



# Management's Discussion and Analysis

## Prepared by Management

(Amounts expressed in United States dollars unless otherwise indicated)

For the three and six months ended June 30, 2020 and 2019

August 13, 2020



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") focuses on significant factors that have affected Africa Oil Corp. and its subsidiaries (the "Company" or "AOC") and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2020 and 2019 and also should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2019 and 2018 and related notes thereto.

The financial information in this MD&A is derived from the Company's unaudited consolidated financial statements which have been prepared in United States ("U.S.") dollars, in accordance with International Financial Reporting Standard as issued by the International Accounting Standards Board.

The effective date of this MD&A is August 13, 2020.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## PROFILE AND STRATEGY

AOC is a Canadian oil and gas exploration company with producing and development assets in deep-water offshore Nigeria, and development assets in Kenya. The Company also has a portfolio of exploration assets in Guyana, Kenya, Namibia, Nigeria, South Africa and in the Senegal Guinea Bissau Joint Development Zone ("AGC"). The Company holds its interests through direct ownership interests in concessions and through its shareholdings in investee companies including Prime Oil & Gas B.V. ("Prime"), Africa Energy Corp., Eco (Atlantic) Oil & Gas Ltd. and Impact Oil and Gas Ltd.

AOC's long-range plan is to increase shareholder value through the acquisition, exploration, development, and production associated with oil and gas assets. On January 14, 2020, the Company closed the acquisition of a 50% ownership interest in Prime (previously known as Petrobras Oil and Gas B.V.). Through its shareholding in Prime, the Company has exposure to some of the best producing assets offshore West Africa. The Company has actively explored on multiple onshore exploration blocks in various under explored geological settings in East Africa and has acquired a participating interest in a block in South Africa (refer to table below). The Company has made numerous oil discoveries in the South Lokichar Basin (Blocks 10BB and 13T) located in the Tertiary Rift trend in Kenya. The Company will continue to consider acquisition and merger opportunities, focusing on Africa.

## PRIME SHAREHOLDING AND WORKING INTERESTS

Please see 'Equity Investments' on page 6 for the information on the Company's equity interests in Africa Energy Corp., Eco (Atlantic) Oil & Gas Ltd. and Impact Oil and Gas Ltd. The Company's material interests, and material exploration partnership interests are summarized in the following table:

Africa Oil's Shareholding in Prime Oil & Gas B.V. (50%)			
Country	Concession	Working Interests	
Nigeria	OML 127	Prime Chevron Corporation Famfa Oil	8% 32% 60% (carried)
	OML 130 – PSA <sup>1</sup>	Prime Total SAPETRO	16% 24% 10% (carried)

Africa Oil's Direct Working Interests <sup>2</sup>				
Country	Concession	Gross Acreage (km <sup>2</sup> )	Working Interests	
Kenya	10BA	11,760	AOI Total Tullow (Operator)	25% 25% 50%
	10BB	8,835	AOI Total Tullow (Operator)	25% 25% 50%
	13T	6,296	AOI Total Tullow (Operator)	25% 25% 50%
South Africa	3B/4B	17,581	AOI (Operator) Azinam Ricocure (Pty) Ltd	20% 20% 60%

- (1) 50% of the production from OML 130 is covered by a PSA, in which Prime owns a 32% Working Interest. Prime's net Working Interest in OML 130 is therefore 16%.
- (2) Net working interests are subject to back-in rights or carried working interests, if any, of the respective governments or national oil companies of the host governments.

## COVID-19

During the second quarter, we witnessed unprecedented level of market volatility and oil price weakness due to the impact of COVID-19 pandemic, including substantial reduction in world oil demand. We also saw a robust response by international oil producers led by the group of OPEC+ countries to reduce supply and address the challenge of demand destruction. We are cautiously optimistic that the oil producers' response can remove significant supply to address the demand destruction, flatten the curve of inventory builds and set a course to rebalance markets, as COVID-19 related restrictions are relaxed and demand recovers. However, there is no certainty as to the time it will take for oil demand to recover to the pre-pandemic level.

Since the outbreak of the pandemic, Africa Oil has been actively managing its response to the COVID-19 pandemic since early March. Staff have been working from home and non-essential travel has been suspended. The Company have also been engaged with partners to understand the measures being undertaken to protect the staff and ensure that safe operations are maintained where essential. There have been no cases of infections amongst the Company's employees and contractors and operations continue normally.

Operators (Total and Chevron) of Prime's Nigerian assets have implemented strict mitigation strategies to minimize the risk of COVID-19 impacting both onshore (land office) and offshore platforms (i.e. FPSOs) operations and introduced contingency plans to respond to infection cases. The mitigation measures apply to all personnel, contractors and visitors.

A number of COVID-19 cases were detected on Egina and Akpo FPSOs during July; however, with the prompt execution of the contingency plans by the operator these were managed proactively with no operational impact on these facilities.

Nigeria, an OPEC member, has directed producers to curtail oil field production in line with the OPEC+ quota agreement made in April 2020. This has impacted Egina's production as detailed in the next section of this report, but as in the previous quota regimes, Agbami and Akpo fields, which are categorized as condensate fields, have not been affected by the directive.

Prime benefits from a robust oil price hedging program with more than 95% of its 2020 oil entitlement production hedged at an average oil price of \$64.50 per barrel, and most of its H1-2021 production hedged at an average price of \$60.43 per barrel. The 2020 program is comprised of physical forward sales of Prime's oil cargoes to a group of buyers including oil supermajors and commodity trading houses. These counterparties are part of groups with investment grade credit ratings.

In these uncertain times, the Company will continue to prioritize repayment of our long-term debt, utilizing dividends received from Prime, as we have done in the first half of 2020. The Company is also reducing discretionary capital expenditure and G&A costs where possible and is expected to have sufficient liquidity to meet its commitments through to end of 2021.

## OPERATIONS UPDATE

### Prime - Nigeria

The main assets of Prime are an indirect 8% interest in Oil Mining Lease ("OML") 127 and an indirect 16% interest in OML 130. OML 127 is operated by affiliates of Chevron Corporation and covers part of the producing Agbami Field. OML 130 is operated by affiliates of Total S.A. and contains the producing Akpo and Egina Fields. The three fields in these two OMLs are located over 100 km offshore Nigeria. The Company accounts for its interest in Prime under the equity method.

All three fields have high quality reservoirs and produce light to medium sweet crude oil through Floating Production, Storage and Offloading ("FPSO") facilities. Akpo and Egina also produce natural gas that is exported onshore for sale.

During the second quarter total production was impacted by the imposition of a production quota on the Egina field, because of compliance requirements brought into effect by the OPEC+ agreement. These quotas limited production from Egina in May and June from the planned rate of approximately 200,000 barrels of oil per day (bopd) to approximately 143,000 bopd in May and 130,000 bopd in June.

Second quarter total gross field production averaged approximately 452,000 barrels of oil equivalent per day ("boepd") compared with 530,000 boepd in the first quarter. Year to date total gross field production averaged approximately 488,000 boepd at the end of the second quarter. Average daily working interest production net to Africa Oil's 50% shareholding in Prime was approximately 28,000 boepd compared to 33,000 boepd in the first quarter. Average daily entitlement production net to Africa Oil's 50% shareholding in Prime was approximately 35,000 boepd compared to 43,000 in the first quarter, out of which 88% was oil and 12% was gas.

The average unit operating cost during the second quarter across the three fields was \$5.1/boe, 12% lower than the first quarter of \$5.8/boe.

During the second quarter Prime was allocated five oil liftings with total sales volume of approximately 4.7 million barrels or 2.4 million barrels net to Africa Oil's 50% shareholding.

### Tertiary Rift - Kenya

#### The South Lokichar Development Project (Blocks 10BB and 13T)

On May 15, 2020 Tullow, the operating partner on Blocks 10BB and 13T in Kenya, submitted notices of Force Majeure to the Kenyan Ministry of Petroleum and Mining on behalf of the joint venture partners in these blocks. These declarations are the result of impact of the COVID-19 pandemic on the operations, including Kenyan government's restrictions on domestic and international travel, and recently introduced tax changes that adversely impact the project economics. These are exacerbated by the recent unprecedented crash in global crude oil prices. Declaration of Force Majeure allows time for an improvement in the operating environment and for the joint venture partners to discuss with the government of Kenya the best way forward for this strategic project.

On May 29, 2020, Tullow informed the Government of Kenya that the Early Oil Production System ("EOPS") operations were to cease. The EOPS had remained suspended due to severe damage to roads caused by adverse weather in the fourth quarter of 2019 and the COVID-19 pandemic in the first quarter of 2020. The EOPS system was first commenced at the end of June 2019 and although it was not intended to be a profitable enterprise, it was a valuable exercise in gathering reservoir performance data, strengthen relationships with local and national stakeholders, secure Kenyan government's investment in local infrastructure including roads and bridges and introduce the South Lokichar crude to international oil markets.

Prior to the COVID-19 disruption, the Joint Venture Partners and the Government of Kenya were making progress on several initiatives. For the upstream work scope, contractors were engaged in the process of bidding for surface facilities and various drilling activities. The completion of the Upstream Environmental and Social Impact Assessment (“ESIA”) is also suspended because of inability to complete community consultation. For the midstream activities, the pipeline ESIA has been submitted and advertisements initiating public participation have been published. The project financing initiative was suspended following the engagement of a limited number of parties on a common term sheet. The project has been put into a state of readiness to resume as soon as the declaration of Force Majeure declaration has ended. Constructive discussions are ongoing with Government regarding next steps, including the extension of the licenses for Block 10BB and 13T which are set to expire in September 2020.

Africa Oil Corp. has a 25% working interest in Blocks 10BB and 13T with Tullow Oil plc (50% and Operator) and Total S.A. (25%) holding the remaining interests.

### Exploration Block 10BA - Kenya

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In the second quarter of 2019, the Government of Kenya granted an extension to the 10BA Second Additional Exploration Period. This period will now expire on April 26, 2021. Due to current market challenges and limited activities in the block, a \$77.8 million impairment of previously capitalized intangible exploration assets was recorded in the first quarter related to the Company’s operations in Block 10BA.

### Block 3B/4B - South Africa

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In July 2019, the Company through its wholly-owned subsidiary, Africa Oil SA Corp., entered into a definitive farmout agreement with Azinam Limited to acquire a 20% participating interest and operatorship in the Exploration Right for Block 3B/4B, offshore South Africa. The farmout was fully completed in February 2020 with Africa Oil SA Corp. becoming the Operator for the block.

The 2D and 3D seismic data previously acquired in the block is being evaluated by the JV partners and will form the basis for the initial period work program along with other regional and technical studies. As part of this effort the joint venture plans to reprocess 3D seismic data in the areas of interest starting in 2021.

### Tertiary Rift – Ethiopia

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The Company continues the process of exiting Ethiopia and has completed all work commitments.

## EQUITY INVESTMENTS

The Company holds equity participations in four oil & gas companies, which provides a portfolio of high-quality producing assets in Nigeria and exposure to numerous high-impact exploration drilling prospects in South Africa, Namibia, and Guyana.

The Company held the following equity investments:

	Africa Oil Ownership		June 30, 2020	December 31, 2019
<b>Equity investment in joint venture:</b>				
Investment in Prime	50.0%	\$	556,506	\$ -
<b>Equity investment in associates:</b>				
Investment in Eco	18.4%		13,188	12,022
Investment in Africa Energy	32.4%		20,871	17,882
Investment in Impact	32.0%		46,531	33,659
			80,590	63,563
<b>Total Investment</b>		\$	637,096	\$ 63,563

### *Prime Oil and Gas B.V. ("Prime")*

On January 14, 2020, the Company closed the acquisition (the "Acquisition") of a 50% ownership interest in Prime (previously known as Petrobras Oil and Gas B.V.). BTG Pactual E&P B.V. ("BTG") continues to own the remaining 50% of Prime. The total payment by AOC to close the Acquisition, including the Nigerian Government's consent fee, amounted to \$519.5 million, which included a deferred payment of \$24.8 million which was paid during June 2020. The payment of \$519.5 million had been funded through a loan facility of \$250.0 million with BTG and a cash payment of \$269.5 million. In addition, the Company paid fees amounting to \$25.0 million. The acquisition in Prime is accounted for using the equity method.

The \$250.0 million Loan facility ("Term Loan") with BTG was drawn on January 14, 2020 and has a duration of two years. The Company has provided security in respect of the Term Loan mainly in the form of share pledges, over the shares of Petrovida, Eco, Africa Energy and Impact owned by Africa Oil and a charge over the bank accounts into which the Prime dividends are paid. The loan principal will be repaid by the lesser of 80% of the dividends received from Prime (less interest due for the month in which the dividend was received), and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment. The loan is subject to a fixed interest rate of 15% and is not subject to any debt covenants.

A deferred payment of \$118.0 million, subject to update, may be due to the seller depending on the date and ultimate OML 127 tract participation in the Agbami field. As the probability of this payment is remote, no provision was recorded at June 30, 2020.

The Company's 50% equity interest in Prime is accounted for as an Investment in Joint Venture under the equity method on the Balance Sheet. The Company will record 50% share of Prime's profit of loss in the period in the Statement of Net Income/Loss, as well as a 50% share of their Other Comprehensive Income/Loss. Dividends received will be disclosed as a cash flow from investing activities in the Cash Flow Statement.

For the three and six months ended June 30, 2020, Prime generated sales revenue of approximately \$318.6 million and \$677.6 million, respectively, or \$159.3 million and \$338.8 million, respectively, net to AOC's shareholding. Production in the second quarter was affected by the imposition of Opec+ quotas on the Egina field. These quotas are expected to continue for the near term. This production curtailment as well as the lower oil price environment has led to an impairment in the Egina field being recorded by Prime in the quarter. The impairment was calculated as \$289.5 million which resulted in a reduction in net profit of \$144.7 million (post the effect of 50% Petroleum Profits Tax). Net to AOC's shareholding, the effect on profit from share of joint venture was \$72.4 million. No impairment was required in the Agbami field.

Prime distributed three dividends payments totaling \$225.0 million gross in the period from completion of the Prime acquisition (January 14, 2020) to June 30, 2020, with a net payment to the Company of \$112.5 million related to its 50% interest.

At June 30, 2020 the Company has considered whether it's equity investment in Prime had any indicators of impairment in accordance with IAS 28. If any impairment indicators are identified, the entire carrying amount of the investment in the associate is compared to recoverable amount, which is the higher of value in use or fair value less costs of disposal. The Company has determined the recoverability of its investment will be in the form of dividends, and therefore has assessed the impact of current conditions on the recoverability of the dividends relative to the investment carrying value.

The impairment of OML 130 within Prime is an indicator of impairment of the Company's investment. The Company has run an impairment test in the second quarter of the expected future dividend stream against the investment carrying value of \$556.5 million.

The Company has used the Canadian Reservoir Engineer market consensus forward curve, with a long-term oil price of \$54/bbl and a discount rate of 10% to assess the dividend stream.

The Company's 2020 dividend income from its equity investment in Prime benefits from a robust oil price hedging program with more than 95% of Prime's 2020 oil entitlement production is hedged at an average oil price of approximately \$64.5/bbl and most of its H1-2021 oil entitlement production is hedged at an average price of \$60/bbl. The 2020 program is comprised of physical forward sales of Prime's oil cargoes to a group of buyers including oil supermajors and commodity trading houses. These counterparties are part of groups with investment grade credit ratings.

Prime's cash generating assets, OML 127 and OML 130, which result in the dividend stream to Prime's shareholders are both Production Sharing Arrangements ("PSA"). The PSA mechanism is naturally protective at low oil prices because of Prime's entitlement to recover cost oil (primarily historical capex and opex spend, including a carry for the indigenous partner share of costs). If the oil price decreases, the number of barrels allocated to recover the cost oil will increase and the Contractor recovers more cost oil. This mitigates the effects of a decrease in oil price.

However, the short-term impact of the production quotas may affect forecast repayments under Prime's Reserve Based Lending ("RBL") facility. The facility will be subject to a scheduled redetermination in September 2020, and every 6 months thereafter. If repayments are larger than forecast, this will reduce the dividend available to the shareholders. The Company has considered various RBL repayment scenarios and the impact on the dividend stream.

In addition, the Company has a \$250.0 million two-year Term Loan, of which \$194.6 million is outstanding at June 30, 2020. The loan repayments are calculated to be protective of the Company's liquidity position. The loan principal will be repaid by the lesser of 80% of the dividends received from Prime (less interest due for the month in which the dividend was received), and of an amount that ensures the Company hold a minimum projected consolidated cash balance in the six months following the repayment. The Company's loan repayments reduce commensurately with any reduction in dividends from Prime. There are no covenants in place.

Due to these factors we do not foresee a significant and prolonged decline in value as the Company still expects to recover the value of the investment through dividend payments, however the Company recognizes that situation is volatile and will continue to monitor these significant judgements.

An impairment test was performed, and the Company has determined that no impairment is required at June 30, 2020.

*Eco (Atlantic) Oil and Gas Ltd. ("Eco")*

Eco holds working interests in four exploration blocks offshore Namibia and one exploration block offshore Guyana. Eco will continue their drilling program with plans to drill at least two exploration wells starting in 2021. The Company's ownership interest is approximately 18.4% at June 30, 2020.

There were no indicators of impairment on the investment as at June 30, 2020.

*Africa Energy Corp. ("Africa Energy")*

Africa Energy is an international oil and gas exploration company that holds a 90% participating interest in the offshore Exploration Right for Block 2B in the Republic of South Africa ("Block 2B"), an effective 10% participating interest in offshore Petroleum License 37 in the Republic of Namibia ("PEL 37"), and an effective 4.9% participating interest in the Exploration Right for Block 11B/12B offshore the Republic of South Africa ("Block 11B/12B"). On January 28, 2020, Africa Energy completed a private placement, in which the Company participated, investing approximately \$5.0 million, acquiring 20,930,000 shares, decreasing the Company's ownership interest in Africa Energy from approximately 34.5% at December 31, 2019 to approximately 32.4% at June 30, 2020. Africa Energy has plans to participate in up to four high-impact exploration wells offshore South Africa over the next twelve months beginning with spud of the Luiperd-1 well in August 2020.

There were no indicators of impairment on the investment as at June 30, 2020.

*Impact Oil and Gas Limited ("Impact")*

Impact is a private UK oil and gas exploration company with assets located offshore South Africa and West Africa. Impact acquired its first asset, the Tugela South Exploration Right, offshore South Africa in 2011 and has subsequently expanded its asset base across the offshore margins of South and West Africa. It has since partnered with ExxonMobil and Statoil (South Africa), CNOOC (AGC - between Senegal and Guinea Bissau) and Total S.A. (Namibia and South Africa). On February 14, 2020, Impact announced a capital raise, in which the Company participated, investing approximately \$12.0 million, acquiring 45,000,000 shares, increasing the Company's ownership interest in Impact from approximately 29.9% at December 31, 2019 to approximately 32.0% at June 30, 2020. Impact's drilling program for this year includes the Venus-1 exploration well on the offshore Block 2913B. The well is expected to spud during the last quarter of 2020.

There were no indicators of impairment on the investment as at June 30, 2020.

## RECENT DEVELOPMENTS

### Kenya Revenue Authority

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The Company's Kenyan Branch, of its wholly owned subsidiary, Africa Oil Kenya B.V., has been assessed for corporate income tax ("CIT") and value added tax ("VAT") by the Kenya Revenue Authority ("KRA") relating to farmout transactions completed during the period 2012 to 2017.

The Kenyan Tax Appeals Tribunal ("TAT") has ruled in favour of the Company with regards to the CIT assessments. However, the TAT's ruled in favour of the KRA with regards to the VAT assessments which amounts to \$22.0 million. The Company maintains its position that the VAT assessment is without merit and has duly filed an appeal with Kenya's High Court to challenge the position. The KRA have appealed the CIT assessment, although after the appeal deadline.

The Court will again meet on 1 September to rule on the application to strike out the KRA appeal on CIT and during the same attendance, the Court is expected to progress the appeal in relation to VAT.

### Court Proceedings

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The Company has, since 2010, been a party to two separate court proceedings in Kenya. Each of the court proceedings was initiated by Interstate Petroleum Ltd. ("IPL"), and certain parties related to IPL, as Applicants. Both proceedings, Judicial Review Number 30 of 2010 and Judicial Review Number 1 of 2012, involved a dispute concerning the administrative process that led to the issuance of exploration permits in respect of, amongst others, Blocks 10BA, 10BB, 12A and 13T. The primary Respondents in the proceedings included the Minister and the Ministry of Energy and Petroleum, Republic of Kenya. The Company and certain of its affiliates were named as Interested Parties.

To date, the Company has ultimately been successful in defending all of these proceedings, and in appealing unfavorable decisions. Recently, in light of the Company's successful appeal of a High Court decision relating to Judicial Review Number 1 of 2012, the Kenyan High Court in Kitale approved the Company's application for the release of certain funds that had been posted as security for costs in respect of that appeal.

In May 2019, the two most recent pending applications made against the Company by IPL and its related parties were dismissed by the High Court of Kenya in Kitale. At the May 2019 hearings in respect of these applications, the Court also directed IPL to not make any further applications in respect of the winding-up proceedings initiated against IPL by the Company without leave of the Court. IPL subsequently filed a Notice of Appeal dated 27 November 2019 challenging the dismissal. There have been no new developments as at June 30, 2020.

The Company continues to pursue both the awards of costs made in favor of the Company by the Kenyan courts and the winding-up proceedings previously initiated against IPL by the Company.

## SELECTED QUARTERLY INFORMATION

Three months ended (thousands, except per share amounts)	30-Jun 2020	31-Mar 2020	31-Dec 2019	30-Sep 2019	30-Jun 2019	31-Mar 2019	31-Dec 2018	30-Sep 2018
Income from equity investments (\$)	30,318	87,055	-	-	-	-	-	-
Net operating income/(loss) (\$)	27,004	(218,042)	(147,692)	(2,684)	(11,755)	(2,875)	(20,171)	(2,358)
Interest income (\$)	95	966	1,556	2,128	2,301	2,393	2,026	2,035
Net income/(loss) attributable to common shareholders (\$)	19,234	(137,882)	(146,198)	(597)	(9,463)	(511)	(18,221)	(323)
Weighted average shares - Basic	471,950	471,311	471,214	471,214	471,214	470,654	470,568	470,568
Weighted average shares - Diluted	475,150	471,311	471,214	471,214	471,214	470,654	470,568	470,568
Basic gain/(loss) per share (\$)	0.04	(0.29)	(0.31)	(0.00)	(0.02)	(0.00)	(0.04)	(0.00)
Diluted gain/(loss) per share (\$)	0.04	(0.29)	(0.31)	(0.00)	(0.02)	(0.00)	(0.04)	(0.00)
Intangible exploration expenditures (\$)	5,359	10,191	6,585	10,833	4,801	13,141	14,570	8,845

### Operating results

The Company recognized income of \$19.2 million during the second quarter of 2020. The operating income primarily relates to the Company's share of profit from its investment in Prime amounting to \$31.7 million.

The Company recognized a loss of \$137.9 million during the first quarter of 2020. The operating income primarily relates to the Company's share of profit from its investment in Prime amounting to \$85.6 million. Additionally, the Company recorded a net share of profit from its investments in Eco, Impact and Africa Energy amounting to \$1.5 million. The operating income was offset by \$218.0 million in operating expenses which primarily relates to the recognition of a \$215.6 million impairment of intangible exploration assets relating to the valuation of the Kenyan development project.

### Equity-based compensation

Three months ended (thousands, except per share amounts)	30-Jun 2020	31-Mar 2020	31-Dec 2019	30-Sep 2019	30-Jun 2019	31-Mar 2019	31-Dec 2018	30-Sep 2018
Options granted	-	-	2,947	280	-	50	1,966	-
Performance share units granted	3,144	3,144	128	-	-	2,655	-	-
Restricted share units granted	1,576	1,576	32	-	-	1,231	95	-
Exercise price per share (\$CAD)	-	-	1.16	1.13	-	1.06	1.06	-
Equity-based compensation expense (\$)	(1,001)	315	(634)	(433)	(763)	(404)	(50)	(802)

During the three and six months ended June 30, 2020, the Company recognized \$1.0 million and \$0.7 million in equity-based compensation, respectively, relating to the Long Term Incentive Plan ("LTIP") and Stock Option Plan (\$0.8 million and \$1.2 million for the three and six months ended June 30, 2019, respectively).

During the first quarter of 2020, 848,000 PSUs vested in which half were settled for a cash payment of \$0.08 million and the other half were settled via the issuance of common shares of the Company. During the first quarter of 2019, 881,000 PSUs vested and were via the issuance of an equal number of common shares of the Company.

During the first quarter of 2020, 742,933 RSUs vested in which half were settled for a cash payment of \$0.3 million and the other half were settled via the issuance of common shares of the Company. During the first quarter of 2019, 815,367 RSUs vested and were settled for a cash payment of \$0.7 million. Additionally, during the first quarter of 2020, 235,024 RSU's issued to non-executive directors vested (246,000 in first quarter 2019) and were settled via issuance of an equal number of common shares in both periods.

## RESULTS OF OPERATION

(thousands)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Share of profit/(loss) from equity investment	\$ 30,318	\$ (9,198)	\$ 117,373	\$ (10,359)
Salaries and benefits	(1,624)	(450)	(2,564)	(878)
Equity-based compensation	(1,001)	(763)	(686)	(1,167)
Office and general	(689)	(1,344)	(2,506)	(2,226)
Impairment of intangible exploration assets	-	-	(215,600)	-
Net operating income/(expense)	\$ 27,004	\$ (11,755)	\$ (103,983)	\$ (14,630)

The Company recognized operating income amounting to \$27.0 million for the three months ended June 30, 2020 compared to operating expenses amounting to \$11.8 million during the same period in 2019. The operating income is primarily due to the Company's share of profit from its investment in Prime amounting to \$31.7 million. Salaries and benefits increased by \$1.2 million during the three months ended June 30, 2020, which was primarily due to the opening of the office in London, United Kingdom as well as severance being paid as a result of a reduction in staff in the Canadian office.

The Company recognized operating expense amounting to \$104.0 million during the six months ended June 30, 2020 compared to \$14.6 million during the same period in 2019. The operating expense is primarily due to the recognition of a \$215.6 million impairment of intangible exploration assets relating to the valuation of the Kenyan development project and Block 10BA. The operating expense was offset by the recognition of profit from the Company's investment in Prime in which the Company received \$117.3 million during the first half of 2020. Salaries and benefits increased \$1.7 million during the first half of 2020 compared to the same period in 2019 which was primarily due to the opening of the office in London, United Kingdom as well as severance being paid as a result of a reduction in staff in the Canadian office.

## INTANGIBLE EXPLORATION ASSETS

(thousands)	June 30, 2020	December 31, 2019
Intangible exploration assets	\$ 191,999	\$ 411,669

The following table breaks down the material components of intangible exploration expenditures incurred:

For the six months ended (thousands)	June 30, 2020			June 30, 2019		
	Kenya	South Africa	Total	Kenya	South Africa	Total
Drilling and completion	\$ 919	\$ -	\$ 919	\$ 2,330	\$ -	\$ 2,330
Development studies	7,208	-	7,208	9,287	-	9,287
Exploration surveys and studies	-	-	-	65	-	65
PSA and G&A related	2,816	4,607	7,423	6,260	-	6,260
<b>Total</b>	\$ 10,943	\$ 4,607	\$ 15,550	\$ 17,942	\$ -	\$ 17,942

During the six months ended June 30, 2020, intangible exploration expenditures increased by \$15.6 million. The expenditures relate to the completion of the acquisition of a 20% participating interest in the Block 3B/4B Exploration Right as well as the Company's share of appraisal stage projects in Kenya which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: development studies (including upstream and midstream FEEDs, land acquisition, ESIA's, water acquisition and subsurface reservoir studies) and general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments. PSA and G&A related costs include acquisition costs, personnel and office running costs, local community development expenditures, land surface fees, annual rental fees and other PSA related fees.

## Kenya

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At December 31, 2019, the Company determined that the Kenyan development project cash generating unit ("CGU") (Blocks 10BB and 13T) would continue, however, due to a change in project and economic assumptions, an impairment test was performed. Due to a reduction in oil price in 2020, the impairment test was reperformed at March 31, 2020.

At December 31, 2019, the Company used estimated 2C resources with a real \$60/bbl Brent price less a discount of \$3/bbl for the quality of the crude oil and a pre-tax discount rate of 15 percent.

The recoverable amount of intangible exploration assets is determined as the fair value less costs of disposal using a discounted cash flow method and is assessed at the CGU level.

The carrying amount exceeded its fair value less costs of disposal and as a result, a total impairment loss of \$139.5 million was recorded.

At March 31, 2020 the Company reperformed the impairment test with a revised oil price forecast reflecting a Canadian Reservoir Engineer market consensus forward curve at March 31, 2020. The pre-tax discount rate increased to 17 percent, reflecting current market challenges and risks. A further impairment loss of \$137.8 million was recorded in the period.

As at March 31, 2020, a one percent increase in the assumed discount rate would result in an additional impairment expense of \$27.5 million (December 31, 2019 \$41.0 million). Using a discount rate of 13 percent at March 31, 2020 (December 31, 2019, 12 percent), no impairment would be required as the recoverable amount would exceed the carrying amount by \$5.0 million (December 31, 2019, \$15.0 million).

The future development of 10BA would likely rely on infrastructure of Blocks 10BB and 13T. The impairment in Block 10BB and 13T is an indicator that Block 10BA may be impaired. The block has considerable exploration potential however the work program is minimal for 2020, and partner support has been affected by the current market challenges. The block's economic feasibility in the current environment is significantly reduced and a total impairment loss of \$77.8 million was recorded in operating expenses in the first quarter of 2020.

On May 15, 2020 Tullow, the operating partner on Blocks 10BB and 13T in Kenya, submitted notices of Force Majeure to the Kenyan Ministry of Petroleum and Mining on behalf of the joint venture partners in these blocks. These declarations are the result of impact of the COVID-19 pandemic on the operations, including Kenyan government's restrictions on domestic and international travel, and recent proposed tax changes that adversely impact the project economics. These are exacerbated by the recent unprecedented crash in global crude oil prices. Declaration of Force Majeure allows time for an improvement in the operating environment and for the joint venture partners to discuss with the government of Kenya the best way forward for this strategic project.

The Company has determined that the impact of the Force Majeure does not have a material impact on the future of the development project in Kenya. Given the impact of the Force Majeure and the improvement in oil price forecasts as at June 30, 2020, no indicators of impairment were noted during the quarter.

The Company will review the situation if the oil price environment improves and will consider a reversal in impairment should conditions change. Impairment losses can be reversed in future periods if the estimated recoverable amount of the CGU exceeds its carrying value. The fair value of the Company's intangible exploration assets is designated Level 3 on the fair value hierarchy.

The Company's remaining intangible exploration assets have no indicators of impairment.

## South Africa

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On February 7, 2020, a wholly-owned subsidiary of the Company acquired a 20% participating interest in the Block 3B/4B Exploration Right from Azinam Limited ("Azinam") for a consideration of approximately \$3.6 million. The Company has assumed operatorship for the joint venture partners; Azinam will retain a 20% participating interest and Ricocure (Pty) Ltd holds the remaining a 60% participating interest.

Additionally, the Company will be obligated to carry 50% of Ricocure (Pty) Ltd's share of all costs associated with the Government Work Program Commitments and Work Program and Budget for the carry period. The carry period is concluded when the partnership commits to drilling an exploratory well.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2020, the Company had cash of \$39.4 million and working capital of \$20.2 million as compared to cash of \$329.5 million and working capital of \$290.7 million at December 31, 2019.

In January 2020, the Company closed the acquisition of Prime. The total payment by the Company to close the Acquisition, including the Nigerian Government's consent fee, amounted to \$519.5 million. This includes a deferred payment of \$24.8 million which was paid in June 2020. The payment of \$519.5 million had been funded through a loan facility of \$250.0 million with BTG and a cash payment of \$269.5 million. In addition, the Company paid notary fees amounting to \$1.8 million. A deferred payment of \$118.0 million, subject to update, may be due to the seller depending on the date and ultimate OML 127 tract participation in the Agbami field.

There are no plans or proposals for any material changes in the Company's business affairs, or the affairs of the business of Prime, which may have a significant effect on the financial performance and financial position of the Company, including any proposal to liquidate the business of the Company or Prime, to sell, lease or exchange all or a substantial part of its assets, to amalgamate the business or to make any other material changes to the business of the Company or Prime.

There are no financial covenants or other factors relating to the term loan that would have a detrimental effect on the Company's liquidity, and the Company has sufficient financial strength to navigate through these difficult times until a possible recovery next year.

During the first half of 2020, the Company received three dividend payments from Prime totaling of \$225.0 million, with a net payment to Africa Oil of \$112.5 million related to its 50% interest. The dividends earned during the first half of 2020 were applied partly to the repayment of the BTG facility in order to maintain a minimum cash position. Going forward, the company will apply dividends in priority to debt repayment while maintaining a minimum cash balance.

Regarding the South Lokichar Basin development, the Company will continue to assess the sufficiency of its capital resources until a field development and financial plan is approved. The Company's current working capital position may not provide it with sufficient capital resources to complete development activities being considered in the South Lokichar Basin (Kenya).

To finance its future acquisition, exploration, development and operating costs, the Company may require financing from external sources, including issuance of new shares, issuance of debt or executing working interest farmout or disposition arrangements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to the Company.

## OUTLOOK

The Company, with the acquisition of 50% of Prime, has now become a full-cycle E&P company with material reserves and production, strong operating netbacks, and free cash flow generation that is supported by an active oil price hedging program at the Prime level.

In addition to the current producing reservoirs offshore Nigeria, there are additional growth opportunities in undeveloped horizons within existing fields; adjacent undeveloped discoveries; and identified exploration targets within the licenses that are under consideration for development and exploration drilling. One advanced opportunity is the Preowei oil discovery, which is being considered as a satellite tie-back to the Egina FPSO. In the first half of 2019 the Field Development Plan for the Preowei field within OML 130 was approved by the Government of Nigeria. Preowei's development is still subject to OML 130 partners taking FID.

The submission of notices of Force Majeure resulting from the impact of the COVID-19 pandemic on the operations, including Kenyan government's restrictions on domestic and international travel, and recent tax changes that adversely impact the project economics have allowed the Joint Venture Partnership time for an improvement in the operating environment and for the joint venture partners to discuss with the government of Kenya the best way forward for this strategic project.

Up to six highly prospective wells are anticipated to be drilled during 2020 and 2021 in our Equity Investment portfolio companies, including potentially high impact wells in Namibia and South Africa.

The Company is continuing to pursue acquisition opportunities in West Africa that would be cash flow accretive.

## ESG UPDATE

The Company is keenly aware of the focus being placed on the ESG aspects of our business. This is now of greater interest since we have become a full-cycle E&P company.

Since 2015, when the International Finance Corporation ("IFC"), part of the World Bank Group, became a shareholder, the Company developed its internal ESG strategy and process focused on its own operations, primarily in Kenya. To comply with the requirements of IFC, the Company has implemented an Independent Monitoring Group (IMG) audit and has reported to IFC standards since 2015.

The Company has made several commitments to global initiatives including:

- IFC Social and Performance Standards
- Extractive Industries Transparency Initiative
- United Nations Sustainable Development Goals
- Voluntary Principles on Security & Human Rights

The Company is undertaking a review of the ESG performance and management capabilities, risks, compliance, reporting and disclosures, this quarter represents the first report on this area of our business.

At a corporate level, the Company is developing and implementing an ESG management system. ESG policies have been revised and updated, a management system framework has been developed and Operating Standards are being developed for use with operating partners. These will form the basis of the planned ESG performance management and reporting system being developed by the Company.

Due to the early stage of reporting, and the impact of COVID-19 and other commercial challenges, reporting from Operators has been limited during the first half of 2020. It is intended that standardized reporting of performance metrics will be undertaken in due course. Performance of key Company projects in Nigeria and Kenya are:

- In Nigeria, Prime reports that no material HSSE incidents have occurred during the first half of 2020. Flare volumes are in line with the plan for 2020.
- In Kenya, in-field and EOPS activities are currently suspended. Activities are focused on office-based planning actions.

## RELATED PARTY TRANSACTIONS

### *Transactions with Africa Energy*

At June 30, 2020, the Company owned 32.4% of the common shares of Africa Energy.

Under the terms of a General Management and Service Agreement between Africa Energy and the Company for the provision of management and administrative services, the Company invoiced Africa Energy \$0.01 million and \$0.04 million during the three and six months ended June 30, 2020, respectively (\$0.03 million and \$0.06 million during the three and six months ended June 30, 2019, respectively). At June 30, 2020, the outstanding balance receivable from Africa Energy was \$ nil (at December 31, 2019 – \$ nil). The management fee charged to Africa Energy by the Company is expected to cover the cost of administrative expense and salary costs paid by the Company in respect of services provided to Africa Energy.

Under the terms of the Consulting Services Agreement between Africa Energy and the Company, Africa Energy invoiced the Company \$0.2 million and \$0.3 million during the three and six months ended June 30, 2020, respectively (\$0.2 million and \$0.2 million during the three and six months ended June 30, 2019, respectively). At June 30, 2020, the outstanding balance payable to Africa Energy was \$ nil (at December 31, 2019, \$ nil). The consulting fee charged to the Company by Africa Energy is intended to cover the costs of Africa Energy's employees who are providing the Company with services related to project evaluation. The Consulting Services Agreement expired on June 30, 2020.

## COMMITMENTS AND CONTINGENCIES

Please note that the following commitments and contingencies are representative of AOC's net obligations at the effective date of the MD&A.

### Prime Oil and Gas B.V.:

A deferred payment of \$118.0 million, subject to update, may be due to the seller depending on the date and ultimate OML 127 tract participation in the Agbami field. As the probability of this payment is remote, no provision is recorded at June 30, 2020.

### South Africa:

Block 3B/4B is currently in the Initial Period having a term of three years which will expire in April 2022. The work commitments during the initial period for Block 3B/4B consist of regional subsurface evaluation and mapping, petrophysical analysis of nearby wells, basin modelling, prospect maturation and prospect ranking, leading to recommendations on future investments. The total minimum gross expenditure obligation for the Initial Period is 11.4 million Rand (approximately \$0.7m). At June 30, 2020, the Company's working interest in Block 3B/4B was 20%.

### Kenya:

The work commitments for 10BB and 13T have been fulfilled. The impact of COVID-19 on the Kenya work programme and fiscal framework has led the Joint Venture to call Force Majeure on its licences which will delay FID and impact the ongoing farm-down process. Constructive discussions are ongoing with Government regarding next steps, including the extension of the licenses for Block 10BB and 13T which are set to expire in September 2020.

Under the terms of the Block 10BA PSC, during May 2019, the Company received approval from the Ministry of Energy and Petroleum for the Republic of Kenya for an extension to the second additional exploration period which expires in April 2021. During the second additional exploration period, the Company and its partners are obligated to complete geological and geophysical operations, including either 500 kilometers of 2D seismic or 25 square kilometers of 3D seismic. Additionally, the Company and its partners are obligated to drill one exploration well or to complete 45 square kilometers of 3D seismic. The total minimum gross expenditure obligation for the first additional exploration period is \$19.0 million. Seismic acquisition commitments have been completed; the well commitment is outstanding. At June 30, 2020, the Company's working interest in Block 10BA was 25% and the carrying value was \$nil.

## OUTSTANDING SHARE DATA

The following table outlines the maximum potential impact of share dilution upon full execution of outstanding convertible instruments as at the effective date of the MD&A:

Common shares outstanding	471,949,806
Outstanding share purchase options	9,762,500
Outstanding performance share units	7,615,412
Outstanding restricted share units	3,200,135
<b>Full dilution impact on common shares outstanding</b>	<b>492,527,853</b>

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. The Company believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. The Company's significant accounting policies can be found in the Company's Financial Statements for the year ended December 31, 2019.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates related to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from these estimated amounts as future confirming events occur. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, recovery of exploration costs capitalized in accordance with IFRS, stock-based compensation, valuation and impairment of equity investments and income taxes.

### Intangible Exploration Assets

The Company capitalizes costs related to the acquisition of a license interest, directly attributable general and administrative costs, expenditures incurred in the process of determining oil and gas exploration targets, and exploration drilling costs. All exploration expenditures that related to properties with common geological structures and with shared infrastructure are accumulated together within intangible exploration assets. Costs are held un-depleted until such time as the exploration phases on the license area are complete or commercially viable reserves have been discovered and extraction of those reserves is determined to be technically feasible. The determination that a discovery is commercially viable, and extraction is technically feasible requires judgment.

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are recognized in the statement of operations. If commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized intangible exploration costs are transferred into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU") within intangible exploration assets. The allocation of the Company's assets into CGUs requires judgment.

Intangible exploration assets are assessed for impairment when they are reclassified to property and equipment, as intangible exploration assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. In determining fair value less costs of disposal, recent market

transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

The key assumptions the Company uses for estimating future cash flows are contingent resources, future commodity prices, expected production volumes, future operating and development costs, among others. The estimated useful life of the CGU, the timing of future cash flows and discount rates are also important assumptions made by management.

### Equity Based Compensation

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The Company uses the fair value method, utilizing the Black-Scholes option pricing model, for valuing stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as equity-based compensation expense. The recognized costs are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model, which is based on significant assumptions such as volatility, dividend yield and expected term.

The estimated fair value of the PSUs is initially determined at the time of grant and is based on non-market performance conditions. The estimated fair value of the PSUs is assessed for revaluation at the end of every reporting period. The estimated fair value is recognized over the applicable vesting period as equity-based compensation expense.

The estimated fair value of the RSUs is initially determined at the time of grant and is revalued on a quarterly basis, recorded as a liability in the balance sheet and expensed evenly throughout the applicable vesting period as equity-based compensation expense.

### Equity Method

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Investments in joint ventures and investments in associates are accounted for using the equity method. Investments of this nature are recorded at original cost. Investments in joint ventures or associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Distributions received reduce the carrying amount of the investment.

Additionally, estimates associated with investments in joint ventures include the determination of amounts allocated to non-current assets as well as any negative goodwill associated with the acquisition.

### Impairment of Joint Ventures and Associates

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The amounts for investments in joint ventures and associates represents the Company's equity interest in other entities, where there is either joint control or significant influence. The Company assesses investments in joint ventures and associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. The process of determining whether there is an indicator for impairment or calculating the recoverable amount requires judgement.

The most material area in which the Company has applied judgement in the period is in relation to the investment in Prime. In assessing whether there are any indicators of impairment the Company has considered any effects of Prime's hedging arrangements, the loan facility, and any operational and contractual implications on the future dividend stream when assessing for impairment indicators. When any impairment indicators are identified, the entire carrying amount of the investment in the associate is compared to recoverable amount, which is the higher of value in use or fair value less costs of disposal. The Company has determined the recoverability of its investment will be in the form of dividends, and therefore has assessed the impact of current conditions on the recoverability of the dividends relative to the investment carrying value. The key assumptions the Company uses for estimating dividends include future commodity prices, operational scenarios provided by Prime, the timing of future cash flows and discount rates.

## Income Tax

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The Company follows the balance sheet method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Annual Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more than likely that future income tax assets will not be realized. As a result, future earnings are subject to significant Management judgment.

Contingencies relating to income tax are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of income tax contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

## INTERNAL FINANCIAL REPORTING AND DISCLOSURE CONTROLS

### Disclosure controls and procedures

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Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of June 30, 2020, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

### Internal controls over financial reporting

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Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting. As of June 30, 2020, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's internal controls over financial reporting, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed. Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## RISK FACTORS

The Company's operations are subject to various risks and uncertainties, including, but not limited to, those listed below.

### Global Health Emergency

The current novel coronavirus (COVID-19) global health pandemic is significantly impacting the global economy and financial and commodity markets. The full extent and impact of the COVID-19 pandemic is unknown and to date has included extreme volatility in financial markets, a slowdown in economic activity, extreme volatility in commodity prices, extended shutdowns of numerous business activities and supply chain disruptions worldwide and has raised the prospect of an extended global recession. As well, as efforts are undertaken to slow the spread of the COVID-19 pandemic, the operation and development of the assets which the Company acquired an interest in may be impacted. Although the full impact of the COVID-19 pandemic on the global economy and its duration remains uncertain, disruptions caused by COVID-19 or any other outbreak or public health emergency may adversely affect the performance of the Company. The degree to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

### Climate Change Legislation

Governments around the world have become increasingly focused on addressing the impacts of anthropogenic global climate change, particularly in the reduction of gases with the potential to contribute to greenhouse gas levels in the atmosphere. The oil and natural gas industry is subject to stringent environmental regulations. The political climate appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is a risk that any such programs, laws or regulations, if proposed and enacted, will contain emission reduction targets which the Company may not be able to meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets. A breach of applicable legislation within any of the Company's countries of operation may result in the imposition of fines against the Company or the issuance of clean up orders in respect of its oil and gas assets, some of which may be material.

Climate change policy is emerging and quickly evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Implementation of strategies by any level of government within the countries in which the Company operates, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition. It is also not possible at this time to predict whether any proposed legislations relating to climate change will be adopted, and any such regulations could result in operating restrictions or compliance costs.

## Liquidity Risk

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Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity describes a company's ability to access cash. Companies operating in the upstream oil and gas industry during the exploration and appraisal phase require sufficient cash in order to fulfill their work commitments in accordance with contractual obligations and to be able to potentially acquire strategic oil and gas assets.

The Company will potentially issue debt or equity and enter into farmout agreements with joint venture partners to ensure the Company has sufficient available funds to meet current and foreseeable financial requirements. The Company actively monitors its liquidity to ensure that its cash flows and working capital are adequate to support these financial obligations and the Company's capital programs. The Company will also adjust the pace of its activities to manage its liquidity position.

## International Operations

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The Company participates in oil and gas projects located in emerging markets, which includes Africa. Oil and gas exploration, development and production activities in these emerging markets are subject to significant political and economic uncertainties that may adversely affect the Company's operations. The Company could be adversely affected by changes in applicable laws and policies in the countries where the Company has interests. Additional uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, civil unrest, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, changes to taxation laws and policies, assessments and audits (including income tax) against the Company by regulatory authorities, difficulty or delays in obtaining necessary regulatory approvals, risks associated with potential future legal proceedings, and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on the Company's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, the Company could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a concession in which the Company acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required.

## Different Legal System and Litigation

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The Company's oil production and exploration activities are located in countries with legal systems that in various degrees differ from that of Canada. Rules, regulations and legal principles may differ in respect of matters of substantive law and of such matters as court procedure and enforcement. Almost all material production and exploration rights and related contracts of the Company are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that the Company's ability to exercise or enforce its rights and obligations may differ between different countries and also from what would have been the case if such rights and obligations were subject to Canadian law and jurisdiction.

The Company's operations are, to a large extent, subject to various complex laws and regulations as well as detailed provisions in concessions, licenses and agreements that often involve several parties. If the Company was to become involved in legal disputes in order to defend or enforce any of its rights or obligations under such concessions, licenses, and agreements or otherwise, such disputes or related litigation could be costly, time consuming and the outcome would be highly uncertain. Even if the Company ultimately prevailed, such disputes and litigation may still have a substantially negative effect on the Company's business, assets, financial conditions, and its operations.

## Financial Statements Prepared on a Going Concern Basis

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The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's operations to date have been primarily financed by equity financing and the completion of working interest farmout agreements. The Company's future operations may be dependent upon the identification and successful completion of additional equity or debt financing, the achievement of profitable operations or other transactions. There can be no assurances that the Company will be successful in completing additional financings, achieving profitability or completing future transactions. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

## Shared Ownership and Dependency on Partners

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The Company's operations are, to a significant degree, conducted together with one or more partners through contractual arrangements. In such instances, the Company may be dependent on, or affected by, the due performance of its partners. If a partner fails to perform, the Company may, among other things, risk losing rights or revenues or incur additional obligations or costs, or experience delays, in order to itself perform in place of its partners. The Company and its partners may also, from time to time, have different opinions on how to conduct certain operations or on what their respective rights and obligations are under a certain agreement. If a dispute were to arise with one or more partners relating to a project, such dispute may have significant negative effects on the Company's operations relating to such project.

## Investments in Joint Ventures and Associates

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The Company has invested in other frontier oil and gas exploration companies that are similar to the Company, and that face similar risks and uncertainties faced by the Company, which could have a material adverse effect on their businesses, prospects and results of operations. Such risks include, without exclusion, equity risk, liquidity risk, currency risk, foreign investment risk, and changes in environmental regulations, economic, political or market conditions, or the regulatory environment in the countries in which they operate. The Company's investments are not diversified over different types of investments and industries, rather, they are concentrated in one type of investment. If the companies in which the Company has invested fails, liquidates, or becomes bankrupt, the Company could face the potential risk of loss of some, or all, of its investments, and the Company may be unable to recover its initial investment amount, or any amount, from its various investments in other frontier oil and gas exploration companies.

## Uncertainty of Title

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Although the Company conducts title reviews prior to acquiring an interest in a concession, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the Company's interest in the concession. Any uncertainty with respect to one or more of the Company's concession interests could have a material adverse effect on the Company's business, prospects and results of operations.

## Risks Relating to Concessions, Licenses and Contracts

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The Company's operations are based on a relatively limited number of concession agreements, licenses and contracts. The rights and obligations under such concessions, licenses and contracts may be subject to interpretation and could also be affected by, among other things, matters outside the control of the Company. In case of a dispute, it cannot be certain that the view of the Company would prevail or that the Company otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on the Company. Also, if the Company or any of its partners were deemed not to have complied with their duties or obligations under a concession, license or contract, the Company's rights under such concessions, licenses or contracts may be relinquished in whole or in part.

## Competitive Conditions

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The petroleum industry is intensely competitive in all aspects, including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. The Company competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. The Company's competitors include oil companies that have greater financial resources, staff and facilities than those of the Company and its partners. The Company's ability to discover reserves in the future will depend on its ability to successfully explore its present properties, to select and acquire suitable producing properties or prospects on which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon the development and maintenance of close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. The Company strives to be competitive by maintaining a strong financial balance sheet.

Oil and natural gas producers are also facing increased competition from alternative forms of energy, fuel and related products that could have a material adverse effect on the Company's business, prospects and results of operations.

## Risks Inherent in Oil and Gas Exploration and Development

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Oil and gas operations involve many risks, which even a combination of experience, knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by the Company will result in discoveries of oil or natural gas in commercial quantities or that commercial quantities of oil and natural gas will be discovered or acquired by the Company. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The Company's business is subject to all of the risks and hazards inherent in businesses involved in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas, many of which cannot be overcome even with a combination of experience and knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment or personal injury, and such damages may not be fully insurable.

## Well-flow Test Results

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Drill stem tests are commonly based on flow periods of 1 to 5 days and build up periods of 1 to 3 days. Pressure transient analysis has not been carried out on all well tests and the results should therefore be considered as preliminary. Well test results are not necessarily indicative of long-term performance or of ultimate recovery.

## Capital Requirements

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To finance its future acquisition, exploration, development and operating costs, the Company may require financing from external sources, including from the issuance of new shares, issuance of debt or execution of working interest farm-out agreements. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of the Company may be diluted. If unable to secure financing on acceptable terms, the Company may have to cancel or postpone certain of its planned exploration and development activities which may ultimately lead to the Company's inability to fulfill the minimum work obligations under the terms of its various PSAs. Availability of capital will also directly impact the Company's ability to take advantage of acquisition opportunities.

## Government Regulations and Tax Risk

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The Company may be affected by changes in taxes, regulations and other laws or policies affecting the oil and gas industry generally. The Company's host governments may implement new regulations or modify existing regulations regarding taxes affecting the oil and natural gas industry. The Company could experience an increase in existing taxes and may be subject to some tax assessments that could have a material adverse effect on the Company's business, financial condition, results of operations and prospects of the Company's oil and gas assets.

## Environmental Protection

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Environmental legislation imposes certain restrictions, obligations, and liabilities on companies in the oil and gas industry. Drilling for and production, handling, transporting and disposing of oil and gas and petroleum by-products are subject to extensive regulation under national and local environmental laws, including those of the countries in which the Company currently operates. Environmental regulations may impose, among other things, restrictions, liabilities and obligations in connection with water and air pollution control and permitting requirements and restrictions on operations in environmentally sensitive areas. Environmental regulations may also impose restrictions on the handling of, storing, transporting, and disposing of waste. In addition, the Company could potentially be liable for contamination on properties acquired and it attempts to mitigate the risk of inheriting environmental liabilities by conducting due diligence on acquisition opportunities. The Company also seeks to ensure that, where it is a non-operating shareholder, activities are undertaken in alignment with the Company policies and standards as far as practicable.

Environmental protection requirements have not, to date, had a significant effect on the capital expenditures, results of operations and competitive position of the Company. However, environmental regulations are expected to become more stringent in the future and costs associated with compliance are expected to increase. In addition, as the Company's exploration and operating activities expand, new and more rigorously enforced environmental regulations may come into play, which could impact those activities and the cost of compliance. Any penalties or other sanctions imposed on the Company (or its joint venture partners) for non-compliance with environmental regulations could have a material adverse effect on the Company's business, prospects and results of operations, or could result in restrictions or cessation of operations and the imposition of fines and penalties.

## Foreign Currency Exchange Rate Risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries, oil and gas expenditures, or financial instruments may fluctuate due to changes in rates. The Company's exposure is partially offset by sourcing capital projects and expenditures in US dollars. The Company had no forward exchange contracts in place as at June 30, 2020.

## Credit Risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's credit exposure relates to amounts due from its joint venture partners. The risk of the Company's joint venture partners defaulting on their obligations per their respective joint operating and farmout agreements is mitigated as there are contractual provisions allowing the Company to default joint venture partners who are non-performing and reacquire any previous farmed out working interests. The maximum exposure for the Company is equal to the sum of its cash, restricted cash, and accounts receivable. A portion of the Company's cash is held by banks in foreign jurisdictions where there could be increased exposure to credit risk.

## FORWARD LOOKING STATEMENTS

Certain statements in this document constitute forward-looking information or forward-looking statements under applicable Canadian securities law (collectively "forward-looking statements"). Forward-looking statements are statements that relate to future events, including the Company's future performance, opportunities or business prospects. Any statements that express or involve discussions with respect to expectations, beliefs, projections, plans, future events or performance (often, but not always, identified by words such as "believes", "seeks", "anticipates", "expects", "estimates", "pending", "intends", "plans", "will", "would have" or similar words suggesting future outcomes) are not statements of historical fact and may be forward-looking statements.

By their nature, forward-looking statements involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

Forward-looking statements include, but are not limited to, statements concerning:

- Expected closing dates for the completion of proposed transactions;
- Planned exploration, appraisal and development activity including both expected drilling and geological and geophysical related activities;
- Proposed development plans;
- Future development costs and the funding thereof;
- Expected finding and development costs;
- Timing to FID;
- Anticipated future financing requirements;
- Future sources of funding for the Company's capital program;
- Future capital expenditures and their allocation to exploration and development activities;
- Expected operating costs;
- Future sources of liquidity, cash flows and their uses;
- Availability of potential farmout partners;
- Government or other regulatory consent for exploration, development, farmout, or acquisition activities;
- Future production levels;
- Future crude oil, natural gas or chemical prices;

- Future earnings;
- Future asset acquisitions or dispositions;
- Future debt levels;
- Availability of committed credit facilities;
- Possible commerciality;
- Development plans or capacity expansions;
- Future ability to execute dispositions of assets or businesses;
- Future drilling of new wells;
- Ultimate recoverability of current and long-term assets;
- Ultimate recoverability of reserves or resources;
- Estimates on a per share basis;
- Future foreign currency exchange rates;
- Future market interest rates;
- Future expenditures and future allowances relating to environmental matters;
- Dates by which certain areas will be explored or developed or will come on stream or reach expected operating capacity;
- The Company's ability to comply with future legislation or regulations;
- Future staffing level requirements; and
- Changes in any of the foregoing.

Statements relating to "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

These forward-looking statements are subject to known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others:

- Market prices for oil and gas and chemical products;
- The Company's ability to explore, develop, produce and transport crude oil and natural gas to markets;
- Production and development costs and capital expenditures;
- The imprecise nature of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids;
- Changes in oil prices;
- Availability of financing;
- Uninsured risks;
- Regulatory changes;
- Changes in the social climate in the regions in which the Company operates;
- Health, safety and environmental risks;
- Climate change legislation and regulation changes;
- Defects in title;
- Availability of materials and equipment;
- Timelines of government or other regulatory approvals;
- Ultimate effectiveness of design or design modification to facilities;
- The results of exploration, appraisal and development drilling and related activities;
- Short term well test results on exploration and appraisal wells do not necessarily indicate the long-term performance or ultimate recovery that may be expected from a well;
- Pipeline or delivery constraints;
- Volatility in energy trading markets;
- Incorrect assessments of value when making acquisitions;
- Foreign-currency exchange rates;
- Economic conditions in the countries and regions in which the Company carries on business;
- Governmental actions including changes to taxes or royalties, and changes in environmental and other laws and regulations;
- The Company's treatment under governmental regulatory regimes and tax laws;
- Renegotiations of contracts;

- Results of litigation, arbitration or regulatory proceedings;
- Political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict; and
- Internal conflicts within states or regions.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on its assessment of all available information at that time. Although management believes that the expectations conveyed by the forward-looking statements are reasonable based on the information available to it on the date such forward-looking statements were made, no assurances can be given that such expectations will prove to be correct, and such forward-looking statements included in this document should not be unduly relied upon.

The forward looking statements are made as of the date hereof or as of the date specified in this document, as the case may be, and except as required by law, the Company undertakes no obligation to update publicly, re-issue, or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This cautionary statement expressly qualifies the forward-looking statements contained herein.