warrants and paid off in cash the $41 million outstanding to Oando PLC under the $1.2 billion facility agreement (described above). In addition, the Corporation secured equity financing in the form of a $50 million private placement with arm's length investors completed on February 26, 2014 (described above). In addition, the Corporation secured equity financing in the form of a $50 million private placement with arm's length investors completed on February 26, 2014 (described above). In 2015, the Corporation took additional steps to reduce its working capital deficiency by entering into an early settlement and reset arrangement with hedging counterparties which resulted in the receipt of $234 million used to reduce outstanding debt reduce required quarterly principal and interest payments going forward (hedge resets are described below). The Corporation is also looking for ways to refinance the $100 million Aftrexim loan which is due to be repaid in July 2015.

Finally, the Corporation has obtained a waiver on the debt covenant breaches associated with its $450 million loan facility as described above. Despite these actions, the Corporation's outstanding borrowings remain significant as do the funds required to fund ongoing operations and commitments. Despite these actions, the Corporation's outstanding borrowings remain significant as do the funds required to fund ongoing operations and commitments.

All tabular amounts are in thousands of US dollars unless otherwise noted

The Corporation will continue to employ strategies to increase working capital through strategies of optimizing current production and obtaining funding from additional debt and equity financing, subject to market conditions. There is no assurance that these initiatives will be successful in the future.

Debt covenants

The loan facilities have specific covenants that if breached could have an adverse effect on the Corporation's liquidity and ability to continue as a going concern. The $450 million loan requires an interest coverage ratio (EBITDA/finance charges) of 4 or greater, a leverage ratio (net debt/EBITDA) of 3 or less, and a current ratio (current assets/current liabilities) of not less than 1.1. The $350 million loan requires a debt service coverage ratio of not less than 1.3, a loan life coverage ratio of not less than 1.4 times, and a field coverage ratio of not less than 1.4.

As at December 31, 2014 the Corporation determined that it was in breach of the $450 million loan as a result of not meeting a current ratio covenant test (described below). As a result, the Corporation has classified the borrowings associated with this loan as current. Further details are provided the Borrowings section.

Risks with financial instruments

As at December 31, 2014, the Corporation's financial commodity contracts for the purpose of sales price hedging were in the money. Subsequent increases in the benchmark price of Brent crude oil may lead to a significant decline in the value of these contracts and decrease the Corporation's future cash flows. The Corporation has hedged 47% of its fourth quarter production levels with financial commodity contracts. The Corporation is also exposed to interest rate risk from variable rate borrowings. The table below provides a summary of the impact of changes in crude oil prices and interest rates on income before tax, with all other variables held constant.

		Income / (Loss)	
Instrument	**Sensitivity Range**	**Increase in Variable**	**Decrease in Variable**
Financial commodity contracts	+/- $10 per barrel change in Brent crude oil price	83,934	(76,790)
Variable rate borrowings	+/- 1% change in Libor interest rate applied to debt	(3,619)	3,723

All tabular amounts are in thousands of US dollars unless otherwise noted

Payments Due by Period

The table below provides a summary of the obligations of the Corporation as at December 31, 2014:

	Total	< 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years
Borrowings and interest payable[1, 2]	975,984	641,628	140,511	138,321	55,524
Trade and other payables	387,533	387,533	-	-	-
Current tax payable	204,765	204,765	-	-	-
Other long term payables	47,272	-	47,272	-	-
Derivative financial instruments	-	-	-	-	-
Purchase commitments	24,972	24,972	-	-	-
Budgeted capital expenditure[3]	138,680	138,680	-	-	-
	1,779,206	**1,397,578**	**187,783**	**138,321**	**55,524**

[1]*Interest payable is expected to be $252 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at year end. Cash out flows associated with borrowings assume principal payments are paid in accordance repayment schedules before cash sweeps – refer to discussions of borrowings above regarding excess cash flow from crude oil and natural gas sales.*

[3]*As at December 31, 2014, the Corporation determined that it was in breach on the $450 million loan (refer to Borrowings section). As a result, the Corporation has the loan as current. The table above has been adjusted to assume that the loan is due in less than 1 year.*

[2]*The capital expenditure budget represents the estimated level of required funding to support the planned growth, development and maintenance of the Corporation's interest in oil and gas fields.*

Capital Expenditures and Purchase Commitments

As at December 31, 2014, the estimated level of capital expenditures required to support the planned growth, development and maintenance of the Corporation's interests in oil and gas fields is $138.7 million. Refer to the discussion of capital expenditures in Section 3 *Results of Operations* above for further details. Historically, the Corporation has experienced significant variability in the actual costs incurred and timing of expenditure, as compared to initial estimated budgeted amounts and timing.

As at December 31, 2014, the Corporation had contracted to receive goods and services of an aggregate amount of $25.0 million which had not been delivered as at such date.

All tabular amounts are in thousands of US dollars unless otherwise noted

6. Financial Instruments

Financial commodity contracts

2014 Hedges

In August 2014, the Corporation entered into financial commodity contracts that hedge crude oil sales associated with the Acquisition Assets (as required by the $450 million senior secured loan facility) and Legacy Assets (as required by the $350 million corporate loan facility). The table below summarizes the nature of the hedges executed pursuant to these arrangements:

		Price/Unit[1]			Volume
Position	Remaining Term	Fixed	Strike	Premium[2]	(bbl/d)
Acquisition Assets:					
Fixed sell, purchased call	January 2015 to July 2017	$97.00	$110.55	-	5,333
Purchased put	January 2015 to July 2017	-	$110.55	$13.55	2,667
Total volume - $450 million loan hedges					8,000
Legacy Assets:					
Purchased put	January 2015 to January 2019[3]	-	$95.00 - $115.00	$11.50 – $11.84	2,223[4]

[1] Based on the weighted average price/unit for the remainder of contract.
[2] Premiums are deferred and payable monthly and settled net of fixed and strike cash flows.
[3] Remaining term excludes February 2016 to January 2017.
[4] Average volume over the life of the contract.

The effect of the Acquisition Asset hedges for the $450 million loan were to fix the price of crude oil that the Corporation receives, on the specific volumes at $97/bbl until the benchmark price of Dated Brent crude oil reaches $110.55/bbl; when Dated Brent crude oil price exceeds $110.55/bbl the Corporation received the incremental price above $110.55/bbl. The Acquisition Asset hedges accounted for 8,000 bbl/day.

The effect of the Legacy Asset hedges for the $350 million loan was to fix the price of crude oil that the Corporation receives, on the specific volumes at an average price of $91/bbl until the benchmark price of Dated Brent crude oil reaches the cap price (which ranges from $95/bbl to $115/bbl); when Dated Brent crude oil price exceeds the cap price the Corporation received the incremental price above cap price. The Legacy Asset hedges account for an average of 2,223 bbl/day.

The fair value of the financial commodity contracts as at December 31, 2014 was $299.9 million. In the year ended December 31, 2014, the Corporation recorded gains of $324.2 million on financial commodity hedges (of which $24.3 million were realized).

2015 Early Settlement and Reset Arrangement

On February 6, 2015 the Corporation entered into an early settlement and reset arrangement with hedging counterparties associated with the Acquisition and Legacy Asset hedges which resulted in the receipt of $234 million that was used to reduce outstanding debt. Specifically, $188 million was paid to reduce outstanding principal on the $450 million loan and $50 million was paid to reduce outstanding principal on the $350 million loan.

The arrangement led to a resetting of the Acquisition and Legacy Asset hedges with a fixed price of $65/bbl and strike of $75/bbl, with no changes to the expiry or volumes in the original contract. The effect of the Acquisition and Legacy Asset hedges is to fix the price of crude oil that the Corporation receives, on the specific volumes at $65/bbl until the benchmark price of Dated Brent crude oil reaches $75/bbl. If Dated Brent crude oil price exceeds $75/bbl the Corporation will receive the incremental price above $75/bbl to preserve some upside. As noted above, the original hedges were required by the terms of the $450 million and $350 million loan facilities. The lenders were required to approve the early settlement and reset arrangement.

Warrants

In 2014, the Corporation issued 325,392,869 warrants to Oando PLC, 17,535,031 warrants to private placement investors, and 1,745,541 warrants in connection with the Acquisition of Medal Oil (all described above). On the date of issue, each whole warrant entitled the holder thereof to acquire one common share of OER at a price of $2.00 CAD per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days. The warrants were initially classified as financial liabilities because the exercise price was not fixed in the functional currency of the Corporation; accordingly the warrants were initially recognized at fair value and subsequently measured at fair value with changes in fair value recorded in through profit or loss.

On September 29, 2014, the exercise price on the warrants issued to Oando PLC was changed from $2.00 CAD to $1.80 USD. Also, in the fourth quarter of 2014, the exercise prices on the warrants issued to private placement investors and on the acquisition of Medal Oil were changed from $2.00 CAD to $1.80 USD. The changes set the strike price to a currency that matches the functional currency of the Corporation. As a result the warrants now meet the definition of equity and were reclassified to equity at their fair value on the effective date of the change.

Prior to being reclassified to equity, $14.9 million was recorded as a net gain on financial instruments for the warrants. As of the date of this MD&A all of the warrants issued to Oando PLC, to private placement investors, and on the acquisition of Medal Oil remain exercisable.

Also in 2014, all of the unexercised warrants issued upon closing the reverse takeover expired without being exercised. On December 31, 2014, the Corporation received the approval of the TSX for the listing of the warrants so they can commence trading on the TSX.

Conversion feature on borrowings

As a part of the $1.2 billion Oando PLC loan facility, the Corporation also entered into the Repayment Deed. Pursuant to the Repayment Deed, either Oando PLC or the Corporation is permitted to elect for the Corporation to repay the Oando PLC Facility by the issuance of common shares, provided that all regulatory approvals have been obtained. In 2014, $867 million of principal, $14.9 million of accrued interest, and the $48 million financing fee was exchanged for 650,785,739 common shares of OER and 325,392,869 warrants (described above). As at December 31, 2014, the fair value of the conversion feature was nil as the Corporation had no borrowings outstanding with Oando PLC. In 2014, $50.6 million was recorded as net loss on financial instruments for the conversion feature prior to conversion/expiry.

Financial risk management

The Corporation's activities expose it to a number of financial risks including market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, and liquidity risk. The Corporation manages market risk by entering into financial commodity contracts to hedge a portion of production and reduce the volatility of operating cash flows. The Corporation manages credit risk associated with customers by analyzing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Corporation manages liquidity risk through working capital and debt management activities. For further information regarding the financial risk management activities of the Corporation, refer to Note 21 in the Consolidated Financial Statements.

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7. Related Party Transactions

The ultimate parent of the Corporation is Oando PLC, incorporated in Nigeria. At December 31, 2014, Oando PLC owned 93.8% of the Corporation's share capital. There are other companies that are related to Oando PLC through common shareholdings or common directorships with Oando PLC. The operations of the Corporation have historically been financed by Oando PLC and recognized as intercompany transactions. The tables below summarize related party balances between the Corporation and Oando PLC as at December 31, 2014 and 2013.

Accounts receivable	**2014**	**2013**
Accounts receivable from Oando PLC	94,006	18,582
Related party receivables	**94,006**	**18,582**

Accounts payable	**2014**	**2013**
Under lift payable to Oando PLC	47,272	47,272
Loan payable to Oando PLC	-	401,000
Financing fee and interest payable on Oando PLC loan	-	-
Payable to Oando PLC (Equator loan)	11,098	9,914
Payable to Oando PLC for COP Acquisition	-	7,612
Oando Energy Services	-	1,228
Oando PLC (Payments on behalf of the Corporation)	50,679	37,463
Payables to Oando PLC (Qua Ibo and ORPSL acquisition)	-	9,260
Related party payables	**109,049**	**513,749**

Related party agreements are as follows:

(i) Shareholder Agreements dated July 24, 2012 between Oando PLC and Oando Netherlands Holding 2 BV (**"Holdco 2"**) in respect of Oando Akepo Limited (**"Oando Akepo"**); Oando PLC and Oando Netherlands Holding 3 BV (**"Holdco 3"**) in respect of Oando Petroleum Development Company Limited (**"OPDC2"**) (which owns 95% of the shares of OPDC); Oando PLC and Oando OML 125 & 134 BVI in respect of Oando OML 125&134. Shareholder agreements dated April 30, 2013 between Oando PLC and Oando Netherlands Holding 4 BV (**"Holdco 4"**) and Oando Netherlands Holding 5 BV (**"Holdco 5"**) in respect of Oando Qua Ibo Limited (**"OQIL"**) and Oando reservoir and Production Services Limited (**"ORPSL"**), respectively. Shareholder agreements dated July 31, 2014 between Oando PLC and Oando 60, 61, 62 & 63 Holding BV ("Holdco 60-63"), Oando OPL 214 Holding BV (**"Holdco 214"**), and Oando OML 131 Holding BV (**"Holdco 131"**) in respect of Phillips Oil Company Nigeria Limited (**"POCNL"** – name subsequently changed to Oando Hydrocarbon Limited), Phillips Deepwater Exploration Nigeria Limited (**"PDENL" –** name subsequently changed to Oando Deepwater Exploration Limited), and Conoco Exploration and Production Nigeria Limited (**"CEPNL"** – name subsequently changed to Oando 131 Limited), respectively Oando PLC owns Class A shares and each of Holdco 2, Holdco 3, Oando OML 125&134 BVI, Holdco 4, Holdco 5, Holdco 60-63, Holdco 214, and Holdco 131 (together the **"Holdco Associates"**) owns Class B shares, in each of Oando Akepo, OPDC2, Oando OML 125&134, OQIL, ORPSL, POCNL, PDENL, and CEPNL (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 Corporation) 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, OQIL, ORPSL, POCNL, PDENL, and CEPNL respectively, with the Holdco Associate being entitled to appoint the Chairman, who has a casting vote. In addition, the applicable Holdco Associate has the power to compel Oando PLC to sell its Class A shares for nominal consideration. The shareholder agreements in respect of most of the Operating Associates are filed on www.sedar.com under "Oando Energy Resources Inc.". No amounts have been paid or are due to be paid by either party to the other under the shareholder agreements. During the period, the Corporation didn't incur any amounts under this agreement (2013 - Nil)

(ii) Right of First Offer Agreement ("**ROFO Agreement**") dated September 27, 2011, as amended, between Oando PLC and the Corporation. Pursuant to the ROFO Agreement, the Corporation 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. 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. Prior to the amendment, the right of first offer in the ROFO would have terminated on September 27, 2013. The Corporation has no amounts due to Oando PLC under this agreement (2013 - $9.3 million). During the period, the Corporation didn't incur any amounts under this agreement (2013 - nil).

(iii) Referral and Non-Competition Agreement dated July 24, 2012 between Oando PLC and the Corporation. Pursuant to this agreement, Oando PLC is prohibited from competing with the Corporation 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 Corporation. Oando PLC is also required to refer all upstream oil and gas opportunities to the Corporation pursuant to this agreement. In addition, in the event that Oando PLC acquired any upstream assets between September 27, 2011 and July 24, 2012, Oando PLC is required to offer to sell these assets to the Corporation 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 Corporation, plus an administrative fee of 1.75%. The Corporation has no amounts due to Oando PLC under this agreement in respect of the COP Acquisition (2013: $7.6 million).

(iv) Cooperation and Services Agreement dated July 24, 2012 between Oando PLC and the Corporation. 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 Corporation, to provide certain services to the Corporation, 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 Corporation on the basis of the cost to Oando PLC plus a margin of 10%. The independent directors of the Corporation are entitled to approve all such cost allocations. At any time, the Corporation may elect to terminate any of the services under the agreement provided such notice is effective only on December 31 or June 30 of any year and such notice has been given at least 60 days in advance. Once terminated, Oando PLC shall have no further obligation to make available the services as have been so terminated and equitable adjustments shall be made as to the cost for the remaining services, if any, that are continued to be supplied by Oando PLC to the Corporation under the agreement. As part of the costs incurred under the agreement, the Corporation incurred $5.8 million in aviation costs to an entity that is owned by a director of the Corporation (2013 – $2.1 million). During the period, the Corporation incurred $36.0 million under this agreement (2013 - $6.2 million).

(v) Transitional Services Agreement dated July 24, 2012 between the Corporation, Oando Servco Nigeria and OEPL. OEPL is a related entity of the Corporation. Pursuant to this agreement, the Corporation 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 Corporation has $17.7 million due from OEPL (2013 – $7.3 million), a subsidiary Oando PLC under this agreement in respect of services provided.

In addition to those transactions noted above, transactions with related parties also included $0.1 million related to insurance services provided by Scib Nigeria & Company Ltd and $5.8 million related to aircraft services provided by Triton Aviation.

8. Accounting Policy Changes and Critical Estimates and Judgements

Changes in accounting policies and disclosures

The Corporation adopted IFRIC 21, Accounting for levies imposed by governments, which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Corporation's adoption of IFRIC 21 on January 1, 2014 did not result in changes in the accounting for government levies.

There are no other IFRSs or IFRIC interpretations that are effective January 1, 2014 that would be expected to have a material impact on the Corporation.

Critical estimates and judgements

Critical estimates and assumptions

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

i. COP Acquisition fair values

On July 30, 2014, the Corporation completed the COP Acquisition and determined that the acquisition method of accounting should be applied. Accordingly, a purchase price allocation was performed whereby on the acquisition date (i) identifiable assets and liabilities were recognized and measured and (ii) goodwill was recognized and measured. The process of measuring identifiable assets and liabilities required estimation. Refer to Note 5 in the Consolidated Financial Statements for the fair values of assets acquired and liabilities assumed with the COP Acquisition.

ii. Impairment of non-financial assets

Oil and gas assets, exploration and evaluation assets, and goodwill in accordance with the accounting policies defined above. The recoverable amounts of these assets have been determined based financial models and calculations which require the use of estimates and assumptions, see note 4. Refer to 10, 11, 12 and 14 in the Consolidated Financial Statements, respectively, for the details of impairments of oil and gas assets, exploration and evaluation assets, the Corporation's interest in Qua Ibo, and goodwill. Recoverable amounts have been determined based on an estimate of the fair value less costs of disposal. For oil and gas assets and the Corporation's interest in Qua Ibo fair value has been estimated using a discounted cash flow technique. For exploration and evaluation assets fair value has been estimated using per boe values implied from recent acquisitions of similar assets. For goodwill, fair value has been estimated using a combination of the techniques applied for oil and gas assets and exploration and evaluation assets.

Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate. Reserves as at December 31, 2014 have been evaluated by independent qualified reserves evaluators. The table below summarizes the forecasted Dated Brent crude oil price used to determine cash flows from crude oil reserves and resources which is based on a consensus of views on future pricing.

All tabular amounts are in thousands of US dollars unless otherwise noted

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Beyond
Brent US$/barrel	69	75	82	89	96	98	100	102	104	106	108	110	2%

For material natural gas reserves, a weighted average price of $2.50/mcf was used to determine cash flows. Crude oil loss factors applied ranged from 10% to 15% depending on the field. The discount rate applied was 12%. For exploration and evaluation assets, the Corporation used $0.82/boe as the implied value/boe.

iii. Oil and gas reserves and resources

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.

iv. Income taxes

The Corporation is subject to income taxes in numerous jurisdictions. Determining the worldwide provision for income taxes requires estimation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes 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 Consolidated Financial Statements. The Corporation has included income tax disclosures in Note 16 of the Consolidated Financial Statements.

v. Provision for decommissioning obligations

The provision for decommissioning obligations is calculated based on the best estimate of the expenditure required to settle the present obligations at the end of the reporting period, discounted using a rate that reflects the current market assessment of the time value of money. The calculations can be complex, involve subject judgments and significant measurement uncertainties as the calculations are based on estimates of oil and gas reserves, future cost estimates and timing estimates. These estimates are reviewed at each reporting date and revised, if necessary. Refer to note 18 in the Consolidated Financial Statements for the details of the provision for decommissioning obligations.

Critical judgements

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recorded in the Consolidated Financial Statements of the Corporation.

i. The Corporation's ability to continue as a going concern

Due to the financial condition of the Corporation at December 31, 2014 and the significant level of contractual commitments that are outstanding, judgment has been exercised in applying the assumption that the Corporation will continue as a going concern for the foreseeable future. Refer to Note 1(b) of the Consolidated Financial Statements for further disclosure.

The Corporation determined that it was in breach of the $450 million loan as a result of not meeting a current ratio covenant test (refer to Note 17 for further details). As a result, the Corporation has classified the borrowings associated with this loan as current. Refer to the Borrowings section.

ii. Consolidation of operating associates

The Corporation's structure includes a number of operating associates in which the Corporation owns less than half of the outstanding shares which represent less than half of the voting rights; for these entities, Oando PLC owns greater than half of the outstanding shares which represent greater than half of the voting rights (refer to Note 1(d) of the Consolidated Financial Statements). However, the Corporation 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 Corporation and two directors are appointed by Oando PLC. The Corporation is entitled to appoint the Chairman of the Board and the Chairman has a casting vote. The shareholder agreement cannot be terminated at the direction of Oando PLC. The Corporation has the right to elect the purchase of the Class B shares from Oando PLC for a nominal amount.

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

The Corporation'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 the Company and therefore the Company is the entity considered to have control over such operating associates. As such, the Corporation has the responsibility for consolidating the financial information of its operating subsidiaries into the Consolidated Financial Statements of the Corporation.

Although, Oando PLC nominally has a 60% interest in the operating associates (57% for Oando Production and Development Company Limited), its direct economic interest in the operating associates is nominal. The class A shares that Oando holds do not participate in distributions and participate in liquidation of the entity at a nominal amount. Accordingly, there is no non-controlling interest recorded for the shares in excess of the nominal amount they would be entitled to on liquidation, as such shares do not participate in the earnings of the operating associates.

iii. 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 Corporation 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.

iv. Finance lease

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement whereby, through a joint operation, the Corporation delivers power from the Kwale plant and also has the right to use the plant for nine and a half years in return for an agreed series of payments from National Electric Power Authority (now Power Holding Company of Nigeria) (refer to Note 9 of the Consolidated Financial Statements). This arrangement is treated as a finance lease and a financial receivable asset was recognized. The financial receivable is the present value of minimum lease payments (MLP) receivable by the Corporation. In arriving at MLP, a discount rate implicit in the lease was derived.

v. Impairment of non-financial assets

Oil and gas assets, exploration and evaluation assets, and goodwill in accordance with the accounting policies defined above. Impairment assessments involve judgment.

(i) Impairment indicators

Determining whether non-financial assets are impairment requires 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. Furthermore, additional 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. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount is less than the carrying amount, an impairment loss would be recorded in the Consolidated Financial Statements. Refer to Note 10, 11 and 12 of the Consolidated Financial Statements, respectively, for the details of Management's review of impairment indicators for oil and gas assets and exploration assets.

(ii) Allocation of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or combinations of CGUs, that are expected to benefit from the synergies of the combination. Each unit or Corporation of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Refer to Note 14 of the Consolidated Financial Statements for the details of the level at which the entity monitors and tests goodwill for impairment.

vi. Accounting for crude oil over lift by NNPC

The Corporation is currently in a dispute with the NNPC in relation to overlifting by the NNPC between 2008 and 2014 and which, in the view of the partners, exceeded the NNPC's entitlements. Further information relating to this dispute is included in Note 24 of the Consolidated Financial Statements. For the year ended December 31, 2014, the NNPC has continued to lift production volumes that exceed their entitlement, despite arbitration rulings that have found in favor of the Corporation.

In preparation of the Consolidated Financial Statements, it was determined that the revenue recognition should be deferred for oil production subject to overlifting by the NNPC. From October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production from the Abo field not recognized as a result of this policy in 2013, $21 million has not been recognized in revenue in the year ended December 31, 2014. The Corporation continues to defer the recognition of revenue for oil production that is subject to overlift by the NNPC and will do so until it is determined that the economic benefits of the overlifted amounts will accrue to the Corporation.

9. Internal Controls over Financial Reporting and Disclosure Controls

Management, including The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the disclosure controls and procedures ("**DCP**") and internal controls over financial reporting ("**ICFR**") for the year to December 31, 2014 and concluded that the design and operations of these controls were effective as at December 31, 2014. 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.

In the MD&A for the year ended December 31, 2013, Management disclosed material weaknesses with respect to DCP and ICFR. The following is a summary of actions taken to date to remediate those weaknesses:

- Lack of Financial Reporting Expertise (DCP): Beginning in February 2014, the Corporation has implemented a training program to assist existing employees in attaining appropriate financial reporting expertise. All staff has received IFRS conversion training. The Corporation 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. OER has now hired experienced financial reporting staff and consultants; they primarily assist with the review of the Consolidated Financial Statements. The Corporation has formed a multi-disciplinary team of employees and consultants who will be involved with the preparation of the Corporation's annual disclosure documents and be responsible for the fulsome disclosure of relevant financial, legal and operational information.

- Lack of Review of Press Releases (DCP): The Corporation has provided an education program to relevant Corporation representatives to ensure that its disclosure policies are followed in the future. The relevant staff now has knowledge of the disclosure requirements of NI 51-102 with regards to disclosure. To reinforce this knowledge, formal training on the NI 51-102 was completed in the fourth quarter of this year.
- Manual Consolidation Process Performed outside ERP (ICFR): In January 2014, the Corporation began to implement an updated version of the Corporation's ERP accounting system, which is expected to reduce the level of manual intervention required to prepare Consolidated Financial Statements. Originally planned to be implemented in 2014, it is now expected that this will be implemented in 2015. Pending implementation of this updated system, this weakness was mitigated by the implementation of manual procedures and detection controls, the fact that the Corporation has hired employees and consultants with relevant experience, and quarterly reviews of Consolidated Financial Statements by management and by the Audit Committee.

Also in 2014, the Corporation engaged an independent and reputable professional services firm to assist with the assessment of design and operating effectiveness of DCP and ICFR in accordance with applicable securities laws. Furthermore, the CEO and CFO oversee all material transactions, 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. Other Information

Contingencies

Bilabri Oil Field (OML 122)

In 2007, the Corporation transferred, under the Bilabri Settlement Agreement, the full responsibility for completing the development of the Bilabri oil field in OML 122 to Peak Petroleum Industries (Nigeria) Limited ("**Peak**"). Peak specifically assumed responsibility for the project's future funding and historical unpaid liabilities. In the event that Peak fails to meet its obligations to the projects creditors, it remains possible that the Corporation may be called upon to meet the debts. Therefore, a contingent liability of $21.7 million exists at December 31, 2014 (2013 – $21.7 million). The Corporation has assessed the likelihood that cash outflows will be required to settle the obligation as remote, and therefore, no liability has been recorded in the Consolidated Financial Statements at December 31, 2014 (2013 – $Nil).

OPL 321 and OPL 323

In January 2009, the Nigerian government voided the allocation of OPL 323 and OPL 321 to the operator, Korea National Oil Corporation ("**KNOC**") and allocated the blocks to the winning Corporation of the 2005 licensing round comprising ONGC Videsh, Equator and Owel. KNOC brought a lawsuit against the government and a judgement was given in their favor. The government and Owel appealed the judgement. The case has now gone to the Supreme Court. In 2009, the government refunded the signature bonus paid by the Corporation. The Corporation has not recognized a liability to the government for the blocks subsequent to the refund of the signature bonus. This is due to the uncertainty surrounding the timing of the settlement of the ongoing dispute as well as to the amount to be paid upon settlement. Also, there is no obligation to pay the signature bonus as the Corporation can opt in or out once the legal dispute is settled. The Corporation has declared its intention to continue to invest in the blocks. The Corporation has impaired the carrying value and currently carries both assets at Nil (2013 - $1.9 million).

All tabular amounts are in thousands of US dollars unless otherwise noted

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

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

During 2010, one bidding partner successfully sued the Corporation in an arbitration tribunal for $1 million. This has been paid in full. On the advice of legal counsel, the Corporation 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 Corporation will not need to settle the $4 million loan note and can defer payment indefinitely. The above contingencies are based on the best judgments of the Board and management.

The Corporation has been involved in settlement negotiations in respect of the dispute between KNOC, Owel and the Nigerian Government. The negotiating parties have agreed in principle to restructure the working interests in order to accommodate additional members into the new consortium being formed pursuant to the negotiations.

Outstanding Share Data

The table below summarizes outstanding share data as at December 31, 2014 and as of the date of this MD&A.

	As at December 31, 2014	**As at the date of this MD&A**
Common shares	795,419,213	796,049,213
Options exercisable to acquire common shares	8,410,000	8,410,000
Warrants to acquire common shares[1]	344,673,441	344,673,441
Restricted share units to acquire common shares[2]	2,000,000	1,370,000

[1] *Each entitles the holder to acquire one common share of OER at an exercise price of $1.80 USD until July 30, 2016.*
[2] *Each entitles the holder to acquire one common share of OER at no additional cost.*

Off-balance-sheet arrangements

The Company has not entered into any off-balance-sheet arrangements.

11. Advisory

Forward Looking Statements

Certain information contained in management's discussion and analysis of the Corporation's financial condition and results of the Corporation'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 changes 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 successfully integrate the assets acquired under the COP Acquisition and derive the anticipated economic benefits therefrom; statements with respect to the Corporation's development potential and programs; the Corporation's ability to raise required capital or draw down on existing loans, the future price of crude oil, natural gas and NGLs; the continuing impact of the change of management; the estimation of crude oil, natural gas and NGLs reserves; conclusions of economic evaluation; the realization of reserve resource 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 over lifting; 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 Corporation's properties in Nigeria are based on the Corporation'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 Corporation's agreements with its partners, regulatory authorities, and extensive research of the Corporation, 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 Corporation 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 Corporation 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 crude oil, natural gas and NGLs ; 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 the Corporation 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 Corporation's operations and financial results are included in documents on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website, or at the Corporation's website. Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Corporation 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 and Risk Factors

The majority of the Corporation's focus is related to Nigeria. As such, the Corporation 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 the Corporation's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

As such, the Corporation's operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the Corporation'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, natural gas and NGLs pricing policy.

For the reasons stated above, and other factors, an investment in securities of OER should be considered speculation. OER's Annual Information Form contains a summary of various risk factors which are relevant to investors. Refer to "Additional Information" below.

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 natural gas volumes have been converted to Boe on the basis of six Mcf to one Boe.

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 crude 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 the Corporation

All information included in this document and the Consolidated Financial Statements and comparative information is shown in US dollars, before royalty basis, unless otherwise noted. The Corporation's financial results are consolidated in US dollars and the Corporation has adopted the US dollar 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 "**Corporation**", "**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 Corporation's public filings found on SEDAR at www.sedar.com, and on the Corporation's website at http://www.oandoenergyresources.com.