Oando Energy Resources

Management's Discussion and Analysis

For the years ended December 31, 2015 and 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements of Oando Energy Resources Inc. ("OER") and its subsidiaries (together, the "Corporation") for the year ended December 31, 2015 (the "Consolidated Financial Statements"), as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2014. This MD&A is dated and based on information available to March 29, 2016.

The consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial information is presented in US dollars ("USD"), unless otherwise noted.

See Advisory Regarding Forward Looking Statements at the end of this document.

Business of the Corporation

OER is a publicly traded company with common shares and warrants listed on the Toronto Stock Exchange ("TSX") under the symbols "OER" and "OER.WT", respectively. The Corporation is involved in the acquisition of petroleum and natural gas rights, the exploration for, and development and production of, oil and natural gas primarily focused in Nigeria and São Tomé and Príncipe in the Gulf of Guinea. The ultimate controlling shareholder and parent company of the Corporation is Oando PLC. The Corporation holds interests in licences for the exploration, development and production of oil and gas fields or blocks located onshore on land and swamp, and offshore in shallow and deep waters.

Operating in Nigeria affords OER certain advantages as an indigenous independent oil company. The Nigerian Government implemented certain initiatives to increase the participation of Nigerian companies in exploration and production through, among other things, the Marginal Field Development Program which has resulted in marginal fields being awarded to Nigerian companies and the Local Content Act which provides for preferential treatment to Nigerian companies by prescribing minimum thresholds of Nigerian participation for various activities in the oil and gas sector, including the award of Licenses.

The Corporation's strategy is to continually grow reserves and production through the development of existing assets and the acquisition of new assets. As international oil and gas companies shift their focus to offshore projects, they are divesting their onshore assets, offering opportunities for indigenous independents, like OER, to acquire reserves and resources. Average production of OER in 2015 was 54,520 boe/d, consisting of 39% crude oil and 61% natural gas and natural gas liquids ("NGL"). On a revenue basis, crude oil comprised 78% and natural gas and NGLs comprised 22% of oil and gas sales, before royalties.

Frequently reoccurring terms

Production volumes are presented on a working interest basis, before royalties, unless otherwise noted. Crude oil volumes are presented in barrels ("bbls") and NGLs are presented in barrels of oil equivalent ("boe"). Natural gas volumes have been converted to boe using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. Cubic feet equivalent may be misleading, particularly if used in isolation. A conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead.

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

Changes in accounting policies and disclosures

There were no new IFRSs or IFRIC interpretations effective January 1, 2015 that would be expected to have a material impact on the Corporation.

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.

Critical estimates and assumptions

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.

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 financial models and calculations which require the use of estimates and assumptions. Refer to Note 7, 8 and 9 in the consolidated financial statements, 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. For goodwill, fair value has been estimated using a combination of the techniques applied for oil and gas assets and exploration and evaluation assets.

Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors, and the discount rate. Reserves as at December 31, 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 of future pricing for National Instrument 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 $0.70/boe as the implied value per boe on 2c unrisked contingent resources based comparable market transactions and consideration of forward price declines.

Reducing the price forecast by 10% would increase the impairment charge by $15.6 million. Increasing the discount rate by 1% would increase the impairment loss by $2.6 million.

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.

Critical judgements

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

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

Due to the financial condition of the Corporation at December 31, 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 in the consolidated financial statements and the liquidity section below.

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. 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 PLC 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). 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 in the consolidated financial statements for the details of Management's review of impairment indicators for oil and gas assets, exploration and evaluation 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. 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 consolidated financial statements, it was determined that the revenue recognition should be deferred for oil production subject to overlifting by the NNPC. From October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production not recognized as a result of this policy in 2013, $21.0 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.

Comparative figures

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.

Non-GAAP measures

Funds from operations

Funds from operations is not a measurement defined in IFRS, but is a financial term commonly used in the oil and gas industry. The Corporation believes that in addition to cash flows from operating activities as reported in the consolidated statements of cash flows, funds from operations is a useful supplemental measure, as it provides an indication of the funds generated by OER's principal business activities prior to adjusting for proceeds from early hedge settlements and changes in non-cash working capital. The Corporation considers this to be a key measure of performance as it demonstrates its ability to generate cash flow necessary to fund growth through additional capital investments. Funds from operations may not be directly comparable to similar measures presented by other companies, as there is no standardized measure. See reconciliation of funds from operations to cash flows from operating activities under results of operations.

Netback

Operating netback is not a measurement defined in IFRS, but is a financial term commonly used in the oil and gas industry. Operating netback has been calculated by taking revenue less royalties and production expense balances directly from the consolidated financial statements note 19 and the consolidated statements of comprehensive loss. In calculating dollar per boe amounts, sales, royalties, and expenses are matched with the associated sales volume. Operating netbacks may not be directly comparable to similar measures presented by other companies, as there is no standardized measure. See reconciliation of netback under results of operations.

Foreign Operations and Risk Factors

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.

OER's Annual Information Form contains a summary of various risk factors which are relevant to investors.

Currency

All information included in this document and the consolidated financial statements and comparative information is shown in US dollars, unless otherwise noted. The Corporation's financial results are reported in US dollars, which is also its functional currency of operations in Nigeria.

Additional information

Further information regarding Oando Energy Resources Inc., including its Annual Information Form, can be accessed under the Corporation's public profile on SEDAR at www.sedar.com.

Financial and Operational Highlights

- On December 22, 2015, the Corporation entered into a definitive agreement with Oando PLC and Oando E&P Holdings Limited to acquire all of the issued and outstanding common shares of OER for cash consideration of US$1.20 per common share. The plan of arrangement is subject to the consent of OER's two facility lenders and the TSX.
- Production in 2015 increased to 19.9 MMboe (average 54,520 boe/day) from 9.1 MMboe (average 24,945 boe/day) in 2014. During the fourth quarter 2015 the production decreased to 4.8 MMboe (average 52,637 boe/day), as compared to 5.0 MMboe (average 54,721 boe/day) in the fourth quarter of 2014. The increase between the annual periods is primarily from the Nigerian onshore and offshore assets acquired on July 30, 2014 from the ConocoPhillips Company ("COP Acquisition") that included substantial production from OMLs 60 to 63, significant reserves and resources, and a considerable base of development and exploration opportunities.
- In October 2015, the Corporation increased the capacity of the Senior Secured Facility and Corporate Finance Facility by $90.7 million; proceeds from the loan and cash on hand were used to repay the $100 million subordinated debt facility and fees of $4.6 million, along with cash on hand.
- During 2015 revenues increased $33.5 million, to $455.0 from $421.4 million in 2014, primary as a result of the COP Acquisition producing assets of OMLs 60 to 63, offset by a substantial decline in crude oil sales prices.
- In 2015, approximately 46% of crude oil production was hedged. At December 31, 2015, 9,617 bbls/day of crude oil production was hedged at $65/bbl (average) with expiries ranging from July 2017 to Jan 2019 and further upside if certain price targets are met, which represented 43% of the fourth quarter production of crude oil.
- The Corporation recognized net income of $16.1 million in 2015, as compared to a net loss of $320.0 million in 2014. The increase was primarily the result of the decrease in the non-cash impairment of assets, which was partially offset by lower commodity prices.
- Production expenses in the 2015 increased to $238.7 million from $114.3 million (adjusted – see production expense section) in 2014. The adjusted production expenses per boe were $11.99/boe in 2015, as compared with $12.56/boe in 2014.
- General and administrative costs ("G&A") for 2015 were $69.6 million which was comparable to $70.6 million in 2014. On a per boe basis G&A improved to $3.50/boe in 2015 from $7.76/boe in 2014, due to the increase in production.
- Funds from operations in 2015 increased to $181.3 million from $101.3 million in 2014, as a result of increased cash flow generated by the production assets acquired on July 30, 2014 and the reduction in acquisition costs, offset by decreased commodity prices.
- Capital expenditures of $87.8 million were incurred in 2015, consisting of $41.3 million at OMLs 60 to 63, $36.4 million at OML 125, $3.8 million at Qua Ibo, $1.7 million at Ebendo, and $4.6 million on other assets.
- In December 2015, OER entered into an agreement to sell its interest in OMLs 125 and 134 to the operator for cash proceeds of $5.5 million and assumption of $84.5 million in cash call liabilities due to the joint venture. The divesture requires lender and government consent.
- As at December 31, 2015, OER had a working capital deficiency of $835.8 million, as compared to a working capital deficiency of $567.2 million at December 31, 2014. The increase in the working capital deficiency was primarily related to the reclassification of non-current borrowings to current borrowings as a result of breaching a loan agreement requirement at December 31, 2015. See borrowings section for additional information.

Selected Financial and Operational Highlights

The table below summarizes selected financial and operational information for the years ended December 31, 2015, 2014 and 2013 and for the three months ended December 31, 2015 and 2014.

	Selected Annual Information			Fourth Quarter	
	2015	2014	2013	2015	2014
Financial:					
Revenue	454,965	421,422	127,211	99,798	174,042
Funds from operations [1]	181,308	101,303	52,632	29,509	52,945
Comprehensive income (loss)	16,119	(320,041)	(38,230)	79,577	(232,033)
Net income (loss) per share: Basic	0.02	(0.53)	(0.36)	0.10	(0.29)
Net income (loss) per share: Diluted	0.02	(0.53)	(0.36)	0.10	(0.29)
Total assets	3,141,596	3,242,791	1,299,422	3,141,596	3,242,791
Total non-current liabilities	868,771	1,088,996	275,195	868,771	1,088,996
Operational:					
Production:					
Crude oil (bbl)	7,826,926	4,092,973	1,456,818	2,039,138	2,000,821
NGL (boe)	1,216,101	475,053	-	301,536	291,907
Natural Gas (mcf)	65,138,487	27,221,832	-	15,011,170	16,449,778
Total production (boe)	19,899,442	9,104,998	1,456,818	4,842,536	5,034,358
Daily production:					
Crude oil (bbls/day)	21,444	11,214	3,991	22,165	21,748
NGLs (boe/day)	3,332	1,302	-	3,278	3,173
Natural Gas (mcf/day)	178,462	74,580	-	163,165	178,802
Total (boe/day)	54,520	24,945	3,991	52,637	54,721
Average selling prices [2, 3]					
Crude oil ($/bbl)	51.07	95.22	110.30	43.32	81.29
NGL ($/boe)	10.49	11.77	-	9.96	10.91
Natural gas ($/mcf)	1.68	2.54	-	1.38	2.46

[1] *See definition under non-GAAP measures.*
[2] *Before royalties and the Government share of profit oil.*
[3] *Average selling prices are calculated from volumes sold during the period.*

Message to Shareholders

Operationally, 2015 has been a successful year for the Corporation notwithstanding its challenges. Production remained relatively steady in 2015, averaging 54,520 boe/day despite a number of operational incidents. In February 2015 OER used its expertise to bring the Qua Ibo opportunity on-stream, which was its first in-house development project from concept to development, thru design and construction, up to commissioning of the 10,000 bbls/d crude processing facility and tie-in to the nearby FUN Group gathering facility, with the production operatorship eventually being relinquished to the JV partner after commissioning. The Corporation expects 2016 production to marginally decrease as a consequence of the scaled back capital expenditures in 2015 and the continuation of natural gas pipeline constraints.

Financially, 2016 is expected to be a challenging year for the Corporation and the oil and gas industry as a whole. The low crude oil prices have stressed the Corporation's finances. Throughout the remainder of 2016 management only expects a modest improvement in crude oil prices. Therefore, in response to the low prices, the Corporation has taken steps to decrease its monthly G&A expenses through employee reductions and delisting the Corporation from the TSX upon completion of the OER share buyout. Furthermore, in October 2015, the Corporation increased the capacity of the Senior Secured Facility by $90.7 million using those proceeds to repay the maturing $100 million subordinated debt facility, thereby, extending that obligation over the next three to four years.

The 2016 capital budget has been significantly reduced as a result of the decline in operating cash flows and difficulties in raising equity in the oil and gas industry. Therefore, management's has concentrated its efforts on maximizing the immediate impact of capital spending by focusing on essential asset integrity projects, production optimization projects with immediate returns, and facility projects that will increase production and decrease per boe operating costs. In rationalizing capital spending, management anticipates minimal exploration spending to hold blocks due to the significant capital requirements and long-term nature of those opportunities. However, exploration activities will continue at Blocks 5 and 12 by means of farmouts and equalizing of capital spent to provide an immediate return and future upside. The Corporation looks forward to improving cash flow and working capital deficit by divesting of its interest in OML 125 and 134, which has been operating at a deficit.

On December 22, 2015, the Corporation entered into a definitive agreement with Oando PLC and Oando E&P Holdings Limited ("Purchaser") to acquire all of the issued and outstanding common shares of OER at US$1.20 per common share. At the Corporation's special meeting on February 25, 2016, shareholders overwhelmingly approved a plan of arrangement, which will culminate in the Purchaser acquiring all of the issued and outstanding common shares of OER. The plan of arrangement is subject to the consent of the senior secured facility and corporate finance facility lenders and the TSX.

Results of Operations

The following provides an analysis of the Corporation's results of operations for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The Corporation's only reportable segment is its oil and gas operations in Nigeria.

Revenue

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

Oil and gas revenue is generated by the production and sale of crude oil, natural gas, and NGLs from the Corporation's interest in OMLs 60 to 63 (onshore), OML 125 (offshore), Ebendo (in OML 56, onshore), and Qua Ibo (in OML 13, onshore), all located in Nigeria. The Corporation also generates oil transportation tariff revenue from third parties by the Corporation's interest in various pipelines and revenues through the sale of power generated at the Kwale-Okpai independent power plant ("Kwale-Okpai IPP"). The Corporation's major customers include subsidiaries of international oil companies and other joint ventures in Nigeria. The Corporation earned the majority of its revenue from Eni Trading and Shipping S.p.A, Vitol SA and Nigeria Liquefied Natural Gas Limited.

In 2015 the Corporation generated $455.0 million in revenue, net of royalties, compared to $421.4 million in 2014. Gross oil and gas sales increased $45.1 million to $507.1 million from $461.9 million in 2014. The increase in gross oil and gas revenues in 2015 was primarily a result of the acquisition of OMLs 60 to 63 on July 30, 2014, which was significantly offset by lower commodity selling

prices in 2015. In addition, royalties increased by $15.8 million to $71.4 million in 2015, compared to $55.6 million incurred in 2014. The increase in royalties, which are paid on production volumes, was attributed to OMLs 60 to 63 being purchased on Jul 30, 2014, compared to a full year of production in 2015, which was also significantly offset by lower selling price of crude oil and natural gas.

OMLs 60 to 63 had net oil and gas revenues in the 2015 of $344.1 million, which was an increase of $45.2 million as compared to $299.0 million in 2014. The year to year increase at OMLs 60 to 63 was attributed to comparing twelve months of production in 2015 to five months in 2014, which was significantly offset by a decrease in the crude oil and natural gas selling prices. Gross revenues at OMLs 60 to 63 consisted of $283.5 million of crude oil, $12.8 million natural gas liquids, $98.0 million in natural gas sales, $13.2 million in power generation revenues at the Kwale-Okpai IPP, and $4.1 million from oil transportation tariffs, all before royalties of $67.4 million. Gross crude oil revenue at OML 125 decreased $37.2 million in 2015 to $62.5 million from $99.7 million in 2014 and royalties decreased to $4.9 million from $9.7 million in 2014. The decreases in gross revenues and royalties at OML 125 were fully attributed to lower crude oil prices, as production remained level between 2015 and 2014. Gross crude oil revenues at Ebendo increased $5.0 million in 2015 to $37.6 million from $32.6 million in 2014, as a result of a 75% increase in production that was nearly offset by the decrease in selling prices. In 2015 Ebendo royalties resulted in a recovery of $1.5 million as compared to a $1.7 million expense in 2014, as a result of a favourable multi-year royalty reconciliation with NNPC. The Corporation commenced sales from production at Qua Ibo during the second quarter of 2015, realizing gross crude oil revenues of $12.8 million and incurring royalties of $0.7 million during the year.

Pricing

The Corporation's financial results are significantly influenced by fluctuations in global crude oil commodity prices. The following table shows select world market benchmark prices that directly affects OER's crude oil pricing and the actual average selling prices received by the Corporation for each of its products:

	2015	2014
Brent UK average oil price ($/bbl)	53.58	99.51
Average selling price:		
Crude oil ($/bbl)	51.07	95.22
NGLs ($/boe)	10.49	11.77
Natural gas ($/mcf)	1.68	2.54
Weighted average selling price ($/boe)	27.10	50.73

The Dated Brent oil benchmark price is a benchmark for the price received by the Corporation for its Nigerian oil production. The Corporation's gross sales price for oil decreased 46% to $51.07/bbl in 2015 from $95.22/bbl in 2014, in line with the 46% decrease of the 2015 Dated Brent oil price to $53.58/bbl from $99.51/bbl in the prior year.

In 2015 the Corporation had economic hedges through the use of financial commodity contracts on crude oil that represented 43% of its crude oil production based on fourth quarter production. The economic hedges reduce the Corporation's exposure to fluctuations in crude oil prices and the associated financial effect. The gains and losses on financial commodity contracts are recorded separately in net gains and losses on financial instruments (as described below).

Natural gas pricing for OER is primarily influenced by contracts and local conditions and therefore is not directly comparable to a recognized world benchmark for natural gas prices. OMLs 60 to 63 are where the majority of the Corporation's natural gas production originates, with approximately 80% of that production being committed to a long-term liquefied natural gas ("LNG") facility with pricing based on the end-use LNG sales product. The remaining production is sold at under arrangements with pricing based on a combination of local market prices and inflation-adjusted prices. Natural gas and NGLs represented 22% of OER's total oil and gas sales in 2015.

Production

	2015	2014
Crude oil (bbls/day)	21,444	11,214
NGLs (boe/day)	3,332	1,302
Natural Gas (mcf/day)	178,462	74,580
Total (boe/day)	54,520	24,945

In 2015, the Corporation's average production was 54,520 boe/day, as compare to 24,945 boe/day in 2014. 2015 production consisted of 21,444 bbls/day of crude oil, 3,332 boe/day of NGLs and 178,462 mcf/day (29,744 boe/day) of natural gas. Increases in crude oil, NGLs and natural gas production were predominantly the result of additional production from OMLs 60 to 63 that were acquired on July 30, 2014. 2015 production at OMLs 60 to 63 averaged 48,733 boe/day, consisting of 15,657 bbls/day of crude oil, 3,332 boe/day of NGLs and 178,462 mcf/day (29,744 boe/day) of natural gas, as compared to combined average production of 49,316 boe/day between the period of July 30, 2014 to December 31, 2014. The modest decrease at OMLs 60 to 63 in the per boe rate is primarily related to the pipeline constraints due to the Ebocha terminal fire that has resulted in approximately 10% of pre-incident natural gas volumes being constrained behind pipe due to back-pressure issues. At Ebendo production increased 75% to

1,701 bbls/day from 970 bbls/day and OML 125 remained steady at 3,314 bbls/day from 3,303 bbls/day between 2015 and 2014, respectively. Qua Ibo commenced production on February 13, 2015 and produced approximately 772 bbls/day of crude oil on an annual basis.

Ebocha Terminal Fire and Tebidaba-Clough Creek Line Fire

During 2015, two unfortunate operational incidents occurred at facilities owned by the Nigerian Agip Oil Company Joint Venture ("NAOC JV") which is operated by Nigerian Agip Oil Company ("NAOC"). The Corporation owns 20% of the NAOC JV. On June 28th, 2015 there was a fire involving three crude storage tanks at the Ebocha terminal in Rivers State, Nigeria, as a result of an explosive device being thrown into the property by saboteurs. The fire was successfully extinguished with no injuries, fatalities, or environmental spill. Most production in the land area (LAR) was initially shut-in, leading to July production from crude oil, NGLs and natural gas production being reduced by approximately 10,000 boe/day net during the month. Production was restored near the end of July by the combination of installing booster pumps at the Ebocha terminal and reconfiguring lines to bypass the storage facility, along with redirecting production along existing pipelines. The Corporation estimates its share of repairs at $6.7 million. As a result the operator has increased the level of security in and around the Ebocha terminal in conjunction with OER.

On July 9, 2015 a fire occurred during the inspection and repair of a crude theft point on Tebidaba-Clough Creek Line, an oil pipeline in Nigeria's onshore Niger Delta. The incident resulted in the unfortunate death of 14 members of the contractor's inspection and repair team. The fire occurred away from the repair point and pipeline, igniting some of the spilled hydrocarbon. The line was fully repaired and brought back on-stream during the quarter with minimal interruption to production.

Crude oil losses (Ebendo)

Production from Ebendo is transported through the newly constructed Umugini pipeline and a pipeline operated by Nigerian Agip Oil Company Limited. These pipelines have experienced a significant amount of crude oil losses through crude oil thefts and pipeline sabotage. In 2015, pipeline and export facility losses based on managements' estimate were 128,822 bbls or 17% of total crude oil deliveries from Ebendo, as compared to losses of 75,421 bbls or 18% in 2014. Gross crude oil deliveries from OER into the export pipeline from Ebendo in 2015 were 749,533 bbls, before pipeline losses. The Corporation estimated that 2015 crude oil revenue losses were $7.7 million from crude oil thefts and pipeline sabotage, as compared to $7.9 million in 2014.

Production expenses

	2015	2014
Production expenses	238,669	152,932
Fair value adjustments [1]	-	(38,614)
Production expenses, net of adjustments	238,669	114,318
$/boe, gross	11.99	16.80
$/boe, net of fair value adjustments	11.99	12.56

[1] 2014 Production expenses include additional non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments for Purchase Price Adjustments (PPA) calculations; inventory with an original cost basis of $11.3 million was recognized at its fair value of $49.9 million on July 30, 2014 in accordance with acquisition accounting rules; the inventory was subsequently sold resulting in a $49.9 million expense being recognized which included the $38.6 million non-recurring acquisition accounting fair value adjustment.

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

During 2015 production expenses were $238.7 million, which was an increase of $85.7 million over the $152.9 million incurred in 2014. The increase in 2015, as compared to 2014, was primarily related to the additional production expenses from OMLs 60 to 63 that were purchased on July 30, 2014, offset by the $38.6 million fair value adjustment related to the COP Acquisition. Adjusting for the $38.6 million fair value increase to inventory results in a production expense increase of $124.4 million over the $114.3 million (net of adjustments) recognized in 2014, which is a proportional increase between 2015 and 2014.

On a per boe basis, production expenses, net of fair value adjustments, were $11.99/boe in 2015 and $12.56/boe in 2014. The modest decrease was the result of the operating cost reductions realized at each of the Corporation's properties resulting from focusing on increasing efficiency, along with the effect of increasing production volumes at Ebendo.

Operating netbacks

The Corporation's operating netbacks have been calculated by taking balances from the consolidated financial statements' note 19 and the consolidated statement of comprehensive loss. Operating netbacks as presented below may not be comparable to similar measures presented by other companies, as there is no standardized measure.

	2015	2014
Crude oil	396,361	389,720
NGLs	12,754	5,594
Natural gas	97,955	66,617
Total oil and gas sales	507,070	461,931
Less: royalties	(71,421)	(55,592)
Oil and gas sales, net of royalties	435,649	406,339
Production expenses[2]	(238,669)	(152,932)
Operating netback	196,980	253,407

	2015	2014
$/boe		
Total oil and gas sales[1]	27.10	50.73
Royalties[1]	(3.80)	(6.11)
Production expenses	(11.99)	(16.80)
Operating netback	11.31	27.82

[1] Oil and gas sales/boe is calculated from volumes sold during the period; royalties/boe is calculated based on volumes subject to royalties.
[2] 2014 Production expenses include additional non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments. Adjusted production expenses are $12.47/boe and $12.56/boe for the three and twelve months ended December 31, 2014, respectively.

The operating netback in 2015 was $11.31/boe, as compared to $27.82/boe in 2014. The decrease in the operating netback on a dollar per boe basis was primarily the result of the sales mixture change from the addition of natural gas and NGLs from OMLs 60 to 63 and significantly lower crude oil prices. In 2015 production volumes were 39% crude oil and 61% natural gas and NGLs, as compared to 45% crude oil and 55% natural gas in 2014. The combination of the significant decrease in OER's crude oil selling price and the addition of the lower priced natural gas to the Corporation's sales mixture led to the decrease in the Corporation's weighted average selling price of oil and gas products.

Royalties for 2015 decreased at a greater rate than the decrease in commodity prices because a significant portion of the Corporation's royalties are calculated on sliding scales, with those royalty rates following the direction of changes in commodity prices. Subsequent to adjusting production expenses for the non-recurring acquisition accounting fair value inventory adjustment (see production expense section), the operating expenses for 2015 were modestly lower in 2015 in comparison to 2014, on a boe basis.

The Corporation continues to focus on improving their operating netback by concentrating on near term crude oil development and decreasing operating costs, on a per boe basis, through field and facility optimizations to generate greater cash flows from operations.

Depletion, depreciation and amortization

	2015	2014
Depletion, depreciation and amortization	130,670	88,672
$/boe	6.57	9.74

In 2015, DD&A charges increased to $130.7 million from $88.7 million in 2014. The increase was due to OMLs 60 to 63 being acquired on July 30, 2014, which was partially offset by the upward revision in reserve volumes at December 31, 2015 during the Corporation's annual reserve evaluation by its independent reserve engineers. The upward revision resulted in significantly decreasing the rate of depletion derived from current production relative to the estimated total reserves. On a per boe basis DD&A decreased to $6.57/boe in 2015 from $9.74/boe in 2014, as a result of the lower depletion rates from the increased reserve base in 2015 at OMLs 60 to 63, as compared to 2014.

Impairment of assets

	2015	2014
Impairment of assets	44,274	462,783

During 2015 the Corporation conducted impairment testing on its PP&E, interest in Qua Ibo, E&E assets and goodwill, recognizing total impairments of $44.3 million, as compared to $462.8 million in 2014.

Impairments to PP&E were $30.1 million (2014 - $61.4 million). PP&E impairments resulted from the carrying amounts of cash generating units OML 125 and its interest in Qua Ibo being reduced to their recoverable amounts of $193.1 million and $34.6 million, respectively, recognizing net losses of $3.5 million (2014 - $nil) and $19.9 million (2014 - $nil), respectively. The impairments at Qua Ibo and OML 125 were triggered by declining oil prices indicating lower than expected long-term economic performance. In addition, the Company expensed $6.7 million specifically related to the remaining book value of the damaged assets caused by the fire at the Ebocha terminal within the OML 60-63 cash generating unit (described above).

The impairment to E&E assets resulted in expensing $14.2 million (2014 - $401.4 million). E&E impairments resulted from the carrying amounts of cash generating units OML 131 and OML 145 being reduced to their recoverable amounts of $50.1 million and $29.9 million, respectively, recognizing net losses of $2.0 million (2014 - $3.8 million) and $12.1 million (2014 - $47.7 million), respectively. The impairments on E&E assets were primarily the result of downward revisions to the value of contingent resources related to lower forecasted crude oil prices.

As at December 31, 2015, the Corporation tested its goodwill balance of $1,021 million (2014 – $1,021 million) and determined that no impairment existed.

G&A costs

	2015	2014
General and administrative costs	69,636	70,620
G&A per $/boe	3.50	7.76
Acquisition costs	-	84,860
Impairment of joint venture receivable	15,643	47,926

G&A costs during 2015 were $69.6 million, remaining consistent with the $70.6 million incurred in 2014. On a per boe basis the G&A costs improved to $3.50/boe from $7.76/boe in 2014, as a result of the increase in production between the years. G&A in 2015 include $2.8 million (2014 - $1.1 million) of non-cash share-based payments expense and $15.1 million (2014 – $29.4 million) related to shared and management costs for services provided by Oando PLC which the Corporation would otherwise have incurred separately. The Corporation expects its G&A costs to decrease in 2016 as a result of reductions to the amount of employees occurring in the fourth quarter of 2015 and the expected delisting of the Corporation from the TSX Exchange upon closing of the OER share buyout by Oando PLC and Oando E&P Holdings Limited.

During 2014 the Corporation incurred $84.9 million in relation to non-reoccurring acquisition costs to effect the COP Acquisition. No acquisition costs were incurred in 2015.

As at December 31, 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 of $36.1 million through the recognition of an impairment loss of $15.6 million (2014 – $18.8 million). The repayment of the joint venture receivable relates directly to the cash flows of the Interest in Qua Ibo. 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.

Net losses on financial instruments

	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 gains (losses) on derivative financial instruments	110,313	288,254

As a result of declining crude oil prices during the 2015 the Corporation recognized $110.3 million in net gains on financial instruments, consisting of realized net gains of $59.2 million from the monthly settlements of financial commodity contracts and net fair value gains on financial commodity contracts of $51.1 million. Included in the $51.1 million net fair value gain on financial

commodity contracts is a loss of $34.9 million from the early settlement and reset arrangements (discussed below) and $86.0 million of net unrealized gains on financial commodity contracts. The 2014 net gain of $288.3 million was the result of $14.6 million in fair value gains on warrants and $50.6 million in losses on the conversion feature on borrowings which were both settled in 2014, along with the net fair value gains of financial commodity contracts entered into during the third quarter of 2014.

On February 6, 2015 the Corporation entered into an early settlement and reset arrangement with the Corporation's economic hedging counterparties to crystallize fair value gains of the financial commodity contracts, which resulted in the receipt of $226.2 million in net cash ($234.0 million including scheduled February cash settlements) that was used to reduce outstanding debt. As at December 31, 2015 the total volume of the reset arrange of the financial commodities contracts was 9,617 bbls/day of crude oil production with a hedge prices at an average of $65 bbl expiring between July 2017 and January 2019, with further upside available if certain prices targets were met. The financial commodity contracts represented 43% of fourth quarter production rates and are intended to reduce the Corporation's exposure to fluctuations in crude oil prices. The fair value of the financial commodity contracts as at December 31, 2015 was $124.9 million.

Net financing income (expenses)

	2015	2014
Financing income	34,326	6,871
Financing expense	(107,716)	(132,403)
Net financing income (expense)	(73,390)	(125,532)

During the year ended December 31, 2015 net financing expense decreased to $73.4 million from $125.5 million in 2014. Financing income during the period totalled $34.3 million, consisting of $22.4 million on the financing lease of Kwale-Okpai IPP, $2.7 million from interest on Kwale-Okpai IPP receivable, $8.2 in unrealized exchange gains and $1.0 million in other income. Financing expense of $107.7 million in 2015 includes $68.9 million in interest expense, $28.3 million of amortized transaction costs from borrowings, $6.3 million for loan extension and letter of credit fees related to the $100 million subordinated debt facility, and $10.5 million in unwinding of the decommissioning liabilities. Assuming stable interest rates the Corporation expects lower interest expenses going forward as result of paying down $304.7 million in borrowings during 2015.

Taxes

	2015	2014
Current tax (expense) recovery	(42,497)	(71,285)
Deferred income tax (expense) recovery	65,620	74,893

The Corporation incurred current income taxes of $42.5 million in 2015, as compared to current income taxes of $71.3 million in 2014. The decrease in current taxes is primarily associated with the significant decrease in crude oil prices that greatly reduced the assessable profit for petroleum profit tax on crude oil.

Deferred income tax is a non-cash item relating to temporary differences between the accounting and tax basis of the Corporation's assets and liabilities and has no immediate impact on the Corporation's cash flows. During 2015 the deferred tax recovery was $65.6 million, as compared to a recovery of $74.9 million in 2014. The 2015 deferred tax recovery was primarily a result of asset impairments recognize during the year, increases in decommissioning liabilities and increases to tax allowance carry forwards.

In 2014, an indemnification asset and offsetting tax liability of $62.4 million was recorded as a result of the COP Acquisition relating to uncertain tax provisions for which the Corporation was indemnified by the seller. In February 2015, the Corporation won an appeal related to a portion of the uncertain tax provisions which resulted in a $40.9 million reduction in taxes due. The appeal related to litigation that was initiated prior to December 31, 2014 and related to tax years from 2006 to 2011. The successful appeal provided additional clarity on the indemnification asset and uncertain tax provisions recorded. Accordingly, the Corporation reduced the indemnification asset and offsetting tax liability by $40.9 million. In 2015 $5.5 million of the uncertain tax provision subject to the indemnity above was settled. ConocoPhillips paid $5.5 million to the Corporation that the Corporation used to settle the tax liability.

In June 2015, the Corporation received approval for the pioneer status tax incentive for natural gas development in OMLs 60 to 63 with an effective date of January 1, 2014. Also, in May 2015 the Corporation received approval for pioneer status for the Qua Ibo field in OML 13 with an effective date of February 1, 2015. As a result, the Corporation expects forego paying petroleum profit tax on profits earned at OML 13 for 2015, 2016, and 2017 and forego paying corporate income tax on natural gas profits at OMLs 60 to 63 for 2014, 2015 and 2016. The corporation may apply with the Nigerian government to extend the tax-free periods two additional years.

Net income (loss) for the period

	2015	2014
Net income (loss)	16,119	(320,041)

During the year ended December 31, 2015 net income was $16.1 million, which was a $311.6 million improvement from the $320.0 million loss recognized in 2014. The increase in income between the periods was primarily the result of a decrease in non-recurring asset impairments and the non-reoccurring acquisition expenses regarding the purchase of OMLs 60 to 63 recognized in 2014, which were offset by a significant decrease in net gains on financial instruments between the periods.

Production increased 119% in 2015 which led to greater production expenses and depletion expense, however these expenses improved on a per boe basis as compared to the same period of 2014. Production expenses improved to $11.99/boe in 2015, from $16.80/boe in 2014 and DD&A expense improved to $6.57/boe in 2015, from $9.74/boe in 2014.

Net income in 2015 also included a non-recurring net loss from financial instruments of $34.9 million, as a result of the early settlement and reset arrangements, along with a non-recurring charge of $16.4 million in net financing expenses related to unamortized transaction costs as a result of loan repayments in the first quarter of 2015.

Funds from operations

Funds from operations is a non-GAAP measure. The following table reconciles funds from operations to cash flows from operating activities (a GAAP measure) by adjusting for proceeds from early hedge settlements and changes in non-cash working capital.

	2015	2014
Cash flows from operating activities	439,015	116,087
Proceeds from early hedge settlement	(226,220)	-
Net changes in working capital	(31,487)	(14,784)
Funds from operations	181,308	101,303

During the year ended December 31, 2015 funds from operations increased $80.0 million to $181.3 million from $101.3 million generated in 2014. The increase in funds from operations during 2015 was primarily a result of the acquisition of OMLs 60 to 63 on July 30, 2014 that added a full year of cash flows in 2015, along with increased cash flows at Ebendo through enhanced production and Qua Ibo being brought on-stream in 2015, all of which was partially offset by decreased revenues at OML 125 from lower crude oil prices. Furthermore, funds from operations in 2015 was also positively affected by increased realized net gains on financial commodity contracts and a reduction in financing expenses, as compared to 2014.

Capital expenditures

	2015	2014
Exploration expenditures	6,725	12,628
Development expenditures	77,277	133,649
Qua Ibo expenditures	3,755	14,744
Capital expenditures, net	87,757	161,021

During 2015 the Corporation spent $87.8 million on capital expenditures related to the development of oil and gas assets and exploration and evaluation activities, as compared to $161.0 million in 2014. Expenditures in 2015 consisted of $41.3 million at OMLs 60 to 63 that included completions, geophysical exploration studies and capital maintenance, $36.4 million at OML 125 on gathering and transportation infrastructure enhancements and facility maintenance, along with $1.7 million at Ebendo. In addition, $3.8 million was expended on crude oil gathering facilities at Qua Ibo to bring it on-stream during the year and $4.6 million other capital expenditures.

The following provides a summary of 2015 focus area capital expenditures and compares the budgeted expenditures to actual spending to date.

	Actual 2015	Budgeted 2015	Budgeted 2016
OMLs 60 to 63	41,308	59,680	60,000
Qua Ibo (in OML 13)	3,755	3,590	850
Ebendo (in OML 56)	1,678	7,650	6,710
OML 125	36,373	67,130	-
Other assets, net	4,643	3,670	5,670
Capital expenditures, net	87,757	141,720	73,230

Historically, as a non-operator the Corporation has experienced significant variability in actual costs incurred and timing of expenditures, as compared to the operator's original project planning and budgeted amounts. The differences are primarily a result of the availability of services, long lead times in ordering certain oil and gas equipment and other local conditions that can lead to

significant variances in project budgeting and timing. Failure to maintain adequate capital expenditures for the development of oil and gas assets could have a material impact on production, revenue, and future cash flows.

OMLs 60 to 63

During 2015 capital expenditures on OMLs 60 to 63 totalled $41.3 million. Capital expenditures during the period included $11.7 million spent on development drilling and completion activities in the Ogbainbiri Deep 4 well, $27.5 million was spent on pipeline and facility upgrades and $2.1 million was spent on geophysical exploration studies and other assets. The reduction of capital spending in 2015 compared to the budgeted amount was due to project delays and a reduction of spending as a result of the lower crude oil and natural gas price environment.

In 2016, the Corporation estimates that a total of $60.0 million will be spent at OMLs 60 to 63, consisting of $44.4 million directed to facilities for asset integrity, water disposal and flare down, and $15.6 million on drilling three development wells and a workover.

Qua Ibo

In 2015, the Corporation incurred capital expenditures of $3.8 million at Qua Ibo on pipeline and crude oil facility costs. The Qua Ibo field commenced production late February 2015 and realized its first sales from production in the second quarter of 2015. The Corporation revised its 2015 budgeted from $0.6 million capital spending to $3.5 million to account for additional facility requirements for water handling, in addition to the previously planned facility enhancements.

In 2016, the Corporation has budgeted $0.9 million to be spent on gathering facilities and water treatment facilities.

Ebendo

During 2015, the Corporation incurred $1.7 million in capital expenditures at Ebendo, which included the pipeline facility enhancements and drilling site preparation costs.

Throughout 2016, the Corporation has estimated $6.7 million in capital expenditures for five well workovers, a storage tank and Umugini pipeline upgrades.

OML 125

The Corporation incurred $36.4 million of capital expenditures during 2015 at OML 125 related to gathering and transportation infrastructure enhancements and facility maintenance. The enhancements included $23.1 million spent on Abo phase 3 gathering and transportation construction, $4.2 million on well completion costs at Abo 12, $5.6 million on its floating production storage and offloading vessel ("FPSO") on capital maintenance, and $3.5 million on other capital maintenance projects. The significant reduction of capital spending in 2015 compared to the budgeted amount was primarily due to delaying planned projects as a result of the lower crude oil and natural gas price environment to ration capital spending.

The Corporation has an agreement to divest of the OML 125 property in 2016 to the operator and has currently classified the property as held for sale. The sale will generate $5.5 million in cash and reduce cash call liabilities by $84.5 million. Therefore, no capital spending has been budgeted in 2016 at OML 125.

Other assets

Other asset capital expenditures include spending on OML 131, OML 134 and EEL. During 2015 the Corporation spent $4.7 million to advance exploration of the respective properties with geological and technical studies.

In 2016, the Corporation estimates that $5.7 million will be expended on exploration projects and corporate assets. The exploration is focused on OML 131, OML 145 and Block 5, to assess the geological and geophysical aspects of the project areas, along with the environmental impacts through technical studies and seismic acquisition.

Additionally, the Corporation has farmed out 65% of its participating interest in Block 5 for $7.4 million to equalize past costs and will retain a 20% participating interest, with a 50% carry up to $9.0 million each for both Phases II and III. The Corporation has also entered into an agreement to farm out 65% of its participating interest in Block 12, retaining a 22.5% participating interest with a carry of the first $2.0 million of OER's portion of project costs. The farm-out for Block 12 is yet to be completed. The Government of Sao Tome & Principe (through its national petroleum agency) hold 15% and 12.5% carried interests in Blocks 5 and 12, respectively. Blocks 5 and 12 are prospective offshore exploration projects in São Tomé and Príncipe within the Gulf of Guinea. The farmouts will allow for the projects to move forward with minimal capital requirements and provide immediate cost recoveries.

Disposal Group – OMLs 125 and 124

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 and has therefore not been included in the disposal group.

	December 31, 2015
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)
Disposal group liabilities	**(51,913)**
Net assets classified as held for sale	**(197,124)**

Summary of Selected Quarterly Results

The table below summarizes selected financial and operational information for the last eight quarters. The Corporation's quarterly results have been impacted primarily by acquisitions, fluctuating commodity prices, asset impairments, gains and losses on financial instruments, and borrowing activities.

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Production (boe)	4,842,536	4,891,579	5,179,383	4,985,944	5,034,358	3,248,158	413,984	408,497
Total revenue	99,798	132,512	90,240	132,415	174,042	184,777	30,440	32,163
Net Income (loss) for the period	79,577	(13,107)	(29,255)	(21,096)	(232,033)	89,541	(137,668)	(39,881)
Earnings per share	0.10	(0.02)	(0.04)	(0.03)	(0.29)	0.12	(0.24)	(0.14)
Diluted earnings per share	0.10	(0.02)	(0.04)	(0.03)	(0.29)	0.12	(0.24)	(0.14)
Capital expenditures	8,321	22,505	19,127	37,804	41,206	52,910	24,355	42,550
Total assets	3,141,596	2,900,574	2,922,598	2,971,858	3,242,791	3,693,880	1,662,142	1,689,937
Total non-current liabilities	868,771	1,177,793	1,201,823	1,033,688	1,088,996	1,523,019	245,925	274,812

Fourth Quarter Results of Operations

The following provides an analysis of the Corporation's results of operations for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014.

Production

In the fourth quarter of 2015, the Corporation produced 4.8 MMboe (averaging 52,637 boe/day) compared to 5.0 MMboe (averaging 54,721 boe/day) in 2014. The modest decrease in production between the quarters is a consequence of the Corporation scaling back its capital spending in 2015 to conserve cash flow due to the global decrease in crude oil prices and natural gas volumes being constrained behind pipe due to back-pressure issues at OMLs 60 to 63.

Revenue, royalties and production expenses

Revenues in the fourth quarter of 2015 were $99.8 million compared with $174.0 million in the same quarter of 2014. The $74.2 million decrease was the result of the significant decrease in crude oil and natural gas prices, which was partially offset be additional revenue from Qua Ibo coming on-stream in the first quarter of 2015. Revenue from sales during the fourth quarter of 2015 consisted of $83.4 million of crude oil, $18.6 million of natural gas, $3.0 million of NGLs, $4.2 million related to the sale of power generated by the Kwale-Okpai IPP, and $0.7 million related to oil transportation tariffs.

In the fourth quarter of 2015, royalties on oil and gas sales were $10.1 million, as compared to $37.5 million in the same quarter of 2014. The decrease in royalties was a result of the decrease in sales from lower commodity prices and an adjustment reducing prior year government royalties at OML 56.

Production expenses in the fourth quarter of 2015 were $66.5 million compared with $62.8 million in the fourth quarter of 2014. The $3.6 million decrease in production expenses was in line with the prior period.

General and administrative costs and bad debts expense

G&A in the fourth quarter decreased to $20.7 million from $39.5 million in the fourth quarter of 2014. The decrease of $18.8 million was primarily a result of a significant decrease in professional fees incurred that was partially offset by an increase in equipment maintenance costs during the quarter. In addition, management has taking steps during the quarter to reduce its G&A overhead costs by reducing its employee count and taking steps to delist the Corporation from the TSX Exchange.

The impairment of the joint venture receivable in the fourth quarter of 2015 was $nil, as compared to $48.0 million recognized in 2015.

DD&A and asset impairments

In the fourth quarter of 2015, DD&A expense was $38.7 million compared with $27.8 million in the fourth quarter of 2014. The $11.0 million increase in DD&A expense was primarily a result of the greater depletable asset base related to the increase in the decommissioning assets at OMLs 60 to 63 and OML 125 and the capital expenditures incurred on those properties.

During the fourth quarter the Corporation determined that indicators of impairment existed for its PP&E assets, interest in Qua Ibo, E&E assets and goodwill, as a result of decreases to current and forecasted crude oil prices. An impairment test was performed on the PP&E and interest in Qua Ibo resulting in a net recovery of $75.5 million (2014 - $61.4 million) consisting of a $7.3 million impairment at OML 13 and an impairment reversal of $82.8 million at OML 125. The impairment at OML 13 was due to the decrease in forecasted future prices. The impairment reversal at OML 125 was predicated upon the agreed upon the selling price of OML 125 to a third party (described below) establishing a fair value for the asset. The impairment test conducted for the E&E assets resulted in $14.2 million (2014 - $401.4 million) being recorded as an impairment at OMLs 131 and 145. The E&E impairments were the result of lower forecasted crude oil price reducing the economics of the properties.

As at December 31, 2015, the Corporation tested its goodwill balance of $1,021 million (2014 – $1,021 million) and determined that no impairment existed.

Taxes

In the fourth quarter of 2015 the current income tax expense was $4.3 million and the deferred income tax recovery was $6.6 million. The current income tax was incurred on natural gas income at OER's major producing areas of OMLs 60 to 63, with no taxes deemed payable on its oil production during the fourth quarter. The deferred income tax expense was predominantly the result of the recognition of the impairment reversal, offset by the increase to Corporation's tax allowance accounts.

Net gains (losses) on financial instruments

In the fourth quarter of 2015, net fair value gains on financial instruments were $59.3 million compared to $295.3 million in the fourth quarter of 2014. The $236.0 million decrease was primarily the result of immense gains on financial commodity contracts in 2014 as crude oil prices decreased drastically. The fair value of the financial commodity contracts at December 31, 2015 were $124.9 million (2014 – $299.9 million).

Net financing expenses

In the fourth quarter of 2015, net financing expenses were $4.1 million compared to $34.3 million in the fourth quarter of 2014. The net financing expenses included $11.6 million in financing income (2015 - $ 3.4 million), comprising interest on a finance lease and miscellaneous interest and $15.7 million in financing expenses (2015 - $37.8 million), primarily consisting of interest on long term borrowings and amortization of transaction costs on those borrowings.

Net income (loss)

The Corporation recognized net income of $79.6 million in the fourth quarter of 2015, as compared to a net loss of $232.0 million in the same quarter of 2014. The improvement in earnings during the fourth quarter of 2015 was primarily attributed to the significant asset and joint venture receivable impairment charges recognized in 2014 and the 2015 impairment reversal at OML 125, which were partially offset by the reduction of net fair value gains on financial instruments and decreased income from production activities in 2015.

Capital expenditures

The corporation spent $8.3 million on capital expenditures in the fourth quarter of the 2015, as compared to $41.2 million in the fourth quarter of 2014. Capital expenditures in the quarter consisted of $5.0 million spent at OMLs 60 to 63 for capital maintenance on production facilities, compressors and water treatment, $2.8 million on gathering infrastructure for Abo 3 and facility refurbishment at OML 125, $0.4 million on storage tanks and gathering facility upgrades at Ebendo, along with $0.1 million on other assets.

Liquidity and Capital Resources

Working capital deficiency

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 and repay at least $149.9 million in loan principal, 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; 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. 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. The consolidated 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.

Sources of funding

The table below provides a summary of cash flow from operating, financing, and investing activities for year ended December 31, 2015 and 2014.

	2015	2014
Cash flow from (used in):		
Operating activities	439,015	116,087
Financing activities	(376,778)	987,308
Investing activities	(49,845)	(1,084,709)
Net increase (decrease)	12,392	18,686

Cash flow from operating activities

During 2015 cash flow from operating activities were $439.0 million compared to $116.1 million in 2014. The increase in cash flow was primarily a result of the proceeds from early hedge settlement that resulted in a cash inflow of $226.2 million, along with of new production from OMLs 60 to 63, increased revenues through greater production at Ebendo and Qua Ibo realizing its first revenues in 2015 and not incurring acquisition costs in 2015, which was offset by decreased revenue at OML 125 from lower crude oil prices. The Corporation's cash flows from operations are highly dependent on global crude oil pricing and to a lesser degree local natural

gas spot pricing, all in USD. The Corporation attempts to mitigate some of the pricing risk on cash flows from operating activities through financial commodity contracts and entering into long-term gas pricing contracts.

Cash flow from financing activities

In 2015 cash flow from financing activities was negative $376.8 million as compared to $987.3 million in the same period of 2014. The large variance in borrowing between the periods is the result of financing the acquisition of OMLs 60 to 63 and other exploration areas with borrowings during the third quarter of 2014. In the first quarter of 2015, the proceeds from early hedge settlements and available cash was used to repay $238.1 million of debt in addition to scheduled loan repayments at the time, thereby decreasing future interest payments on borrowings. A summary of borrowing activities in 2015 is provided below.

Cash flow used in investing activities

During 2015 cash flow used in investing activities was $49.8 million, as compared to $1,084.7 million in the comparable period of 2014. Investing activities in 2015 consisted of $87.8 million being spent on asset additions focusing on OMLs 60 to 63 and OML 125 and $46.3 million in working capital changes. The large decrease from the prior year was due to the acquisition of OMLs 60 to 63 and other exploration areas during 2014.

Sources of funding

On December 22, 2015, the Corporation entered into a definitive agreement with Oando PLC and Oando E&P Holdings Limited to acquire all of the issued and outstanding common shares of OER. In the unlikely event that the plan of arrangement does not close, OER will continue to explore available financing opportunities to generating sufficient cash to execute its business plan, in addition to cash generated from producing assets and cash from financial commodity hedges. Furthermore, the Corporation may obtain cash from financing extended by Oando PLC in the short-term and additional third party debt and equity financing as market conditions permit (subject to financing being available on terms acceptable to the Corporation). As a result of the early settlement and reset arrangements (described below), the Corporation has reduced short-term principal and interest payments and, coupled with favourable hydrocarbon reserve revisions in 2015, has increased its borrowing capacity.

Borrowings

The table below summarizes borrowings outstanding at December 31, 2015 and December 31, 2014:

	2015	2014
Senior Secured Facility	268,620	389,848
Corporate Finance Facility	228,245	319,045
$100 Million 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 – $10.0 million). Below are the borrowings arrangements in place at December 31, 2015 which were used to finance acquisitions and repay other borrowings.

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. The loan also requires the Corporation to maintain cash balances with lenders of $40.0 million. As at December 31, 2015, the Corporation had cash deposits of $40.0 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 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.

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.

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 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).

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.

Debt covenants

The loan facilities have specific covenants that if breached could have an adverse effect on the Corporation's liquidity and ability to continue as a going concern. The Senior Secured Facility requires an interest coverage ratio (EBITDA/finance charges) of 4 or greater and a leverage ratio (net debt/EBITDA) of 3 or less. The Corporate Finance Facility requires a debt service coverage ratio of not less than 1.3, a loan life coverage ratio of not less than 1.4 times, and a field coverage ratio of not less than 1.5. See borrowings section comments above.

Payments due by period

The following table represents the contractual commitments of the Corporation 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	-
Purchase commitments	2,885	2,885	-	-	-
Budgeted Capital expenditure[2]	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, 2015.
[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 short-term debt financing from Oando PLC, along with third party debt and equity financings as market conditions permit (subject to financing being available on terms acceptable to the Corporation).

Risks with financial instruments

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 that changes in crude oil prices and interest rates on income before tax, with all other variables held constant, would have had during the year ended December 31, 2015.

		Income / (Loss) Before Tax[1]	
Instrument	Sensitivity Range	Increase in Variable	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 month period.

Financial commodity contracts

2015 Early Settlement and Reset Arrangement

Declining oil prices in 2014 had a negative impact on the liquidity of the Corporation and the value of the assets pledged as security against the Senior Secured Facility and Corporate Finance Facility which Management believed could have had a negative impact on the borrowing base. Accordingly, in December 2014, the Corporation initiated a process to early settle and reset the hedges associated with the loans to take advantage of the significant hedge values derived from the decline in oil prices and repay a portion of the loans to preserve an appropriate borrowing base ratio.

On February 6, 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). The funds received on settlement and available cash were used to repay $238.1 million of borrowings (refer to the borrowings section for further details). Furthermore, the Corporation reset the pricing on financial commodity contracts. Refer to the table below for a summary of the details of the financial commodity contracts in place as at December 31, 2015 as a result of these arrangements.

As a result of the early settlement and reset arrangements, the Corporation has reduced short-term principal and interest payments. Despite this, 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 has reduced cash flow as they have been reset at lower levels than the previous hedges and limits the Corporation's ability to 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).

2015 Economic hedges

The table below summarizes the nature of the economic hedges executed as required by the Senior Secured Facility and Corporate Finance Facility as at December 31, 2015.

		Price/Unit [1]				
Position	Remaining Term	Fixed	Strike	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
					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 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 bbls/day.

The effect of the hedges associated with the Corporate Finance 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 bbls/day.

The fair value of the financial commodity contracts as at December 31, 2015 was $124.9 million. During the year ended December 31, 2015, the Corporation recorded a net gain of $110.3 million on the financial commodity contracts, which consisted of unrealized gains of $51.1 million and realized gains of $59.2 million from monthly settlements. The fair value of commodity contracts are calculated based on observable inputs which include forward prices of crude oil.

Financial risk management

The Corporation's activities expose it to a number of financial risks including market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, and liquidity risk. The Corporation manages market risk by entering into financial commodity contracts to hedge a portion of production and reduce the volatility of operating cash flows. The Corporation manages credit risk associated with customers by analyzing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Corporation manages liquidity risk through working capital and debt management activities. For further information regarding the risks that the Corporation faces and the financial risk management activities of the corporation, refer to note 16 in the December 31, 2015 consolidated financial statements.

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:

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

The related party receivable balance includes $50.0 million paid by the Corporation to Oando PLC as collateral for the Afrexim loan. Despite the repayment of the Afrexim loan in the fourth quarter of 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 $62.0 million consist of 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 expect the related party receivable to be collectible within twelve months and has therefore classified the related party receivable as non-current assets.

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

	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**

[1] *See detailed related party agreement disclosures in note 18 of the consolidated financial statements.*

During the year ended December 31, 2015, the Corporation incurred $23.0 million (2014 - $36.0 million) under the Cooperation and Services Agreement with Oando PLC. As part of the costs incurred under the agreement, the Corporation incurred $10.9 million in aviation costs for the year ended December 31, 2015 (2014 - $5.1 million).

Outstanding Share Data

The table below summarizes outstanding share data as at December 31, 2015. There have been no changes to the outstanding share data between December 31, 2015 and the date of this MD&A.

	2015
Common shares	796,049,213
Options exercisable to acquire common shares	9,410,000
Performance share units [1]	2,747,829
Warrants to acquire common shares [2]	344,673,441

[1] *Each entitles the holder to acquire one common share of OER at no additional cost.*

[2] *Each entitles the holder to acquire one common share of OER at an exercise price of $1.80 USD until July 30, 2016.*

On December 22, 2016, the Corporation 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 common share, subject to the receipt of relevant lender consent and regulatory approvals. At the Corporation's special meeting on February 25, 2016, shareholders overwhelmingly 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 Corporation'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.

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.

On May 4, 2015, the Corporation granted a total of 2,747,829 performance share units to certain employees. The grant value of the performance share units 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.

On June 11, 2015 the Corporation granted 600,000 stock options to Directors of the Corporation with strike prices ranging from CAD1.24 to 1.77 per unit. In addition, on August 5, 2015 the Corporation granted 400,000 stock options with a CAD$1.14 strike price.

On July 24, 2015 1,333,333 restricted share units expired.

Off-balance-sheet arrangements

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

Internal controls over financial reporting and disclosure controls

Management, including The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the disclosure controls and procedures ("DCP") and internal controls over financial reporting ("ICFR") and concluded that both DCP and ICFR were effective as at December 31, 2015. In making its assessment, Management uses the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Management will continue to periodically evaluate the Corporation's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

Based on inherent limitations, ICFR may not prevent or detect all misstatements, and even those controls determined to be effective can provide only reasonable assurance, not absolute, with respect to financial statement preparation and presentation.

Advisory regarding forward looking statements

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

Corporate Information

Board of Directors
Omamofe Boyo [3]
Deputy Group CEO Oando PLC
Olapade Durotoye [2, 5]
CEO Oando Energy Resources
Philippe Laborde [1, 2, 3]
CEO Olaeum Energy
John Orange [3, 4, 5]
Independent Director
Ron Royal [1, 4, 5]
Independent Director
Adewale Tinubu
CEO Oando PLC
Bill Watson [1, 2, 4]
Independent Director

[1] Member of Audit Committee
[2] Member of Reserves Committee
[3] Member of Compensation Committee
[4] Corporate Governance
[5] Environmental, Health, Safety, Security and Quality

Officers
Olapade Durotoye
Chief Executive Officer
Yannis Korakakis
Chief Operating Officer
Deola Ogunsemi
Chief Financial Officer

Transfer Agent
TMX Equity Transfer Services

Reserve Engineers
DeGolyer and MacNaughton

Auditors
PricewaterhouseCoopers LLP

Exchange Listing
Toronto Stock Exchange
Symbol: **OER**
Symbol: **OER.WT**

Head Office
Suite 1230, Sunlife Plaza
112, 4th Avenue Southwest
Calgary, Alberta, Canada
T2P 3N9
Main: (403) 719-9152
Fax: (403) 719-9153

Operations Office
8th Floor
2 Ajose Adeogun Street
Victoria Island
Lagos, Nigeria
Main: (234) 270-2400

Website
www.oandoenergyresources.com

Oando Energy Resources