Oando Energy Resources

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2014 and 2013

*This Management's Discussion and Analysis (**"MD&A"**) should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Oando Energy Resources Inc. (**"OER"**) and its subsidiaries (together, the **"Corporation"**) for the three and nine month periods ended September 30, 2014 (the **"Interim Financial Statements"**), as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2013.*

*The Interim Financial Statements and comparative information have been prepared in accordance with IAS 34, Interim Reports. All financial information is presented in US dollars, unless otherwise noted. Production volumes are presented on a working interest basis, before royalties, unless otherwise noted. Natural gas volumes have been converted to barrels of oil equivalent (**"boe"**) using a conversion ratio of six thousand cubic feet (**"mcf"**) of natural gas to one boe. This MD&A is dated November 11, 2014.*

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

1. Description of Business

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

For the nine months ended September 30, 2014, total production of 4.1 million boe was attributable to the Corporation's working interests in OML 60 – 63, OML 125 and the Ebendo Marginal Field (also known as OML 56).

OER was originally incorporated under the Canada Business Corporation Act on August 9, 2005 as "Exile Resources Inc." and subsequently, on conclusion of the reverse takeover acquisition on July 24, 2012, OER's name was changed to Oando Energy Resources Inc. The Corporation's registered office is located at 3400 First Canadian Center, 350-7th Avenue SW, Calgary AB, Canada T2P 3N9. The Corporation's head office is located at Suite 1230, Sunlife Plaza, 112 4th Avenue SW, T2P 0H3, Calgary, Canada. The Corporation also has an office in Toronto, located at Suite 1210, 333 Bay Street, Bay-Adelaide Centre, M5H 2R2 Toronto, Canada. The Corporation's operations are carried out of its Lagos office located at 8th Floor, 2, Ajose-Adeogun Street, Victoria Island, Lagos, Nigeria.

2. Acquisitions

COP Acquisition

On July 30, 2014, the Corporation completed the acquisition of the Nigerian Upstream Oil and Gas Business of ConocoPhillips Company ("**COP**") for total cash consideration of $1.5 billion (the "**COP Acquisition**") after adjustments. On December 20, 2012, the Corporation entered into share purchase agreements (the "**Acquisition Agreements**") for the COP Acquisition as well as COP's interest in Phillips (Brass) Limited ("**Phillips**"). At the time of execution of the Acquisition Agreements, the total consideration was estimated to be approximately $1.79 billion (including an initial deposit of $435 million), subject to closing adjustments. On September 13, 2013, the Corporation signed a termination agreement with respect to the acquisition of Phillips Brass which reduced the purchase price to $1.65 billion.

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

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

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

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

(1) Relates to cash advances and receipts (excluding dividends) between COP and its previous owners prior to the closing date.
(2) The purchase price of Philips Oil Company Nigeria Limited, an entity acquired in the COP Acquisition, was increased by $30million.
(3) The Corporation was charged interest on the unpaid purchase price from the effective date to the closing date at LIBOR plus 2%.
(4) A total of $557 million in dividends has been paid to the previous owners of COP between the effective date and closing date of the Acquisition. This has been used to offset the final purchase price.

The transaction entailed the acquisition of ConocoPhillips' Nigerian Upstream Oil and Gas Businesses consisting of:

a) The Onshore Business:

- Phillips Oil Company Nigeria Limited ("**POCNL**"), which holds a 20% non-operating interest in Oil Mining Leases ("**OMLs**") 60, 61, 62, and 63 as well as related infrastructure and facilities in the Nigerian Agip Oil Company Limited ("**NAOC**") Joint Venture ("**NAOC JV**"). The other coventurers are the Nigerian National Petroleum Corporation ("**NNPC**") with a 60% interest and NAOC (20% and operator).

b) The Offshore Business:

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

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

The COP Acquisition added:

- Proved plus Probable Reserves of 211.6 million barrels oil equivalent ("**MMboe**"); Best Estimate Contingent Resources of 498.6 MMboe; Unrisked Best Prospective Resources of 656.9 MMboe.
- A 20% working interest in the NAOC JV, which includes forty discovered oil and gas fields, of which twenty-four are currently producing, approximately forty identified prospects and leads, twelve production stations, approximately 1,490 km of pipelines, three gas processing plants, the Brass River Oil Terminal, the Kwale-Okpai 480 MW combined cycle gas-fired power plant ("**Kwale-Okpai IPP**"), and associated infrastructure.
- The Onshore Assets contain 211.6 MMboe of Proved plus Probable Reserves, 217.0 MMboe of Best Estimate Contingent Resources and 333.6 MMboe of Unrisked Best Prospective Resources, gross to OER.
- The Offshore Assets include a significant share of six separate discovered fields and eight separate prospects and contain a total of 281.6 MMboe of Best Estimate Contingent Resources and 323.3 MMboe of Unrisked Best Prospective Resources, gross to OER.
- From July 30 to September 30, 2014, the COP Acquisition assets added 47,934 boe/day of oil, Natural Gas Liquids, and natural gas production.

Following the completion of the Transaction, OER is positioned as one of the leading E&P players in the Nigerian Oil & Gas sector, as measured by end-2013 Proved plus Probable Reserves of 230.6 MMboe, Best Estimate Contingent Resources of 536.8 MMboe, Unrisked Best Prospective Resources of 2,051.8 MMboe. Total production for the three months ended September 30 2014 was 3,248,158 MMboe which is an average daily production of approximately 35,306 boe/day, all gross to OER. Refer to Section 3 *Financial and Operating Results* for details.

Medal Oil Acquisition

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

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

3. Financial and Operational Results

The table below provides a summary of the Corporation's financial and operating results for the three and nine month periods ended September 30, 2014 and 2013:

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Financial:				
Revenue	184,777	37,461	247,380	103,235
Cash flows from operating activities	63,655	848	52,911	(21,323)
Comprehensive income/(loss)	89,541	12,371	(88,008)	2,778
Net income/(loss) per share: Basic	0.12	0.12	(0.16)	0.03
Net income/(loss) per share: Diluted[(1)]	0.12	0.12	(0.16)	0.03
Total assets[(2)]	3,693,880	1,299,422	3,484,397	1,299,422
Total non-current liabilities[(2)]	1,523,019	275,195	1,313,537	275,195
Operational:				
Production [(3)]				
Oil (bbl) [(4)]	1,270,183	363,032	2,091,970	1,050,789
NGL (boe) [(5)]	182,632	-	182,632	-
Natural Gas (mcf)	10,772,054	-	10,772,054	-
Total production (boe)[(5)]	3,248,158	363,032	4,069,944	1,050,789
Boe/day – Legacy assets[(6)]	3,524	3,946	4,198	3,849
Boe/day – Acquisition assets[(6)]	31,783	-	10,711	-
Gross realized prices [(7)]				
Oil ($/bbl)	104.62	111.62	96.64.	105.77
NGL ($/boe)	13.11	-	13.11	-
Natural gas ($/mcf)	2.47	-	2.47	-
Net realized prices [(8)]				
Oil ($/bbl)	99.26	103.19	96.20	98.25
NGL ($/boe)	12.19	-	12.19	-
Natural gas ($/mcf)	2.30	-	2.30	-

(1) In determining the diluted EPS of the Corporation in 2014 and 2013, the impact of the warrants, the stock based compensation and the convertible loan have not been considered for the nine month period as their impact is antidilutive. For the three month period dilutive instruments have been considered – Refer to note 13 in the Interim Financial Statements.

(2) Prior year comparatives are as at December 31, 2013.

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

*(4) The Corporation consolidates 45% revenue of Ebendo (OML56) which is Oando Production and Development Company (**"OPDC"**) ownership interest in the field and recognises a minority interest of 5% in OPDC.*

(5) Natural gas volumes have been converted to boe using a conversion ratio of six mcf of natural gas to one boe; "NGL" refers to natural gas liquids.

(6) Legacy assets production means production from OML 125 and OML 56 for the three and nine months ended September 30, 2014; Acquisition assets production means production from OML 60 to 63 for the period July 30, 2014 to September 30, 2014 which were acquired through the COP Acquisition. The actual average daily production for that period was 47,934 boe/day. However for the table above, ninety two calendar days and two hundred and seventy three calendar days have been utilised for the calculation of total production boe/day for the three and nine months ended September 30, 2014 and 2013 respectively.

(7) Gross Realized prices are before royalties, the Nigerian Government share of profit oil, crude oil losses and unrecognised revenues related to excessive NNPC lifting's at OML 125.

(8) Net Realized prices are after royalties, the Nigerian Government share of profit oil, crude oil losses but before unrecognised revenues related to excessive NNPC lifting's at OML 125. After considering unrecognized revenues related to excessive NNPC liftings at OML 125 the net realized price for oil is $89.72/bbl for the nine months ended September 30, 2014.

Financial and Operational Highlights

The following provides a summary of the Corporation's financial and operational highlights for the three and nine months ended September 30, 2014. Where increases or decreases are noted, they have been compared to the Corporation's financial and operational performance for the three and nine months ended September 30, 2013. For further details of financial and operational results, refer to the discussions under *Results of Operations* below.

- On July 30, 2014, the Corporation completed the acquisition of the Nigerian Upstream Oil and Gas Business of ConocoPhillips Company for total cash consideration of $1.5 billion. Refer to Section 2 *Acquisitions* above for further details.

- For the nine months ended September 30, 2014, the Corporation had a net loss of $88.0 million, a working capital deficiency of $507.9 million, and an accumulated deficit of $409.7 million and has incurred significant levels of debt financing for which specific debt covenants must be satisfied. The Corporation has taken measures to improve liquidity including converting borrowings to equity and obtaining equity financing and has benefited from increased cash flow from the assets acquired on the COP Acquisition (the **"Acquisition Assets"**). Refer to Section 6 *Liquidity* and Section 7 *Capital Resources* for further details.

- Revenue, net of royalties, for the three and nine month periods ended September 30, 2014 increased by $147.3 million and $144.2 million, respectively. The increase in both periods was due primarily to $152.8 million of revenue earned between July 30 and September 30, 2014 from the Acquisition Assets of which $145.4 million related to the sale of oil, gas, and Natural Gas Liquids (**"NGL"**), $6.3 million related to the sale of power generated by the Kwale-Okpai power plant, and $1.1 million related to crude transportation tariffs.

- Production for the three and nine month periods ended September 30, 2014 was 3.2MMboe and 4.1MMboe, respectively; this represents an increase from the three and nine month periods ended September 30, 2013 of 2.8 MMboe and 3.0 MMboe, respectively. The increase in both periods was due primarily to 2.9 MMboe or 47,934 boe/day of production between July 30 and September 30, 2014 from the Acquisition Assets attributed 15,508 bbl/day of oil, 2,994 boe/day of NGL, and 29,432 boe/day (or 176,591 mcf/day) of gas.

- Financial commodity contracts were executed in August 2014 which hedged (a) 8,000 bbl/day of oil production at $97/bbl until July 2017 (unless the market price exceeds $110.55/bbl; the Corporation will receive the incremental price above $110.55/bbl) and (b) an average of 2,223 bbl/day of oil production at an average price of $91/bbl until January 2019 (unless the market price exceeds cap prices ranging from $95/bbl to $115/bbl; the Corporation will receive the incremental price above the cap price). This equates to approximately 52% of total oil production being hedged. In the three and nine months ended September 30, 2014, the Corporation recorded derivative gains of $33.2 million on these hedges.

- Production expenses for the three and nine month periods ended September 30, 2014 increased by $63.4 million and $66.2 million, respectively. The increase in both periods was due primarily to $67.1 million of production expenses from the Acquisition Assets between July 30 and September 30, 2014 of which $38.6 million related to non-recurring acquisition accounting fair value adjustments (described below). Excluding fair value adjustments, net production expenses on Acquisition Assets were $28.5 million or $9.75/boe.

- General and administrative costs (**"G&A costs"**) for the three and nine month periods ended September 30, 2014 increased by $66.3 million and $101.0 million, respectively. The $66.3 million increase in the 3 month period was driven primarily by a non-recurring $41.2 million ministerial consent fee levied by the Nigerian government due to the COP Acquisition and $17.5 million of non-recurring COP Acquisition related expenses. The $101.0 million increase in the 9 month period was driven primarily by the $41.2 million non-recurring ministerial consent fee, $45.8 million of non-recurring COP Acquisition related expenses, and a $14.0 million increase in staff and other G&A costs.

- Depletion, depreciation, and amortization (**"DD&A"**) for the three and nine month periods ended September 30, 2014 increased by $34.7 million and $39.9 million, respectively. The increase in both periods was due primarily to $27.8 million of DD&A incurred between July 30 and September 30, 2014 from the Acquisition Assets.

- Net financing income increased by $64.9 million in the three months ended September 30, 2014 due to a $106.5 million increase in net fair value gains on financial instruments and a $1.8 million increase in other financing income offset by a $43.4 million increase in interest expense. Net financing expense increased by $64.9 million in the nine months ended September 30, 2014 due to a $10.2 million increase in net fair value losses on financial instruments and a $57.4 million increase in interest expense offset by a $2.7 increase in other financing income.

- Income tax recovery for the three and nine month periods ended September 30, 2014 increased by $29.2 million and $37.0 million, respectively. The increase in both periods was primarily due to a $42.1 million tax recovery on Acquisition Assets attributable to a $75.8 million deferred tax reversal related to purchase price accounting fair value adjustments on inventory and decommissioning obligations offset by a $33.7 million current income tax expense from July 30 to September 30, 2014.

- From July 30 to September 30, 2014, the Acquisition Assets contributed $57.9 million to net income before taxes based on $152.8 million in revenue, $67.1 million of production expenses, and $27.8 million in DD&A; excluding the impact of acquisition accounting fair value adjustments of $28.5 million as described above, the Acquisition Assets contributed $86.4 million to net income before taxes in this period.

- Capital expenditures in the nine months ended September 30, 2014 were $119.8 million of which $25.3 million related the Acquisition Assets and $94.5 million related to Legacy Assets (OML 125, 56, 13, 134) and other movable assets. Significant milestones and capital expenditure activity include the construction of the Umugini pipeline (described below), Ebendo Well 7 drilling and completion activities, and flow station construction at the Ebendo (OML56) field.

- As of the date of this MD&A the Corporation and its partners completed the construction of the 45,000 bbls/day Umugini pipeline project and commenced final testing in readiness for commercial injection into the pipeline.

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

Results of Operations

The following provides an analysis of the Corporation's financial condition, results of operations and cash flows for the three months and nine months ended September 30, 2014. Results have been compared to the Corporation's financial performance for the three months and nine months ended September 30, 2013. The Corporation has only one reportable segment which consists of the Corporation's oil and gas operations in Nigeria.

Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Oil and gas sales	189,520	40,521	258,024	111,140
Less: royalties	(12,177)	(3,060)	(18,078)	(7,905)
Oil and gas sales net of royalties	**177,343**	**37,461**	**239,946**	**103,235**
Crude transportation	1,106	-	1,106	-
Kwale-Okpai IPP sales	6,328	-	6,328	-
Revenue, net of royalties	**184,777**	**37,461**	**247,380**	**103,235**
Attributable to:				
Legacy assets[1]	32,018	37,461	94,620	103,235
Acquisition assets[1]	152,760	-	152,760	-

[1] *Legacy assets revenue from OML 125 and OML 56 for the three and nine months ended September 30, 2014; Acquisition assets revenue from OML 60 to 63 for the period July 30, 2014 to September 30, 2014 which were acquired through the COP Acquisition.*

Oil and gas revenue is generated by the production and sale of oil, gas, and NGL produced from the Corporation's working interest in OML 60 – 63 (onshore), OML 125 (offshore) and OML 56 (Ebendo marginal field, onshore) all of which are located in Nigeria. The Corporation also earns revenue from crude transportations tariffs collected from third parties on certain pipelines and through the production and sale of power from the Kwale-Okpai IPP. The Corporations major customers include subsidiaries of international oil companies, Nigerian government organizations, and joint venture businesses.

For the three months ended September 30, 2014, revenue, net of royalties of $184.8 million was generated compared to $37.5 million in the comparative period. The $147.3 million increase was due to $152.8 million of revenue earned between July 30 and September 30, 2014 from the Acquisition Assets, offset by a $5.5 million decline in revenue earned from OML 125 and OML 56 (the **"Legacy Assets"**). Of the $152.8 million earned on the Acquisition Assets from July 30 to September 30, 2014, $145.4 million related to the sale of oil, gas, and NGL, $6.3 million related to the sale of power generated by the Kwale-Okpai power plant, and $1.1 million related to crude transportation tariffs. The decline in revenue of $5.5 million from Legacy Assets was primarily due to lower revenue from OML 125. OML 125 revenue declined due to lower crude oil prices and Management's decision not to recognize the revenue related to amounts overlifted by NNPC (discussed below).

For the nine months ended September 30, 2014, revenue, net of royalties of $247.4 million was generated compared to $103.2 million in the comparative period. The $144.2 million increase was due to $152.8 million of revenue earned between July 30 and September 30, 2014 from the Acquisition Assets, offset by an $8.6 million decline in revenue earned from Legacy Assets. Of the $152.8 million earned on the Acquisition Assets from July 30 to September 30, 2014, $145.4 million related to the sale of oil, gas, and NGL, $6.3 million related to the sale of power generated by the Kwale-Okpai power plant, and $1.1 million related to crude transportation tariffs. The decline in revenue of $8.6 million from Legacy Assets was primarily due to lower revenue from OML 125 of $11.4 million offset by increased revenue of $2.8 million from OML 56 and other incidental sources. OML 125 revenue declined by $11.4 million due to Management's decision not to recognize the revenue related to amounts overlifted by NNPC (discussed below) of $15.1 million offset by a $3.7 million increase due mostly to higher production.

Production

For the three months ended September 30, 2014, the Corporation produced 3.2 MMboe (which averaged 35,306 boe/day) compared to 0.4 MMboe (which averaged 3,946 boe/day) for the comparative period. The 2.8 MMboe increase was due to 2.9 MMboe or 47,934 boe/day of production between July 30 and September 30, 2014 from the Acquisition Assets offset by a 0.1 MMboe decline in Legacy Assets. Acquisition Asset production from July 30 to September 30, 2014 can be attributed 15,508 bbl/day of oil, 2,994 boe/day of NGL, and 29,432 boe/day (or 176,591 mcf/day) of gas. Legacy Asset oil production declined to 3,524 bbl/day in the three months ended September 30, 2014 from 3,946 bbl/day in the comparative period primarily due to lower production at OML 56.

For the nine months ended September 30, 2014, the Corporation produced 4.1 MMboe (which averaged 14,908 boe/day) compared to 1.1 MMboe (which averaged 3,849 boe/day) for the comparative period. The 3.0 MMboe increase was due to 2.9 MMboe or 47,934 boe/day of production between July 30 and September 30, 2014 from the Acquisition Assets and a 0.1 MMboe increase in Legacy Assets. Acquisition Asset production from July 30 to September 30, 2014 can be attributed 15,508 bbl/day of oil, 2,994 boe/day of NGL, and 29,432 boe/day (or 176,591 mcf/day) of gas. Legacy Asset oil production increased to 4,198 bbl/day in the nine months ended September 30, 2014 from 3,849 bbl/day in the comparative period primarily due to higher production at OML 125.

In August 2014 the Corporation entered into financial commodity contracts to hedge sales of oil production associated with the Acquisition Assets and Legacy Assets. The Corporation has hedged (a) 8,000 bbl/day (approximately 52%) of oil production related to Acquisition Assets at $97/bbl until July 2017 (unless the market price exceeds $110.55/bbl; the Corporation will receive the incremental price above $110.55/bbl) and (b) an average of 2,223 bbl/day (approximately 53%) of oil production related to Legacy Assets at an average price of $91/bbl until January 2019 (unless the market price exceeds cap prices ranging from $95/bbl to $115/bbl; the Corporation will receive the incremental price above the cap price). Refer to the financial commodity contracts section below for further details.

Crude Oil Losses (OML 56)

Production from OML 56 is transported is transported to the Brass Terminal from Kwale via a Pipeline operated by NAOC. This pipeline experiences a significant amount of crude oil losses due to theft of crude oil and/or sabotage of crude oil pipelines.

Total net crude oil deliveries into the export pipeline from the Ebendo marginal field for the three months ended September 30, 2014 was approximately 84,318 barrels ("**bbls**") before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to the Corporation for the three months ended September 30, 2014 was 14,477 bbls or 17%, (2013 – 26,314 bbls or 20%) of total crude oil deliveries into the export pipeline for the year. This resulted in approximately $1.6 million (2013: $2.9 million) of oil production not being recognized in revenue (before royalties) for the three month period ended September 30, 2014.

Total net crude oil deliveries into the export pipeline from the Ebendo marginal field for the nine months ended September 30, 2014 was approximately 291,196 barrels ("bbls") before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to the Corporation for the nine months ended September 30, 2014 was 50,525 bbls (2013: 60,037bbls), or 17% (2013: 28%) of total crude oil deliveries into the export pipeline for the year.

This resulted in approximately $5.3 million (2013: $6.4 million) of oil production not being recognized in revenue (before royalties) for the nine month period ended September 30, 2014.

As at the date of the MD&A, the Corporation and its partners completed the construction of the Umugini pipeline and commenced final testing in readiness for commercial injection of crude into the Pipeline. Sale from the Umugini pipeline is expected to reduce the amount of crude losses experienced along the Umusadege pipeline as an alternative crude oil delivery route.

Excessive lifting activity by NNPC (OML 125)

The Corporation receives lifting schedules for OML 125 that identify the order and frequency with which each partner can lift its share of production. In normal operating conditions, over lift and underlift are accounted for as a sale of oil at the point of lifting by the under lifter to the over lifter as the criteria for revenue recognition is considered to have been met. The Corporation is currently in a dispute with the NNPC in relation to over lifting by the NNPC between 2008 and 2014 and which, in the view of NAE its partner, exceeded the NNPC's entitlements.

For the nine months ended September 30, 2014, the NNPC has continued to lift production volumes that exceed their entitlement, despite an arbitration award in favour of the Corporation.

On February 25, 2014, the Nigerian Court of Appeal delivered judgement in favour of Nigeria Agip Exploration Limited (**"NAE"**) and the Corporation vacating a previous injunction granted by the Federal High Court (**"FHC"**) restraining further proceedings in the arbitration. In light of this development, the claimants continued with the arbitration process towards final award. NNPC has appealed the setting aside of the injunction to the Supreme Court and also filed an application for an injunction to prevent the continuation of the Arbitration. These applications are yet to be heard. NNPC filed an affidavit of urgency in May 2014, requesting that its applications be heard before June 11, 2014. This date is now passed without a hearing date being fixed by the Supreme Court.

On July 9, 2014 a final award was issued by the arbitration tribunal in favour of NAE and the Corporation entitling NAE and the Corporation to collect amounts overlifted by the NNPC. The arbitration tribunal assessed damages suffered by NAE and the Corporation as at 31 January 2014. The Corporation's share of the damages awarded under the final award is $72.9 million (before the portion due to Oando PLC of $47.3 million) plus interest on damages, legal and expert costs, interest on legal and expert costs, and additional interest from the date the award was granted until payment.

Even though the award prohibited NNPC from continuing to breach the PSC by lifting oil in excess of its lifting allocation, as at the date of this MD&A, NNPC has not complied with the final award and continues to overlift. NNPC can however not be cited for contempt for violating the final award until the award has been recognized and enforced by the FHC and ultimately the Supreme Court. Since the Tribunal could only assess damages suffered by the NAE and the Corporation as at 31 January 2014, NAE and the Corporation would have to file an action seeking relief (including damages) against NNPC for failure to comply with the award, to compensate for any loss suffered by NAE and the Corporation after 31 January 2014. Following the issuance of the Final Award, NNPC also filed a suit dated July 24, 2014 asking the court to set aside the Final Award of 9th July 2014.

NAE and the Corporation on August 25, 2014 filed an action at the Federal High Court for the recognition and enforcement of the partial and final awards (**"Awards"**). On October 2, 2014, NNPC filed a motion asking the court to dismiss the suit filed by NAE and the Corporation for enforcement of the Awards.

As a result of this dispute, from October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production from the Abo field not recognized as a result of this policy in 2013, $15.1 million has not been recognized in revenue in the nine months ended September 30, 2014 (2013 – NIL), $2.1 million of which was deferred in the three months ended September 30, 2014 (2013 – NIL). 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.

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

Financial Commodity Contracts

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

		Price/Unit[1]			Volume
Position	**Expiry**	**Fixed**	**Strike**	**Premium[2]**	**(bbl/d)**
Acquisition Assets:					
Capped swap	July 2017	$97.00	$110.55	-	5,333
Purchased put	July 2017	$97.00	$110.55	-	2,667
Total volume – Acquisition Assets					8,000
Legacy Assets:					
Purchased put	January 2019[3]	-	$95.00 - $115.00	$11.50 – $14.84	1,366 – 3,974

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

The effect of the Acquisition Asset hedges is to fix the price of oil that the Corporation receives, on the specific volumes at $97/bbl until the benchmark price of dated Brent crude oil reaches 110.55/bbl; when dated Brent crude oil price exceeds $110.55/bbl the Corporation will receive the incremental price above $110.55/bbl. The Acquisition Asset hedges account for 8,000 bbl/day which is approximately 52% of oil production on these assets.

The effect of the Legacy Asset hedges is to fix the price of oil that the Corporation receives, on the specific volumes at an average price of $91/bbl until the benchmark price of dated Brent crude oil reaches the cap price (which ranges from $95/bbl to $115/bbl); when dated Brent crude oil price exceeds the cap price the Corporation will receive the incremental price above cap price. The Acquisition Asset hedges account for an average of 2,223 bbl/day which is approximately 53% of oil production on these assets.

The fair value of the financial commodity contracts as at September 30, 2014 was $33.2 million. In the nine months ended September 30, 2014, $33.2 million was recognized as a derivative gain in the statement of comprehensive income / (loss) for the financial commodity contracts.

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

Production expenses

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Production expenses	74,562	11,215	90,120	23,945
Attributable to:				
Legacy assets[1]	7,436	11,215	22,994	23,945
Acquisition assets[1]	67,126	-	67,126	-
Fair value adjustments[2]	*(38,614)*	-	*(38,614)*	-
Net of adjustments[2]	*28,512*	-	*28,512*	-

[1] Legacy assets production expenses from OML 125 and OML 56 for the three and nine months ended September 30, 2014; Acquisition assets production expenses from OML 60 to 63 for the period July 30, 2014 to September 30, 2014 which were acquired through the COP Acquisition.

[2] Acquisition assets production expenses includes 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 and production maintenance and operators' general and administrative cost.

For the three months ended September 30, 2014 production expenses were $74.6 million compared to $11.2 million in the comparative period. The $63.4 million increase was due to $67.1 million of production expenses incurred on Acquisition Assets between July 30 and September 30, 2014, offset by a $3.7 million decrease in production expenses on Legacy Assets. As noted in the table above, the $67.1 million production expense expenses includes additional non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments for inventory sold in the period. Excluding the impact of acquisition accounting fair value adjustments, net production expenses on Acquisition Assets were $28.5 million or $9.75/boe. Lower production expenses on Legacy Assets of $3.7 million were due primarily to reduced lifting and pipeline expenses; this resulted in a reduction in the cost per boe to $22.94/boe in the 3 months ended September 30, 2014 compared to $30.89/boe in the comparative period.

For the nine months ended September 30, 2014 production expenses were $90.1 million compared to $23.9 million in the comparative period. The $66.2 million increase was due to $67.1 million of production expenses incurred on Acquisition Assets between July 30 and September 30, 2014, offset by a $0.9 million decrease in production expenses on Legacy Assets. As noted in the table above, the $67.1 million production expense expenses includes additional non-recurring expenses of $38.6 million related to acquisition accounting fair value adjustments for inventory sold in the period. Excluding the impact of acquisition accounting fair value adjustments, net production expenses on Acquisition Assets were $28.5 million or $9.75/boe. Marginally lower production expenses on Legacy Assets of $0.9 million resulted in a reduction in the cost per boe to $20.07/boe in the nine months ended September 30, 2014 compared to $22.79/boe in the comparative period; this reduction was mostly attributable to lower production expenses at OML 56.

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

General and administrative costs

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
General and administrative costs	74,278	8,041	116,024	15,014

For the three months ended September 30, 2014 general and administrative costs were $74.3 million compared to $8.0 million in the comparative period. The $66.3 million increase is due to a non-recurring $41.2 million ministerial consent fee (which was 2.5% of transaction purchase price of $1.65 billion) levied by the Nigerian government and paid by the Corporation as a result of the COP Acquisition, approximately $17.5 million in non-recurring COP acquisition related costs for consultant expenses, professional fees, and Corporate allocations and an increase of $7.6 million related to staff and other G&A costs.

For the nine months ended September 30, 2014 general and administrative costs were $116.0 million compared to $15.0 million for 2013. The $101 million increase is due to a non-recurring $41.2 million ministerial consent fee levied by the Nigerian government and paid by the Corporation as a result of the COP Acquisition, approximately $45.8 million in non-recurring COP acquisition related costs for consultant expenses, professional fees, and Corporate allocations and an increase of $14.0 million related to staff and other G&A costs.

Depletion, depreciation and amortization

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Depletion, depreciation and amortization	39,454	4,828	60,898	20,953
Attributable to:				
Legacy assets[1]	11,615	4,828	33,059	20,953
Acquisition assets[1]	27,839	-	27,839	-

[1] Legacy DD&A from OML 125 and OML 56 for the three and nine months ended September 30, 2014; Acquisition assets DD&A from OML 60 to 63 for the period July 30, 2014 to September 30, 2014 which were acquired through the COP Acquisition.

For the three months ended September 30, 2014, depletion, depreciation and amortization charges were $39.5 million compared to $4.8 million in the comparative period. The $34.7 million increase was due to $27.8 million of DD&A incurred between July 30 and September 30, 2014 on the Acquisition Assets and an increase of $6.9 million on Legacy Assets. DD&A on Legacy Assets increased as a result of increased capital expenditures and additional wells coming on line.

For the nine months ended September 30, 2014, depletion, depreciation and amortization charges were $60.9 million compared to $21.0 million in the comparative period. The $39.9 million increase was due to $27.8 million of DD&A incurred between July 30 and September 30, 2014 on the Acquisition Assets and an increase of $12.1 million on Legacy Assets. DD&A on Legacy Assets increased as a result of increased capital expenditures and additional wells coming on line.

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

Net financing income/(expenses)

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net fair value gains/(losses) on financial instruments	108,304	1,815	(7,070)	3,067
Interest expense	(53,261)	(9,899)	(94,652)	(37,267)
Other net financing income / (expenses)	2,053	240	3,443	801
Net financing income/(expenses)	**57,096**	**(7,844)**	**(98,279)**	**(33,399)**

For the three months ended September 30, 2014 net financing income was $57.1 million compared to a net financing expense of $7.8 million for the comparative period. The $64.9 million increase was due to a $106.5 million increase in net fair value gains on financial instruments and a $1.8 million increase in other financing income offset by a $43.4 million increase in interest expense. Net fair value gains on financial instruments in the period of $108.3 million were driven primarily by fair value gains of $64.4 million on warrants, $10.7 million on the Oando PLC Loan conversion option, and $33.2 million on financial commodity contracts. Interest expenses increased by $43.4 million in the period due to increased borrowings required to fund the COP Acquisition and the recognition of $24 million financing fees on the Oando PLC loan.

For the nine months ended September 30, 2014 net financing expense was $98.3 million compared to 33.4 million in the comparative period. The $64.9 million increase was due to a $10.2 million increase in net fair value losses on financial instruments and a $57.4 million increase in interest expense offset by a $2.7 million increase in other financing income. Net fair value losses from financial instruments in the period of $7.1 million were driven primarily by fair value gains of $10.3 million on warrants and $33.2 million on financial commodity contracts, offset by fair value losses of $50.6 million on the Oando PLC Loan conversion option. Interest expenses increased by $57.4 million in the period due to increased borrowings required to fund the COP Acquisition and the recognition of a $48 million financing fee on the Oando PLC loan.

Income tax (expense)/recovery

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Income tax (expense)/recovery	35,962	6,838	29,933	(7,146)

For the three months ended September 30, 2014 income tax recovery was $36.0 million compared to $6.8 million in the comparative period. The $29.2 million increase in the income tax recovery was due to a $42.1 million tax recovery on Acquisition Assets between July 30 and September 30, 2014, offset by a $12.9 million increase in tax expense on Legacy Assets. The $42.1 million tax recovery on Acquisition Assets was due to deferred tax recoveries of $75.8 million derived from the reversal of purchase price accounting fair value adjustments on inventory and decommissioning obligations offset by $33.7 million of current income tax expenses from July 30 to September 30, 2014.

For the nine months ended September 30, 2014 income tax recovery was $29.9 million compared to and income tax expense of $7.1 million in the comparative period. The $37.0 million increase in tax recovery (decrease in income tax expense) was due to a $42.1 million tax recovery on Acquisition Assets between July 30 and September 30, 2014, offset by a $5.1 million increase in tax expense on Legacy Assets. The $42.1 million tax recovery on Acquisition Assets was due to deferred tax recoveries of $75.8 million derived from the reversal of purchase price accounting fair value adjustments on inventory and decommissioning obligations offset by $33.7 million of current income tax expenses from July 30 to September 30, 2014.

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

Net income / (loss) for the period

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net income / (loss) for the period	**89,541**	**12,371**	**(88,088)**	**2,778**

For the three months ended September 30, 2014 net income was $89.5 million compared to $12.4 million in the comparative period. The increase of $77.1 million was due to higher revenues, lower net financing expenses and lower taxes negated by higher production expenses, higher general and administrative expenses and higher depreciation as explained above. During this period, the Acquisition Assets contributed $57.9 million to net income before taxes based on $152.8 million in revenue, $67.1 million of production expenses, and $27.8 million in DD&A; before including the impact of acquisition accounting fair value adjustments of $28.5 million as described above, the Acquisition Assets contributed $86.4 million to net income before taxes in this period.

For the nine months ended September 30, 2014, a net loss of $88.1 million was incurred in comparison to a net income of $2.8 million in 2013 comparative period. The decrease in net income compared to the prior year of $90.9 million was as a result of higher revenues and lower taxes, negated by higher general and administrative expenses, higher production expenses, higher depreciation and higher net financing costs as explained above. During this period, the Acquisition Assets contributed $57.9 million to net income before taxes based on $152.8 million in revenue, $67.1 million of production expenses, and $27.8 million in DD&A; before including the impact of acquisition accounting fair value adjustments of $28.5 million as described above, the Acquisition Assets contributed $86.4 million to net income before taxes in this period.

Cash flow from operating activities

	Nine months ended September 30,	
	2014	**2013**
Cash flow from operating activities	**52,435**	**(21,323)**

For the nine months ended September 30, 2014 cash flow from operating activities was $52.4 million compared to a $21.3 million cash outflow in the comparative period. The $73.7 million increase was driven primarily by increased cash flow from the Acquisition Assets.

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

Capital expenditures

	Nine months ended September 30, 2014	2013
Capital expenditures	**119,815**	**74,382**

For the nine months ended September 30, 2014, the Corporation spent $119.8 million on capital expenditures for oil and gas assets and exploration and evaluation assets. Significant capital expenditures for the nine months ended September 30, 2014, related to the following activities:

- OML 60 to 63, OML 131 (Acquisition Assets) capital expenditures of $25.3 million of which $19.0 million was attributable to the Ogbogene NE and Ogbainbiri Deep C projects and $6.3 million was incurred on other capital projects.

- OML 125 (Abo Field) capital expenditures of $66.3 million Abo 3, Abo 8, and Abo 12 drilling and completion activities.

- OML 56 (Ebendo Field) capital expenditures of $9.9 million for drilling and completion of Ebendo well 7 and Umugini Pipeline. As of the date of this MD&A, the Corporation and its partners completed the construction of the Umugini pipeline and commenced final testing in readiness for commercial injection of crude into the Pipeline.

- OML 13 (Qua Ibo Field) capital expenditures of $11.5 million for pipeline and group gathering facility costs as well as flow station construction.

- OML 134 (Oberan Field) capital expenditures of $6.1 million for exploratory activities on the drilling of the Mindiogoro prospect.

- Other capital expenditures of $0.7 million were incurred by the Corporation for other moveable capital expenditures.

Further details on capital expenditures and commitments have been included in Section 7, *Capital Resources* of this MD&A.

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

4. Summary of Quarterly Results

The following table presents a summary of financial information for the last eight quarters. Information has been derived from the Corporation's Interim Financial Statements:

			For the three months ended	
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Production (boe)	3,248,158	413,985	407,802	406,029
Total Revenue	184,777	30,440	32,163	23,976
Net Income for the Period	89,541	(137,668)	(39,881)	(41,008)
Earnings Per Share	0.12	(0.24)	(0.14)	(0.32)
Diluted Earnings Per Share	0.12	(0.24)	(0.14)	(0.32)
Capital Expenditures	52,910	24,355	42,550	45,573
Total Assets	3,693,880	1,662,142	1,689,937	1,299,422
Total Non-Current Liabilities	1,523,019	245,925	274,812	275,195

			For the three months ended	
	September 30 2013	June 30, 2013	March 31, 2013	December 31, 2012
Production (boe)	363,032	353,145	334,612	326,819
Total Revenue	37,461	36,072	30,699	27,746
Net Income for the Year	11,645	(1,167)	(7,187)	(9,625)
Earnings Per Share	0.12	(0.01)	(0.07)	(0.09)
Diluted Earnings Per Share	0.12	(0.01)	(0.07)	(0.09)
Capital Expenditures	29,684	36,353	8,345	37,752
Total Assets	1,223,808	1,193,585	1,079,899	1,127,050
Total Non-Current Liabilities	206,150	207,981	156,457	177,699

The Corporation's quarterly financial information can be significantly impacted by fluctuations in commodity prices, production volumes, and interest rates. Refer to the relevant sections of this MD&A for discussions of the results for the three and nine months ended September 30, 2014 and the MD&A for the year ended December 31, 2013.

5. Loan Conversion and Private Placement

Oando PLC Loan Conversion

On February 10, 2014, the Corporation entered into a new $1.2 billion facility agreement with Oando PLC to replace its existing loan agreement with Oando PLC. The term of the loan extends to December 31, 2015. Pursuant to this new loan agreement, the Corporation or Oando PLC could elect to repay the outstanding principal with securities of the Corporation, based on:

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

(a) the terms provided in a final prospectus of the Corporation, in which case the price for conversion and nature of securities to be received shall be as set out under the offering.

(b) where no final prospectus has been filed, the terms provided in an arm's length private placement, in which case the price for conversion and nature of securities to be received shall be as set out under the private placement agreement

(c) where there has been no prospectus or private placement offering, common shares based on the 5-day volume weighted average price of the Shares as at the time of the completion or termination of the proposed acquisition of the Nigerian upstream oil and gas business of COP; and

(d) Notwithstanding the foregoing, such terms as may be agreed by the Corporation and Oando PLC. In addition, Oando PLC has the sole right to also convert interest accruing under the Facility after the execution date of the repayment deed, on the terms and conditions set out therein. The price for conversion is subject to compliance with applicable rules of the TSX and prior approval by the TSX.

On February 26, 2014 the Corporation raised $50 million in exchange for shares and warrants as part of a private placement between arm's length parties (described below) which allowed the Corporation to exercise the conversion feature on loans from Oando PLC. During the nine months ended September 30, 2014, the Corporation exercised the conversion option on the Oando PLC Loan issuing shares and warrants as summarized in the table below.

	Amount (thousands of USD)				**Units**	
Conversion Date	**Principal**	**Interest**	**Financing Fee**	**Total**	**Shares**	**Warrants**
February 26, 2014	601,000	11,710	-	612,710	432,565,768	216,282,884
July 9, 2014	168,000	2,900	48,000	218,900	150,075,856	75,037,928
August 20, 2014	98,000	325	-	98,325	68,144,115	34,072,058
Total	**867,000**	**14,935**	**48,000**	**929,935**	**650,785,739**	**325,392,870**

With each conversion, the Corporation issued units (the **"Units"**) comprising, in aggregate, common shares and common shares purchase warrants at a price of $1.57 CAD per Unit. The exchange price of $1.57 CAD per unit established in negotiations with arm's length private placement investors (described below) was also used as the exchange price on the conversions. The exchange price was approved by the independent directors of OER and the TSX and in effect until August 20, 2014; however it was not extended beyond August 20, 2014 by OER or Oando PLC.

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

Results for further details). The CAD/USD foreign exchange rate in effect on the date of the private placement (i.e. February 26, 2014) was used to convert the exercise price from CAD to USD.

As of the date of this MD&A an aggregate principal amount of approximately $292 million remained available to be drawn under the Oando PLC Loan until December 2014 after all other sources have been pursued and expended. As a result of the conversions, Oando PLC currently beneficially owns, or exercises control or direction over, 746,107,838 common shares, representing 93.8% of OER's issued and outstanding common shares. If Oando PLC (through its subsidiary) exercises its warrants, it would own 1,071,500,708 common shares, representing 95.6% of OER's issued and outstanding common shares; however, Oando PLC is restricted from exercising any warrants that would result in its ownership of OER exceeding 94.6%.

Oando Energy Resources Private Placement

On February 26, 2014, the Corporation concluded a private placement offering with arm's length investors for gross proceeds of $50 million. Under the private placement, the Corporation issued Units comprising, in aggregate, 35,070,063 common shares and 17,535,032 common shares purchase warrants at a price of $1.57 CAD per Unit. Each whole warrant entitles the holder thereof to acquire one common share of OER at a price of $2.00 CAD per common share for a period of 24 months from July 30, 2014. However, if after a period of six months from July 30, 2014, the closing price of the common shares on the TSX is greater than $3.50 CAD for a period of at least 10 consecutive trading days, the warrants will expire within 30 days.

The proceeds from the private placement offerings have been utilised to satisfy a portion of the purchase price for the COP Acquisition. The private placement was negotiated and concluded on an arm's length basis. The securities issued were subject to a hold period, which expired on June 27, 2014.

Subsequent to September 30, 2014 the exercise price on the warrants issued to certain arm's length private placement investors was changed from $2.00 CAD to $1.80 USD which set the strike price to a currency that matches the functional currency of the Corporation. The CAD/USD foreign exchange rate in effect on the date of the private placement (i.e. February 26, 2014) was used to convert the exercise price from CAD to USD.

Accounting for Warrants Issued to Oando PLC and Private Placement Investors

The warrants issued to Oando PLC's subsidiary described above were initially classified as financial liabilities in the financial statements of the Corporation rather than equity as the exercise price was not originally fixed in the functional currency of the Corporation. The warrants were therefore recognized at fair value with changes in fair value recognized in profit and loss for the period. On September 29, 2014 the exercise price on the warrants issued to Oando PLC was changed from $2.00 CAD to $1.80 USD which set the strike price to a currency that matches the functional currency of the Corporation and resulted in the warrants being reclassified from liabilities to equity.

The warrants issued to the private placement investors described above have been classified as financial liabilities in the financial statements of the Corporation rather than equity as the exercise price was not fixed in the functional currency of the Corporation on September 30, 2014. The warrants have been recognized at fair value with changes in fair value recognized in profit and loss for the period. Subsequent to September 30, 2014 the exercise price on the warrants issued to certain private placement investors was changed from $2.00 CAD to $1.80 USD which set the strike price to a currency that matches the functional currency of the Corporation and would result in the warrants being reclassified from liabilities to equity in the fourth quarter of 2014.

6. Liquidity

For the nine months ended September 30, 2014, the Corporation had a net loss of $88.0 million and a working capital deficiency of $ 507.9 million. The Corporation working capital deficit as of September 30, 2014 was predominantly as a result of liabilities inherited from the COP companies acquired. A large portion of the liability relates to $314.9 million tax liability that has been accrued, of which $83.5 million is currently in dispute and litigation with the tax authority in Nigeria and the balance of $231.4 million is tax provision for 2013 and 2014 operations. There is an indemnity from the seller on these disputed tax liabilities as they relate to periods before the effective date of the acquisition. The other liabilities inherited alongside the tax liabilities in the acquisition, is the NAOC JV liabilities owed to vendors. These NAOC JV liabilities arose because one of the JV partners, NNPC who owns 60% of the JV, hasn't paid its cash call of about $491.2million to the JV, hence the JV owes $818.7million to vendors. The Corporation's net share of this liability as of September 30, 2014 was $163.7million. Other liabilities of $47.7 million relate to Royalty and third party vendors. Finally, debt servicing of $196.8 million due within twelve month is part of the working capital deficiencies.

In 2014, the Corporation exercised the conversion option on borrowing agreements with Oando PLC which resulted in the settlement of $867 million of principal through the issuance of shares and warrants and paid off in cash the $41 million outstanding to Oando PLC under the $1.2 billion facility agreement. Even though an aggregate principal amount of $292 million remains available to be drawn under the Oando Loan until December 2014, the Corporation has not requested for such as there is no immediate demand to pay on the different liabilities described above and also due to strong cash flow being generated by the Corporation from its sale of crude, gas and other products. There is also no guarantee that Oando PLC would give the loan if the Corporation's cash flow from operations remains strong to meet its obligation. In addition, the Corporation secured equity financing in the form of a $50 million private placement with arm's length investors completed on February 26, 2014 for which the proceeds have been used to fund the COP Acquisition. The Corporation has incurred significant levels of debt and equity financing to finance on-going operations and the COP Acquisition. Further details are disclosed in Section 3, *Loan Conversion and Private Placement*.

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 plans to secure the necessary financing through the issue of new equity or debt instruments. Nevertheless, there is no assurance that these initiatives will be successful. The 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.

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

Payments Due by Period

The following table represents a summary of the obligations of the Corporation as at September 30, 2014:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Borrowings and Interest	1,098,533	289,971	376,316	347,598	84,648
Trade and other payables	411,155	411,155	-	-	-
Current Tax payable[3]	316,534	316,534	-	-	-
Other long term payables	47,272	-	47,272	-	-
Derivative financial	9,075	9,075	-	-	-
Purchase commitments	18,826	18,826	-	-	-
Budgeted capital expenditure[2]	33,892	33,892	-	-	-
	1,935,287	**1,079,453**	**423,588**	**347,598**	**84,648**

[1]*Interest payable is expected to be $217.5 million over the remainder of the contractual term of the loan, calculated using interest rates applicable to borrowings at year end. Cash outflows associated with borrowings assume principal payments are paid in accordance with repayment schedules before cash sweeps – refer to Section 8 Capital Resources for loan repayment requirements regarding excess cash flow from oil and gas sales.*

[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.*

[3]*Included in the Tax payable line are uncertain tax liabilities of $83.5million relating to tax contingencies against POCNL which might result in a settlement with the Tax Authorities in Nigeria. These uncertain tax liabilities relates to tax assessments provided to POCNL by the Federal Inland Revenue Service ("**FIRS**") for $70.4million and Nigeria Extractive Industries Transparency Initiative (**"NEITI"**) for $13.1million relating to tax years 2006 – 2011 and 2006 – 2008 respectively. Prior to the COP acquisition, POCNL had appealed to the issues raised by the FIRS to the Tax Appeal Tribunal (**"TAT"**) and the TAT has rescheduled hearings for these matters to dates after September 30, 2014. In line with the Sale and Purchase Agreement between the Corporation and the previous owners of POCNL, an equal amount has been recognized as an indemnification asset under the Trade and other receivables line in the statement of financial position on the date of acquisition. Besides the uncertain tax liabilities, all other commitments for the next five years are expected to be funded from cash flow from operations of the Corporation, as well as debt and equity financing from Oando PLC and external parties.*

Sources of Funding

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

- Cash inflows from sales of production of crude oil, NGL, and natural gas liquids from OML 60 to 63;
- Cash inflows from sales of production of crude oil from OML 56 and OML 125;
- Cash inflows from financial commodity hedges should the price of crude oil decline. The Corporation has hedged (a) 8,000 bbl/day of oil production $97/bbl until July 2017 (unless the market price exceeds $110.55/bbl; the Corporation will receive the incremental price above $110.55/bbl) and (b) an average of 2,223 bbl/day of oil production at an average price of $91/bbl until January 2019 (unless the market price exceeds cap prices ranging from $95/bbl to $115/bbl; the Corporation will receive the incremental price above the cap price). This equates to approximately 52% of total oil production being hedged;

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

- Subject to market conditions and financing being available on terms acceptable to the Corporation, additional proceeds from additional debt and equity financing will be sought; and
- The remaining $292 million available on the $1.2 Billion Oando PLC Loan Facility can be drawn after all other sources of funding have been pursued and expended. Amounts can be drawn before December 31, 2014.

7. Capital Resources

In order to finance on-going operations following the closure of the COP Acquisition, the Corporation may require additional financing, either in the form of debt or equity.

BORROWINGS

The following table summarizes borrowings outstanding at September 30, 2014 and December 31, 2013:

	As at September 30, 2014	**As at December 31, 2013**
$1.2 Billion Oando PLC Loan Facility	-	401,000
$450 Million Senior Secured Facility	407,071	-
$350 Million Corporate Finance Loan Facility	325,285	-
$100 Million Subordinated Debt Facility	88,411	-
First Bank of Nigeria (Loan #1)	-	32,944
First Bank of Nigeria (Loan #2)	-	70,000
First Bank of Nigeria (Short term loan)	-	7,779
Ecobank Nigeria Loan	-	20,000
Diamond Bank Loan	-	59,152
Enterprise Bank	-	30,000
	820,767	**620,875**
Less: Borrowings, current	(196,837)	(496,099)
Borrowings, non-current	**623,930**	**124,776**

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

$1.2 Billion Oando PLC Loan Facility

On February 10, 2014, the Corporation signed an agreement with Oando PLC for a $1.2 billion loan facility. The loan agreement amends and governs the Oando PLC loan (facility A, B1, and B2) which was drawn to $401 million at December 31, 2013 and the $200 million loan facility which was signed on December 24, 2013. In addition, the loan agreement made available to the Corporation an additional $599 million. The funds have been used to fund the closure of the COP Acquisition and for other general corporate requirements. The annual interest rate of the facility is 4% calculated on a quarterly basis and principal is due to be repaid on December 31, 2015. The only financial covenant of the loan limits capital expenditures to $500 million per year for 2014 and 2015. The loan also includes a financing fee of $48 million which was converted to equity on July 9, 2014. The Corporation can elect to repay the principal and pay the financing fee by the issuance of common shares of OER, subject to certain restrictions. The table below summarizes the movement of the $1.2 billion facility during the nine months ended September 30, 2014.

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

	Nine months ended
Balance, beginning of period	401,000
Drawings	507,000
Converted to shares and warrants	(867,000)
	41,000
Cash repayment	**(41,000)**
Balance, September 30, 2014	**-**

During the nine months ended September 30, 2014, the facility was drawn by an amount of $507 million of which $41 million was repaid. Also during this period, $867 million of principal, $14.9 million of accrued interest, and $48 million financing fee was exchanged for 650,785,739 common shares of OER and 325,392,870 warrants (refer to Section 5 *Loan Conversion and Private Placement*). Of the $929.9 million conversion amount, $126.4 million was allocated to the warrants and recorded as a derivative financial liability and the residual amount of $803.5 million was recorded as share capital. The balance at September 30, 2014 includes no unamortized transaction costs as these were settled as a part of the July 9, 2014 loan conversion (described below). As of the date of this MD&A, $292 million remained available for drawdown on the loan until December 2014. The Corporation can draw down on the loan after all other sources of funding have been pursued and expended.

Oando PLC Loan $48 Million Financing Fee

Management determined that the obligation to pay the financing fee represented a financial liability of the Corporation and as amounts were drawn down on the facility, a financing fee liability was recorded. On July 9, 2014, the financing fee was converted to equity in concert with the July 9, 2014 loan conversion noted in the table above. Prior to July 9, 2014, the cumulative amount drawn on the facility to date was $ 769 million for which a financing fee liability of $30.8 million was recorded. On July 9, 2014, an additional $17.2 million was recorded to bring the financing fee liability to $48 million prior to conversion.

Management determined that the financing fee should be accounted for as a transaction cost. Specifically, to the extent that the facility is drawn, a portion of the financing fee is allocated to the drawn amount and used to estimate the effective interest rate on the loan over the estimated expected life of the drawings; in the event the loan is converted to equity, the financing fee is expensed. Prior to the July 9, 2014 conversion, $30.8 million was recorded as a transaction cost of which $24 million was recorded as interest expense and $5.6 million remained unamortized. On July 9, 2014 an additional $17.2 million was recorded as a transaction cost to bring the financing fee liability to $48 million as described above. This amount and the unamortized amount of $5.6 million were recorded as interest expense on July 9, 2014 as the financing fee was converted to equity. In the nine months ended September 2014, $48 million of transaction costs related to the financing fee were recorded in interest expense.

$450 Million Senior Secured Facility

The Corporation entered into agreements dated January 31, 2014 and July 31, 2014 with major international banks providing for a net aggregate loan of $450 million (**the "$450 Million Senior Secured Facility" or "$450 Million Loan"**). As of the close of business on the day after closing of the COP Acquisition, an aggregate amount of $450 million was outstanding under the $450 Million Loan. Interest is charged on the loan at 3 month LIBOR plus 8.5% per annum and interest payments are due at the end of each quarterly period. The loan is repayable in quarterly instalments in accordance with a repayment schedule. In addition to regular repayments, 25% of any excess cash from the proceeds of sales of crude oil, natural gas liquids and electric power from POCNL's various operations are also to be applied against outstanding principal. The facilities have a final maturity date of June 30, 2019 and are secured by the Corporation's 20% interest in the NAOC/POCNL/NNPC JV including all fields and facilities and the Kwale-Okpai IPP. The carrying value of the assets pledged as at September 30, 2014 was $973.1 million. The Corporation is required to hedge a certain portion of crude oil production. Refer to the discussion of financial commodity contracts in Section 3 *Financial and Operating Highlights* above for the details of the hedges executed by management to satisfy this requirement; the financial commodity contracts were executed with the same banks that provided the loan. The loan also requires the Corporation to maintain cash balances with the lenders of $30 million on the date the facility is drawn increasing to $40 million within one year from this date. As at September 30, 2014, the Corporation had cash deposits of $30 million with the lenders.

The full $450 million was drawn on the facility in July 2014 to fund the COP Acquisition. The Corporation incurred $30.0 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan. During the three months ended September 30, 2014, the Corporation recorded $9.0 million in interest expense for the loan. Debt covenants are due to be calculated and submitted to the lenders periodically.

$350 Million Corporate Finance Loan Facility

On January 17, 2014, the Corporation signed an agreement with a consortium of lenders led by FBN Capital Markets Limited (an affiliate of First Bank of Nigeria) and FCMB Capital Markets Limited (an affiliate of First City Monument Bank) to secure a Corporate Finance Loan Facility for $329 million. Pursuant to an amendment agreement executed on January 31, 2014 the facility amount was increased to $350 million. The purpose of the facility was to fund the repayment of the existing loans of the Corporation and to finance the COP Acquisition. Interest is charged at 3 month LIBOR plus 9.5% per annum for the first fifty-seven months of the facility, with an increase of 1% for the remaining life of the facility. The facility will be repaid quarterly and has a final maturity date of June 30, 2020. The facility is secured by the Corporation's interest in OML 125, OML 134, OML 56, and OML 90 including all fields and facilities. The carrying value of the assets pledged as at September 30, 2014 was $670.1 million. The Corporation is also required to hedge a certain portion of crude oil production. Refer to the discussion of financial commodity contracts in Section 3 *Financial and Operating Highlights* above for the details of the hedges executed by management to satisfy this requirement; the financial commodity contracts were executed with the same banks that provided the loan. The loan also requires the Corporation to maintain cash balances with the lenders of $50 million within one year from the date the facility is drawn. As at September 30, 2014, the Corporation had cash deposits of $14.7 million with the lenders.

The full $350 million was drawn in July 2014, the proceeds of which were used to (a) repay existing loans (the First Bank Nigeria Loans, the Ecobank Nigeria Loan, the Diamond Bank Loan, and the Enterprise Bank Loan) and (b) finance the COP Acquisition. The Corporation incurred $21.4 million of transactions costs which have been allocated to the amount drawn. The $21.4 million of transaction costs were used to calculate the interest expense on the facility. During the three months ended September 30, 2014, the Corporation recorded $7.4 million in interest expense for the facility. Debt covenants are due to be calculated and submitted to the lenders periodically.

$100 Million African Export Import Bank Subordinated Debt Facility

On June 6, 2014, the Corporation signed an agreement with African Export-Import Bank to secure a one year subordinated structured debt facility for $100 million. The loan was designated to fund a portion of the COP Acquisition. Interest is charged at 3 month LIBOR plus 7% per annum and was prepaid. The loan is due to be repaid on July 24, 2015. The loan is secured by a letter of credit from Oando PLC.

The full $100 million less prepaid interest was drawn in July 2014 to finance the COP Acquisition. The Corporation incurred $6.5 million of transactions costs which have been allocated to the amount drawn and used to estimate the effective interest rate on the loan during the three months ended September 30, 2014, the Corporation recorded $2.5 million in interest expense for the loan.

Commitments and Capital Expenditures

The following provides an update to the commitments and capital expenditures disclosed in the MD&A for the period ended September 30, 2014. Historically, the Corporation has experienced significant variability in the actual costs incurred and timing of expenditure, as compared to initial estimated budgeted amounts and timing. This section of the capital resources discussion contains forward-looking information. Refer to *Advisory – Forward-Looking Information* section of this MD&A for material risks and assumptions underlying this forward-looking information.

OML 60 – 63, OML 131 (Acquisition Assets)

From July 30 to September 30, 2014 capital expenditures on Acquisition Asset fields were $25.3 million. In this period, $19 million was spent on the Ogbogene NE and Ogbainbiri Deep C projects and $6.3 million was spent on other capital projects. The Corporation's share of NAOC JV budgeted cost for Q4 2014 is estimated to be $28.6 million.

OML 125 (Abo Field)

Budgeted capital expenditures for OML 125 for the nine months ended September 30, 2014 were $33.3 million. The Corporation incurred $66.3 million of capital expenditures in this period which is attributable to Abo 3, Abo 8, and Abo 12 drilling and completion activities. Capital expenditures on Abo 3 were $41.8 million which is the main driver of the over budget amount due to increased completion costs. Expenditures on Abo 8 and Abo 12 were $3.9 million and $20.6 million, respectively.

OML 56 (Ebendo Field)

Budgeted capital expenditures for OML 56 for the nine months ended September 30, 2014 was $16.5 million. The Corporation incurred $9.9 million on construction of the Umugini pipeline, Ebendo Well 7 drilling and completion activities, and flow station construction. As of the date of this MD&A the Corporation and its partners completed the Umugini pipeline project. Furthermore, Ebedo Well 7 was successfully drilled and completed with the expectation that it will be connected to the Umugini pipeline in Q4 2014. Flow line construction at the Akri-Kwale flow station was also completed in the period to increase crude production capacity for the field.

OML 13 (Qua Ibo Field)

Budgeted capital expenditures for OML 13 were set at $40.6 million for 2014. In the nine months ended September 30, 2014, the Corporation incurred capital expenditures of about $11.5 million on pipeline and facility costs as well as flow station construction. Oil production from the Qua Ibo field's C4 and D5 reservoirs are expected to commence in the fourth quarter of 2014 after the commissioning of a crude processing facility which will be completed in the fourth quarter of 2014.

OML 134 (Oberan Field)

Budgeted capital expenditures for OML 134 were set at $7.4 million for 2014. In the nine months ended September 30, 2014, the Corporation paid $6.1 million of the costs incurred on exploratory activities related to the Mindiogboro prospect. Based on results from the drilling of the exploration well into the Mindiogboro prospect, the Corporation plans to continue geological, geophysical, and environmental studies in 2015.

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

OML 90 (Akepo Field)

Budgeted capital expenditures for OML 90 were set at $2.0 million for 2014. No significant capital expenditures were incurred in the nine months ended September 30, 2014. Currently, the Corporation and its partners continue to seek an economically appropriate plan for the evacuation route for crude production.

Blocks 5 & 12, EEZ of São Tomé & Príncipe

Budgeted capital expenditures for Block 5 and 12, EEZ of Sao Tome & Principe were set at $5.2 million for 2014. No significant capital expenditures were incurred in these fields in the nine months ended September 30, 2014. Planned capital expenditures related to a four year work programme of 2D and 3D seismic acquisition and studies remains with Seismic acquisition to be incurred in December 2014.

Purchase Commitments

As at September 30, 2014, the Corporation had contracted to receive goods and services of an aggregate amount of $18.8 million which had not been delivered as at such date.

8. Related Party Transactions

The ultimate parent of the Corporation is Oando PLC, incorporated in Nigeria. At September 30, 2014, Oando PLC owned 93.8% of the Corporation's share capital. There are other companies that are related to Oando PLC through common shareholdings or common directorships with Oando PLC. The operations of the Corporation have historically been financed by Oando PLC and recognized as intercompany transactions. As at September 30, 2014, the Corporation had the following outstanding related party balances with Oando PLC:

Accounts receivable

	As at September 30, 2014	As at December 31, 2013
Accounts receivable from Oando PLC	20,270	18,582
	20,270	**18,582**

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

Accounts payable

	As at September 30, 2014	As at December 31, 2013
Under lift payable to Oando PLC	47,272	47,272
Loan payable to Oando PLC	-	401,000
Financing fee and interest payable on Oando PLC loan	-	-
Payable to Oando PLC (Equator loan)	10,800	9,914
Payable to Oando PLC for COP Acquisition	-	7,612
Oando Energy Services	-	1,228
Oando PLC (Payments on behalf of the Corporation)	7,664	37,463
Payables to Oando PLC (Qua Ibo and ORPSL acquisition)	7,488	9,260
Related party payables	**73,224**	**513,749**

For the nine months ended September 30, 2014, $26.3 million (2013: $6.2 million) was charged to general and administrative costs under the terms of the Cooperation and Services Agreement dated July 24, 2012 between Oando PLC and the Corporation. All other related party balances associated with agreements between the Corporation and related parties as disclosed in the Consolidated Financial Statements for the year ended December 31, 2013 have not changed.

9. Outstanding Share Data

As at September 30, 2014 OER had outstanding: (i) 795,419,213 common shares; (ii) options exercisable to acquire up to 8,410,000 common shares, (iii) 325,392,870 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $1.80 USD until July 30, 2016; (iv) 19,280,572 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $2.00 CAD until July 30, 2016; and (v) 2,000,000 restricted share units outstanding, each entitling the holder to acquire one common share of OER at no additional cost.

As at the date of this MD&A OER had outstanding: : (i) 795,419,213 common shares; (ii) options exercisable to acquire up to 8,410,000 common shares, (iii) 342,927,902 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $1.80 USD until July 30, 2016; (iv) 19,280,572 warrants outstanding, each entitling the holder to acquire one common share of OER at an exercise price of $2.00 CAD until July 30, 2016; and (v) 2,000,000 restricted share units outstanding, each entitling the holder to acquire one common share of OER at no additional cost.

10. Contingencies

Crude oil under lift receivable (OML 125)

On February 25, 2014, the Nigerian Court of Appeal delivered judgement in favour of NAE and the Corporation vacating a previous injunction granted by the FHC restraining further proceedings in the arbitration. In light of this development, the claimants continued with the arbitration process towards final award. NNPC has appealed the setting aside of the injunction to the Supreme Court and also filed an application for an injunction to prevent the continuation of the Arbitration. These applications are yet to be heard. NNPC filed an affidavit of urgency in May

2014, requesting that its applications be heard before June 11, 2014. This date is now passed without a hearing date being fixed by the Supreme Court.

On July 9, 2014 a final award was issued by the arbitration tribunal in favour of NAE and the Corporation entitling NAE and the Corporation to collect amounts overlifted by the NNPC. The arbitration tribunal assessed damages suffered by NAE and the Corporation as at 31 January 2014.

Even though the award prohibited NNPC from continuing to breach the PSC by lifting oil in excess of its lifting allocation, as at the date of this MD&A, NNPC has not complied with the final award and continues to overlift. NNPC can however not be cited for contempt for violating the final award until the award has been recognized and enforced by the FHC and ultimately the Supreme Court. Since the Tribunal could only assess damages suffered by the NAE and the Corporation as at 31 January 2014, NAE and the Corporation would have to file an action seeking relief (including damages) against NNPC for failure to comply with the award, to compensate for any loss suffered by NAE and the Corporation after 31 January 2014.

The Corporation's share of the damages awarded under the final award is $72.9 million (before the portion due to Oando PLC of $47.3 million) plus interest on damages, legal and expert costs, interest on legal and expert costs, and additional interest from the date the award was granted until payment.

Following the issuance of the Final Award, NNPC also filed a suit dated July 24, 2014 asking the court to set aside the Final Award of 9th July 2014.

NAE and the Corporation on August 25, 2014 filed an action at the Federal High Court for the recognition and enforcement of the partial and final awards (**"Awards"**). On October 2, 2014, NNPC filed a motion asking the court to dismiss the suit filed by NAE and the Corporation for enforcement of the Awards

From October 1, 2013, the Corporation has deferred the recognition of revenue for oil production that is subject to overlift by the NNPC. In addition to the $14.5 million of oil production from the Abo field not recognized as a result of this policy in 2013, $15.1 million has not been recognized in revenue in the nine months ended September 30, 2014. The Corporation continues to defer the recognition of revenue for oil production that is subject to overlift by the NNPC and will do so until it is determined that the economic benefits of the overlifted amounts will accrue to the Corporation.

Other Contingencies

There have been no material changes to contingencies related to *Bilbari & Owanare (OML 122), OML 122, and OPL 321 and OPL 323* as previously disclosed in MD&A for the period ended December 31, 2013.

11. Accounting Policies and Critical Estimates and Judgements

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

Finance leases

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement which is accounted for as a finance lease. When assets are held subject to a finance lease, the related asset is derecognized and the present value of the lease payments (discounted at the interest rate implicit in the lease) is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Changes in accounting policies and disclosures

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

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

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, 2014, and have not been applied in preparing these Interim Consolidated Financial Statements. Those with the potential to effect the Interim Consolidated Financial Statements of the Corporation are: (a) IFRS 9 *Financial Instruments;* in February 2014, the IASB indicated that IFRS 9 will be effective for annual periods beginning on or after January 1, 2018; and (b) IFRS 15 *Revenue from contracts with customers;* the IASB indicated that IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. The Corporation continues to assess the impact of adopting these standards.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Interim Financial Statements requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Estimates and judgements 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.

In preparing these financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013 except as described below.

Estimate: COP Acquisition fair values

On July 30, 2014, the Corporation completed the COP Acquisition and determined that the acquisition method of accounting should be applied. Accordingly, a purchase price allocation was performed whereby on the acquisition date (i) identifiable assets and liabilities were recognized and measured and (ii) goodwill was recognized and measured. The process of measuring identifiable assets and liabilities required estimation.

In preparing the purchase price allocation, Management calculated the fair value of property, plant and equipment, exploration and evaluation assets, the finance lease receivable, inventory, the indemnification asset, and decommissioning liabilities and determined that the fair value of working capital items was equivalent to the book values recorded in the accounting records of the acquired entities. The deferred tax liability was calculated in accordance with IAS 12, *Income taxes* using the acquisition day fair values and goodwill was determined as the difference between the net purchase price and fair value of net assets acquired.

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

In calculating fair values, Management employed and obtained advice and work products from business valuation, oil and gas reserve, and accounting experts to determine the appropriate valuation methods, discount rates, cash flow assumptions, and other assumptions required. Furthermore, Management, with the assistances of these experts, carefully evaluated the fair value calculations performed. The results of the purchase price allocation, as disclosed in Note 5 of the Interim Financial Statements, is included below for the convenience of the reader:

On July 30, 2014, the Corporation acquired all of the issued and outstanding shares of Phillips Oil Company Nigeria Limited ("POCNL"), Phillips Deepwater Exploration Nigeria Limited ("PDENL"), and Conoco Exploration and Production Nigeria Limited ("CEPNL"). The total consideration for the acquisition was $1.5 billion. The acquisition has been accounted for as a business combination with the fair value of assets acquired and liabilities assumed at the date of acquisition summarized below:

Net purchase price:	
Purchase price	1,650,000
Working capital adjustments	189,749
Net purchase price adjustments[(1)]	72,750
Purchase price increase[(2)]	30,000
Interest on unpaid purchase price[(3)]	112,923
Dividends paid[(4)]	(557,000)
	1,498,422

Allocation of purchase price:	
Cash and cash equivalents	110,279
Trade and other receivables	182,797
Indemnification asset [(5)]	83,492
Inventory	49,897
Finance lease receivable	194,759
Property, plant and equipment	710,886
Exploration and evaluation assets	389,059
Goodwill	1,078,399
Trade and other payables	(221,889)
Tax payable[(5)]	(280,855)
Decommissioning obligations	(60,289)
Deferred tax liability	(738,113)
Total net assets acquired	**1,498,422**

[(1)] *Relates to cash advances and receipts (excluding dividends) between POCNL, PDENL, CEPNL and its previous owners prior to the closing date.*
[(2)] *The purchase price of Philips Oil Company Nigeria Limited, an entity acquired in the COP Acquisition, was increased by $30 million.*
[(3)] *The Corporation was charged interest on the unpaid purchase price from January 1, 2012 to the closing date at LIBOR plus 2%.*
[(4)] *A total of $557 million in dividends has been paid to the previous owners of COP between January 1, 2012 and closing date of the COP Acquisition. This has been used to offset the final purchase price.*
[(5)] *Included in the Tax payable line are uncertain tax provisions of $83.5million relating to tax contingencies against POCNL which may result in a settlement with the Tax Authorities in Nigeria. In line with the Sale and Purchase Agreement between the Corporation and the previous owners of POCNL, an equal amount has been recognized as an indemnification asset under the Trade and other receivables line in the statement of financial position on the date of acquisition. Refer to Note 19 for further details.*

Acquisition-related costs totalling $72.4 million have been recognized as an expense in the three and nine months ended September 30, 2014, within the General and administrative expenses line item in the consolidated statements of comprehensive income / (loss), while $58.0 million has been capitalized as part of borrowing obtained to close the acquisition. Goodwill arising on this acquisition relates to the potential upside related to deferred taxes and opportunities afforded to indigenous oil and gas companies in Nigeria. Goodwill is not deductible for tax purposes.

From the period July 30, 2014 to September 30, 2014, the acquired entities contributed revenues, net of royalties, of $152.8 million and net income for the period of $85.7 million to the Corporations operations. If the acquisition had occurred on January 1, 2014, management estimates for the nine months ended September 30, 2014, that its pro forma revenues, net of royalties, would have been approximately $538.5 million and net loss for the period would have been approximately $151.7 million. Pro forma information disclosed here is not necessarily representative of future performance. The fair values of assets and liabilities recognized are estimates due to the uncertainty of provisional amounts recognized. Amendments may be made to the purchase price equation as the cost estimates and balances are finalized.

Estimate: fair value of warrants and conversion feature on borrowings

In 2014, the Corporation issued warrants to private placement investors and Oando PLC which entitle the holders to purchase OER common shares subject to certain restrictions (refer to Note 12). On the date of issue, the warrants were classified as financial liabilities because the exercise price was not fixed in the functional currency of the Corporation. Pursuant to the Corporation's accounting policy for derivative financial instruments, the warrants were recognized as a current liability at fair value with subsequent changes in fair value recognized in profit and loss. On September 29, 2014 the current liability associated with warrants issued to Oando PLC was extinguished as the exercise price on the warrants was changed to match the functional currency of the Corporation. Prior to this change, fair value changes from the date of issue to the extinguishment date were recognized in profit and loss. Subsequent to this change, the warrants were reclassified to a reserve account in equity. The fair value of the warrants, which are not traded in an active market, have been estimated using a variant of the Black Scholes option pricing model.

On February 10, 2014, the Corporation signed an agreement with Oando PLC for a $1.2 billion loan facility. As a part of this arrangement, the Corporation entered into the Repayment Deed allowing either Oando PLC or the Corporation to elect for the Corporation to repay the Oando PLC Facility by the issuance of common shares, provided that all regulatory approvals have been obtained. The Corporation has determined that the conversion feature represents an embedded derivative. Accordingly, as amounts are drawn on the Oando PLC loan, an embedded derivative is recognized as a current liability at fair value with subsequent changes in fair value recognized in profit and loss. The fair value of this conversion feature has been estimated using a variant of the Black Scholes option pricing model. Refer to Note 12 in the Interim Financial Statements for further details.

Estimate: crude oil losses

Production from the Ebendo marginal field (OML 56) is transported using the Umusadege pipeline and export facility operated by NAOC. This pipeline experiences a significant amount of crude oil losses due to theft of crude oil and/or sabotage of crude oil pipelines. Revenue is recognized on oil production net of crude oil losses.

Total net crude oil deliveries into the export pipeline from the Ebendo marginal field for the nine months ended September 30, 2014 was approximately 291,196 barrels ("bbls") before pipeline losses. Pipeline and export facility losses reported by NAOC and allocated to the Corporation for the nine months ended September 30, 2014 was 50,525 bbls (2013: 60,037bbls), or 17% (2013: 28%) of total crude oil deliveries into the export pipeline for the year. This resulted in approximately $5.3 million (2013: $6.4 million) of oil production not being recognized in revenue (before royalties) for the nine month period ended September 30, 2014 on the basis that it is not probable that the economic benefits will flow to the Corporation.

NAOC has been unable or unwilling to provide the marginal field companies that produce through the Umusadege export facility with an explanation for the basis for the pipeline and export facility losses or for the reasons for the fluctuations in allocated pipeline losses. The Corporation has used the existing allocations provided by NAOC as their best estimate of crude oil losses. As such, the resulting crude loss estimate may not be equal the related actual results. Total revenue recognized for production from the Ebendo field net of crude oil losses and before royalties, was $25 million for the nine month period ended September 30, 2014 (2013 - $20.6 million). If the percentage of crude oil losses experienced was 5% higher, this would results in a further reduction of sales volumes by 14,560 bbls (2013: 10,735 bbls) and revenue by $1.5 million (2013: $1.2 million).

Judgement: finance lease

As a result of the COP Acquisition, the Corporation became a party to a power purchase agreement whereby, through a joint operation, the Corporation delivers power from the Kwale plant and also has the right to use the plant for nine and a half years in return for an agreed series of payments from National Electric Power Authority (now Power Holding Company of Nigeria) (refer to Note 7). 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

Judgement: financing fees

On February 10, 2014, the Corporation signed a loan facility agreement with Oando PLC which included a financing fee of $48 million on the $1.2 billion facility; it stipulated that the financing fee was due on repayment of the loan or conversion of the loan to equity and the Corporation also had the option to settle the financing fee in equity if the loan was converted to equity. The obligation to pay the financing fee was determined to represent a financial liability of the Corporation when amounts were drawn. Accordingly, as amounts were drawn down on the facility, a financing fee liability was recorded; pursuant to the Corporation's accounting policy for "Other financial liabilities" the financing fee liability was recorded at its fair value on initial recognition and is subsequently measured at amortized cost. In July 2014, the financing fee liability of $48 million was settled on the conversion of the loan to shares and warrants.

Furthermore, the financing fee was accounted for as a transaction cost and allocated to the entire $1.2 billion facility. To the extent that the facility was drawn, a portion of the financing fee was allocated to the drawn amount and used to estimate the effective interest rate on the loan over the estimated expected life of the drawings. When the loan was converted to equity, the unamortized portion of the financing fee was expensed. In the nine months ended September 30, 2014, the full $48 million was expensed as the financing fee was settled on the conversion of the loan to shares and warrants.

12. Internal Controls over Financial Reporting and Disclosure Controls

In the MD&A for the year ended December 31, 2013, Management disclosed material weaknesses with respect to disclosure controls and procedures ("**DCP**") and internal controls over financial reporting ("**ICFR**"). The following is a summary of actions taken to date to remediate those weaknesses:

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

- Lack of Review of Press Releases (DCP): The Corporation has provided an education program to relevant Corporation representatives to ensure that its disclosure policies are followed in the future. The relevant staff now have knowledge of the disclosure requirements of NI 51-102 with regards to disclosure. To reinforce this knowledge, a formal training on the NI 51-102 has been planned for the fourth quarter of this year.

- Manual Consolidation Process Performed outside ERP (ICFR): In January 2014, the Corporation began to implement an updated version of the Corporation's ERP accounting system, which is expected to reduce the level of manual intervention required to prepare consolidated financial statements. .It is expected that this will be implemented during the fourth quarter of 2014. Pending implementation of this updated system, this weakness is mitigated by the fact that the Corporation has hired employees and consultants with relevant experience and management relies heavily on manual procedures and detection controls, and quarterly reviews of financial statements by management and by the Audit Committee.

In addition to the above, the Corporation has engaged an independent and reputable professional services firm to assist with the assessment of design and operating effectiveness of DCP and ICFR in accordance with applicable securities laws. Furthermore, the CEO and CFO oversee all material transactions, the Audit Committee of the Board of Directors reviews on a quarterly basis the financial statements and key risks of the Corporation and queries management about significant transactions, and senior management perform daily oversight over the accounting records of the organization. Management is evaluating the design and operating effectiveness of DCP and ICFR (together "**internal controls**") and expects that its assessment of the design and operating effectiveness of internal controls will be completed in concert with the completion of the 2014 year end filings. This exercise is ongoing.

13. Off Balance Sheet Arrangements

As at September 30, 2014 and December 31, 2013, the Corporation did not have any off balance sheet arrangements.

14. Advisory

Forward Looking Statements

Certain information contained in management's discussion and analysis of the Corporation's financial condition and results of the Corporation's operations constitute forward-looking statements. This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities and the impact on OER, future operating costs, future transportation costs, expected change in royalty rates and interest rates may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation to; the ability to successfully integrate the assets to be acquired under the COP Acquisition and derive the anticipated economic benefits therefore; statements with respect to the Corporation's development potential and program; the Corporation's ability to raise required capital or draw down on existing loans, the future price of oil and gas; the continuing impact of the change of management; the estimation of oil and gas reserves; conclusions of economic evaluation; the realization of reserve estimates; the timing and amount of estimated future production; costs of production; capital and operating expenditures; success of exploration activities; currency exchange rates; the impact of illegal bunkering and 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 oil and gas; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes; risks inherent in foreign operations of the oil and gas industry. Although management of 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 reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at the Corporation's website (www.oandoenergyrresources.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Foreign Operations and Risk Factors

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

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

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

Oil and Gas Information

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

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

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

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

Currency and References to the Corporation

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

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

Additional Information

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