



# CONSOLIDATED FINANCIAL REPORTS

(Expressed in thousands of United States dollars)

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

August 13, 2020



## CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)  
(Unaudited)

		June 30, 2020	December 31, 2019
	<b>Note</b>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	12	\$ 39,428	\$ 329,464
Accounts receivable		877	161
Prepaid expenses		1,580	4,106
		41,885	333,731
Long-term assets			
Equity investment in joint venture	7	556,506	-
Equity investment in associates	7	80,590	63,563
Property and equipment		2,688	3,342
Intangible exploration assets	6	191,999	411,669
		831,783	478,574
<b>Total assets</b>		<b>\$ 873,668</b>	<b>\$ 812,305</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 19,524	\$ 40,962
Equity-based compensation liability	10	964	787
Lease obligations		1,206	1,233
		21,694	42,982
Long-term liabilities			
Equity-based compensation liability	10	1,244	587
Lease obligations		1,445	2,033
Long-term debt	8	194,592	-
		197,281	2,620
<b>Total liabilities</b>		<b>218,975</b>	<b>45,602</b>
Equity attributable to common shareholders			
Share capital	9(b)	1,306,468	1,305,953
Contributed surplus		50,396	51,389
Deficit		(709,287)	(590,639)
Accumulated other comprehensive income	7(a)	7,116	-
<b>Total equity attributable to common shareholders</b>		<b>654,693</b>	<b>766,703</b>
<b>Total liabilities and equity attributable to common shareholders</b>		<b>\$ 873,668</b>	<b>\$ 812,305</b>
Commitments and contingencies	11		

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

Approved on behalf of the Board:

*"ANDREW BARTLETT"*

ANDREW BARTLETT, DIRECTOR

*"KEITH HILL"*

KEITH HILL, DIRECTOR

## CONSOLIDATED STATEMENTS OF NET INCOME/(LOSS)

(Expressed in United States dollars)  
(Unaudited)

		Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	Note				
Operating income					
Share of profit from investment in joint venture	7	\$ 31,731	\$ -	\$ 117,316	\$ -
Share of profit/(loss) from investments in associates	7	(1,413)	(9,198)	57	(10,359)
Total operating income		30,318	(9,198)	117,373	(10,359)
Operating expenses					
Salaries and benefits		(1,624)	(450)	(2,564)	(878)
Equity-based compensation	10	(1,001)	(763)	(686)	(1,167)
Office and general		(689)	(1,344)	(2,506)	(2,226)
Impairment of intangible exploration assets	6	-	-	(215,600)	-
Total operating expenses		(3,314)	(2,557)	(221,356)	(4,271)
Net operating income/(loss)		27,004	(11,755)	(103,983)	(14,630)
Finance income	13	95	2,308	1,061	4,694
Finance expense	13	(7,865)	(16)	(15,726)	(38)
Net income/(loss) attributable to common shareholders		19,234	(9,463)	(118,648)	(9,974)
Net income/(loss) attributable to common shareholders per share	15				
Basic		\$ 0.04	\$ (0.02)	\$ (0.25)	\$ (0.02)
Diluted		\$ 0.04	\$ (0.02)	\$ (0.25)	\$ (0.02)
Weighted average number of shares outstanding for the purpose of calculating earnings per share	15				
Basic		471,949,806	471,214,419	471,630,600	470,935,688
Diluted		475,149,941	471,214,419	471,630,600	470,935,688

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Expressed in United States dollars)  
(Unaudited)

		Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	Note				
Net income/(loss) attributable to common shareholders		\$ 19,234	\$ (9,463)	\$ (118,648)	\$ (9,974)
Other comprehensive income					
Share of joint venture other comprehensive income/(loss)	7	(1,779)	-	7,116	-
Comprehensive income/(loss)		\$ 17,455	\$ (9,463)	\$ (111,532)	\$ (9,974)

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

## CONSOLIDATED STATEMENTS OF EQUITY

(Expressed in thousands of United States dollars)  
(Unaudited)

		June 30, 2020	June 30, 2019
	Note		
	9(b)		
<b>Share capital:</b>			
Balance, beginning of the period		\$ 1,305,953	\$ 1,305,129
Settlement of Performance Share Units		88	620
Settlement of Restricted Share Units		427	204
Balance, end of the period		1,306,468	1,305,953
<b>Contributed surplus:</b>			
Balance, beginning of the period		\$ 51,389	\$ 50,821
Equity-based compensation	10	262	492
Settlement of Performance Share Units	10	-	(620)
Reclass of Performance Share Units from Equity Settled to Cash Settled	10	(1,255)	-
Balance, end of the period		50,396	50,693
<b>Deficit:</b>			
Balance, beginning of the period		\$ (590,639)	\$ (433,870)
Net loss attributable to common shareholders		(118,648)	(9,974)
Balance, end of the period		(709,287)	(443,844)
<b>Accumulated other comprehensive income:</b>			
Balance, beginning of the period		\$ -	\$ -
Other comprehensive income	7	7,116	-
Balance, end of the period		7,116	-
Total equity attributable to common shareholders		\$ 654,693	\$ 912,802

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)  
(Unaudited)

		Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows provided by (used in):	<b>Note</b>				
Operations:					
Net income/(loss) for the period		\$ 19,234	\$ (9,463)	\$ (118,648)	\$ (9,974)
Adjustments for:					
Equity-based compensation	10	1,001	763	686	1,167
Depreciation		337	36	687	54
Impairment of intangible exploration assets	6	-	-	215,600	-
Interest on lease obligations		34	12	67	18
Share of (profit)/loss from equity investments	7	(30,318)	9,198	(117,373)	10,359
Interest on term loan	8	7,391	-	15,151	-
Unrealized foreign exchange (gain)/loss		20	(7)	77	-
Changes in non-cash operating working capital	18	776	(299)	2,999	(557)
Net cash provided by (used in) operating activities		(1,525)	240	(754)	1,067
Investing:					
Property and equipment expenditures		(8)	(3)	(33)	(10)
Intangible exploration expenditures	6	(5,359)	(4,801)	(15,550)	(17,942)
Acquisition cost of joint venture	7	(28,374)	-	(544,574)	-
Equity investment in associates	7	-	(5,000)	(16,969)	(11,293)
Dividends received from joint venture	7	25,000	-	112,500	-
Changes in non-cash investing working capital	18	(4,888)	(4,303)	(3,008)	(94)
Net cash used in investing activities		(13,629)	(14,107)	(467,634)	(29,339)
Financing:					
Term loan relating to acquisition of joint venture	8	-	-	250,000	-
Repayment of term loan	8	(10,200)	-	(55,408)	-
Repayment of interest	8	(7,391)	-	(15,151)	-
Settlement of Performance and Restricted Share Units	10	12	-	(330)	(676)
Payment of lease obligations		(344)	(39)	(682)	(58)
Net cash provided by (used in) financing activities		(17,923)	(39)	178,429	(734)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currency		(20)	7	(77)	-
Decrease in cash and cash equivalents		(33,097)	(13,899)	(290,036)	(29,006)
Cash and cash equivalents, beginning of the period		\$ 72,525	\$ 355,230	\$ 329,464	\$ 370,337
Cash and cash equivalents, end of the period		\$ 39,428	\$ 341,331	\$ 39,428	\$ 341,331
Supplementary information:					
Interest paid		(7,391)	Nil	(15,151)	Nil
Income taxes paid		Nil	Nil	Nil	Nil

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019  
(Expressed in thousands of United States dollars unless otherwise indicated)  
(Unaudited)

### 1. Incorporation and nature of business:

Africa Oil Corp. (collectively with its subsidiaries, "AOC" or the "Company") was incorporated on March 29, 1993 under the laws of British Columbia and is an international oil and gas exploration and production company based in Canada with oil and gas interests in Africa. The Company's registered address is 2500 Park Place, 666 Burrard Street, Vancouver, B.C., V6C 2X8.

Oil and gas exploration, development and production activities, in these emerging markets, are subject to significant uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, global pandemics, the risk of war, terrorism, civil unrest, expropriation, nationalization or other title disputes, 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, a change in taxation policies, and the imposition of currency controls, in addition to the risks associated with exploration activities. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on AOC's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, AOC 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 AOC has or may acquire 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 AOC will be able to obtain all necessary licenses and permits when required.

### 2. COVID-19 and market uncertainty

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.

Operators (Total and Chevron) of Prime Oil and Gas B.V.'s Nigerian assets (see note 7(a)) 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 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.

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.

### 3. Basis of preparation:

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#### A. Statement of compliance:

The Company prepares these condensed consolidated interim financial statements in accordance with Canadian generally accepted accounting principles for interim periods, specifically International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all the information required for full annual financial statements, and they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

The policies applied in these condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at August 13, 2020, the date the Board of Directors approved the statements.

#### B. Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in the significant accounting policies in Note 3 of the annual financial statements for the year ended December 31, 2019.

#### C. Functional and presentation currency:

These consolidated financial statements are presented in United States (US) dollars. The functional currencies of all the Company's individual entities are US dollars which represents the currency of the primary economic environment in which the entities operate.

#### D. Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## Impairment of Joint Ventures and Associates

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. On acquisition, judgements and estimates were used in determining fair values on acquisition for the purposes of the notional purchase price allocation. Subsequently, 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. Details on these judgements can be found in note 7(a).

All other significant estimates and judgment used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2019.

## 4. Significant accounting policies:

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The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by the Company and its subsidiaries.

### A. Equity method:

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.

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. If such impairment indicators exist, the carrying amount of the investment is compared to its recoverable amount. The recoverable amount is the higher of the investment's fair value less costs to sell and its value in use. The investment is written down to its recoverable amount when its carrying amount exceeds the recoverable amount.

### B. Long-term debt

Long-term debt is initially recognized at the amount required to be paid, less, when material, a discount to reduce the debt to fair value. Subsequently, long-term debt is measured at amortized cost using the effective interest method. Long-term debt is classified as non-current liabilities and any amounts due within twelve months is classified as current liabilities.

All other significant accounting policies used in the preparation of these consolidated financial statements are described in the Company's consolidated financial statements for the year ended December 31, 2019.

## 5. Accounts payable and accrued liabilities:

	June 30, 2020	December 31, 2019
Joint venture payables and other provisions	18,880	39,266
Administrative accruals and other payables	644	1,696
	\$ 19,524	\$ 40,962

## 6. Intangible exploration assets:

	Note	June 30, 2020	December 31, 2019
Net carrying amount, beginning of the period		\$ 411,669	\$ 515,823
Intangible exploration expenditures	(a)	15,550	35,360
Reversal of oil and gas provisions	(a)	(19,620)	-
Impairment of intangible exploration assets	(b)	(215,600)	(139,514)
Net carrying amount, end of the period		\$ 191,999	\$ 411,669

### A. Intangible exploration expenditures:

As at June 30, 2020, \$192.0 million of expenditures have been capitalized as intangible exploration assets (December 31, 2019 - \$411.7 million). These expenditures relate to the Company's share of exploration and appraisal stage projects which are pending the determination of proven and probable petroleum reserves, and include expenditures related to the following activities: geological and geophysical studies, exploratory and appraisal drilling, well testing, development studies and related general and administrative costs incurred in relation to the Company's Production Sharing Agreements with the respective host governments. At June 30, 2020, no intangible exploration assets have been transferred to oil and gas interests as commercial reserves have not been established and technical feasibility for extraction has not been demonstrated.

On February 7, 2020, a wholly-owned subsidiary of the Company completed the acquisition of a 20% participating interest in the Block 3B/4B Exploration Right from Azinam Limited ("Azinam") for a consideration of approximately \$3.6 million. Africa Oil 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.

During the six months ended June 30, 2020, the majority of the expenditure related to its activities in Kenya. The Company also reversed previously estimated provisions relating to the Kenyan assets amounting to \$19.6 million.

The Company capitalized \$3.0 million of general and administrative expenses related to intangible exploration assets (six months ended June 30, 2019 - \$2.7 million).

### B. Impairment of intangible exploration assets

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 the first quarter of 2020, the impairment test was re-performed 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 during 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 as 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.

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

## 7. Equity investments:

The Company currently holds the following equity investments:

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

The Company recognized total income of \$30.3 million and \$117.4 million during the three and six months ended June 30, 2020, relating to its equity investments, respectively (\$9.2 million and \$10.4 million in losses for the three and six months ended June 30, 2019).

The Company has determined that these investments are not impaired.

### A. 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 Company has accounted for the acquisition as a joint venture as there is joint control. The total payment by the Company 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 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 including legal and professional fees incurred in arranging and closing the transaction.

Prime is incorporated in the Netherlands and its principal place of business is Nigeria. The primary 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 cover part of the Agbami Field. OML 130 is operated by affiliates of Total S.A. and contains the producing Akpo and Egina Fields.

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 unlikely, no provision was recorded at June 30, 2020.

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 OML 130 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.

The purchase price was allocated based on the fair values as follows:

<b>Net assets</b>	
Other current assets	\$ 363,234
Cash and cash equivalents included in current assets	140,419
Non-current assets <sup>(1)</sup>	4,358,564
Other current liabilities	(573,137)
Loans and borrowings included in current liabilities	(62,973)
Financial liabilities included in current liabilities	(233,551)
Other non-current liabilities	(261,196)
Loans and borrowings included in non-current liabilities	(1,190,845)
Deferred income tax liabilities included in non-current liabilities	(1,451,515)
Net assets acquired	1,089,000
Percentage ownership	50.0%
Proportionate share of Prime's net assets acquired	\$ 544,500
<b>Consideration</b>	
Cash issued	\$ 544,500
Total purchase price	\$ 544,500

<sup>(1)</sup> The net assets of Prime were \$537.1 million on acquisition (January 14, 2020). The total net assets acquired in the above table includes transaction fees of \$25.0 million as well as a fair value allocation of \$551.9 million.

During the first half of 2020, Prime distributed three dividends payments totaling \$225.0 million gross, with a net payment to Africa Oil of \$112.5 million related to its 50% interest. The timing and payment of the dividends is discretionary. There are no restrictions on the ability of Prime to pay dividends to its shareholders.

	<b>June 30, 2020</b>
Balance, beginning of the period	\$ -
Acquisition of common shares	519,500
Transaction and related fees associated with the acquisition of common shares	25,074
Dividends received from Prime	(112,500)
Share of joint venture other comprehensive income	7,116
Share of joint venture profit	117,316
Balance, end of the period	\$ 556,506

The Company recognized income of \$31.7 million and \$117.3 million during the three and six months ended June 30, 2020, respectively, relating to its investment in Prime.

The following tables summarizes Prime's financial information for the six months ended June 30, 2020. The information is based on audited financial information.

	<b>June 30, 2020</b>
Other current assets	\$ 337,614
Cash and cash equivalents included in current assets	350,429
Non-current assets <sup>(1)</sup>	3,869,283
Other current liabilities	(159,417)
Loans and borrowings included in current liabilities	(612,512)
Financial liabilities included in current liabilities	(81,110)
Other non-current liabilities	(225,017)
Loans and borrowings included in non-current liabilities	(1,063,481)
Deferred income tax liabilities included in non-current liabilities	(1,302,777)
Net assets of Prime	1,113,011
Percentage ownership	50.0%
Proportionate share of Prime's net assets	\$ 556,506

	<b>Three months ended June 30, 2020</b>	<b>Six months ended June 30, 2020</b>
Revenue	\$ 318,631	\$ 677,579
Depreciation, depletion and amortization	(111,399)	(241,053)
Production costs	(33,090)	(78,632)
Underlift	53,318	91,992
Cost of sales	(91,170)	(227,693)
Gross profit	227,461	449,886
Other selected financial information:		
Impairment	(289,482)	(289,482)
Finance charges	(39,266)	(18,936)
Profit/(loss) before tax from continuing operations	(53,768)	234,324
Tax	117,230	25,967
Total profit for the period	63,462	260,291
Other comprehensive income/(loss)	(3,559)	16,148
Total comprehensive income	59,903	276,438
Proportionate share of Prime's other comprehensive income/(loss) <sup>(2)</sup>	(1,779)	7,116
Proportionate share of Prime's net income <sup>(2)</sup>	\$ 31,731	\$ 117,316

(1) At June 30, 2020, the carrying value of non-current assets included a fair value adjustment of \$551.9 million.

(2) The proportionate share of Prime's net income is prorated from January 14, 2020, the date the acquisition was completed.

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 Q1-2021 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.

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.

#### B. Eco (Atlantic) Oil and Gas Ltd. ("Eco"):

The Company's ownership interest at June 30, 2020 in Eco is approximately 18.39% compared to 18.41% at December 31, 2019. Eco is an oil and gas exploration company with interests in Guyana and Namibia.

	June 30, 2020	December 31, 2019
Balance, beginning of the period	\$ 12,022	\$ 10,192
Additional investment through private placements	-	5,000
Share of income/(loss) from equity investments	1,166	(3,170)
Balance, end of the period	\$ 13,188	\$ 12,022

The Company recognized income of \$0.5 million and \$1.2 million during the three and six months ended June 30, 2020, respectively, relating to its investment in Eco (losses of \$1.4 million and \$1.5 million during the three and six months ended June 30, 2019, respectively).

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

**C. Africa Energy:**

On January 28, 2020, Africa Energy completed a private placement, in which the Company participated, investing \$5.0 million, acquiring 20,930,000 shares, of a total of 104,652,174 shares issued, decreasing the Company's ownership interest in Africa Energy from approximately 34.5% at December 31, 2019 to approximately 32.4%. Africa Energy holds participating interests in exploration blocks located offshore South Africa and offshore Namibia.

	<b>June 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Balance, beginning of the period	\$ 17,882	\$ 19,518
Additional investment through private placements	5,000	-
Share of loss from equity investments	(2,011)	(1,636)
Balance, end of the period	\$ 20,871	\$ 17,882

The Company recognized losses of \$1.4 million and \$2.0 million during the three and six months ended June 30, 2020, respectively, related to its investment in Africa Energy (\$0.4 million and \$1.1 million during the three and six months ended June 30, 2019, respectively).

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

**D. Impact Oil and Gas Limited ("Impact"):**

On February 14, 2020, Impact completed a private placement, in which the Company participated, investing approximately \$12.0 million, acquiring approximately 45,000,000 shares. At June 30, 2020 the Company's ownership interest in Impact is approximately 32.0% compared to 29.9% at December 31, 2019.

	<b>June 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Balance, beginning of the period	\$ 33,659	\$ 36,224
Additional investment through the Subscription Agreement	11,969	6,293
Share of income/(loss) from equity investments	903	(8,858)
Balance, end of the period	\$ 46,531	\$ 33,659

The Company recognized income of \$0.5 million during the three months ended June 30, 2020 and a loss of \$0.7 million during the six months ended June 30, 2020, related to its investment in Impact (\$7.4 million and \$7.7 million in losses during the three and six months ended June 30, 2019, respectively).

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

## 8. Long-term debt:

		June 30, 2020		December 31, 2019
Balance, beginning of the period	\$	-	\$	-
Drawdown		250,000		-
Interest expense		15,151		-
Interest repayment		(15,151)		-
Repayment		(55,408)		-
Balance, end of the period	\$	194,592	\$	-

The \$250.0 million loan facility ("Term Loan") with BTG was drawn on 14 January 2020 and has a duration of 2 years. \$194.6 million is outstanding at June 30, 2020. 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 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. \$55.4 million has been repaid during the first half of 2020. The loan is subject to a fixed interest rate of 15% and is not subject to any debt covenants.

## 9. Share capital:

**A. The Company is authorized to issue an unlimited number of common shares with no par value.**

**B. Issued:**

	Note	June 30, 2020		December 31, 2019	
		Shares	Amount	Shares	Amount
Balance, beginning of the period		471,214,419	\$ 1,305,953	470,567,619	\$ 1,305,129
Settlement of Performance Share Units	10(b)	128,896	88	400,800	620
Settlement of Restricted Share Units	10(c)	606,491	427	246,000	204
Balance, end of the period		471,949,806	\$ 1,306,468	471,214,419	\$ 1,305,953

## 10. Equity-based compensation:

**A. Share purchase options**

At the 2019 Annual General Meeting, held on April 18, 2019, the Company's shareholders approved the terms of the stock option plan (the "Plan"). The Plan provides that an aggregate number of common shares which may be reserved for issuance as incentive share purchase options shall not exceed 3.5% of the common shares outstanding, and option exercise prices will reflect current trading values of the Company's shares. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. Vesting periods are determined by the Board of Directors and no optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares.

The Company's share purchase options outstanding are as follows:

	June 30, 2020		December 31, 2019	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of the period	13,640,500	1.75	10,856,667	1.95
Granted	-	-	3,277,000	1.16
Expired	(3,878,000)	2.44	(493,167)	2.35
Exercised	-	-	-	-
Balance, end of the period	9,762,500	1.47	13,640,500	1.75

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model and the fair value of the options granted is expensed over the vesting period of the options. The fair value of each option granted by the Company during the year ended December 31, 2019 was estimated on the date of grant using the Black-Scholes options pricing model.

All options granted vest over a two-year period, of which one-third vest immediately, and expire three or five years after the grant date. During the three and six months ended June 30, 2020, the Company recognized \$0.1 million and \$0.3 million in equity-based compensation, respectively (\$0.08 million and \$0.2 million in equity-based compensation during the three and six months ended June 30, 2019, respectively), related to share purchase options.

#### B. Performance share units ("PSUs")

The Company's PSUs outstanding are as follows:

	June 30, 2020	December 31, 2019
	Number of PSUs	Number of PSUs
Outstanding, beginning of the period	5,319,112	3,880,500
Granted	3,144,300	2,783,400
Forfeited	-	(463,788)
Vested	(848,000)	(881,000)
Balance, end of the period	7,615,412	5,319,112

During the first quarter of 2020, the Company converted its PSUs from equity settled to cash settled awards whereby the estimated fair value of the grant is expensed evenly throughout the remaining vesting period.

#### C. Restricted share units ("RSUs")

The Company's RSUs outstanding are as follows:

	June 30, 2020	December 31, 2019
	Number of RSUs	Number of RSUs
Outstanding, beginning of the period	2,602,593	2,553,960
Granted	1,575,500	1,263,200
Forfeited	-	(153,200)
Vested	(977,958)	(1,061,367)
Balance, end of the period	3,200,135	2,602,593

## 11. Commitments and contingencies:

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### A. Kenya Revenue Authority:

The Company's Kenyan Branch, of its wholly owned subsidiary, Africa Oil Kenya B.V., has been assessed for corporate income tax and value added tax 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.

### B. Contractual obligations:

#### Kenya:

Under the terms of the Block 10BB PSC, during July 2016, 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 September 2020. All commitments for this period have been met. At June 30, 2020, the Company's working interest in Block 10BB was 25%.

Under the terms of the Block 13T PSC, during July 2016, 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 September 2020. All commitments for this period have been met. At June 30, 2020, the Company's working interest in Block 13T was 25%.

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 in Blocks 10BB and 13T.

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. At June 30, 2020, the Company's working interest in Block 10BA was 25%.

### C. Title disputes:

In many of the countries in which the Company operates, land title systems are not developed to the extent found in many industrial countries and there may be no concept of registered title. Although the Company believes that it has title to its oil and gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges. There can be no assurance that claims or challenges by third parties against the Company's properties will not be asserted at a future date.

### D. Investment in Prime:

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 unlikely, no provision was recorded at June 30, 2020.

## 12. Cash and cash equivalents:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	37,015	327,135
Restricted cash	2,413	2,329
	\$ 39,428	\$ 329,464

## 13. Finance income and expense:

Finance income and expense for the three and six months ended June 30, 2020 and 2019 is comprised of the following:

	Three months ended		Three months ended		Six months ended		Six months ended	
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
Interest and other income	\$	95	\$	2,301	\$	1,061	\$	4,694
Interest expense and bank charges		(7,845)		(16)		(15,649)		(38)
Foreign exchange gain/(loss)		(20)		7		(77)		-
Finance income	\$	95	\$	2,308	\$	1,061	\$	4,694
Finance expense	\$	(7,865)	\$	(16)	\$	(15,726)	\$	(38)

## 14. Related party transactions:

### Transactions with Africa Energy Corp. (“Africa Energy”)

On February 5, 2020, Africa Energy completed a private placement, in which the Company participated, investing \$5.0 million, acquiring 20,930,000 shares, of a total of 104,652,174 shares issued, decreasing the Company’s ownership interest in Africa Energy to approximately 32.4%.

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.

## 15. Net income/(loss) per share:

For the three months ended	June 30, 2020			June 30, 2019		
	Net income	Weighted Average		Net loss	Weighted Average	
Number of shares		Per share amounts	Number of shares		Per share amounts	
Basic earnings per share						
Net income/(loss) attributable to common shareholders	\$ 19,234	471,949,806	\$ 0.04	\$ (9,463)	471,214,419	\$ (0.02)
Effect of dilutive securities						
RSUs	-	3,200,135	-	-	-	-
Dilutive gain/(loss) per share	\$ 19,234	475,149,941	\$ 0.04	\$ (9,463)	471,214,419	\$ (0.02)
For the six months ended	June 30, 2020			June 30, 2019		
	Net loss	Weighted Average		Net loss	Weighted Average	
Number of shares		Per share amounts	Number of shares		Per share amounts	
Basic earnings per share						
Net loss attributable to common shareholders	\$ (118,648)	471,630,600	\$ (0.25)	\$ (9,974)	470,935,688	\$ (0.02)
Effect of dilutive securities						
Dilutive loss per share	\$ (118,648)	471,630,600	\$ (0.25)	\$ (9,974)	470,935,688	\$ (0.02)

During the three and six months ended June 30, 2020, the Company used an average market price of CAD\$1.06 and CAD\$1.14 per share, respectively (three and six months ended June 30, 2019 – CAD\$1.22 and CAD\$1.18 per share, respectively) to calculate the dilutive effect of share purchase options. For the three months ended June 30, 2020, 9,762,500 options and 7,615,412 PSUs were anti-dilutive and were not included in the calculation of dilutive income/(loss) per share and for the six months ended June 30, 2020, 9,762,500 options, 7,615,412 PSUs and 3,200,135 RSUs were anti-dilutive and were not included in the calculation of dilutive income/(loss) per share (three and six months ended June 30, 2019, 10,465,500 options, 5,654,900 PSUs and 2,723,793 RSUs).

## 16. Financial risk management:

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The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, appraisal and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### A. Credit risk:

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The majority of our credit exposure relates to amounts due from our joint venture partners. The risk of our 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 and accounts receivable. As at June 30, 2020, the Company held \$3.2 million (December 31, 2019 \$3.1 million) of cash in financial institutions outside of Canada where there could be increased exposure to credit risk.

### B. Liquidity risk:

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 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 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 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 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 will also adjust the pace of its exploration and appraisal activities to manage its liquidity position. The Company has the ability to settle financial obligations with working capital.

### C. Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments.

#### i. 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 to foreign currency exchange risk is mitigated by the fact that the Company sources the majority of its capital projects and expenditures in US dollars. The Company has not entered into any instruments to manage foreign exchange risk.

#### ii. Interest rate risk:

As at June 30, 2020, the Company had \$250.0 million Loan facility ("Term Loan") with BTG in which \$55.4 million was repaid. The loan is subject to a fixed interest rate of 15% not subject to any debt covenants.

#### iii. Commodity price risk:

The Company has an equity holding in Prime (see note 7), which has two producing fields OML127 and OML 130, both with significant levels of production. The Company's future dividend stream from Prime will be dependent in part on the oil price. Prime has a robust hedging program that will significantly mitigate the impact of recent drop in global oil prices on the cash flows from investing activities net to the Company's 50% shareholding in Prime.

Prime's hedging program has resulted in more than 95% of Prime's 2020 oil entitlement production is hedged at an average oil price of approximately \$64.50 per barrel and most of its H1-2021 oil entitlement production is hedged at an average price of \$60.43 per barrel. The 2020 hedging program is made of physical forward sales of Prime's oil cargoes to a group of buyers including major oil companies and commodity trading houses. These counter parties are part of groups with investment grade credit ratings.

The Company also has limited exposure to fluctuations in commodity prices from the test oil production in Kenya.

## 17. Financial instruments:

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Assets and liabilities at June 30, 2020 that are measured at fair value are classified into levels reflecting the method used to make the measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either

directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term debt are assessed on the fair value hierarchy described above. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt approximate their carrying value due to the short term to maturity of these instruments. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. There were no transfers between levels in the fair value hierarchy in the year.

## 18. Supplementary information:

The following table reconciles the changes in non-cash working capital as disclosed in the consolidated statement of cash flows:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Changes in non-cash working capital				
Accounts receivable	\$ (693)	\$ 262	\$ (716)	\$ 527
Prepaid expenses	67	(347)	2,526	(465)
Due to related party	-	(32)	-	18
Accounts payable and accrued liabilities	(31,786)	(4,485)	(1,819)	(731)
	(32,412)	(4,602)	(9)	(651)
Relating to:				
Operating activities	\$ 776	\$ (299)	\$ 2,999	\$ (557)
Investing activities	(33,188)	(4,303)	(3,008)	(94)
Changes in non-cash working capital	\$ (32,412)	\$ (4,602)	\$ (9)	\$ (651)