Oando Energy Resources

Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

Independent Auditor's Report

To the Shareholders of Oando Energy Resources Inc.

We have audited the accompanying consolidated financial statements of Oando Energy Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oando Energy Resources Inc. and its subsidiaries, as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta
March 29, 2016

Management's Responsibility for Financial Reporting

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

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

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

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

(signed)"Olapade Durotoye"	*(signed) "Adeola Ogunsemi"*
Chief Executive Officer	Chief Financial Officer
March 29, 2016	March 29, 2016

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Notes to the Consolidated Financial Statements

Oando Energy Resources Inc.

Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(Thousands of US dollars)

	Note	December 31, 2015	2014
Current assets			
Cash and cash equivalents		43,755	31,363
Trade and other receivables	16	84,551	238,911
Inventory		9,424	6,329
Derivative financial instruments, current	5	73,308	299,949
		211,038	576,552
Disposal group assets	6	199,702	-
Non-current assets			
Derivative financial instruments, non-current	5	51,555	-
Property, plant and equipment	7	1,027,076	1,108,591
Exploration and evaluation assets	8	144,642	155,210
Interest in Qua Ibo	9	34,629	53,442
Finance lease receivable, non-current	10	197,882	195,727
Restricted cash		51,057	48,481
Other long term receivables	16	196,891	76,659
Deferred tax assets	12	6,086	7,091
Goodwill	11	1,021,038	1,021,038
		2,730,856	2,666,239
Total assets		3,141,596	3,242,791
Current liabilities			
Trade and other payables	16	332,398	387,533
Current tax payable	12	217,528	204,765
Borrowings, current	13	496,865	551,480
		1,046,791	1,143,778
Disposal group liabilities	6	197,124	-
Non-current liabilities			
Borrowings, non-current	13	-	250,126
Decommissioning obligations	14	208,485	59,895
Other long term payables	16	49,101	49,252
Deferred tax liability	12	611,185	729,723
		868,771	1,088,996
Total liabilities		2,112,686	2,232,774
Shareholders' equity			
Share capital	15	903,260	902,607
Share issue cost reserve		(6,505)	(6,505)
Share based payment reserve		8,142	6,021
Warrant reserve		119,970	119,970
Contribution from parent		628,129	628,129
Retained deficit		(621,173)	(638,139)
		1,031,823	1,012,083
Non-controlling interests		(2,913)	(2,066)
Total shareholders' equity		1,028,910	1,010,017
Total liabilities and shareholders' equity		3,141,596	3,242,791

The accompanying notes are an integral part of these consolidated financial statements. Refer to Going Concern uncertainty at Note 1

signed "Philippe Laborde" Director *signed "Bill Watson" Director*

Director Director

Oando Energy Resources Inc.
Consolidated Statements of Comprehensive Income/(Loss)
For the years ended December 31, 2015 and 2014
(Thousands of US dollars, except per share data)

	Note	Year ended December 31, 2015	2014
Revenue	19	454,965	421,422
Production expenses		(238,669)	(152,932)
Depletion, depreciation and amortization		(130,670)	(88,672)
Impairment of assets		(44,274)	(462,783)
Impairment of joint venture receivable	16,25	(15,643)	(47,926)
General and administrative costs	20,25	(69,636)	(70,620)
Acquisition costs		-	(84,860)
Net gains on financial instruments	5	110,313	288,254
Net financing expenses	21	(73,390)	(125,532)
		(461,969)	(745,071)
Loss before income tax		(7,004)	(323,649)
Current income tax (expense)	12,25	(42,497)	(71,285)
Deferred income tax recovery	12,25	65,620	74,893
Net income/(loss) for the year		16,119	(320,041)
Comprehensive income/(loss) attributable to:			
Owners of the parent		16,966	(316,500)
Non-controlling interests		(847)	(3,541)
		16,119	(320,041)
Net income/(loss) per share			
Basic	15	0.02	(0.53)
Diluted	15	0.02	(0.53)

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The accompanying notes are an integral part of these consolidated financial statements

Oando Energy Resources Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014
(Thousands of US dollars)

	Attributable to common shareholders of the Corporation								
	Share capital	Share issuance cost reserve	Share based payment reserve	Warrants Reserve	Contribution from parent	Retained deficit	Total	Non-controlling interest	Total equity
Balance, January 1, 2015	902,607	(6,505)	6,021	119,970	628,129	(638,139)	1,012,083	(2,066)	1,010,017
Net income for the year	-	-	-	-	-	16,966	16,966	(847)	16,119
Total comprehensive loss	-	-	-	-	-	**16,966**	**16,966**	**(847)**	**16,119**
Share issue	653	-	(653)	-	-	-	-	-	-
Value of employee services	-	-	2,774	-	-	-	2,774	-	2,774
Total contributions recognized directly in equity	**653**	**-**	**2,121**	**-**	**-**	**16,966**	**19,740**	**(847)**	**18,893**
Balance, December 31, 2015	**903,260**	**(6,505)**	**8,142**	**119,970**	**628,129**	**(621,173)**	**1,031,823**	**(2,913)**	**1,028,910**
Balance, January 1, 2014	5,714	(7,302)	4,953	-	628,129	(321,639)	309,855	1,475	311,330
Net loss for the year	-	-	-	-	-	(316,500)	(316,500)	(3,541)	(320,041)
Total comprehensive loss	-	-	-	-	-	(316,500)	(316,500)	(3,541)	(320,041)
Share issue	896,893	-	-	-	-	-	896,893	-	896,893
Share issue costs	-	797	-	-	-	-	797	-	797
Value of employee services	-	-	1,068	-	-	-	1,068	-	1,068
Warrants reclassified to equity	-	-	-	119,970	-	-	119,970	-	119,970
Total contributions recognized directly in equity	896,893	797	1,068	119,970	-	(316,500)	702,228	(3,541)	698,687
Balance, December 31, 2014	902,607	(6,505)	6,021	119,970	628,129	(638,139)	1,012,083	(2,066)	1,010,017

The accompanying notes are an integral part of these consolidated financial statements.

Thousands of US dollars

	Note	Year ended December 31, 2015	2014
Loss before tax		(7,004)	(323,649)
Adjustments for:			
Depreciation, depletion and amortization		130,670	88,672
Impairment of assets		127,034	462,783
Reversal of impairment of assets		(82,760)	-
Impairment of joint venture receivables		15,643	47,926
Net income on lease receivable		(24,581)	(969)
Fair value gain on financial instruments		(51,135)	(270,431)
Net foreign exchange loss/(gain)		(7,716)	2,157
Gain on disposal of property plant and equipment		-	(2)
Provision for doubtful debt		194	667
Share based payments		2,774	1,068
Income taxes paid		(29,517)	(38,857)
Decommissioning liabilities: unwinding of discount		10,490	4,791
Finance expenses		97,216	127,147
Proceeds from early hedge settlement		226,220	-
Net changes in working capital	22	31,487	14,784
Cash flows from operating activities		439,015	116,087
Increase in restricted cash		(2,575)	(43,635)
Proceeds from borrowings		90,703	1,412,848
Repayment of borrowings		(421,702)	(314,093)
Transaction costs on borrowings		(4,638)	(53,177)
Interest payments		(44,515)	(59,426)
Proceeds from share issuance		-	50,000
Equity issuance cost		-	797
Net changes in working capital	22	5,949	(6,006)
Cash flows from financing activities		(376,778)	987,308
Property, plant and equipment expenditures		(77,277)	(133,649)
Exploration and evaluation asset expenditures		(6,725)	(7,735)
Qua Ibo capital expenditures		(3,755)	(14,744)
Corporate acquisition, net of cash		-	(942,928)
Increase in deposit for acquisition		-	-
Proceeds from sale of property, plant and equipment		-	51
Net changes in working capital	22	37,912	14,296
Cash flows from investing activities		(49,845)	(1,084,709)
Net change in cash and cash equivalents		12,392	18,686
Cash and cash equivalents, beginning of the year		31,363	12,677
Cash and cash equivalents, end of the year		43,755	31,363

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Reporting entity and going concern

(a) General information

Oando Energy Resources Inc. ("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. OER was incorporated under the laws of British Columbia, Canada. OER's registered office is located at 3400, First Canadian Center, 350 7th Avenue SW, Calgary AB, T2P 3N9, Canada and head office is located at 1230, 112 4th Avenue SW, Calgary, AB, T2P 0H3, Canada. OER and its subsidiaries are involved in the acquisition of petroleum and natural gas rights, the exploration for and development and production of oil and natural gas primarily focused in Nigeria and São Tomé and Príncipe. The ultimate parent company is Oando PLC, who owned 93.7% of the share capital of the Corporation at December 31, 2015 and is the ultimate controlling party. Unless otherwise noted, all references to the "Corporation" mean OER and its subsidiaries.

The consolidated financial statements include financial information of the Corporation and its subsidiaries including a proportionate share of its investments in joint operations. Oando PLC owns Class A shares of certain entities consolidated by the Corporation which provides it with 60% of the voting rights but no rights to receive dividends or distributions from these entities except on liquidation or winding up. The Class B shares of these entities, which are indirectly owned by the Corporation, entitle the Corporation to 40% of the voting rights and 100% of the rights to receive dividends and distributions. The Corporation controls these entities through shareholder agreements which are filed on www.sedar.com under "Oando Energy Resources Inc." Further information on the Corporation and its subsidiaries can be found in the Annual Information Form ("AIF") filed on www.sedar.com and below.

(b) Going concern

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

As at December 31, 2015, the Corporation had a working capital deficiency of $835.8 million (December 31, 2014 – $567.2 million) and an accumulated deficit of $621.2 million (December 31, 2014 – $638.1 million). In addition to its on-going working capital requirements, the Corporation must secure sufficient funding to fund ongoing operations and commitments (refer to Note 23 for details of commitments which include interest payments, purchase commitments, and budgeted capital expenditures) and repay at least $149.9 million in current borrowings as set out by loan repayment schedules. An additional $356.7 million of borrowings was reclassified to current borrowings as a result of debt defaults (refer to Note 13 for further details); the defaults gives the lenders associated with the Senior Secured Facility and Corporate Facility the ability to accelerate the maturity of the loans on demand. The lenders chose not to exercise their acceleration rights under the loans; despite this there can be no assurances that the lenders will not exercise these rights at a future date. The Corporation has incurred significant levels of debt financing to finance on-going operations and acquisitions. Furthermore, the decline in global oil prices has reduced cash flows from operations. Global oil prices could remain at current low levels for 2016 and possibly longer, further impacting revenues and operating cash flows and the ability of the Corporation to repay amounts due and its various debt facilities. These circumstances lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In February 2015, the Corporation entered into early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements) which was used to repay existing debt obligations. As a result of the early settlement and reset arrangements, the Corporation has reduced short-term principal and interest payments. In September 2015, the Corporation received consent from the lenders on the Senior Secured Facility to remove the current ratio requirement. Also, as at December 31, 2015, the Corporation has been advanced $83.9 million from the operator of OML 125; the arrangement with the operator of OML 125, which is in line with the joint operating agreement, allows the Corporation to defer the payment of cash calls until revenue from OML 125 is realized. In October 2015, the Corporation increased the capacity of the senior secured facility by $90.7 million; proceeds from the loan and cash on hand were used to repay the $100 million subordinated debt facility effectively converting the $100 million obligation to a longer term obligation repaid over a 3-4 year period. By repaying the $100 million loan, the Corporation expects a return of collateral of $50 million which was advanced to Oando PLC to secure the letter of credit associated with the loan. Finally, in December 2015, the Corporation signed an agreement to sell its interest in OML 125 and 134 to the operator (refer to Note 6).Despite these actions, requirements to maintain cash balances with the lenders and to repay principal with excess cash from oil and gas sales (albeit at lower levels) remain. Furthermore, resetting the hedges in the first quarter has reduced cash flow as they have been reset at lower levels than the previous hedges and limits the Corporation's ability to fully benefit from increased oil prices until the price of oil exceeds approximately $75/bbl (the effect of the hedges is discussed in greater detail below).

These undertakings are not sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Corporation's commitments and operations so it can continue as a going concern. Management continues to rely on cash from producing assets and financial commodity hedges and plans to secure additional debt financing from Oando PLC in the short-term and additional third party debt and equity financing as market conditions permit. Nevertheless, there is no assurance that these initiatives will be successful. The Corporation's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Tabular amounts in thousands of US dollars, unless otherwise noted

(c) Foreign operations

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

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

(d) Subsidiaries

The consolidated financial statements include financial information of Oando Energy Resources Inc. and its subsidiaries including a proportionate share of its investments in joint operations. Principal operating subsidiaries of the Corporation are included in the table below. The operations and country of incorporation for all entities listed below is Nigeria unless otherwise noted. The entities included are involved in the acquisition of petroleum and natural gas rights, the exploration for and development and production of oil and natural gas.

		Proportion of ordinary shares held by:		
Operating Subsidiary	Nature of Business	The Corporation	Oando PLC	Non-Controlling Interests
Oando Production and Development Company Limited[1]	Working interest in OML 56 (Ebendo Field), onshore property in the production stage	38%	57%	5%
Oando Oil Limited	Working interest in OML 60, 61, 62, and 63, onshore properties in the production stage	100%	-	-
Oando OML 125 & 134 Limited[1]	Working interest in OML 125 (offshore, production stage) and OML 134 (offshore, development stage)	40%	60%	-
Oando Akepo Limited[1]	Working interest in OML 90 (Akepo Field), offshore property in the development stage	40%	60%	-
Oando Qua Ibo Limited[1]	Working interest in OML 13 (Qua Ibo), onshore property in the development stage	40%	60%	-
Equator Exploration Limited[2]	Working interest in OML 122 (offshore, development stage), OPL 321 and 323 (offshore, exploration stage) and JDZ Block 2, STP Block 5, and STP Block 12 (offshore, exploration)	81.5%	-	18.5%
Oando OML 131 Limited/Medal Oil Limited[1]	Working interests in OML 131, offshore property in the exploration stage	40%	60%	-
Oando Deepwater Exploration Nigeria Limited[1]	Working interest in OML 145, offshore property in the exploration stage	40%	60%	-
Oando Reservoir and Production Services Limited[1]	Reservoir and product ion services to oil and gas companies	40%	60%	-

[1]The Corporation controls this entity through a shareholder agreement. Refer to Note 4 and Note 18 for further details.
[2]The country of incorporation for Equator Exploration Limited is the British Virgin Islands.
[3]In December 2015, the Corporation amalgamated Oando Hydrocarbons Limited with Oando Oil Limited; Oando Oil Limited was the name given to the amalgamated entity.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee's ("IFRS IC") Interpretations as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The consolidated financial statements for the year ended December 31, 2015 were authorized for issuance by the Board of Directors on March 29, 2016.

3. Summary of significant accounting policies

(a) Significant accounting policies

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

i. Consolidation

The consolidated financial statements include the accounts of Oando Energy Resources and its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Interests in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations to each investor. The Corporation has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses in the consolidated financial statements. The Corporation recognizes its share of assets, liabilities, revenues and expenses of a joint operation.

ii. Business combinations

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

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

Acquisition of entities under common control

There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control. The Corporation has elected to apply predecessor accounting to these transactions under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. As such, all assets and liabilities of the acquiree are incorporated by the acquirer at their predecessor carrying values and no fair value adjustments are required. No goodwill arises from the transaction. Predecessor accounting may lead to differences on consolidation; these differences are typically recognized in equity in a separate reserve, contribution from parent. In the consolidated financial statements, the acquired entities' financial results and balance sheets have been incorporated as though the entities had always been combined.

iii. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

iv. Cash and cash equivalents

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

v. Financial instruments

Financial assets and liabilities

Financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired.

The Corporation classifies its financial instruments in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or other financial liabilities. Subsequent measurement of financial instruments is based on their classification. FVTPL financial assets are subsequently carried at fair value with gains and losses arising from changes in the fair value included in the statement of comprehensive loss in the period in which they arise. Loans and receivables, held-to-maturity investments, and other financial liabilities are subsequently carried at amortized cost using the effective interest method.

The Corporation's derivatives are categorized as FVTPL unless they are designated as hedges and hedge accounting is applied; hedge accounting has not been applied for the Corporation's derivatives in the periods presented. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized or settled within 12 months of the end of the reporting period, otherwise they are classified as non-current.

Trade and other receivables, cash and cash equivalents, restricted cash, finance lease receivable and other long term receivables are categorized as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. When a loan or receivable is impaired, the Corporation reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate. Trade and other payables, borrowings, and other long term payables are classified as other financial liabilities. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period. The classification of borrowings is based on the loan schedules which set-out maturities less than and greater than 12 months. However, if debt covenants are not met and/or the Corporation is determined to be in default, the balances of the loans in default are classified as current liabilities unless satisfactory waivers are received from lenders prior to the reporting date.

Transaction costs associated with financial instruments classified as FVTPL are expensed on initial recognition. Transaction costs associated with financial instruments carried at amortized cost are netted against the fair value on initial recognition and amortized using the effective interest method. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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

Derivative financial instruments

A derivative is a financial instrument or contract whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and is settled at a future date. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gains or losses are recognized as financial income or expense in the statement of comprehensive loss.

Embedded derivatives

Certain contracts contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative. An embedded derivative is only separated and reported at fair value with gains and losses being recognized in the profit and loss component of the statement of comprehensive loss when the following requirements are met: (a) where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract; (b) the terms of the embedded derivative are the same as those of a stand-alone derivative; and (c) the combined contract is not held for trading or designated at fair value through profit or loss.

vi. Inventories

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

vii. Finance leases

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement which is accounted for as a finance lease with the Corporation as lessor. A lease is a finance lease when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. When assets are held subject to a finance lease, the related asset is derecognized and the present value of the lease payments is recognized as a finance lease receivable. Payments considered to be part of the leasing arrangement are apportioned between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant rate of return.

Payments which are determined to be contingent rents are recognized in the consolidated statement of earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

viii. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Other repair and maintenance costs are charged to the statement of comprehensive loss in the period in which the cost is incurred. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Oil and gas assets

When technical feasibility and commercial viability is determinable, costs attributable to those reserves are reclassified from E&E assets to a separate category within Property Plant and Equipment ("PP&E") referred to as oil and gas properties under development or oil and gas producing assets. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive loss as incurred.

Oil and gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Oil and gas assets are incorporated into Cash Generating Units "CGU's" for impairment testing.

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

Depletion

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

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

Depreciation

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

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

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

ix. Exploration and evaluation assets

Recognition and measurement:

Exploration and evaluation ("E&E") assets represent expenditures incurred on exploration properties for which technical feasibility and commercial viability have not been determined. E&E costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired, these costs include acquisition of rights to explore, exploration drilling, carrying costs of unproved properties, and any other activities relating to evaluation of technical feasibility and commercial viability of extracting oil and gas resources. The Corporation will expense items that are not directly attributable to the exploration and evaluation asset pool. Costs that are incurred prior to obtaining the legal right to explore, develop or extract resources are expensed in the statement of income (loss) as incurred. Costs that are capitalized are recorded using the cost model with which they will be carried at cost less accumulated impairment. Costs that are capitalized are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

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

x. Goodwill

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

xi. Impairment of non-financial assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Exploration and evaluation assets are also tested for impairment when reclassified to oil and gas development assets or oil and gas producing assets. Assets that have an indefinite useful life are not subject to amortization (e.g. goodwill) and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are considered at the lowest levels for which there are separately identifiable cash flows. Impairment of oil and gas assets and exploration and evaluation assets is reviewed for assets that are located in the same geographical region. The Corporation does not group exploration and evaluation assets with producing assets for the purpose of impairment testing. Impairment of goodwill is reviewed based on the lowest level within the entity at which the goodwill is monitored for internal management purposes. Non-financial assets other than goodwill that were impaired are reviewed for indicators of possible reversal of the impairment at each reporting date.

xii. Current and deferred income tax

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

xiii. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period end. However, if debt covenants are not met and/or the Corporation is determined to be in default, the balances of the loans in default are classified as current liabilities unless satisfactory waivers are received from lenders prior to the reporting date. Borrowing costs are recognized as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset. These are included as part of additions to property, plant and equipment. A qualifying asset is an asset that takes a substantial period of time, generally greater than a year, to get ready for its intended use or sale. Where borrowing costs are capitalized to a qualifying asset, the interest cash flows associated are presented within the relevant expenditures line on the statement of cash flows.

Convertible borrowings

Convertible borrowings can have a liability and equity component and can be referred to as a compound financial instrument. The liability component of borrowings that can be converted to share capital is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

xiv. Decommissioning obligations

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

xv. Share-based compensation

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

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

The Corporation has recognized the value of the share options plan in the statement of comprehensive loss with a corresponding adjustment to equity.

xvi. Share capital and equity

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

Warrants that will be settled only by the Corporation exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments (the “fixed for fixed criteria”) are classified as equity. Warrants that don’t meet the fixed for fixed criteria are classified and accounted for as derivative financial liabilities; these are initially recognized at fair value on the date of issue and subsequently measured at fair value at each reporting date with gains and losses from re-measurement recorded in the statement of comprehensive loss.

xvii. Production underlift and overlift

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

xviii. Revenue recognition

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

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

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

The Corporation experiences a significant amount of crude oil losses due to theft/sabotage of crude oil pipelines, accordingly revenue is recognized based on production net of crude oil losses.

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

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

xix. Finance expenses

Finance expenses include interest expenses and other costs in association to borrowing funds as well as an expense relating to accretion incurred in relation to the Corporation's decommissioning liabilities.

(b) Changes in accounting policies and disclosures

There were no IFRSs or IFRIC interpretations that were effective January 1, 2015 that had a material impact on the Corporation.

(c) New accounting standards and amendments issued but not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements. Those with the potential to effect the consolidated financial statements of the Corporation are:

(a) IFRS 9 Financial Instruments ("IFRS 9") is a new standard that replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The revised standard incorporates the changes in IFRS 9 (2013), which provides revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting. In addition, IFRS 9 provides for a further classification category for financial assets, and includes a new impairment model for financial instruments. The standard is effective for annual periods on or after January 1, 2018. The Corporation has not yet determined the impact of the final standard.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") is a new standard on revenue recognition effective for first interim periods within years beginning on or after January 1, 2017, superseding IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. It contains principles to determine the measurement of revenue and timing of when it is recognized. The Corporation has not yet determined the impact of the final standard.

(c) Amendment to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations clarifies the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. The Corporation has not yet determined the impact of the final standard.

(d) IFRS 16, Leases, is a standard which supersedes IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. For companies with material off balance sheet leases, IFRS 16 changes the nature of expenses related to those leases. IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). The new standard is effective for annual periods beginning on or after January 1, 2019. The Corporation has not yet determined the impact of the final standard.

4. Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting 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. 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 on financial models and calculations which require the use of estimates and assumptions. Refer to Note 7, 8 and 9 respectively, for the details of impairments of oil and gas assets, exploration and evaluation assets and the Corporation's interest in Qua Ibo. 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 barrel of oil equivalent ("boe") values implied from recent acquisitions of similar assets and consideration of forward price declines. For goodwill, fair value has been estimated using a combination of the techniques applied for oil and gas assets and exploration and evaluation assets.

Tabular amounts in thousands of US dollars, unless otherwise noted

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, 2015 have been evaluated by independent qualified reserves evaluators. The table below summarizes the forecasted prices used to determine cash flows from crude oil reserves and resources which is based on a consensus of Canadian Consultants views on future pricing for NI-51-101 purposes.

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Beyond
Dated Brent (US$/barrel)	52.0	60.1	63.3	69.9	75.6	80.4	87.7	89.4	91.2	93.0	94.9	96.8	+2%
NGL (US$/barrel)	11.1	11.5	11.7	12.0	12.3	12.6	13.0	13.1	13.2	13.3	13.4	13.5	+1%
Natural gas (US$/mcf)	1.7	1.8	1.9	2.0	2.1	2.2	2.3	2.3	2.3	2.4	2.4	2.4	+1%

Crude oil loss factors applied ranged from 12% to 15% depending on the field. The discount rate applied was 12%. For exploration and evaluation assets, the Corporation used $0.7/boe as the implied value/boe on 2C unrisked contingent resources based on comparable market transactions and consideration of forward price declines.

ii. Impairment of joint-venture receivable

As at September 30, 2015 a review of the joint venture receivable related to the Corporation's Interest in Qua Ibo indicated that the carrying amount may not be recoverable; accordingly, calculations of the recoverable amount of the joint venture receivable were performed. Refer to Note 16 for the details of impairment recorded for the joint venture receivable. Recoverable amounts have been determined using a discounted cash flow technique. Key assumptions in the determination of cash flows are crude oil prices (see Q3 2015 financial statements) and the discount rate which was applied was 15%.

As at December 31, 2015 a review of the joint venture receivable related to the Corporation's Interest in Qua Ibo indicated that the carrying amount may not be recoverable; accordingly, calculations of the recoverable amount of the joint venture receivable were performed. No additional impairments were recorded as at December 31, 2015. Refer to Note 16. Recoverable amounts have been determined using a discounted cash flow technique. Key assumptions in the determination of cash flows are consistent with those used for the Interest in Qua Ibo as described above except for the discount rate; the discount rate applied was 15% which is based on the discount rate for similar financial instruments.

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.

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 14 for the details of the provision for decommissioning obligations.

(b) Critical accounting judgments in applying accounting policies

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, 2015 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 of the financial statements.

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) above). However, the Corporation has entered into shareholder agreements with Oando PLC, most recent of which are dated July 31, 2014. 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 Corporation and therefore the Corporation 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

The Corporation is 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 10). 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

The Corporation tests oil and gas assets, exploration and evaluation assets, and goodwill for impairment in accordance with the accounting policies above. Impairment assessments involve judgment.

Impairment indicators

Determining whether non-financial assets are impaired 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 financial statements. Refer to Note 7, 8, 9 and 11 respectively, for the details of Management's review of impairment indicators for oil and gas assets and exploration assets and goodwill.

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

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

The Corporation is currently in a dispute with the Nigerian National Petroleum Company ("NNPC") in relation to overlifting by the NNPC between 2008 and 2015 and which, in the view of the partners, exceeded the NNPC's entitlements. Further information relating to this dispute is included in Note 19. For the year ended December 31, 2015, 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 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 not recognized as a result of this policy in 2013, $21 million and $1.5 million has not been recognized in revenue in the years ended December 31, 2014 and 2015 respectively. 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. Refer to Note 6 regarding disposal group held for sale.

Tabular amounts in thousands of US dollars, unless otherwise noted

5. Derivative financial instruments

	December 31, 2015	December 31, 2014
Financial commodity contracts:		
Current	73,308	299,949
Non-current	51,555	-
Total Derivative financial instruments	**124,863**	299,949

(a) Financial Commodity Contracts

On February 6, 2015, the Corporation entered into an early settlement and reset arrangements with hedging counterparties which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements) which was used to repay existing debt obligations (refer to Note 13 for further details) and resetting the pricing on financial commodity contracts. The table below summarizes the details of the financial commodity contracts in place as at December 31, 2015 as a result of these arrangements:

Position	Remaining Term	Price/Unit[1] Fixed	Price/Unit[1] Strike	Price/Unit[1] Premium[2]	Volume (bbl/d)	Fair Value December 31, 2015
Fixed sell, purchased call[3]	Jan 2016 to July 2017	$65.00	$75.00	-	5,333	69,099
Purchased put[3]	Jan 2016 to July 2017	-	$75.00	$10.00	2,667	34,557
Purchased put[4]	Jan 2016; Feb 2017 to Jan 2019[5]	-	$75.00 - $85.00	$11.50-$14.83	1,617[6]	21,207
Total					9,617	124,863

[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] *Financial commodities contract associated with the Senior Secured Facility.*
[4] *Financial commodities contract associated with the Corporate Finance Loan Facility.*
[5] *Remaining term excludes February 2016 to January 2017.*
[6] *Average volume over the remaining life of the contract.*

The effect of the hedges associated with the Senior Secured Facility is to fix the price of oil that the Corporation receives, on the specific volumes at $65/bbl until the benchmark price of dated Brent crude oil reaches $75/bbl; when dated Brent crude oil price exceeds $75/bbl the Corporation will receive the incremental price above $75/bbl. These hedges account for 8,000 bbl/day. The effect of the hedges associated with the Corporate Finance Loan Facility is to fix the price of oil that the Corporation receives, on the specific volumes at an average price of $65/bbl until the benchmark price of dated Brent crude oil reaches the cap price (which ranges from $75/bbl to $85/bbl); when dated Brent crude oil price exceeds the cap price the Corporation will receive the incremental price above cap price. These hedges account for an average of 1,617 bbl/day.

Tabular amounts in thousands of US dollars, unless otherwise noted

(b) Net gains on financial instruments

Derivatives, including financial commodity contracts, are initially recognized at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value with the resulting gains or losses recognized as income or expense in the statement of comprehensive loss in the period as follows:

($ thousands)	Year ended December 31, 2015	2014
Realized net gains on financial commodity contracts from monthly settlements	59,179	24,298
Net fair value gains on financial commodity contracts	51,134	299,949
Gains on warrants	-	14,639
Gains/(losses) on conversion feature on borrowings	-	(50,632)
Net gain/(losses) on derivative financial instruments	110,313	288,254

Included in the net fair value gains on financial commodity contracts for the year ended December 31, 2015 is a loss of $34.9 million, from the aforementioned early settlement and reset arrangements (2014 - $nil) and $86 million of net unrealized gains (year ended December 31, 2014 – $299.9 million unrealized gain). As at December 31, 2014 the fair value of financial commodity contracts was $299.9 million; $226.2 million of this value was received in exchange for cash in association with the early settlement agreements described above. The fair value of commodity contracts are calculated based on observable inputs which include forward prices of crude oil. Refer to note 16 for a summary of the impact of changes to crude oil prices on the fair value of commodity contracts and fair value estimation.

6. Disposal group

In December 2015, the Corporation signed a Sale and Purchase agreement with Nigerian Agip Exploration Limited "NAE" for the sale of its non-operated interests in OMLs 125 and 134 for $5.5 million in cash and an agreement to transfer $84.5 million in cash call liabilities due to the joint venture to the buyer. As a result of this, the associated assets and liabilities have been classified as held for sale as at December 31, 2015. The transaction is expected to be completed in 2016 subject to the receipt of consent from Lenders and the Minister of Petroleum. The recoverable amount of the property, plant and equipment was in excess of its carrying value and as such no gain or loss was recorded in classification to held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are below. As part of the arrangement with NAE, the Corporation retains its rights to the $72.9 million award for amounts overlifted by NNPC (See Note 19) and has therefore not been included in the disposal group.

	December 31, 2015	2014
Trade and other receivables	1,195	-
Inventory	477	-
Property, plant and equipment	194,896	-
Exploration and evaluation assets	3,134	-
Disposal group assets	199,702	-
Trade and other payables	(108,818)	-
Current tax payable	(217)	-
Decommissioning obligations	(36,176)	-
Deferred tax liability	(51,913)	
Disposal group liabilities	(197,124)	-
Net assets classified as held for sale	2,578	-

Tabular amounts in thousands of US dollars, unless otherwise noted

7. Property, plant and equipment

Cost	Oil and gas properties	Oil and gas properties under development	Other fixed assets	Total
As at January 1, 2014	326,734	81,775	4,983	413,492
Additions	131,897	-	1,752	133,649
Acquisitions	709,217	-	1,669	710,886
Transfers from exploration and evaluation	195,383	-	-	195,383
Disposals	-	-	(51)	(51)
Change in decommissioning liability	(30,595)	-	-	(30,595)
Transfers to oil and gas properties from properties under development	20,378	(20,378)	-	-
As at December 31, 2014	1,353,014	61,397	8,353	1,422,764
Additions	76,540	543	194	77,277
Disposals	-	-	(150)	(150)
Change in decommissioning liability	171,721	-	-	171,721
Transfer to disposal group assets	(409,399)	-	-	(409,399)
As at December 31, 2015	1,191,876	61,940	8,397	1,262,213

Accumulated depletion, depreciation and impairment	Oil and gas properties	Oil and gas properties under development	Other fixed assets	Total
As at January 1, 2014	161,760	-	2,344	164,104
Depletion and depreciation	87,681	-	991	88,672
Impairment	-	61,397	-	61,397
As at December 31, 2014	249,441	61,397	3,335	314,173
Depletion and depreciation	123,304	-	2,124	125,428
Disposal	-	-	(149)	(149)
Impairment	92,947	-	-	92,947
Impairment reversal	(82,760)	-	-	(82,760)
Transfer to disposal group assets	(214,502)	-	-	(214,502)
As at December 31, 2015	168,430	61,397	5,310	235,137

Net book value	Oil and gas properties	Oil and gas properties under development	Other fixed assets	Total
As at December 31, 2014	1,103,573	-	5,018	1,108,591
As at December 31, 2015	1,023,446	543	3,087	1,027,076

In calculating depletion expense for the period ended December 31, 2015, $2.2 billion of future development costs were included in the cost base subject to depletion (2014 - $948.9 million).

Tabular amounts in thousands of US dollars, unless otherwise noted

On June 28th, 2015 there was a fire involving two crude storage tanks at the Ebocha flow station in Rivers State, Nigeria; a third tank collapsed after suffering structural damage due to the fire outbreak. The facility is a part of the Nigerian Agip Oil Company Limited Joint Venture ("NAOC JV") in which the Corporation holds a 20% interest. As a result of the incident, $6.7 million was recognized as reduction of the remaining book value relating to the Corporation's share of the infrastructure and facilities damaged. As the net book value of the specific assets damaged in the fire was not available and the nature and extent of the damage is still unknown, the $6.7 million expense was based on an estimate of the replacement value of the assets damaged; actual replacement costs may vary from this estimate. Management determined that there was no indication of impairment of the cash generating unit in which the incident occurred; only the specific assets damaged were derecognized.

As at September 30, 2015 the carrying amount of the OML 125 cash generating unit in property, plant and equipment was reduced to its recoverable amount of $103.0 million through the recognition of an impairment loss of $86.3 million (2014 - Nil). The impairment was triggered by declining oil prices and internal data indicating worse than expected long-term economic performance. The recoverable amount was determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions included crude oil prices and the discount rate of 12%. Reserves as at September 30, 2015 were based on internal estimates.

As at December 31, 2015, the Corporation recorded an impairment reversal of $82.8 million as a result of a change in estimate of the fair value less cost to sell of the asset based on the terms of a signed sale and purchase agreement (refer to Note 6). Based on this arrangement, the recoverable amount of the OML 125 cash generating unit was determined to be $185.8 million. No other impairments or impairment reversals were recorded for PP&E as a result of impairment testing in 2015.

8. Exploration and evaluation assets

Cost	Exploration & evaluation assets
As at January 1, 2014	364,292
Additions	12,628
Acquisitions	393,894
Transfer to property, plant and equipment	(195,383)
As at December 31, 2014	575,431
Additions	6,725
Transfer to disposal group assets	(332,507)
As at December 31, 2015	**249,649**
Accumulated impairment	
As at January 1, 2014	(18,835)
Impairment	(401,386)
As at December 31, 2014	(420,221)
Impairment	(14,159)
Transfer to disposal group assets	329,373
As at December 31, 2015	**(105,007)**
Net book value	
As at December 31, 2014	155,210
As at December 31, 2015	**144,642**

The above exploration and evaluation assets represent expenditures arising from the exploration and evaluation of oil and gas interests. The costs relate to oil and gas properties primarily located in Nigeria and São Tomé and Príncipe. The technical feasibility and commercial viability of extracting oil and gas has not yet been determined in relation to the above properties, and therefore, they remain classified as exploration and evaluation assets at December 31, 2015.

In 2015, the carrying amount of certain exploration and evaluation assets have been reduced to their recoverable amount through recognition of an impairment loss of $14.2 million (2014 – $401.4 million). The impairment was triggered by declining oil prices. The recoverable amounts have been determined based on the asset's fair value less costs of disposal using per boe values implied from recent acquisitions; the estimate has been categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of fair value are the $/boe and reserve estimates. Resources as at December 31, 2015 have been evaluated by independent qualified reserves evaluators. Refer to Note 4 above for the $/boe rates applied.

Tabular amounts in thousands of US dollars, unless otherwise noted

The table below shows the carrying and recoverable amounts of the impaired CGUs as at December 31, 2015.

Cash Generating Unit	Carrying Amount	Recoverable Amount	(Impairment loss)
OML 131	62,254	50,120	(12,134)
OML 145	31,915	29,890	(2,025)
Total impairment loss			**(14,159)**

If the $/boe was reduced by $0.1, this would result in an increase in the total impairment loss by $11.4 million (2014 - $11.9 million).

9. Interest in Qua Ibo

Cost	Interest in Qua Ibo
As at January 1, 2014	40,485
Additions	14,744
Change in decommissioning liability	(1,787)
As at December 31, 2014	53,442
Additions	3,755
Change in decommissioning liability	2,526
As at December 31, 2015	**59,723**
Accumulated Depletion, depreciation and impairment	
As at December 31, 2014	-
Depletion and depreciation	5,166
Impairment	19,928
As at December 31, 2015	**25,094**
Net book value	
As at December 31, 2014	53,442
As at December 31, 2015	**34,629**

The Corporation acquired a 40% participating interest in the Qua Ibo Marginal Field within Oil Mining Lease 13 located onshore Nigeria as a result of a farm-in agreement. Although the oil and gas property is currently in the production phase, it has been disclosed separately as the Corporation is waiting on consent from the Nigerian government on the farm-in arrangement; all other necessary approvals have been obtained. In the event that the consent of the Nigerian Minister of Petroleum Resources is not obtained, the Corporation shall be entitled to certain economic interests in the Qua Ibo Marginal Field. In the year ended December 31, 2015, production commenced from the Qua Ibo Marginal Field

As at September 30, 2015 the carrying amount of the Corporation's Interest in Qua Ibo cash generating unit was reduced to its recoverable amount through the recognition of an impairment loss of $12.7 million (2014 - Nil). The impairment was triggered by declining oil prices and internal data indicating worse than expected long-term economic performance. The recoverable amount has been determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions include crude oil prices and the discount rate of 15%. Reserves as at September 30, 2015 were based on internal estimates.

As December 31, 2015 the carrying amount of the Corporation's Interest in Qua Ibo cash generating unit has been reduced to its recoverable amount of $34.6 million through the recognition of an additional impairment loss of $7.3 million (2014 - Nil). The impairment was triggered by declining oil prices and internal data indicating worse than expected long-term economic performance. The recoverable amount has been determined based on the asset's fair value less costs of disposal using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions include crude oil prices and the discount rate (refer to Note 4). Reserves as at December 31, 2015 have been evaluated by independent qualified reserves evaluators. Increasing the discount rate by 1% would increase the impairment loss by $2.6 million. Refer to Note 16 for impairment of related joint venture receivable.

Tabular amounts in thousands of US dollars, unless otherwise noted

10. Finance lease receivable

	December 31, 2015	2014
Current	-	-
Non-current	197,882	195,727
Finance lease receivable	197,882	195,727

The Corporation is party to a power purchase agreement which is accounted for as a finance lease. The Corporation, as a party to the NAOC/POCNL/NNPC JV entered into a power purchase agreement with Power Holding Company of Nigeria (PHCN) in 2001. The agreement is to develop, finance, construct, own maintain and operate as a joint venture an upstream gas project. The gas project is located at Kwale for the production of electric power (“the Kwale-Okpai Independent Power Plant” or “Kwale IPP”). The gas plant utilizes fuel source from the natural gas reserves in joint venture oil fields operated by Nigeria Agip Oil Company Limited (NAOC). The agreement will continue in full force and effect for 20 years from the Commercial operations date with the option of renewal of 5 years. At the end of the 25th year, PHCN shall have the option to purchase the Kwale IPP at a fair price determined by an expert. PHCN will pay a contracted sum to the Joint Venture partners throughout the tenure for capacity and for the purchase of electricity from the plant. The residual value has been estimated to be $164.7million. The lease payments grow over time but are lower than the interest income for the first five years and as such all the finance lease receivable has been considered as non-current.

The following table summarizes the present value of minimum lease payment as at December 31, 2015 and 2014:

	December 31, 2015	2014
No later than one year:		
Total future value	20,780	20,272
Unearned interest income	(22,658)	(22,426)
Present value	(1,878)	(2,154)
Between one and five years:		
Total future value	88,450	86,292
Unearned interest income	(92,183)	(91,654)
Present value	(3,733)	(5,362)
Later than five years:		
Total future value	241,351	264,287
Unguaranteed residual value	164,650	164,650
Unearned interest income	(202,508)	(225,694)
Present value	203,493	203,243
Finance lease receivable	197,882	195,727

The Corporation recorded $4.3 million in contingent rents in the year ended December 31, 2015 (2014 – $4.9 million).

11. Goodwill

	December 31, 2015	2014
Balance, beginning of the year	1,021,038	6,794
Acquisitions	-	1,014,244
Balance, end of the year	1,021,038	1,021,038

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

As at December 31, 2015, the Corporation prepared an impairment test for goodwill in which the recoverable amount was compared to the carrying value and determined that the carrying value of goodwill was not impaired (goodwill was also not impaired in 2014). The recoverable amounts have been determined based on the fair value less costs of disposal using a discounted cash flow technique and comparative market transaction data. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, the discount rate, and per boe values. Reserves and resources as at December 31, 2015 have been evaluated by independent qualified reserves evaluators.

Tabular amounts in thousands of US dollars, unless otherwise noted

Refer to Note 4 above for the prices used to determine the future cash flows from reserves and the discount rates and per boe values applied to resource quantities.

12. Income taxes

(a) Income tax expense / (recovery)

The table below explains the relationship between tax expense (recovery) and accounting profit using an applicable tax rate derived from the domestic rate of tax in Nigeria. In prior years, the Company had used a weighted average tax rate calculated using the rates of tax applicable in each of the Company's tax jurisdictions. The use of the statutory rate in Nigeria as the applicable rate is considered to provide more meaningful and relevant information to users of the financial statements because the Company is subject to a number of different tax rates within each jurisdiction (in particular, Nigeria) due to the nature of their operations. Comparative information from 2014 has been restated to conform to current period presentation. The provision for income taxes has been computed as follows:

	Year ended December 31,	
	2015	2014
Income / (loss) before income tax	(7,004)	(323,649)
Domestic tax rate	30.00%	30.00%
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(2,101)**	**(97,096)**
Tax effects of:		
Non-deductible expenses	22,886	126,895
Change in unrecognized deferred tax assets	44,492	145,547
Losses not subject to income tax	(908)	-
Foreign rate differential	(93,252)	(183,102)
Other reconciling items	5,760	4,148
Income tax expense	**(23,123)**	**(3,608)**

Current income tax expense	(42,497)	(71,285)
Deferred income tax recovery	65,620	74,893
Income tax expense	**23,123**	**3,608**

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

	As at December 31,	
	2015	2014
Balance, beginning of the year	**204,765**	**1,074**
Current tax expense	42,497	71,285
Adjustments in respect of prior years	-	(40,928)
Transfer to disposal group liabilities (Note 6)	(217)	-
Acquisitions	-	212,191
Payments made during the year	(29,517)	(38,857)
Balance, end of the year	**217,528**	**204,765**

Included in the Tax payable line are uncertain tax liabilities of $37 million (2014 - $42.6 million) relating to tax contingencies against Oando Oil Limited “OOL” which might result into a settlement to the Tax Authorities in Nigeria. These uncertain tax liabilities relates to tax assessments provided to OOL by the Federal Inland Revenue Service (FIRS) and Nigeria Extractive Industries Transparency Initiative (NEITI) relating to tax years before the effective acquisition date of January 1, 2012. In line with the Sale and Purchase Agreement between the Corporation and the previous owner, the Corporation will be indemnified for a portion of this and previous owner will be responsible for the tax liabilities should OOL fail to resolve the dispute successfully. An amount totaling $15.9 million (2014 - $21.4 million) has been recognized as an indemnification asset under the Trade and other receivables line in the statement of financial position.

Tabular amounts in thousands of US dollars, unless otherwise noted

(b) Deferred income tax

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

	As at December 31,	
	2015	2014
Deferred tax assets to be recovered after more than 12 months	6,086	7,091
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets	**6,086**	**7,091**
Deferred tax liabilities to be settled after more than 12 months	611,185	729,723
Deferred tax liabilities to be settled within 12 months	-	-
Deferred tax liabilities	**611,185**	**729,723**

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

($ thousands)	As at 1, January 2014	Charged/ (Credited) through income	Acquisition	As at December 31, 2014	Charged/ (Credited) through income	Transfer to assets held for sale	As at December 31, 2015
Property, plant and equipment and Exploration and evaluation assets	74,003	(71,692)	698,784	701,095	75,203	(51,913)	724,385
Inventory		(32,443)	32,443	-	-	-	-
Provisions	-	(29,793)	-	(29,793)	(142,474)	-	(172,267)
Finance lease receivable	-	291	58,130	58,421	646	-	59,067
Deferred tax liability	**74,003**	**(133,637)**	**789,357**	**729,723**	(66,625)	**(51,913)**	**611,185**

($ thousands)	As at 1, January 2014	(Charged)/ Credited through income	Acquisition	As at December 31, 2014	(Charged)/ Credited through income	As at December 31, 2015
Losses carry forward	14,386	(12,526)	-	1,860	(1,860)	-
Property, plant and equipment and Exploration and evaluation assets	-	885	-	885	1,436	2,321
Provisions	204	(47,104)	51,246	4,346	(581)	3,765
Deferred tax assets	**14,590**	**(58,745)**	**51,246**	**7,091**	(1,005)	**6,086**

The Corporation has not recognized deferred tax assets of approximately $265.3 million (2014 - $236.0 million) relating to deductible temporary differences and unused tax losses as it is uncertain that the deferred tax assets will be realized.

Tabular amounts in thousands of US dollars, unless otherwise noted

13. Borrowings

	December 31, 2015	2014
Senior Secured Facility	268,620	389,848
Corporate Finance Facility	228,245	319,045
Subordinated Debt Facility	-	92,713
	496,865	**801,606**
Less: Borrowings, current	(496,865)	(551,480)
Borrowings, non-current	**-**	**250,126**

The carrying amount of all the Corporation's borrowings are denominated in USD. Borrowings held at December 31, 2015 are all non-revolving facilities. In 2015, the Corporation recognized $81.3 million of interest expense related to the loans (2014 – $44.6 million) including $28.3 million related to the amortization of transaction costs (2014 – $10 million). Below are the borrowings arrangements in place at December 31, 2015 which were used to finance acquisitions and repay other borrowings.

(a) Senior Secured Facility

The Senior Secured Facility (alternatively the "Reserve Based Lending Facility" or "RBL Facility") is a loan facility provided by major international banks secured by the Corporation's 20% interest in the NAOC/OOL/NNPC JV including all fields and facilities and the Kwale-Okpai IPP. The loan has a final maturity date of June 30, 2019. 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 installments 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 OOL's various operations are also to be applied against outstanding principal. The Corporation is required to hedge a certain portion of crude oil production. Refer to Note 5 on commodity contracts for the details of the hedges executed by management to satisfy this requirement. The loan also requires the Corporation to maintain cash balances with lenders of $40 million. As at December 31, 2015, the Corporation had cash deposits of $40 million with the lenders. The carrying value of the assets pledged as at December 31, 2015 was $1.0 billion.

In February 2015, the Corporation used proceeds from early settlement and reset arrangements on financial commodity contracts (refer to Note 5) and available cash to repay $187.3 million of the Senior Secured Facility. In October 2015, the Corporation increased the capacity on the Senior Secured by $90.7 million; proceeds from the loan and available cash were used to repay all principal and accrued interest on the $100 million subordinated debt facility. The Corporation incurred $1.6 million in fees to increase the capacity of the loan.

In December 2015 the Corporation amalgamated two of its subsidiaries, one of which was a party to the Senior Secured Facility, prior to receiving lender consent which triggered a default and prompted lenders to to exercise their right to restrict cash payments from lender-held cash deposits (cash payments from these accounts must be approved by the lenders). The default gives the lenders the ability to accelerate the maturity of the facility on demand. As of the date of these financial statements, the lenders have chosen not to exercise their acceleration rights under the loans; despite this there can be no assurances that the lenders will not exercise these rights at a future date. As a result of this default, $268.6 million of borrowings was reclassified to current borrowings as at December 31, 2015. At December 31, 2014, the Corporation was in breach of the current ratio requirement (at the time, required to be not less than 1.1) which resulted in $268.6 million of borrowings being reclassified to current borrowings. In September 2015, the Corporation received consent to remove the current ratio requirement. Refer to Note 26 for subsequent events regarding borrowings.

(b) Corporate Finance Facility

The Corporate Finance Facility (alternatively the "Corporate Facility") is a loan facility 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) secured by the Corporation's interest in OML 125, OML 134, OML 56, and OML 90 including all fields and facilities. The facility is repaid quarterly and has a final maturity date of June 30, 2020. Interest is charged at LIBOR plus 9.5% per annum for until March 2019, with an increase of 1% for the remaining life of the facility. The Corporation is required to hedge a certain portion of crude oil production. Refer to Note 5 on commodity contracts for the details of the hedges executed by management to satisfy this requirement. The carrying value of the assets pledged as at December 31, 2015 was $254.5 million.

In 2015, the Corporation used proceeds from early settlement and reset arrangements on financial commodity contracts (refer to Note 5) and available cash to repay $50.8 million of the Corporate Finance Facility. As a result of the cash deposits restricted by the Senior Secured Facility lenders (described above), the Corporation did not pay its quarterly interest and principal payment of $21.7 million in December 2015 which triggered a default on the Corporate Finance Facility. The default gives the lenders the ability to accelerate the maturity of the facility on demand. As of the date of these financial statements, the lenders have chosen not to exercise their acceleration rights under the loans; despite this there can be no assurances that the lenders will not exercise these rights at a future date. As a result of this default, $228.2 million of borrowings was reclassified to current borrowings as at December 31, 2015 (2014 – Nil). Refer to Note 26 for subsequent events regarding borrowings.

Tabular amounts in thousands of US dollars, unless otherwise noted

14. Decommissioning obligations

	December 31, 2015
Balance, beginning of the year	59,895
Liabilities incurred	127
Change in estimate	174,149
Transfer to disposal group liabilities (Note 6)	(36,176)
Accretion expense	10,490
Balance, end of the year	208,485

The total future decommissioning obligation is estimated based on the Corporation's net ownership interest in all wells and facilities relating to continuing operations, the estimated costs to abandon and reclaim these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The key assumption upon which the carrying amount of the decommissioning obligation is based are discount rates ranging from 9.45% to 11.10% (December 31, 2014 – 15.2% to 15.49%) and an inflation rate of 9.6% (December 31, 2014 – 8.0 %) These obligations are expected to be settled over the next three to twenty four years. If the discount rate was increased by 2%, this would result in a decrease in the decommissioning obligation of $ 75.1 million (December 31, 2014 - $18.6 million).

15. Share capital

(a) Authorized

The Corporation has authorised share capital of an unlimited number of common shares, without par value.

(b) Common shares issued

The following table discloses the movement in share capital for the years ended December 31, 2015 and 2014.

	December 31, 2015		December 31, 2014	
($ thousands)	Shares	Amount	Shares	Amount
Balance, beginning of the year	795,419,213	902,607	106,053,620	5,714
Issued for restricted share units	630,000	653	-	-
Issued to Oando PLC	-	-	650,785,739	848,556
Issued for private placement	-	-	35,070,063	44,543
Issued on Medal Oil acquisition	-	-	3,491,082	3,774
Exercise of options	-	-	18,709	20
Balance, end of the year	796,049,213	903,260	795,419,213	902,607

All common shares are issued and fully paid.

(c) Earnings per share

In determining the diluted EPS for the year ended December 31, 2015 and 2014 the impact of options, warrants, and restricted share units have been excluded as their impact is antidilutive. The total number of instruments that have been excluded from the diluted earnings per share calculations for the year ended December 31, 2015 due to their antidilutive impact is 354,083,441 (2014 – 355,083,441).

The following reconciles the weighted average number of shares used in the basic and diluted net income per share calculations for the years ended December 31, 2015 and 2014:

	For the year ended December 31, 2015			2014		
($ thousands)	Net income	Average number of shares	Earnings per share (in dollars)	Net (loss)	Average number of shares	Earnings per share(in dollars)
Basic earnings per share	16,119	796,035,405	0.02	(320,041)	601,004,901	(0.53)
Performance share units	-	2,747,829	-			
Diluted earnings per share	16,119	798,783,234	0.02	(320,041)	601,004,901	(0.53)

(d) Stock-based compensation

Stock Options

The Corporation has granted options for the purchase of common shares to its directors and selected employees. The aggregate number of shares that may be issuable pursuant to options granted under the Corporation's Stock Option Plan will not exceed 10% of the issued common shares of the Corporation at the date of grant. No more than 5% of the issued shares of the Corporation may be granted to any one optionee. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options may not be less than the greater of $0.10 and the market price, subject to all applicable regulatory requirements. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	December 31, 2015		December 31, 2014	
	Number of options (000)	Weighted average exercise price	Number of options (000)	Weighted average exercise price
Balance, beginning of the year	8,410	1.17	7,810	1.12
Granted	1,000	1.41	600	1.77
Forfeitures	-	-	-	-
Balance, end of the year	9,410	1.20	8,410	1.17

Exercise price is denominated and presented in Canadian dollars

Restricted share units

On January 9, 2015, a total of 630,000 common shares were issued in exchange for 666,667 restricted share units to an officer of the Corporation which vested in 2013. A total of 1,333,333 restricted share units expired on July 24, 2015 as the vesting conditions were not met. No restricted share units remain outstanding at December 31, 2015.

Performance share units

The Corporation granted a total of 2,747,829 performance share units ("PSUs") to certain employees on May 4, 2015. The grant value of the performance share unit is CAD1.53 per unit. The PSUs are subject to a performance condition based on the ranking of OER's total shareholder return ("TSR") against a comparator group of other exploration and production companies who possess characteristics, such as size and exposure to Africa, similar to the Corporation. OER's TSR will be measured over a period of three financial years, beginning with the financial year in which the PSUs were granted. The vesting of the PSUs is also subject to an overriding discretion for the Compensation Committee to reduce (including to zero) or increase the level of vesting as it considers appropriate in the event that the Committee determines that OER's TSR performance is not reflective of OER's underlying financial performance. In addition, the Compensation Committee has the discretion to reduce (including to zero) the level of vesting of the PSUs in the event that the Committee determines that there has been a negative health, safety and/or environmental event.

During the year ended December 31, 2015, the Corporation recorded $1.7 million, $0.3 million and $0.8 million as an expense related to stock options, restricted share units and PSUs respectively, (year ended December 31, 2014 - $0.8 million, $0.2million and nil respectively).

Tabular amounts in thousands of US dollars, unless otherwise noted

(e) Warrants

In 2014, the Corporation issued 344,673,441 warrants which were recorded in equity at fair value of $120 million. As at December 31, 2015, the warrants remain outstanding. The warrants are listed on the TSX. The strike price on the warrants is $1.80 USD.

16. Financial instruments and risk management

(a) Financial instruments

Financial assets include cash and cash equivalents, restricted cash, trade and other receivables (excluding pre-paid expenses), derivative financial instruments, finance lease receivable, and other long term receivables. All financial assets are classified as loans and receivables except derivative financial instruments, which are classified as fair value through profit or loss ("FVTPL"). Financial liabilities include trade and other payables, other long-term payables (excluding pension obligations), and borrowings and are classified as other financial liabilities. Refer to Notes 5, 10, 13, and 18 for disclosures related to derivative financial instruments, finance lease receivable, borrowings, and related party receivable and payable balances, respectively.

(b) 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.

Market risk

The Corporation is exposed to foreign exchange risk, price risk, and interest rate risk. The Corporation's exposure to foreign exchange risks from financial instruments would not have significant impact on income before tax. The Corporation is exposed to price risk associated with financial commodity hedges and 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 for the three months ended December 31, 2015.

Instrument	Sensitivity Range	Income / (Loss) Before Tax [1] Increase in Variable	Income / (Loss) Before Tax [1] Decrease in Variable
Financial commodity contracts	+/- $10 per barrel change in Brent crude oil price	(49,633)	53,977
Variable rate borrowings	+/- 1% change in Libor interest rate applied to debt	(6,159)	6,159

[1] *Impact on unrealized gains / (losses) on financial commodity contracts due to changes in crude oil prices; impact on interest expense from changes in interest rates over a 12 months period.*

Credit risk

The Corporation's credit risk arises primarily from cash and cash equivalents, trade and other receivables, finance lease receivable, and other long term receivables. The maximum exposure to credit risk is the carrying value of each class of financial asset included in the table below. The Corporation does not hold any collateral as security.

Tabular amounts in thousands of US dollars, unless otherwise noted

(a) Cash and cash equivalents

The Corporation is exposed to credit risk on cash and cash equivalents deposited with various financial institutions. Credit risk associated with cash and cash equivalent balances, including restricted cash balances, can be assessed by reference to external credit ratings of these financial institutions. The following table discloses the credit ratings of banks and financial institutions where the Corporation holds its cash and cash equivalents. Included in restricted cash as at December 31, 2015 is $10.5 million (2014 – Nil) of additional restricted cash as a result of the default on the Senior Secured Facility described in Note 13.

	December 31, 2015	December 31, 2014
AA-	45,389	54,189
A+	6	107
B+	45,658	3,723
B	3,614	21,738
Non-rated	145	87
	94,812	79,844
Less: Restricted cash[1]	(51,057)	(48,481)
Cash and cash equivalents	**43,755**	31,363

[1]Restricted cash balances have been separately disclosed in the statement of financial position. These balances relate to restricted cash balances required as part of the Senior Secured and Corporate Finance Loan facilities. Refer to Note 13 for details. Source – Fitch ratings

(b) Trade and other receivables

	December 31,	
($ thousands)	2015	2014
Trade receivables	48,399	55,017
Related party receivables (Note 18)	-	94,006
Indemnification asset	15,936	21,470
Current portion of joint venture receivables	-	18,706
Other receivables	18,056	38,659
Financial assets	**82,391**	227,858
Prepaid expenses	2,160	11,053
Trade and other receivables	**84,551**	238,911

For trade receivables, the Corporation analyzes the credit risk for each customer before standard payment and delivery terms and conditions are offered. Trade receivables are due for payment with 60 days terms. As at December 31, 2015, an additional provision of $0.2 million was recorded during the period relating to receivables from the Rivers State Government of Nigeria. No other provisions for impairment for trade receivables were recorded and trade receivables totaling $15.7 million were past due but note impaired. The Corporation's major customers include subsidiaries of international oil companies and other joint ventures in Nigeria. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A,"Eni" Vitol SA and Nigeria Liquefied Natural Gas Limited "NLNG". For the year ended December 31, 2015, Vitol SA, Eni and NLNG accounted for 54%, 19% and 19% respectively, of gross revenue before royalties (December 31, 2014: 25%, 23%,20% and 12% to Eni, Vitol SA, ConocoPhillips (UK) Limited and NLNG respectively). The carrying amount of the Corporation's trade receivables are denominated in USD.

Refer to Note 18 for disclosures related to related party receivables which have been reclassified to non-current assets in 2015. The indemnification asset relates to an indemnification provided by the seller for uncertain tax provisions inherited on the COP acquisition; the offsetting tax liability is recorded in the current tax payable line. The current portion of joint venture receivable relates to an arrangement with a joint venture party on Qua Ibo. Other receivables of $18.1 million relates to cash call advances to joint venture partners, $9.4 million of this amount relates to cash call advances joint venture partners and $8.7 million relates to amounts due from bankers on realized portion of commodity contracts.

Tabular amounts in thousands of US dollars, unless otherwise noted

(c) Other long term receivables

	December 31,	
($ thousands)	2015	2014
Underlift receivable	47,272	47,272
Related party receivables (Note 18)	112,048	
Long term portion of joint venture receivable	36,112	27,867
Financial assets	195,432	75,140
Long term prepaid expenses	1,459	1,519
Other long term receivables	196,891	76,659

Other long term receivables are comprised of underlift receivable, joint venture receivables, and long-term prepaid expenses. The carrying value of the underlift receivable as at December 31, 2015 is $47.3 million after it was written off by $25.4 million at year end December 31, 2014. The Corporation has a contractual obligation to pay a portion of those cash flows to Oando PLC , therefore, the net credit risk exposure relating to the underlift receivable as at December 31, 2015 is nil.

Other long term receivables also include a joint venture receivable of $36.1 million, which represents the maximum credit risk exposure on this instrument.

As at September 30, 2015 the carrying amount of the joint venture receivable related to the Corporation's Interest in Qua Ibo has been reduced to its recoverable amount through the recognition of an impairment loss of $15.6 million (2014 - Nil). The recoverable amount has been determined based on the asset's fair value using a discounted cash flow technique and categorized in Level 3 of the fair value hierarchy. Key assumptions include crude oil prices and the discount rate of 15%. Increasing the discount rate by 1% would increase the impairment loss by $0.9 million.

As at December 31, 2015 a review of the joint venture receivable related to the Corporation's Interest in Qua Ibo indicated that the carrying amount may not be recoverable; accordingly, calculations of the recoverable amount of the joint venture receivable were performed. No additional impairments were recorded as at December 31, 2015. Refer to Note 16. Recoverable amounts have been determined using a discounted cash flow technique. Key assumptions in the determination of cash flows are consistent with those used for the Interest in Qua Ibo as described above except for the discount rate; the discount rate applied was 15% which is based on the discount rate for similar financial instruments.

Liquidity risk

(a) Trade and other payables

	December 31,	
	2015	2014
Trade payables	6,947	8,735
Related party payables (Note 18)	56,412	109,049
Other payables and accrued expenses	269,039	269,749
Trade and other payables	332,398	387,533

(b) Other long term payables

	December 31,	
	2015	2014
Due to Oando PLC (Note 18)	47,272	47,272
Retirement benefit obligation	1,829	1,980
Other long term payables	49,101	49,252

Tabular amounts in thousands of US dollars, unless otherwise noted

(c) Contractual maturities of financial liabilities

Cash flow forecasting is performed by management on a regular basis. Cash flow forecasts are monitored to ensure that the Corporation has sufficient cash to meet operational needs while also ensuring that the Corporation has sufficient cash resources to meet future contractual commitments. The Corporation has significant commitments from ongoing operations; refer to Note 1 for going concern discussion.

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2015:

	Total	< than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	564,358	564,358	-	-	-
Trade and other payables	332,398	332,398	-	-	-
Current tax payable	217,528	217,528	-	-	-
Due to Oando PLC	47,272	-	-	47,272	-
	1,161,556	1,114,284	-	47,272	-

The following are the contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2014:

	Total	< than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	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	-	-	-
Due to Oando PLC	47,272	-	47,272	-	-
	1,615,554	1,233,926	187,783	138,321	55,524

[1]The cash out flows associated with borrowings include interest expense based on the interest rates included in the underlying agreements. Where interest rates are floating, the rate applicable at December 31, 2015 has been used. Cash out flows associated with borrowings assume principal payments are paid in accordance repayment schedules before cash sweeps – refer to Note 18 in the consolidated financial statements for year ended December 31, 2014.

(c) Fair value estimation

IFRS requires that the Corporation disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying value of cash, trade and other receivables, and trade and other payable and accrued liabilities reflected in the consolidated balance sheets approximate fair value due to the short term to maturity of these instruments and borrowings.

The Corporation analyzes financial instruments carried at fair value and categorizes them based on their valuation method as follows:

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

Financial commodity contracts have been categorized as Level 2 and have a fair value of $124.9 million as at December 31, 2015 (2014 – $299.9 million). No Level 3 instruments were held during the year ended December 31, 2015.

The following table presents the change in Level 3 instruments for the year ended December 31, 2014.

	Warrants	Conversion Feature on Borrowings	Total
Balance, beginning of the year	(1,785)	(770)	(2,555)
New warrants / conversion features	(132,824)	(40,264)	(173,088)
Net gains / (losses) recognized	14,639	(50,632)	(35,993)
Extinguishment of warrants / settlement of conversion feature	119,970	91,666	211,636
Balance, end of the year	-	-	-

Tabular amounts in thousands of US dollars, unless otherwise noted

17. Capital management

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

The Corporation's objectives when managing capital are0

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

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

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

The Corporation funds its share of expenditures of all commitments from existing cash and cash equivalent or restricted cash balances received primarily from issuances of shareholders' equity or debt financing. For the Senior Secured Facility and the Corporate Finance Loan Facility the Corporation is required to maintain cash balances with the lenders, hedge a portion of production, and meet certain debt covenants which include financial ratio tests.

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

	December 31,	
	2015	2014
Total borrowings (Note 13)	496,865	801,606
Less: cash and cash equivalents	(43,755)	(31,363)
Net debt	453,110	770,243
Total equity	1,028,910	1,010,017
Total capital	**1,482,020**	**1,780,260**

18. Related party transactions

The ultimate parent of the Corporation is Oando PLC, incorporated in Nigeria. At December 31, 2015, Oando PLC owned 93.7% 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. As at December 31, 2015, the Corporation had the following outstanding related party receivable balances with Oando PLC:

	December 31,	
	2015	2014
Accounts receivable from Oando PLC	112,048	94,006
Related party receivables	**112,048**	94,006

This balance includes $50 million paid by the Corporation to Oando PLC as collateral for the Afrexim loan. Despite the repayment of the Afrexim loan in Q4 2015 and the return of the collateral to Oando PLC, the amount has not been returned to the Corporation and remains outstanding as at December 31, 2015. The remaining $62 million are amounts due from Oando Exploration and Production Limited, a subsidiary of Oando PLC under the Transitional Services Agreement. Based on discussion with Oando PLC, the Corporation does not believe accounts receivable will be collectible within 12 months and has therefore re-classified related party receivables to non-current assets.

Tabular amounts in thousands of US dollars, unless otherwise noted

As at December 31, 2015, the Corporation had the following outstanding related party payables balance with Oando PLC:

	December 31, 2015	2014
Payable to Oando PLC (Equator loan)	12,283	11,098
Oando PLC (Payments on behalf of the Corporation)	44,129	50,679
Total Current Portion	56,412	61,777
Add: Under lift payable to Oando PLC	47,272	47,272
Total Related party payables	**103,684**	109,049

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 OPL 214 Holding BV (Holdco 214), Oando OML 131 Holding BV (Holdco 131), 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 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 (2014 - 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 (2014 - Nil). During the year, the Corporation didn't incur any amounts under this agreement (2014 - 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 (2014 – Nil).

(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

Tabular amounts in thousands of US dollars, unless otherwise noted

$10.9 million in aviation costs to an entity associated with a director of the Corporation (2014 – $5.1 million). During the period, the Corporation incurred $23 million under this agreement (2014 - $36 million).

(d) Key Management Personnel Compensation

	For the year ended December 31,	
	2015	2014
Salaries and other short term employment benefits	6,507	5,558
Restricted share units	321	221
Performance share units	768	-
Share based payments	1,685	776
Key management personnel compensation	**9,281**	**6,555**

Key management includes the Board of Directors and Senior Management of the Corporation.

19. Revenue

	For the year ended December 31,	
	2015	2014
Crude oil	396,361	389,720
NGLs	12,754	5,594
Natural gas	97,955	66,617
Total oil and natural gas sales	507,070	461,931
Less: royalties	(71,421)	(55,592)
Oil and natural gas sales, net of royalties	435,649	406,339
Oil transportation tariffs and other	6,110	4,932
Kwale-Okpai IPP power sales	13,206	10,151
Revenue, net of royalties	**454,965**	**421,422**

The Corporations major customers include subsidiaries of international oil companies, Nigerian government organizations, and joint venture businesses. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A, Vitol SA, ConocoPhillips (UK) Limited and Nigeria Liquefied Natural Gas Limited "NLNG". In the year ended December 31, 2015, Eni Trading and Shipping S.p.A, Vitol SA and NLNG accounted for 19%, 54%, and 19% respectively of gross revenue before royalties (2014 – 25%, 23%, 20% and 12% to Eni, Vitol SA, ConocoPhillips (UK) Limited and NLNG respectively)

Crude oil losses - OML 56 (Ebendo Marginal Field)

The Corporation experiences production losses due to crude oil theft. For the year ended December 31, 2015, crude oil losses represented approximately 17% (2014 – 18%) of oil production for the period. Revenue has not been recognized for crude oil losses. Crude oil losses are estimated using allocations provided to the Corporation by NAOC.

Crude overlift by NNPC – OML 125 (Abo Field)

NAE and the Corporation (through Oando OML 125 & 134) commenced arbitration proceedings concerning the overlifting of oil by the NNPC in relation to OML 125. The dispute concerns the manner in which cost oil and profit oil has been computed, allocated and administered under the relevant PSC since 2006.

In October 2011, an arbitral tribunal seated in Nigeria found that the NNPC had overlifted and granted the Corporation declaratory and injunctive relief with damages to be subsequently assessed. On July 9, 2014 a final award was issued by the arbitration tribunal in favour of NAE and the Corporation entitling them to collect amounts overlifted by the NNPC. The arbitration tribunal assessed damages suffered by NAE and the Corporation as at January 31, 2014. The Corporation's share of the damages awarded under the final award is $72.9 million plus interest on damages, legal and expert costs, interest on legal and expert costs, and additional interest from the date the award was granted until payment.

NNPC has not complied with the final award and continues to overlift. On August 25, 2014, NAE and the Corporation filed an action at the Federal High Court for the recognition and enforcement of the partial and final awards. On October 2, 2014, NNPC filed a motion asking the court to dismiss that action. The matter remains pending before the courts. Although the OML 125 asset is held for sale the Corporation has retained its right to receive the award (see Note 6).

Tabular amounts in thousands of US dollars, unless otherwise noted

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, $1.5 million has not been recognized in revenue in the year ended December 31, 2015. (2014 - $21 million) 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.

20. General and administrative expenses

	For the year ended December 31,	
	2015	2014
Consulting and professional fees	25,712	35,564
Office and administrative expenses	6,718	7,703
Employee benefit expenses	17,348	16,788
Share based payment expenses	2,774	997
Travel expenses	3,101	5,816
Other expenses	13,983	3,752
General and administrative expenses	69,636	70,620

21. Net financing income (expense)

	For the year ended December 31,	
	2015	2014
Foreign exchange gain	7,716	2,157
Interest income	26,610	3,754
Other income	-	960
Financing income	34,326	6,871
Interest expense	(97,474)	(130,640)
Decommissioning liabilities: Unwinding of discount	(10,490)	(4,791)
Less: Borrowing costs capitalized on qualifying assets	248	3,028
Finance expenses	(107,716)	(132,403)
Net financing expense	(73,390)	(125,532)

Tabular amounts in thousands of US dollars, unless otherwise noted

22. Supplemental cash flow information

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

	For the year ended December 31, 2015	2014
Trade and other receivables	154,360	(201,173)
Inventory	(3,095)	(4,851)
Other long term receivables	(120,232)	59,310
Trade and other payables	(55,135)	174,364
Long term payables	(151)	33
Less: Non-cash items included in working capital	99,602	(4,609)
Changes in non-cash working capital	75,349	23,074
Operating activities	31,487	14,784
Financing activities	5,950	(6,006)
Investing activities	37,912	14,296
Changes in non-cash working capital	75,349	23,074

23. Commitments

The following table represents the contractual commitments of the Corporation at December 31, 2015:

	Total	< than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings[1]	564,358	564,358	-	-	-
Trade and other payables	332,398	332,398	-	-	-
Current tax payable	217,528	217,528	-	-	-
Due to Oando PLC	47,272	-	-	47,272	-
Purchase commitments	2,885	2,885	-	-	-
Budgeted Capital expenditure	73,230	73,230	-	-	-
	1,237,671	1,190,399	-	47,272	

[1]Interest payable is expected to be $42.7 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at period end. Cash out flows associated with borrowings assume principal payments are paid in accordance with repayment schedules before cash sweeps – refer to Note 17 in the consolidated financial statements for year ended December 31, 2014.

[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.

The commitments for the next five years are expected to be funded from cash flow from operations of the Corporation, as well as debt financing from Oando PLC and additional third party debt and equity financing as market conditions permit. Refer to going concern issue at Note 1.

24. Contingencies

(a) 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, 2015 (2014 – $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 financial statements at December 31, 2015 (2014 – Nil).

(b) 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 group 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 originally bid as member of a consortium for OPL 321 and 323. It was granted a 30% interest in the Production Sharing Contracts "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 judgements 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.

25. Comparative information

For the period ended December 31, 2015, certain prior period amounts in the statements of comprehensive loss have been reclassified for the purpose of comparability with current period presentation. These changes in classification do not impact the opening balance sheets of the Corporation.

Current and deferred income tax (expense)/recovery

The income tax on the consolidated statement of comprehensive loss for the year ended December 31, 2014 has been reclassified, by presenting current income tax and deferred income tax individually to conform to the interim consolidated financial statement presentation of 2015. The income tax recovery of $3.6 million for the year ended December 31, 2014 has now been presented under two separate line items as current income tax expense of $71.3 million and a deferred tax recovery of $74.9 million.

Impairment of joint venture receivable

Impairment of joint venture receivable has been reclassified from bad debt expense to conform to the current period presentation. For the year ended December 31, 2014, $47.9 million has been reclassified from bad debt expense to the impairment of joint venture receivable category on the consolidated statement of comprehensive loss.

Bad debt expense

Bad debt expense relating to provision on trade receivables on the consolidated statement of comprehensive loss is now been presented as part of general and administrative expenses category to conform to the current period presentation. For the year ended December 31, 2014, bad debt expense of $0.7 million is now being presented as part of general and administrative expenses.

26. Subsequent events

Oando PLC to acquire OER Minority Shares

On December 22, 2016, the Company entered into a definitive agreement with Oando PLC and Oando E&P Holdings Limited, a private company incorporated under the laws of the Province of British Columbia as a wholly-owned subsidiary of Oando PLC (the "Purchaser"), under which the Purchaser would acquire all of the issued and outstanding common shares of OER (the "Common Shares"), excluding the Common Shares held by Oando PLC and those held by M1 Petroleum Ltd., West African Investment Ltd. and Southern Star Shipping Company Inc., pursuant to a plan of arrangement for cash consideration of US$1.20 per share, subject to the receipt of relevant lender consent and regulatory approvals. At the Company's special meeting on February 25, 2016, shareholders approved the plan of arrangement, which will culminate in the Purchaser acquiring all of the issued and outstanding Common Shares. Copies of the arrangement agreement dated December 22, 2015, the management information circular and certain related documents have been filed with the Canadian securities regulators and are available under the Company's profile on the Canadian SEDAR website at www.sedar.com.

The plan of arrangement is subject to the approval of shareholders, the Supreme Court of British Columbia, senior secured facility lenders, corporate finance facility lenders, and the TSX. As of the date of these financial statements, approvals from shareholders (as noted above) and the Supreme Court of British Columbia have been obtained.

Borrowings

In February 2016, the Corporation completed its borrowing base calculations for the Senior Secured Facility which resulted a reduction of the borrowing base and required to Corporation to prepay $12 million of the amount outstanding. The Corporation remains in default on the loan.

As at March 2016, the Corporation had paid $21.7 million of overdue principal and interest on the Corporate Finance Facility but failed to make its Q1 2016 principal and interest payment of $19.6 million due to cash restricted by the Senior Secured Facility lenders. The Corporation remains in default on the loan.